Insurance Asset Management

Spring 2024

LatAm
The attractiveness of this region for insurers

Social bonds
Our roundtable panel of experts discuss the benefits of this asset class

Green world
The key sustainable investment news over recent months

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Capital at risk

Editorial Comment

It is within touching distance - Spring, one of my favourite times of the year, is almost upon us.

The fresh smell of growth in the air is always something really distinctive after the cold winter months. As I pen this editorial comment, I am looking out from the conservatory at a sea of yellow in the garden as the daffodils spring up and the pansies flourish.

Growth is a word which can also be applied to the subject matter of this issue of *Insurance Asset Management*. We look at the growth trajectory within the LatAm insurance space, and whilst it has tailed off recently, plenty of investment opportunities still exist for global insurers, and will continue to present themselves.

We also look at the outlook for global insurers in 2024 in terms of regulatory developments and the growth expected within certain asset classes. The alternatives space continues to play a pivotal role in insurers' portfolios and it is really interesting to see just how healthy returns can be.

Growth in the social bond market is also something that must not be overlooked. Society is starting to realise that there is no investment intervention on climate that does not also have a social implication. Secondly, there is a growing awareness that there is a parallell long-term global crisis around poverty and wealth inequality. As data improves in this area and more issuers enter the market, the case for social bond usage is becoming stronger and stronger.

In this issue we also include the Insurance Asset Management Awards winners brochure, and review of the Insurance Asset Management Conference. We were delighted to see so many high profile chief investment officers, asset managers and consultants at these events. The success of the past year was rightly celebrated in the industry and topics were also discussed at the conference that will be high up on insurers agendas for 2024.

The fresh smell of growth in the air is always something really distinctive

I'm already getting stuck into this year with developing the brand further, and I look forward to meeting with the industry throughout the year to help keep our readers updated with the latest occurrences in the insurance market.

Enjoy reading this issue, and onwards and upwards!

Adam Cadle
Editor

The team

Editor
Adam Cadle
+44 20 7562 2410
adam.cadle@insuranceassetmanagement.net

News Editor
Michael Griffiths
+44 20 7562 2427
michael.griffiths@perspectivepublishing.com

Commercial
John Woods
+44 20 7562 2421
john.woods@insuranceassetmanagement.net

Commercial
Camilla Capece
+44 20 7562 2438
camilla.capece@insuranceassetmanagement.net

Commercial
Lucie Fisher
+44 20 7562 4382
lucie.fisher@perspectivepublishing.com

Design & Production
Amanda Scope
Matt Mills
amanda.scope@perspectivepublishing.com

Accounts
Mohamed Saidani
mohamed.saidani@insuranceassetmanagement.net

Circulation
Charmaine Moore
charmaine.moore@perspectivepublishing.com

insuranceassetmanagement.net
6th floor, 3 London Wall Buildings
London, EC2M 5PD
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News focus

Market risks main concern for European insurers; green bond investment steady

Stock market correction also expected in next 12 months

Written by Adam Cadle

European insurers' exposure to market risk is currently at a high level and the main concern for the sector, with ESG risks remaining at a medium level, EIOPA's latest Insurance Risk Dashboard has revealed.

Market risks remain prominent given the elevated volatility in bond markets and a further decrease in commercial real estate prices. While macro risks persist in the insurance sector, there is a declining trend, primarily due to a reduction in forecasted inflation. Credit risks remain at a medium level with no indication of significant changes.

> Market risks remain prominent given the elevated volatility in bond markets

Insurers' median exposure towards climate-relevant assets hovers around 3.3% of total assets, while their investments in green bonds are steady at around 7% of total green bonds outstanding, the dashboard showed.

EIOPA said liquidity and funding risks remain at medium levels with an increasing trend driven in part by low catastrophe bond issuance in Q3 2023. Profitability and solvency risks are at medium levels also. The median SCR ratio for non-life undertakings showed an increase compared to the previous quarter, while the distribution for life undertakings remained largely unchanged.

In other news, professional investors including insurance asset managers, family offices, pension funds and wealth managers are united in the view that a stock market correction is coming in the next 12 months, new research from Managing Partners Group (MPG) has shown.

The only debate in the study was over the timing and scale of correction. Thirty-one per cent expect a correction within six months while 55% predict it will come within six to nine months and 14% within nine to 12 months.

> The only debate in the study was over the timing and scale of correction

More than half (53%) predict the size of the sell-off will be 7.5% or higher with nearly two out of five (36%) believing it will be between 5% and 7.5%. Just over one in 10 (11%) believe the correction when it comes will be between 3% and 5%.

Private equity and investment grade fixed income assets are seen as the asset classes which will see the biggest percentage increase in inflows as a result of a correction followed by hedge funds and real estate.

Government fixed income is seen as attracting the fifth highest percentage of inflows as a result followed by renewables and life settlements which rank above money markets, non-investment grade fixed income and alternative credit.

Managing Partners Group commissioned the market research company Pureprofile to interview 100 investment professionals working for pension funds, insurance asset managers, family offices, other institutional investors and wealth managers with a total of €107bn assets under management in the UK, US, Germany, Switzerland, UAE, Singapore and Hong Kong during January 2024.

News in brief

- **The UK's Competition and Markets Authority (CMA) has launched an investigation into Aviva's £460m acquisition of AIG's life insurance business, amid concerns the deal could result in a "substantial lessening of competition". The CMA is expected to complete the initial phase of its probe by 8 April.**

- **Phoenix Group delivered about £1.5bn of new business long-term cash generation in 2023, hitting its 2025 target two years early and driving a rally in its shares. The group's 2023 new business net fund flows jumped about 80% to around £7bn. Phoenix's full-year performance was driven by growth at its Standard Life-branded pension & savings and retirement solutions business, in line with its strategy.**

- **Talanx Group generated a record profit of €1,581m in financial year 2023, clearly surpassing the original annual target of around €1.4bn. Insurance revenue rose to €43.2bn, up from €39.7bn a year earlier, and the return on equity of 16.6% exceeds the strategic target of 10%. Talanx confirmed the outlook for the group net income of more than €1.7bn for the current year. The group said "this means it will clearly exceed its 2025 group net income target of around €1.6bn one year earlier than planned".**

- **France's largest reinsurer, Caisse Central de Réassurance (CCR), has chosen Clearwater Analytics to power its entire investment management processes and streamline its unlisted assets workflow. Clearwater Analytics said it will provide full lifecycle coverage.**

Record £80bn in pension bulk annuity/longevity swap transactions predicted for 2024

Funding improvements 'turbo-charge' the pensions de-risking market

Written by Adam Cadle

The UK DB pensions market is likely to see £80bn in pension de-risking transactions take place in 2024, as the settlement market continues to hot up following significant improvements in pension scheme funding seen in 2023, WTW has said.

According to WTW's annual pensions de-risking report, insurers are primed to buy out £60bn in bulk annuity transactions and £20bn in longevity swaps this year, making 2024 the biggest year on record for pensions de-risking.

Last year saw historically high numbers of pension schemes securing their liabilities through an insurance-led buyout, with over £50bn written in bulk annuity transactions alone.

Jenny Neale, director in WTW's pensions transactions team, said: "It's clear that funding improvements have turbo-charged the pensions de-risking market and, from a capacity perspective, we have already seen that the insurance market is capable of scaling up to meet demand.

> The insurance market is capable of scaling up to meet demand

"The attractiveness of these opportunities is also enticing new insurers to enter the market adding additional capacity, which we believe will be sufficient to meet requirements in the year to come."

BoE to stress test insurers on exposure to reinsurance firms

'Exploratory scenario' to be included as part of the plans

Written by **Adam Cadle**

The Bank of England (BoE) is planning to stress test insurers concerning their exposure to reinsurers through a flurry of corporate pension deals, as concerns grow about the risk posed by offshore arrangements to UK retirement savers.

According to the *Financial Times*, the PRA has said in next year's stress test, it plans to include an "exploratory scenario", modelling the impact on insurers of a failure in their funded reinsurance arrangements. People familiar with the matter said the scenario would most likely include the collapse of a significant funded reinsurer being used by the life insurer, meaning that the risks are "recaptured" by the primary insurer.

As insurers look to free up capital to conduct more deals, they are entering into transactions to pass on a slice of their liabilities – and the assets that back them – to reinsurers which are often located in offshore places like Bermuda. The growing trend for these deals has prompted concern that they might be creating a vulnerability through what the PRA calls "concentrated exposure to correlated, credit-focused reinsurers".

> Concerns grow about the risk posed by offshore arrangements to UK retirement savers

Inflation linked bond usage rises

79% of insurance investment professionals increase allocations over past 12 months

Written by **Adam Cadle**

Seventy-nine per cent of insurance investment professionals have increased their allocation to inflation linked bonds over the past 12 months, a new global study by Ortec Finance has revealed.

Fifty-four per cent said they have increased allocations to money market accounts to manage inflation risk and 47% have invested more in indirect (listed) real estate. Nearly two out of five (38%) and one in five (21%) said the funds they help to manage have increased their allocation to gold and infrastructure respectively, to help hedge against inflation.

Despite taking these steps, 51% of insurance investment professionals said they are very concerned about the threat of stagflation, and another 47% said they are quite concerned.

Hamish Bailey, managing director UK, and head of insurance & investment, Ortec Finance, said: "Although inflation is falling, our survey shows that investors still see it as a major threat to their portfolios."

Over 40% of US/Canadian institutional investors plan to increase private debt allocations

Roughly a third plan to grow their private equity holding overall, research from Coalition Greenwich reveals

Written by **Adam Cadle**

More than 40% of US and Canadian institutional investors plan to increase allocations to private debt in the next three years and roughly a third plan to grow their private equity holding overall, new research from Coalition Greenwich has shown.

The expected inflows into private debt and equity are part of a broad expansion of private assets within the portfolios of North American investors. Over the past three years, nearly half (47%) of US and Canadian investors raised their long-term target allocations to private equity, and 42% increased allocation targets for private debt.

> Institutions are targeting direct lending

Roughly a quarter of these institutions also expanded allocation to each of private real estate equity, private infrastructure equity and venture capital, with smaller percentages growing allocations to private real estate debt and private infrastructure equity.

"While the move into private assets is a trend spanning institutional investors of all sizes and types, the biggest North American institutions are moving most aggressively to integrate significant private asset exposures into their portfolios," said Todd Glickson, head of investment management – North America at Coalition Greenwich.

As North American institutions raise their long-term allocation targets for private assets, they are looking to capitalise on what they see as enticing short-term opportunities. In private equity, for example, institutions see buyout and growth investments as particularly attractive. In private debt, institutions are targeting direct lending, distressed debt and special situations.

Insurers primed to invest in UK infrastructure but lack the projects to do so, PIC argues

Politicians urged to bring forward projects that will regenerate towns and cities

Written by **Adam Cadle**

UK investors including life insurers are primed to invest in the country's infrastructure, but there "simply aren't enough projects to meet investor demand", PIC managing director, corporate affairs, Jeremy Apfel, has stated.

Writing in the insurer's latest quarterly update, Apfel said domestic life insurance companies like PIC and its peers are expected, if there are sufficient projects available, to invest around £200bn in UK infrastructure and built environment projects over the next decade to back policyholder pensions, creating significant social value.

However, Apfel argued that the main political focus should be on helping local and regional government bring forward the projects that will regenerate our towns and cities, provide high quality jobs, bridge the skills gap, and drive regional GDP growth, whilst achieving key policy goals such as the provision of good quality, climate friendly housing.

"This means that from a national perspective politicians should focus on less glamorous, but nevertheless crucial-to-solve, issues like the quality and quantity of planning officers in local government planning teams; the interplay between the plethora of regulators and arm's length bodies and what this means for growth and prosperity; how to encourage genuine public-private partnerships with local government; how to raise governance standards within local government, including the production of investment data, long-term plans and so on; and understanding how the convening power of central government can help and enable local authorities to bring forward investable opportunities with the sufficient scale to make them attractive investments for long-term institutional investors."

Insurers show keen interest in renewable energy

90% plan to increase allocations; income generation top reason for investing in renewable infrastructure assets

Written by **Adam Cadle**

Ninety per cent of UK insurers and pension funds plan to increase their allocation to renewable energy in the next 12 months, while the remaining 10% said they might make increases, according to research commissioned by Alpha Real Capital.

Of those planning to make increases in renewable energy investment over the next year, 8% said they will make increases of 4-6%; 12% said they will raise allocations by 7%; 21% will make increases of 8% and the majority (59%) expect to increase by more than this.

The bulk (45%) of current allocations to renewable energy are between 11 and 15%. Twenty-one per cent said they invest 16-20% in renewable energy; 16% invest 6-10%; and 18% of investors allocate between 1-5%.

In the next three years, allocations are expected to be significantly higher than today. Five per cent said they will boost allocations by 1-5%; 7% said 6-10%; one fifth (21%) said 1—15%; two fifths (39%) said 16-20%; while just over a quarter (28%) said allocations will increase by 21% or more.

> 71% said portfolio diversification was the main reason to invest

Eighty-five per cent of investors said income generation is their top reason for investing in renewable infrastructure assets, whilst 71% said portfolio diversification was the main reason to invest.

More than two-thirds of investors said the asset class is a way to align with their ESG investment objectives.

IIGCC publishes net-zero voting guidance for asset owners/managers

Supports asset owners/managers in developing net-zero voting policies

Written by **Adam Cadle**

The Institutional Investors Group on Climate Change (IIGCC) has published its net-zero voting guidance to support asset owners and managers in developing their net-zero voting policies and practices.

The guidance is based on the principle that investment strategies should prioritise engagement and stewardship as the primary mechanism to push for alignment with the goals of the Paris Agreement.

It highlighted voting as a "critical lever" for investors to help support the decarbonisation of the real economy as part of their climate-focused engagements and in line with fiduciary duties.

The IIGCC's guidance is aligned with the Net Zero Investment Framework and its recommendation that voting policies should be consistent with assets in portfolios achieving net-zero carbon emissions by 2050.

Three 'core principles' were outlined in the guidance, which aim to underpin the concept of net-zero voting. The principles are that voting aligns with the investor's own net-zero objectives and targets; communicates net-zero expectations; and supports net-zero stewardship, engagement and investment approaches.

Insurers, pension funds and advisers commit to Sustainability Principles Charter

Focus on greater transparency and reporting around sustainability in the bulk annuity process

Written by **Jack Gray**

Twenty UK insurers, pension funds and advisers have signed up as founding signatories to the Sustainability Principles Charter, which aims to promote greater transparency, reporting and engagement around sustainability in the bulk annuity process.

The charter, launched on 30 January, was developed by Accounting for Sustainability (A4S), the Church of England Pensions Board and Railpen, and sets out four 'guiding principles' for the bulk annuity process.

These four guiding principles are transparency, decision making, reporting and engagement, and collaboration.

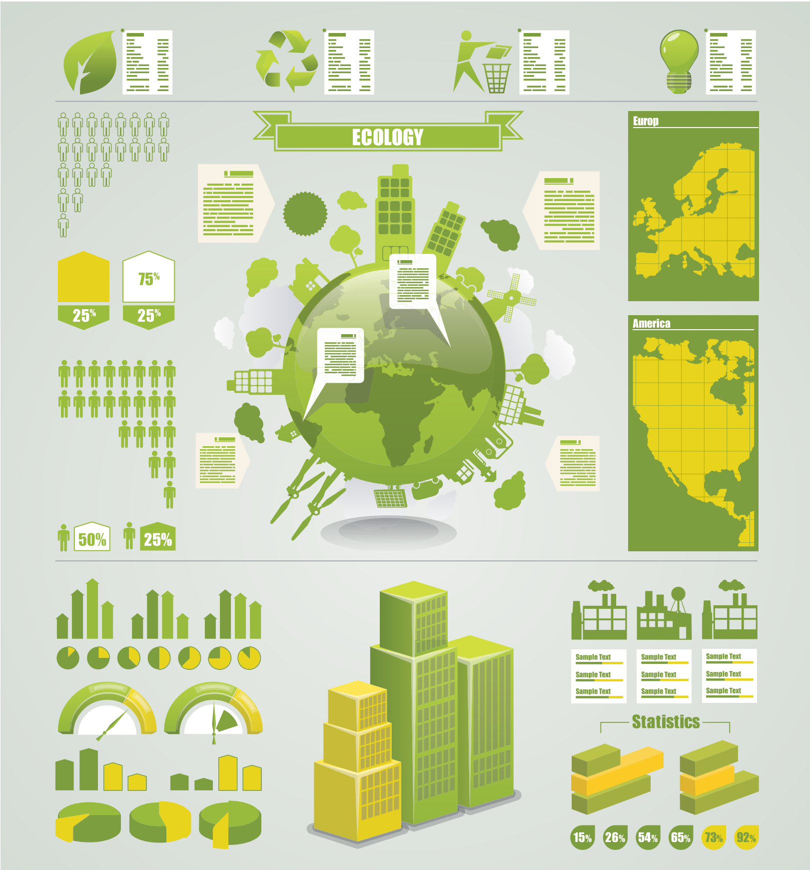
Among the 20 founding signatories were the six largest UK pension insurers: Legal and General, PIC, Rothesay Life, Aviva, Standard Life, and Just Group, alongside several pension schemes, advisers, and associations.

> Developed after an extensive consultation process

The charter was developed after an 'extensive' consultation process and provides guidance around the four key principles.

Other signatories included LCP, with LCP partner, Charlie Finch, saying sustainability objectives were "critical" for protecting the health of the economy therefore and insurers' ability to pay promised benefits, and the charter helped support the long-term security of members' benefits, and Cardano, with Cardano managing director, Michael Bushnell, stating that the charter was an "essential first step" in helping trustees make decisions when it comes to the suitability and resilience of insurers as the counterparty for their members and scheme.

Hymans Robertson also signed up to the charter, and its head of ESG for risk transfer, Paul Hewitson, commented: "This charter helps set expectations of the minimum requirements on sustainability, while also pushing insurers to do more, with clear examples of how they can differentiate themselves in a busy insurance market."



Companies twice as likely to publish sustainability data after investor engagement

317 companies disclosed after engagement by investors

Written by **Jack Gray**

Companies that have been in dialogue with investors are more than twice as likely to disclose their sustainability data than unengaged firms, the CDP's Non-Disclosure Campaign (NDC) results report has shown.

The campaign, which was supported by 288 financial institutions in 2023, directly engaged with 1,590 companies from a list of non-disclosing corporates, requesting that the companies disclose their climate, forest and/or water impacts through CDP.

Overall, 317 companies disclosed after engagement by investors, comprising of 221 (19.5%) companies disclosing on climate change, 58 (14%) on forests, and 66 (14.3%) on water security.

Companies that were engaged with were 2.2 times more likely to disclose data than the control group of 4,421 firms that did not participate in the campaign.

Those targeted by the NDC were 6.8 times more likely to disclose on forests, while companies in Europe and Asia (excluding Japan) engaged by investors were three times more likely to disclose data.

CDP stated that direct engagement was vital and the campaign could be a catalyst for long-term change, and that persistence from financial institutions brought results.

Commenting on the findings, CDP associate director, UK capital markets, Sebastian O'Connor, said: "As we delve into the progress achieved through the 2023 CDP NDC, a critical takeaway is that persistent direct engagement continues to play a vital role in fostering transparency and accountability on environmental impact.

"Although CDP sent a massive disclosure request to more than 15,000 corporates on behalf of 740+ signatories in April 2023, this indirect request to disclose can only go so far.

"For companies reluctant to produce fulsome and transparent environmental disclosures according to a standardised framework, we must work directly with our signatories to push for action."

> Persistent direct engagement continues to play a vital role in fostering transparency and accountability on environmental impact

EU strikes deal for first ever set of rules to regulate ESG raters

ESMA to provide supervision

Written by **Adam Cadle**

EU states and the European Parliament have struck a deal for the bloc's first ever set of rules to regulate ESG ratings of company sustainability credentials.

Under the incoming rules, hitherto unregulated ESG ratings providers in the EU will have to be authorised and supervised by ESMA.

Raters outside the bloc will need to have their ratings endorsed by a rater regulated in the EU. Furthermore, raters will have to explicitly disclose of their ratings cover how a company's operations affect the environment or social factors, and not just the impact of ESG on a company's bottom line.

"Increasing investor confidence through transparent and regulated ESG ratings can have a significant impact on our transition to a more socially responsible and sustainable future," said Vincent Van Peteghem, the finance minister of Belgium, which holds the EU presidency that helped to negotiate the deal.

"This agreement constitutes a historic breakthrough for sustainable finance," said Aurore Lalucq, a French centre left member of the European Parliament who was also part of the negotiating team.

Smaller ESG raters based in the EU will only have to comply with a lighter version of the rules in the first three years.

NZAOA launches call to action concerning asset managers and climate stewardship

Four critical implementation principles for asset manager leadership drawn out

Written by **Adam Cadle**

The UN-convened Net-Zero Asset Owner Alliance (NZAOA) has launched a call to action, sending a clear message to the asset management industry that serving asset owner clients is only possible through climate stewardship.

The call to action references the Alliance's tools and guides on asset management engagement to assert that asset owners committed to net-zero, such as members of the Alliance, expect their asset managers in private and public markets to pursue integrated and tailored climate strategies across all their functions.

Four critical implementation principles for asset manager leadership have been drawn out by the Alliance, including bringing the focus of addressing the systemic risk of climate change to the entirety of investments and operations; supporting a consistent, clear, and accountable proxy voting landscape (for public equity); aligning lobbying activities with asset manager's own stated climate-related commitments do the same for portfolio companies; and ensuring that climate engagement is more systematic and transparent.

The Alliance said implementing these would help asset managers win mandates from asset owners.

People on the move

SHREYAS SRIDHAR

Business development director, BPA, Canada Life

Canada Life has appointed Shreyas Sridhar as its new business development director for bulk purchase annuities, reporting in to Tim Coulson, MD, bulk purchase annuities. Sridhar has spent over 15 years working in financial services in his career, most recently at Legal and General as head of reinsurance & international development as part of its pension risk transfer business.

KUNAL KOTHARI

Co-portfolio manager, UK equity income, Aviva Investors

Aviva Investors has appointed Kunal Kothari to its UK equity team as co-portfolio manager, UK equity income. Kothari has 16 years' experience in equity research and portfolio management. He joins the business from Columbia Threadneedle Investments, where he has worked since April 2021 as an equity analyst and deputy fund manager on its UK alpha strategy.

ERIC STEIN

Head of investments and CIO, fixed income, Voya IM

Voya IM has announced that Eric Stein, who most recently served as CIO, fixed income, at Morgan Stanley Investment Management (MSIM), has joined as head of investments and CIO, fixed income. It also announced that CEO Christine Hurtsellers has announced plans to retire in 2024, with Matt Toms, global chief investment officer succeeding her immediately.

SEBASTIAN STEWART

Partner, Head of US institutional business development, PAM

Pacific Asset Management (PAM) has appointed Sebastian Stewart as a partner and head of US institutional business development. Stewart joins having spent over a decade at Somerset Capital Management LLP where he was a partner, head of client services and deputy head of marketing. He is also chairman of the Independent Investment Management Initiative.

THOMAS COUDERT

Head of Sustainability, core investments, AXA IM

AXA IM has appointed Thomas Coudert as head of sustainability, core investments, effective immediately. Coudert has been working at AXA IM for 17 years and was previously head of fixed income sustainability since 2021. In his new role, he will oversee sustainability across fixed income, equity, multi-asset, as well as ETF, whilst keeping his portfolio management responsibilities.

GITA SALDEN

Executive board member, De Nederlandsche Bank

Gita Salden has been appointed to the executive board of De Nederlandsche Bank (DNB) with effect from 1 June 2024. In her new position, she will be responsible for the supervision of insurers and pension funds, as well as having responsibility for supervision of horizontal functions and integrity. She succeeds Else Bos who stepped down on 1 February 2024.

Trouble ahead?

WRITTEN BY **DAVID ADAMS**

David Adams considers the key themes that will influence insurers' investment strategies during 2024

For individuals, the start of a new year might offer an opportunity for a new start. But that opportunity is not usually available to insurance companies. Instead, they need to refine investment strategies at the start of 2024 in an unpredictable, yet heavily regulated environment. They must take decisions that draw maximum benefit from the legacy of the previous year, while also enabling them to take advantage of new opportunities. For insurers this is not a moment for optimistic dreams of self-improvement, but for realistic planning in the face of uncertainty and possible peril. Which are the most important issues that will be on their agenda in 2024?

At the heart of any insurer's strategy must be the question of how interest rates will move in the year ahead – a year that may feature both recessionary and growth trends in major economies. One of the most important changes of the decade so far has been the end of an era defined by very low rates. Clearly this change could have profound implications for insurers, which are major investors in bonds and other fixed income assets, but which also increased their use of alternative asset classes during the low rates era; and are now trying to manage the effects of changing regulatory requirements on their attempts to find a suitable balance of liquid and illiquid assets within their portfolios.

"From a macro perspective, interest rates are an important area of focus," says William Keen-Tomlinson, vice-president and senior analyst, financial institutions, at Moody's. "During the past year, as risk-free rates have reached much higher levels, we've seen a bit of a flight to quality; especially in Europe, where the necessity for investing in private assets has reduced and companies are happier with the yield they can get on more liquid investments."

If, as seems likely, rates are cut again by central banks over the next year, "there is the potential for interest in using private and illiquid assets for a yield pick-up to come back," says Keen-Tomlinson. "We would view [rate cuts] as broadly positive for the real economy. But as rates fall, insurers lose some of the flexibility they had, due to Solvency II coverage reducing. So that could rekindle interest in alternatives."

Shigeto Nagai, head of Japan economics at Oxford Economics, says insurers will need to monitor the actions of the ECB and the US Federal Reserve. "In 2024, inflation prospects and the ECB's monetary policy actions will be the key and there is lots of uncertainty around this," he says. "In the latter half of the year, the Eurozone economy will start to recover. Many market participants are pricing in relatively early rate cuts. If our projections are right, even if we see an inflation slowdown, as we have seen in the last couple of months, the Fed may start cutting rates in May, but the pace of cuts will be gradual.

"I think the markets are pricing an ordinary rate cut pace, but we should be keeping in mind that at this moment the real concern for the Fed and the ECB is that they really want to avoid inflation expectation-led inflation, which would raise wages and then develop into a more aggressive pricing spiral. Until they see that that kind of risk is over they will be really cautious.

"Current market pricing is maybe pricing in too many rate cuts in 2024," Nagai continues. "If there is going to be a surprise in the market, once they realise that the rate cuts will be slower than has been priced in, there could be a re-pricing risk, which will affect the long end of the yield curve – the most important end for many insurers."

All these trends will also be influenced by a general economic picture that seems likely to get worse in many economies before it starts to get better. "We are going to see a global economic slowdown in the first half of this year," says Nagai. "In the second half the recovery will start, but the pace of recovery will be disappointing.

> "As rates fall, insurers lose some of the flexibility they had, due to Solvency II coverage reducing

"The US dollar is expected to make a turnaround once [the Fed] starts cutting rates, but that could be very gradual," says Nagai. "The turnaround could be later or slower. In addition, the US GDP figures have been improving. That will also increase bullish factors. So there is a significant risk about timing and pace. That's a significant issue for global investment in 2024."

Reviewing and restructuring

The net effect of this uncertainty is that insurers are taking the time to evaluate possible restructuring of portfolios. "That means reassessing the balance between equities, fixed income and alternatives," says Chris Bewley, senior insurance investment consultant at Mercer. One of the themes he and his colleagues have stressed is the need to reconsider how fixed income assets are used in portfolios. Now that the low interest rate era appears to be over, fixed income could be seen as no longer primarily a defensive tool, but as a source of increased yields.

"There's definitely a real interest in reoptimising fixed income strategies," says Bewley. "There are insurers who have not viewed it as a positive income driver. But now, if you're getting five to six per cent from a corporate credit portfolio … and there are tweaks you can make, they can eke out some incremental returns."

Nagai highlights the increased risks that may be associated with longer duration investments. Once interest rates are cut, longer duration yields will begin to decline, he says. "So in the short run, be careful about policy risks," he advises. "By the end of this year US Treasury yields will gradually decline, but looking at the Eurozone and Bunds, we see that there is limited room for further decline."

The next question is how insurers will use alternative assets – including real estate, private credit, private equity, infrastructure, alternative funds, mortgages, loans, collateralised securities and structured notes. During recent years, as interest rates remained low, alternatives have been used as a source of cashflow, because of the illiquidity premia and stable cashflows offered by (for example) some real estate or infrastructure assets.

One might have wondered whether the end of the low rate period would mean insurers would turn away from using these assets, but this does not appear to be happening at present. EIOPA's December 2023 *Financial Stability Report* reports no move away from alternatives during 2023, in part because ongoing volatility in fixed income markets is limiting a shift back towards bonds.

Within alternatives, exposure to private credit looks likely to be an important theme during 2024.

"We see private credit as being of interest to insurers," says Mercer's Chris Bewley. "Spreads look attractive. We're seeing insurers building up exposure to private credit, but there are other investors stepping away from it, such as better funded DB schemes." He also notes that while in the past life insurers were more likely than non-life insurers to invest in private credit, there are now more options available to the latter group. "Now there are different types of solutions that work quite well for a non-life portfolio," says Bewley, explaining that such solutions may be optimised to help non-life insurers meet Solvency II requirements.

But Punil Chaubal, insurance investment advisory proposition leader at WTW, sounds a warning to insurers to consider the wider context, particularly in relation to more complex private credit investments. "This is happening in an environment where we are seeing default rates start to pick up in the public market," he points out. "[Insurers need to know] what they are getting exposed to."

Regulatory pressures

The ongoing evolution of regulatory requirements will continue to exert a strong influence over some aspects of insurers' investment strategies throughout 2024. In the UK, policymakers will continue to encourage insurers to invest in long-term assets such as infrastructure to help drive economic recovery and productivity and contribute to the transition to a greener economy.

The UK's Prudential Regulation Authority (PRA) continues to work on the evolution of the Solvency UK regime, but other priorities will include work to assess the efficacy of insurers' processes and controls when investing in credit risk, according to a letter sent to UK insurance companies' CEOs by the Bank of England / PRA in January 2024. The letter also emphasised the need to monitor liquidity risks, stating that the PRA "will work in collaboration with relevant stakeholders to develop liquidity reporting requirements".

The letter says the PRA is still considering feedback on consultations on the development of Solvency UK, but that it intends to publish final policy statements then implement changes to the regulations during 2024. It states: "We will continue to seek to understand, in depth, firms' strategic investment plans so that we can prepare to handle new applications for matching adjustment eligibility".

One significant outcome of consultations on Solvency UK run by the PRA during the past two years is that the the range of assets insurers can use within matching adjustment portfolios, which match long-term liabilities with cashflows from long term assets, is to be expanded, so insurers can invest in longer term assets; and in assets deemed to have "highly predictable", although not fixed, cashflows. The capital rules for holding sub-investment grade assets within Matching Adjustment portfolios have also been loosened. The price paid for this is that the PRA now has more powers to govern insurers' risk management processes, including stress testing of individual firms; and a requirement for senior managers to formally attest that residual credit risk is not incorporated within the claimed matching adjustment.

Anthony Plotnek, director, and leader of the private assets and capital management team, at WTW, says insurers face increased workloads and costs as a result of these changes. He is also not sure how quickly many insurers will actually start working with other types of assets that have "highly predictable" cashflows.

Regulatory changes may help to boost the pension de-risking market in the UK, on the back of funding improvements during 2023. WTW research suggests 2024 could see a boom year in the market in 2024, with £60bn worth of bulk annuity transactions and £20bn in longevity swaps deals. This will have consequences for insurers' investment strategies. "Within the BPA market there's another bumper year forecast, which means there will be a lot of assets to deploy," says Keen-Tomlinson. "We would expect an increase in use of infrastructure assets, but we wouldn't expect a sudden shift in investment strategy, because this type of investment requires a lot of expertise to originate, especially for larger deals."

WTW's Plotnek notes an increase in interest in the BPA market from both reinsurers and asset managers. Use of funded reinsurance has increased. The Bank of England / PRA January 2024 letter to insurance companies' CEOs states that the regulator will "continue to play close attention" to use of funded reinsurance. Its position is that funded reinsurance should have "only a limited role" within a diversified asset strategy, as its systemic use "has the potential to introduce significant risks to our objectives of safety and soundness and policyholder protection".

The letter states that firms must

> We're seeing insurers building up exposure to private credit

> We're seeing a move beyond pure environmental or climate change as a theme

"limit the scale and structure of such transactions to retain high confidence in their ability to safely recapture the transferred risks under stressed conditions". In November, the PRA issued a consultation paper setting out how it expected firms to manage these risks and it has said it expects to develop further policy and supervisory measures "in due course".

"Reforms in Europe are slightly different," says Keen-Tomlinson. "UK regulators have incentivised use of fixed income for cashflow; in Europe the reforms are meant to make equities more attractive, but still to incentivise long term infrastructure investment." Plotnek expects risk margins to be reduced for European insurers.

A changing environment

One theme that will certainly affect insurers in every jurisdiction across Europe is the environmental, social and governance (ESG) agenda, as regulators, investors and consumers all pay ever closer attention to the environmental and social impacts of businesses of all kinds. Of those three, often interlinked factors, environmental issues may exert the greatest influence – directly or indirectly – on insurers' investment strategies.

"The direction of travel from governments in the UK and Europe is towards a green transition," says Keen-Tomlinson. "This is driving the move towards infrastructure, with insurers to be capital providers."

"Climate change and broader sustainability issues are definitely a focus," says Bewley. "There's a pathway that clients are going down, working out how to integrate sustainability into a portfolio. Different insurers are in different places on that pathway."

Insurers will face ever-increasing regulatory requirements around ESG and climate change reporting and disclosures during the next few years. There will be challenges to overcome in gathering and analysing the data needed. But these changes will also incentivise investment in environmentally sustainable and socially beneficial businesses and assets.

"We're seeing a move beyond pure environmental or climate change as a theme," says Bewley. "Biodiversity is coming in more significantly as something that insurers are looking at. Quite a few are looking at social impact as an investment theme."

"Overall, I think insurers will want to continue to invest in sustainable infrastructure," says Chaubal. "It also ties in very well with the matching adjustment." But he suggests that some insurers that may be less committed to the ESG agenda will be guided by regulators.

Finally, whatever insurers may plan in relation to investment strategies might then be overturned by events in an unstable, unpredictable world.

Bewley points out the difficulty in working out what the impact of specific political events might have on the investments held in insurers' portfolios. He suggests that an emphasis on risk-proofing might be a more productive approach, with insurers taking care to assets and liabilities. "If there is a mismatch there, is that well understood, so you really understand the risks in your portfolio?" he asks.

In the end, whatever year we're living in, adhering to fundamental principles on balancing risk and resilience is the foundation of every successful investment strategy. There may be trouble ahead in 2024, but with the right preparations, insurers will be ready to face the music and, well, maybe not dance, but at least continue to advance towards their long-term goals.

A Fertile Territory for Insurers?

WRITTEN BY **PETE CARVILL**, A FREELANCE JOURNALIST

Pete Carvill explores what the LatAm region has to offer for insurers after tremendous growth in recent history

Recent history has seen tremendous growth in the insurance sector in the Latin American region, even if that surge has tailed off in the last few years.

But the overall figures are impressive, almost startling. A recent report from McKinsey & Company, titled *Global Insurance Report 2023: Capturing Growth in Latin America*, spoke about the reputation the region has earned over the last decade for consistently high growth rates. The company said that the period between 2018 and 2022 saw a multi-year CAGR of 10.9%, an increase of two-and-a-half percentage points over the preceding four-year period.

"Meanwhile," wrote the authors, "North America, Asia, and Europe saw slower growth. Of course, Latin America's 2022 gross written premiums (GWP) of $174bn—though a record for the region—is far lower than the 2022 GWP of those three developed regions ($2.8trn, $1.9trn, and $1.6trn, respectively). Indeed, Latin America's insurance market currently accounts for only 2% of global GWP. Still, the growth is notable and could point to ample untapped potential in the market."

And it is a trend for which the ramifications of which has not gone without being noted. In 2012, Zurich released a report titled *The Role of Insurance in Latin America* that talked of the 'impressive progress in economic development' seen in the previous ten years.

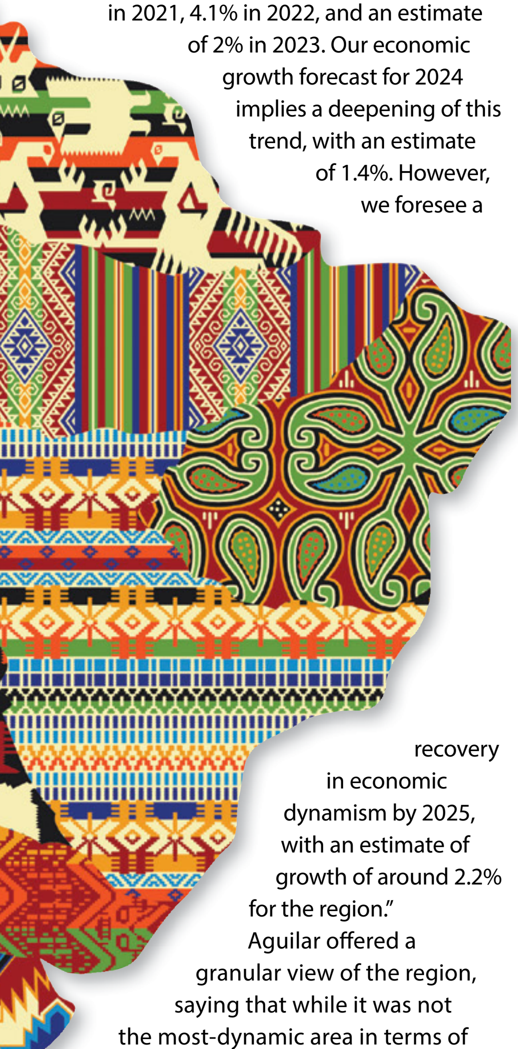
"Insurance," those authors wryly noted, "has the potential to contribute to this development and to make it more sustainable".

But this story cannot entirely be a fairytale; there has been some slowdown in recent years (although events such as the COVID-19 pandemic and global supply chain issues need to be factored in). And it should also be noted that most of the economies around the world are entering—or threatening to enter—a recession of some sort.

Manuel Aguilar is the general manager of MAPFRE Economics, the analytics offshoot of insurer

MAPFRE. He has witnessed the fiscal slowing of the region.

"Economic growth in Latin America," he wrote in an email to *Insurance Asset Management*, "has shown a declining trend since the end of the COVID-19 pandemic. In the recent years, economic growth started with a 7.4% recovery in 2021, 4.1% in 2022, and an estimate of 2% in 2023. Our economic growth forecast for 2024 implies a deepening of this trend, with an estimate of 1.4%. However, we foresee a



recovery in economic dynamism by 2025, with an estimate of growth of around 2.2% for the region."

Aguilar offered a granular view of the region, saying that while it was not the most-dynamic area in terms of growth, the opposite applied to its insurance sector.

"According to our forecasts," he wrote, "the most important insurance markets of the region will show significant growth in 2023-2025: Mexico, with an average growth of 9.9% in life and 9.8% in non-life; Brazil, 7.3% (life) and 8.4% (non-life), Chile, 13.8% (life) and 10.4% (non-life), and Colombia, 16.8% (life) and 11.7% (non-life)."

It is a sentiment that was echoed by McKinsey in its report. There, the firm called the region's insurance market 'a fertile territory for accelerated growth and business model innovations' and wrote that it was the first-growing regional insurance market globally in both life and non-life segments.

And it is also, they wrote, "[…] among the most profitable markets for insurers globally. However, several structural challenges, such as a fragmented market and socioeconomic factors, persist. For the region to fully bridge the gap between its current insurance penetration levels and those of more-mature markets worldwide, insurers in the region will need to identify their unique path to profitable growth."

Growth would undoubtedly be positive. The Swiss Re Institute estimated last year total premiums in the area would grow by 3.4% in 2024, saying that the markets in the region had been relatively resilient despite economic headwinds from high inflation and tight monetary conditions.

What is Latin America?

It might be instructive to take a step back at this point and define what is meant by 'the Latin American region'. The term is surprisingly nebulous. Fitch Ratings, in one of its most-recent publications, defines the area as encompassing Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, Mexico, Panama, and Peru. McKinsey casts a narrower net in its *Global Insurance Report 2023*, looking only at the countries of Argentina, Brazil, Chile, Colombia, Ecuador, Guatemala, Panama, and Peru. The Swiss Re Institute's *Latin America Market Report*

2023 is even narrower, citing only the specific examples of Brazil, Mexico, Colombia, and Chile. And that is not mentioning the countries of Bolivia, Uruguay, Nicaragua, and Venezuela, which appear in some firm's definitions and do not appear in others.

What is perhaps more certain is the wide protection gap, one that McKinsey calls 'persistent but diminishing'. Fewer than 15% of its population hold life insurance policies, compared to around half of those in the United States. Additionally, less than a quarter of its auto fleet is insured, compared to nearly seven out of ten a few thousand miles north.

"Insurance product density per capita in Latin America," writes McKinsey, "stands at $295, which is significantly lower than the $7,500 in the United States."

There are a number of reasons for this—affordability is one, with per capita GDP across the region much lower than in the more-developed economies of North America and western Europe. Average GDP in the US stands at a little over $75,000 but falls to just under $10,000 in Latin America.

Wrote Zurich in 2012: "Even if there were the necessary trust and awareness, the uptake of insurance would still be limited since it is unaffordable for a large fraction of the population of emerging markets and there is a lack of suitably tailored products for the poor."

There are other structural problems, wrote McKinsey: "[…] 64% of Latin American consumers have a bank account, compared with 95% of US consumers. In Latin America, about half the workforce operates in the informal sector, lacking formal employment contracts, compared with less than 10% of North America's workforce. These disparities lead to a completely different insurance market, further complicated by structural barriers to accessing the financial protection provided by insurance products."

Aguilar says that structural income equality in the area has produced a small segment of high- and medium-income households, compared to a large segment of low-and medium-low-income citizens.

"Even among the high and medium-high income segment," Aguilar wrote to *Insurance Asset Management*, "there is still a group of unserved population, a group towards which the insurance industry should focus. Nevertheless, is serving the low and medium-low-income segment how insurers will achieve higher levels of penetration in the future. In this sense, it seems that the so called 'inclusive insurance' and 'microinsurance' might be the key to access this target group."

Innovation goes so far, but there are also issues of trust where many are wary not only of insurers but the concept of insurance itself. It is a fear,

> Political uncertainty remains high, although the policy outlook for Latin America generally has improved

along with affordability, that Zurich paid particular attention to in its *The Role of Insurance in Latin America* report. There, the firm bundled the two with regulatory and public policy hurdles as holding the market back, underlining their importance.

"It's perhaps a general perception," says Natalia Char, head of commercial risk for Latin America at Aon, "but the way it operates is that we haven't managed as an industry to communicate clear enough how all this works and how our products can give continuity for someone's business or personal life. We certainly haven't been as nimble as we could have been. There are too many layers and actors in there that make it confusing."

The region's risks

The region also comes with significant risks. One that applies heavily is natural disasters and catastrophes, and the implications of insuring for them.

According to Zurich, 2010 was a 'particularly bad year' for Latin America and the Caribbean. It cited the earthquake in Haiti, which killed over 220,000 people, alongside the one in Chile that caused economic losses of $30bn. That, it wrote, represented 15% of the country's GDP.

"In fact," said Zurich, "in 2010, the losses from natural disasters in Latin America relative to GDP exceeded the loss ratios in any other part of the world."

Political risk is also a factor. Zurich made this point in *The Role of Insurance in Latin America*, saying that it was still perceived to be the most-important impediment to inward investment for emerging economies.

It was a point also highlighted by Fitch Ratings in one of its recent reports, which cited 'political turbulence' in Bolivia, Ecuador, Panama, Peru, Chile, and Colombia as limiting public finances. The Spanish analysis firm Focus Economics also made similar remarks in a study published last year.

Other risks abound, according to Swiss Re Institute in its *Latin America Market Report 2023*. These include inflation risks, global liquidity issues, debt sustainability, commodity prices, stronger global growth, and geopolitical tensions.

"The economic outlook," it wrote, "has improved recently but the balance of risks remains to the downside. Weaker global growth, tighter financial conditions, and declining commodity prices are key risks. Political uncertainty remains high, although the policy outlook for Latin America generally has improved."

But there are opportunities amongst all this. One of the key areas for insurers going forward, said Char, will be around state investment in moving to zero-carbon economies. "It's a very unique moment," she says, "in Latin America where we have a lot of left-wing governments. We've seen that so far in Brazil, Mexico, Colombia, and Chile. That's going to bring a lot of investment in areas where we may have been lagging behind as a region such as renewables, lithium, and hydrogen. There's also plenty of interest in different forms of power generation."

Other areas show promise, she says. "Brazil," she says, "sees itself as the food dispensary for the continent so there's a strong agricultural business there that the government want to promote. And we see a lot of potential in construction."

But even catastrophe is an opportunity, says Eli Sanchez, director

at AM Best.

"For the last two years," he says, "catastrophe conditions in the world were a little high and insurers were a bit sceptical of the risk. While some didn't have catastrophe exposure, there was some pullback and limiting of capacity to the Latin American markets. This is an opportunity right now, when you look at some of the countries that have strong regulation and macro stability, such as Mexico, Guatemala, and Peru, which need more capacity."

Another issue that holds back the market in Latin America is inefficiency and a slowness to digitalise. Costs in Latin America as a percentage of net premium earned hovered between 31% and 34% between 2015 and 2022. In Europe, in 2022, it was just 17%. Broken down by country, the picture looks a little bleaker, with costs accounting for 20% of net premium earned in Chile, rising to 27% in Guatemala, 30% in Mexico and Ecuador, 32% in Panama, 33% in Brazil, and an astonishing 44% and 46% in Peru and Colombia.

As McKinsey wrote: "The insurance business in Latin America relies heavily on investment income, making operational efficiency a top opportunity for the industry to improve margins. However, successfully launching an efficiency agenda has become a significant challenge for insurers in the region."

Some contend that things are changing though. Caroline De Souza Rodrigues Cabral, senior economist at Swiss Re, says that ongoing digitalisation in countries such as Brazil is an ongoing, strengthening theme.

"What has been important," she says, "is innovation and modernisation in the regulatory environment. We've been seeing a lot of development of important regulation to encourage new products. In Brazil, there's been some important changes to the market driven by digitalisation since 2019."

Growth and resilience

Growth has been consistent, if slightly slowed at times. GWP in 2022 reached $174bn, and McKinsey estimates that the non-life insurance sector across Latin America doubled between 2011 and 2022. The life side, it says, tripled in those eleven years. And it has been estimated by McKinsey that GWP would double if Latin America achieved the same insurance penetration as North America.

But business in the region is growing, says Ricardo Acacio, insurance sector leader for North Latin America at Capgemini.

"The growth in the number of policies purchased in LatAm appear due to a series of factors" he says. "We are seeing an increasing focus on the importance of financial planning, such as protecting loved ones in the event of death. There is growth being seen amongst the middle class who have greater savings and investment capacity. Finally, the adoption of new technologies by the industry has made it easier to market policies."

The outlook for the area is a mixture of good and bad. Swiss Re wrote in its *Latin America Market Report 2023* that GDP across the region should grow by 1.7% in real terms in 2024, down from the 2% the firm predicted in 2023.

Even still, it admitted, "[…] the 2023 slowdown has been milder than anticipated given high inflation and tight monetary policy."

Further on, it writes: "The Latin American region overall has shown considerable resilience over the last two years, with growth keeping pace with global economic growth. Heading into next year, we expect the region to fare better than advanced economies. But less so versus emerging Asia, where inflation and interest rates never reached the same heights."

Overall, the consensus seems to be that the market, despite a slowing, will continue to perform strongly in the coming years.

Cabral says that it is expecting to see premium growth top GDP for the next half decade.

"Yes, the economic environment is one of the biggest risks, but we've been pessimistic and now we think we can be more positive about growth in the region."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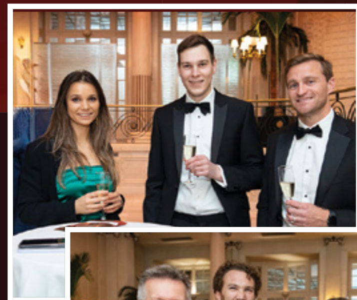
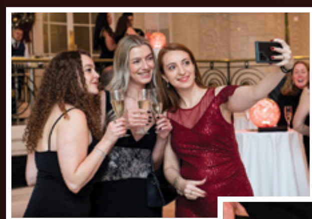
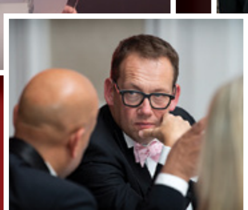
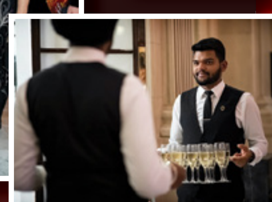


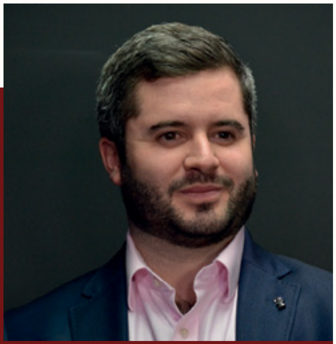






OVERVIEW



The seventh annual Insurance Asset Management Awards saw hundreds of industry professionals gather at the Waldorf Hilton, London, after the Insurance Asset Management Conference 2023 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 Andrew Ryan.

Many thanks to all those who helped make the event such a success, particularly our sponsors. 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 who continue to excel in the insurance arena.

For more information on our events please visit www.insuranceassetmanagement.net, where you can also read all the latest news and commentary from the gloal insurance industry.

Adam Cadle, Editor,
Insurance Asset Management

Insurance Asset Management Awards 2023

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Chair of the judges:
Adam Cadle
Editor, **Insurance Asset Management**

Mary-Therese Barton
Chief Investment Officer – Fixed Income
Pictet Asset Management

Neil Holmes
Director – Insurance, Client Consulting
bfinance

Rebecca Lea
Senior Policy Adviser, Prudential Regulation,
Association of British Insurers

Sumit Mehta
Head of Strategy,
L&G

James Mitchell
Head of Strategic Partnerships & Research,
Phoenix Group

Deepak Seeburrun
Head of Insurance Business
HSBC Asset Management

Winners Gallery

PASSIVE MANAGER OF THE YEAR
Invesco

ACTIVE MANAGER OF THE YEAR
Franklin Templeton

INSURANCE COMPANY OF THE YEAR
Rothesay

FIXED INCOME MANAGER OF THE YEAR (up to €100bn AuM)
Ardea Investment Management

INVESTMENT STRATEGY OF THE YEAR
abrdn

FIXED INCOME MANAGER OF THE YEAR (over to €100bn AuM)
M&G Investments

ESG INVESTMENT STRATEGY OF THE YEAR
Royal London Asset Management

ALTERNATIVES MANAGER OF THE YEAR
AXA IM Alts

INSURANCE INVESTMENT CONSULTANCY OF THE YEAR
WTW

INFRASTRUCTURE MANAGER OF THE YEAR
AXA IM Alts

Insurance Asset Management Awards 2023

PROPERTY MANAGER OF THE YEAR

Franklin Templeton

MULTI-ASSET MANAGER OF THE YEAR

Morgan Stanley Investment Management

EMERGING MARKETS MANAGER OF THE YEAR

HSBC Asset Management

TECHNOLOGY FIRM OF THE YEAR

Quantifi

INNOVATION PROVIDER OF THE YEAR

Schroders

STEWARDSHIP INITIATIVE OF THE YEAR

Royal London Asset Management

DIVERSITY

HSBC Asset Management

HIGHLY COMMENDED: FIXED INCOME MANAGER OF THE YEAR (over €100bn AuM)

Schroders

HIGHLY COMMENDED: ALTERNATIVES MANAGER OF THE YEAR

M&G Investments

HIGHLY COMMENDED: INFRASTRUCTURE MANAGER OF THE YEAR

BNP Paribas Asset Management

abrdn

WINNER

Investment Strategy of the Year

abrdn

With the recent explosion in BPA activity in the UK, DB pension schemes are likely to sharpen their focus on preparing portfolios for transfer to an insurance company. This includes approaching cashflow matching in a similar way to insurers. At the same time, insurers can create more optimal portfolios tailored to their specific liability profile and risk appetite.

abrdn's proprietary portfolio construction techniques and insurance asset management capabilities make it perfectly placed to support both pension schemes and insurers with the BPA journeys that lie ahead. The judges were also impressed with abrdn's on-desk cashflow matching tools, and thus said it was the clear winner for this award category.

abrdn's approach is holistic, flexible, can account for public and private assets and considers the full client lifecycle. With a holistic cashflow matching framework, it's possible to optimally construct portfolios that offer desirable levels of yield, whilst reflecting individual client specifications and restrictions. This includes clients who want their matching portfolio to comply with the MA rules of SII. Furthermore, on the flexibility side, abrdn's proprietary tools can reflect most such requirements, including a minimum yield constraint to increase the return of the cashflow matching portfolio; maximum issuer and/or sector constraints, for example, no more than 3% of the portfolio to be held in a specific issuer or no more than 20% of the portfolio to be held in financials; maximum rating constraints; and constraints around the accuracy of the cashflow match including ensuring portfolios meet the MA tests specified by the PRA.

Using a suite of proprietary on-desk cashflow matching tools, abrdn manages £23bn within matching adjustment eligible portfolios for clients, across the full client lifecycle. This involves inflation of mandates and fund restructuring; pre-trade modelling to ensure proposed new purchases and switches are suitable from a cashflow matching or ongoing matching adjustment compliance point of view; and portfolio rebalancing/liquidity management to meet cash requirements in and out of the fund.

In addition to sterling investment grade fixed income securities, best-in-class cashflow matching solutions can include overseas debt, such as USD corporate bonds or private placements, paired together with cross-currency swaps or repackaged into special purpose vehicles.

Finally, abrdn's proprietary quantitative portfolio design can be applied to a wide and diverse investment universe and allows for informed discussion between key stakeholders, enabling comparison of the relative merits of a spectrum of matching portfolios with different 'risk-return' profiles.

Congratulations to abrdn for an outstanding entry and award win.

abrdn

Fund finance: a marriage of convenience for asset owners

Why now is a good time to participate in fund financing amid rising opportunities and improved risk-adjusted returns.

Shelley Morrison, Head of Fund Finance, abrdn.

A marriage of market forces has made this an opportune time for asset owners to consider fund finance as an alternative to cash or money-market funds.

This type of finance comprises loans to private market investment funds in areas such as private equity, private debt, infrastructure and real estate. It can benefit both the managers/general partners (GPs) of funds as well as a fund's investors.

Lifecycle support

GPs require liquidity to fund investment activity and support portfolio companies during various stages of a fund's lifecycle.

One type of fund finance – subscription line loans – are a form of credit used by funds to bridge their investment activity, delaying the drawdown of capital from investors. It offers clarity on the timing of capital calls so investors can manage their cash productively.

High inflation and a rise in interest rates have driven up yields. It's a good time for a strategic allocation to assets offering attractive yields with some protection against negative rate movements – for example, via floating rates.

The ideal duration?

In fund finance, interest 'coupons' are reset in line with a floating reference rate. Frequent interest resets mean floating-rate loans have near-zero duration. If reference rates continue to rise, so do the interest coupons paid on underlying loans – increasing income to investors.

In the United States, the three-month Secured Overnight Financing Rate stands at 5.36%[1], leading to all-in yields of around 7.36% for certain investment grade, short-maturity subscription line facilities.

More-than-enough capital

Importantly, in fund finance, rising yields don't necessarily equate to a deterioration in credit risk. Subscription line loans are largely short-tenor, investment-grade assets where credit risk is diversified across a large group of high-quality institutional investors.

Furthermore, over-collateralisation – more than enough capital to cover potential losses – first-ranking senior security and financial covenants are features of most subscription line facilities. Senior debt is paid out first if a fund runs into financial trouble – one of the best defences a debt investor can have.

The diversification of credit risk in a subscription line also frequently equates to low levels of correlation with other asset classes, providing potential diversification benefits for investors at a portfolio level.

A popular market

Market dynamics drove global demand for subscription financing to more than $900 billion annually by the end of 2022[2], and we see reasons to believe this demand will grow.

Allocations to alternative assets, including private market funds, continue to expand. Globally, fundraising in private equity markets reached an estimated $1.3 trillion in 2022[3] . Large banks have been the main providers of fund finance. But they have found it difficult to keep pace with demand amid tighter capital constraints from regulators. Many banks have hit internal lending limits and been forced to syndicate a larger part of their fund finance facilities.

Consequently, banks are reaching out to lending partners including asset managers so that they can continue to support private market clients while meeting their capital requirements.

Attractive premiums

Recent bank failures in the US and Europe have also removed supply from the fund finance market. As a result, GPs and financial sponsors have become more sensitive to bank counterparty risk and are also seeking to diversify by working with non-bank lenders.

This contraction in supply has been positive for fund-finance providers, enabling them to capture more attractive liquidity premiums. Since the first half of 2022, loan margins for short-tenor, investment-grade transactions have risen by about 50 basis points[4].

Well-suited to asset owners

Fund finance is well-suited to asset owners with capital-efficient investment objectives due to its credit quality, short duration, yield enhancement potential, uncorrelated returns, low volatility, structural protection and bespoke cashflows that can be used to match liabilities.

But overseeing investments can be challenging given the complexities of credit underwriting and loan documentation, allied to the time-consuming demands of due diligence and cash management.

Institutional investors might turn to asset managers with fund finance experience and broad capabilities in credit and liquidity management, currency hedging and operational, legal and structuring expertise. Well-connected managers can also source loans in different currencies with a range of tenors and pricing options, or that meet non-financial objectives such as ESG.

Marriage potential

Ultimately, we think now is a good time to participate in fund financing at a time when opportunities are increasing and risk-adjusted returns have become more attractive. It offers potential as a marriage of convenience for institutional investors and asset managers.

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

1. Federal Reserve Bank of New York 25 Jan 2024
2. abrdn 31 December 2022
3. Cadwalader – Behind the numbers: the 2022 Fund Finance Market
4. abrdn 24 Jan 2024

WINNER

Active Manager of the Year

FRANKLIN TEMPLETON

The Active Manager of the Year award recognises the investment manager that has demonstrated consistent outperformance and an innovative approach to its investment strategy. The standout firm in this category is Franklin Templeton, with the judges highlighting the outstanding results of its active climate change fund.

The Templeton Global Climate Change Fund (TGCCF) is a ~ €1bn AuM strategy in a market segment with secular demand growth. The Fund is distinctive in that it is a core-value global climate change strategy in a peer largely skewed towards growth. This investment approach, predicated on valuation discipline – reflected in low correlation with large peer funds and lower downside capture – is less common within an investing theme that can attract "hype". Based on valuation metrics like average P/E ratio and average P/B ratio, the TGCCF trades as a discount to its peers and its benchmark.

The Fund's valuation profile has long been the main differentiator from others in the classification and is a major factor underpinning the TGCCF's recent success. In March 2023, the TGCCF established the strategy's first five-year track record. The fund's 5yr numbers now sit in the first quartile in its peer group (Morningstar Sector Equity Ecology), helped by strong recent performance over the last three years which as seen the fund achieve top decile performance over this period.

On the issue of climate change impact, the Fund places much emphasis on climate change solutions, reflected in constraints which require a minimum of 50% of the portfolio to be invested in companies where most revenues are derived from products and services contributing towards climate change mitigation or adaptation. The remainder of the fund looks for companies classified as emerging solutions, or transitions enablers. Regardless of which category a company falls in, it must be considered sustainable to be in the fund.

A central aspect of the fund's approach which the firm strongly believes helps underpin climate change impact is the concept of 'avoided emissions'. This is a metric the firm thinks is more clearly aligned with impact than others used in the industry.

Overall, the TGCCF has achieved real scale and has established itself as a core value offering in a thematic titled towards growth, while drawing upon a credible methodology and investing in companies having a meaningful impact on emissions.

Congratulations on a fantastic award entry and to all those at the firm for an outstanding year in the active investment insurance space.

WINNER

Property Manager of the Year

FRANKLIN TEMPLETON

The Property Manager of the Year award recognises the firm that has shown a true understanding of the regional and global property markets, whilst translating that knowledge into risk adjusted returns for the benefit of its insurance clients.

In the eyes of the judges, Franklin Templeton does just that. Franklin Real Asset Advisors (FRAA) launched the Franklin Templeton Social Infrastructure strategy in late 2018. It is a pan-European fund investing in physical real estate assets that facilitate essential social services and thereby help to build strong communities. The strategy has matured and now totals over €778m (GAV) invested in 29 properties, in nine countries with diversified exposure across healthcare, education, housing, justice and emergency and civic sectors.

The strategy aims to achieve a dual return. Firstly, an attractive financial return of 5% above EU Core In-flation (Harmonised Index of Consumer Prices (HICP)) on a rolling five-year basis, and secondly, an impact return that supports eight UN SDGs. The measurement of progress towards targets is based on the Impact Reporting and Investment Standards (IRIS), and the FRAA developed a world-class, proprietary impact management and measurement framework aligned with global standards including the International Finance Corporation's Operating Principles for Impact. In 2022, Global Real Estate Sustainability Benchmark (GRESB) awarded the strategy an overall score of 80/100 outperforming the peer benchmark in every reporting aspect. Furthermore, FRAA aims to reduce the portfolio's net energy consumption by 2.5% per annum and its CO2 intensity by 5% per annum – more ambitious than those recommended by the World Bank.

The fund's investments in the relatively 'defensive' social infrastructure sectors helped it to outperform real estate peers as represented by the European ODCE Index, despite volatile markets.

Franklin Templeton Social Infrastructure Fund has matured into a diversified, at-scale institutional investment option with capital growth and secure income potential underpinned by long-term, stable, inflation-linked cashflows. At the same time, investors are creating a positive impact on communities and the planet, with the results managed and measured through a leading-edge process which is aligned with global standards, independently audited and its excellence recognised by the accrediting authorities. This has attracted a diverse institutional investor base, including 19% of total commitments made by insurers.

Finally, the strategy's 2022 carbon pathways analysis demonstrates the rigour, authenticity and commitment to continual improvement of FRAA's approach to impact management and measurement.

WINNER

Alternatives Manager of the Year

AXA IM ALTS

The Alternatives Manager of the Year category has been awarded to AXA IM Alts, described by the judges as one of the "behemoths" of alternative assets and now effectively using its resources to move into newer, attractive ESG assets such as natural capital.

AXA IM Alts is a global leader in alternative investments with over €184+bn of AUM[1], comprising c.€85bn of primarily private real estate, over €88bn of private debt and alternative credit, as well as over €11bn in in Infrastructure and private equity. The firm takes a 360° approach to real estate and infrastructure investing with over €115bn of AUM in direct opportunities, held indirectly through debt and listed equities and via long-term private equity investments into operating platforms. ESG is fully integrated into its investment decision making processes with its responsible investment approach anchored by the three key pillars of decarbonisation, resilience and building tomorrow.

Market-leading transactions are at the heart of the business. In Q2 2023, AXA IM Alts announced that it has acquired, on behalf of its clients a 12-hectare land plot in Paris from Nexity. This site includes one of France's largest film and series studios. The launch of innovative products also is where the firm excels. Its 5th Impact investing Global Health strategy focuses specifically on four core areas of innovation: medical devices, biopharmaceuticals, vaccines, and diagnostics. Targeting total commitments of up to $500m, the strategy seeks investment in companies aiming to deliver healthcare solutions at accessible price points for global markets.

AXA IM Alts also launched its new natural capital strategy designed to support nature-based solutions. The launch of this new strategy, initially reserved for AXA Group investors which have provided an initial €500m commitment, represents the next step in the evolution of AXA IM Alts' current natural capital offering and strategic plans to further address climate change and biodiversity loss.

AXA IM Alts also drives the green agenda. In Q1 2023, the firm announced two investments made by its Natural Capital & Impact Investments strategy. Of this c. €12m recent deployment, AXA IM Alts has committed US$2m into Chloris Geospatial's latest US $3.5m fundraising round, as well as a €10m investment to finance an afforestation and reforestation project in France.

Concerning its ESG performance, 19 funds participated in the 2022 GRESB submission, which was its largest submission to date. For the first time it achieved a 4-star status.

Congratulations to AXA IM Alts for winning this award in what was an extremely competitive category.

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[1] Source: AXA IM Alts data (unaudited) as of 30 September 2023.

WINNER

Infrastructure Manager of the Year

AXA IM ALTS

The Infrastructure Manager of the Year category has been awarded to AXA IM Alts. The judges applauded the firm's infrastructure growth and infrastructure debt capabilities.

AXA IM Alts Infrastructure is growing at over €2bn AUM per annum[1] across a range of products for institutional clients. Since inception, the firm has deployed €14bn[2] across the energy, digital, infrastructure, transport, utilities and social infrastructure sectors in the UK, France, Germany, Nordics, Benelux, Spain, Portugal and Italy. By deploying capital across industry sectors, including but not limited to renewable energy, transport, and telecommunications, AXA IM Alts generated value for clients by building highly diversified portfolios composed of infrastructure assets or corporates that provide stable and defensive income streams. Furthermore, by investing in both fixed and floating rate instruments across shorter acquisition style financing and longer project financings, AXA IM Alts position as a leading infrastructure debt manager is further established.

Fundraising milestones and success are also at the heart of the business. It is currently fundraising its fourth commingled fund, European Infrastructure Senior 4, which is targeting €1bn, on the back of the success of its 1st and 2nd vintage which raised c.€1.2bn and €1.1bn respectively. AXA IM Alts is receiving commitments from fund-of-funds managers which is testimony to the quality of the team's product and services and has received sizeable additional commitments from existing clients in the last 12 months.

On the infra equity side, AXA IM Alts has invested €1.3bn to date through its AXA European Infrastructure Fund, which launched in 2021. ESG principles are thoroughly integrated into AXA IM Alts' investment decisions. Any infrastructure not fit or adaptable for a net-zero world is excluded from its investment universe. As of 31 March 2023, 70% of its infrastructure equity AUM corresponds digital and renewable energy.[3]

In Q2 2023, the firm announced that it has entered into an agreement for the disposal, on behalf of clients, of Data4, one of Europe's largest data centre platforms, to Brookfield Infrastructure. During AXA IM Alts' ownership, Data4's portfolio has increased to 31 datacentres across six countries with 850MW secured power. This growth, which has included entry into several new markets in Europe was possible through the close collaboration of Data4 management and AXA IM Alts' on the ground real estate teams. Congratulations to AXA IM Alts.

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[1] AXA IM Alts unaudited data as at 31 December 2022.
[2] AXA IM Alts unaudited data as at 31 March 2023.
[3] AXA IM Alts unaudited data as at 31 March 2023.

Rothesay

WINNER

Insurance Company of the Year

ROTHESAY

The Insurance Company of the Year category rewards the insurer that demonstrates the highest commitment to meeting customer needs and delivers high quality service consistently across all activities as part of its overall financial strategy.

Rothesay stands out amongst the other contenders in this category. The judges said "this firm is an innovative, sophisticated pension risk transfer participant with robust processes in place."

As the opportunity in the UK's pension risk transfer market continues to grow, Rothesay's innovation and investment in growing its origination capabilities allowed the firm to provide innovative solutions for pension scheme clients such as taking on illiquid assets as part of the buy-out process.

Furthermore, the insurer reduced its trading exposure, having worked with two large schemes to allow them to transfer asset classes as premium payment that it doesn't usually take in-specie. It also entered into a de-risking partnership with a multi-billion-pound scheme, which included a long-term price-lock to its asset portfolio and concluded in a successful transaction in November 2023.

Rothesay's performance is outstanding with ten transactions worth £8bn won at the time of its award submission, going on to complete £12.7bn of new business in 2023, whilst maintaining a Solvency Capital Requirement coverage ratio significantly above its target operating range.

On the ESG side, Rothesay continues to make positive progress. Its own operations are net-zero for the next decade through partnering with Climeworks, a leading 'direct air capture' company to remove CO_2 from the atmosphere permanently, as well as its work with Natural Capital Partners to verify direct emissions and purchase sufficient verified carbon credits. In 2022, it pledged £5.6m to charitable causes, including through the Rothesay Foundation's partnerships with Iceland Foods and Age UK, helping some of the country's most vulnerable older people.

The insurer continues to provide excellent service to its policyholders and clients, with a policyholder satisfaction level remaining at 95% of policyholders rating its service as excellent or good. It outperforms the UK Companies Top Quartile in its employee engagement survey, with a participation rate of 94% and 91% of employees stating they are proud to work at Rothesay. The insurer also engages with the industry including consultancies, lawyers, pension scheme sponsors and trustees, as well as through its "Next Generation of the Bulk Annuities market" networking event aimed at future leaders in the market.

Congratulations to Rothesay for an outstanding and much deserved award win and for continuing to raise the bar in terms of industry standards.

European Pensions AWARDS 2023
WINNER
Risk Management Firm of the Year

Insurance Asset Management Awards 2023
Winner
Insurance Company of the Year

PINNACLE
AWARDS 2023
WINNER
IMPACT on Customer Experience

WINNER

Fixed Income Manager of the Year (over €100bn AuM)

M&G INVESTMENTS

The Fixed Income Manager of the Year (over €100bn AuM) award is given to the firm displaying innovation and outstanding financial performance. Excelling in this space is M&G Investments.

The judges said they were impressed with the firm's investment performance, and work around designing bespoke liquidity solutions, optimising core fixed income allocations and expanding and diversifying non-core assets. As a value-based active investor, M&G Investments adopts a fundamental, 'bottom-up' approach to fixed income investing that works throughout the credit cycle to produce consistent returns, rather than outperforming in certain markets and underperforming in others.

Its large and experienced team allows M&G to engage with insurance clients on bespoke fixed income requirements across the entire balance sheet. The team of over 150 fundamental credit analysts, cover both public and private debt, and work with its 50 fixed income portfolio managers to identify attractive investment opportunities making it one of the largest credit analyst teams in Europe. They are supported by 23 restructuring specialists which allows the firm to play an active role in restructurings.

Innovation has been heavily witnessed in the multi asset credit space. There are three separate funds within its multi asset credit strategy, and it is currently developing a fourth, the Sustainable Alpha Opportunities Fund. All of these funds have a performance target of cash +3-5% gross p.a. over a cycle. They invest in a broad range of credit assets in a flexible and unconstrained approach, free from the ties of a benchmark and will always remain an average investment grade credit rating. Through M&G's active investment approach, they are able to de-risk the strategy when markets are not compensate for its risk and wait patiently for opportunities in the market. This investment discipline enabled the strategy to deliver positive gross returns across all three funds over the 12 months to 31 December 2022.

There has been a lot of focus on sustainability and ESG across the market, with a specified focus on public fixed income and equities. The firm has developed a strong understanding of the ESG and sustainability credentials within the ABS market, and its ABS research function was founded in 1999 with currently over £25bn in AuM and have had zero defaults across dedicated ABS portfolios since the team's inception. During 2022, it scored over 350 deals using its TAC – Transaction, Counterparty and Assets framework, coming up with specific E, S, G and overall scores for ABS deals. Carbon emissions are disclosed and the UN PRI definition of engagement is followed.

Congratulations to all at the firm on a fabulous win.

WINNER

Innovation Provider of the Year

SCHRODERS

The Innovation Provider of the Year award aims to recognise the insurance provider/asset manager excelling in the investment arena, in product design, technology or any other area whilst meeting the needs of its clients.

The judges were particularly impressed this year with Schroders' launch of a number of long-term asset funds (LTAF) and their Climate+ fund. One of Schroders key tenets is partnering with clients to enact change. In conjunction with Lloyd's of London, it was elected as investment manager to structure the Lloyd's of London Private Impact Fund (LPIF), to provide the managing agents of Lloyd's the opportunity to invest into private market investments. The purpose of the platform is to drive enhanced returns by investing in products that support the climate transition through an open ended semi-liquid vehicle that offers investors improved value for money. The semi-liquid structure has the key benefit to investors of offering an ongoing investment programme with an ability to see the type of assets that are being invested into, and, crucially for investors, allow for liquidity should it be required.

In creating the fund, Schroders has been able to leverage its significant experience in private asset investing with a demonstrable proven track record, its environmental and social impact capabilities across a broad range of investments, and experience in launching semi-liquid evergreen private asset funds.

Furthermore, the fund delivers measurable impact through a robust impact framework and targets core themes such as climate mitigation; climate adaptation; circular economy; and social inclusion. ESG and impact assessment are incorporated each step of the way following the Operating Principles of Impact Management across a strong deal flow which enables investors to be rigorously selective. ESG criteria and impact ratings with clear objectives are incorporated and integrated into the investment memos and decisions with impact KPIs in line with the fund targets. Investments are actively monitored with data collected to monitor and evaluate the impact of KPIs and ESG factors to assess if the impact objectives are on track with investors offered full transparency through impact and ESG reporting. On exit, Schroders valuates the impact merit of the investments, assessing if impact will be sustained after exit and how impact in future investments can be improved.

Schroders, alongside its clients, is helping lead the way in making private market investing for insurance and other institutional investors more manageable using innovative structures to provide solutions. Congratulations.

WINNER

Passive Manager of the Year

INVESCO

The winner of the Passive Manager of the Year award is Invesco, with the judges impressed with the firm's private credit, fixed income and equity capabilities and general ETF business development.

Invesco is one of the world's largest ETF providers, with over US$434bn globally in ETF assets under management, and has been dedicated to ETF investing since 2003. In 2023, Invesco had success in private credit, fixed income and equity with insurers. Its flagship Senor Secured Loan (BKLN ETF) has 26 insurance clients invested in the UK, US and Bermuda. Additionally, the firm launched its ICLO AAA Floating Rate Note ETF which invests in AAA CLO rated notes, a SII capital efficient asset class, one of the only ETFs on the market in the asset class. Invesco was also selected by a Lloyds of London insurer to manage a range of fixed income ETFs in their tactical asset allocation sleeve. In the UK, Invesco was selected to manage the equity on an insurers balance sheet via its FTSE ALL Share Climate ESG ETF. This ETF provided low tracking error and improved climate and ESG objectives.

Invesco looks to improve the performance of its passive funds in various ways. It understands that most insurance investors evaluate passive fund performance based on the consistency of the returns versus the index being tracked, and offers extremely competitive costs across the passive range. With its passive ETFs, it takes an agnostic approach to how it replicated the reference benchmark. For many indices, it can generate much closer and consistent tracking with its synthetic replication method. It does this by holding a portfolio of quality equities, which are not necessarily the same as the index, and improve tracking with the use of a swap overlay, generally with multiple swap counterparties. When replicating US equity indices, its method enables its ETFs to capture a greater level of dividends (100% with no dividend withholding tax) than competing physical products.

Furthermore, the focus on net-zero (and the need to transition towards more sustainable sources of energy) presents innovation opportunities to offer solutions that directly match insurance client needs. With the ever-increasing focus on ESG and climate risk, Invesco continues to extend its range of relevant investment capabilities in this area, including specific solutions for solar, wind & hydrogen.

Having deep roots in passive investing and expertise in market trading, Invesco continually looks for ways to improve and always seek to find better ways to achieve its clients' performance objectives.

Congratulations on a richly deserved award.

Insurance Asset Management Awards 2023














A securer environment

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

NN GROUP has announced that its subsidiary, NN Life, has completed two transactions to transfer the full longevity risk associated with approximately a total €13bn of pension liabilities in the Netherlands. The deals will reduce NN's exposure to longevity risk and further strengthen its capital position. NN confirmed the transactions cover the longevity risk of approximately 300,000 policies and have been entered into with an insurance subsidiary of Prudential Financial and with Swiss Re.

The **UK LIFE INSURANCE SECTOR** is the only sector in Europe with an improving outlook for 2024, Fitch Ratings has said, due to the prospect of "strong profitable growth in pension risk transfers". Higher interest rates have boosted pension scheme funding levels, making it easier for corporates to offload their pension liabilities to insurers. Elsewhere in Europe, life sector outlooks are neutral, with the positives, such as higher investment returns, broadly in balance with the negatives, such as the muted macroeconomic backdrop. Fitch expects UK pension de-risking volumes in 2023 and 2024 to exceed the previous record in 2019, spurred by much better affordability for transferring risk following the steep interest rate rises in 2022-2023, although volumes "may be lumpy from one year to the next given the large size of some deals". "Pension superfunds could encroach on the UK life market for pension risk transfers but we expect the near-term impact to be small relative to the expansion of the market," it added. Fitch also expects the individual annuity market to grow in 2024, driven by retirees attracted by annuity rates that have risen largely in step with bond yields.

***JUST GROUP** has completed a £1.5m full pension scheme buy-in transaction for the trustees of Intersil Limited Superannuation Fund. Intersil Limited is a subsidiary of Renesas Electronics Corporation, a Japanese semiconductor manufacturer. The trustees were advised by Aon and the transaction was completed using Pathway, Aon's and Eversheds Sutherland's solution for smaller bulk annuity transactions and Just Group's streamlined bulk quotation service.*

The **CP PHARMACEUTICALS LIMITED PENSION SCHEME** has secured a £28m full buy-in with Just Group, securing the benefits of all 317 previously uninsured scheme members. The deal, which was completed in October, did not require any additional contribution from the sponsor. It covered 46 pensioners and 271 deferred members, completing the buy-in of all scheme liabilities, with the scheme now expected to proceed to full buyout and wind-up. Broadstone provided annuity broking as well as investment consultancy services, while legal advice was provided by Eversheds, with additional trustee advice provided by Capita.

A further two new entrants will enter the bulk annuity market in 2024, either through the acquisition of one of the existing nine bulk annuity providers or as new providers, ***LCP*** *has predicted. LCP's forecast comes amid expectations that this year is on course to break the record for buy-in and buyout volumes. The consultancy noted that rising activity in the market has attracted new capital providers looking for ways to participate in the growth of the UK buy-in and buyout space.*

The total value of new defined benefit (DB) de-risking deals completed by **JUST GROUP** increased by 21% year-on-year in 2023, its latest business update has revealed. During the year, the company's DB de-risking and DB partner (funded reinsurance) business rose from £2.96bn to £3.42bn. Just Group completed 80 de-risking transactions during 2023, up from 56 deals in 2022. The largest transaction was its £513m buy-in with the GKN Group pension scheme (No.4), which was also the highest value DB de-risking deal Just Group has completed to date.

RESOLUTION RE has announced that it has completed a transaction which has reinsured the market and longevity risks of around 90,000 policyholders, totalling around £2bn individual in-payment UK annuity liabilities. The transaction, by Resolution Life's Bermudian reinsurance platform, was completed at the end of 2023 and is Resolution Re's second funded reinsurance transaction in the UK market. Resolution Life said the transaction extends its position as a "leading global manager of in-force life insurance businesses", with over four million policies currently in-force.

The ST PAUL'S CATHEDRAL PENSION AND LIFE ASSURANCE SCHEME has agreed an £18m bulk purchase annuity deal with Aviva, securing the retirement benefits for all members of the scheme. The buy-in was completed without any additional contribution from the sponsoring employer, St Paul's Cathedral, and has been highlighted as evidence of how smaller schemes that are well prepared can use streamlined services, such as LCP's, to achieve a competitive price. The deal was executed within three weeks of selecting the preferred insurer, which LCP pointed to as demonstration of how its service reduces exposure to market risks and provides certainty to both trustees and insurers.

The trustees of the ***WESTMINSTER ABBEY 1972 RETIREMENT AND DEATH BENEFITS SCHEME*** *have completed a £25m full-scheme buy-in with Pension Insurance Corporation (PIC). The transaction covers the pension liabilities for 125 pensioners and 107 deferred scheme members who were employees of Westminster Abbey. Barnett Waddingham acted as actuarial, administration, investment and risk transfer adviser to the trustees. Pinsent Masons provided the trustees with legal advice, while PIC was advised by CMS.*

PIC has concluded a £65m full buy-in of the Chemring Group Staff Pension Scheme. The transaction secures the pensions of both deferred and pensioner members of the scheme, which is sponsored by Chemring Group Plc, comprising 485 current pensioners and 328 deferred members. Founded in 1905, Chemring Group Plc, which is headquartered in Romsey, Hampshire, is a global business providing a range of advanced technology products and services to the aerospace, defence and security markets.

THE GUILBERT UK RETIREMENT BENEFITS PLAN has completed a £140m full scheme buy-in transaction with Aviva, insuring the liabilities for all 1,500 scheme members. The tender process was led by PwC, which provided transaction advice to both the trustee and sponsoring employer, while Travers Smith provided legal advice. Mercer provided administration, scheme actuary and investment advice to the scheme trustee. The scheme's sponsor is Office Depot UK Pension Sponsor Limited, a distributor of office supplies. Members will see no change in the benefits they receive as a result of the transaction, which removes the investment and longevity risk of these members from the scheme.

Columbia Threadneedle Investments social bond roundtable

Chair: Paul Whelan, partner, co-head of global fixed income investment manager research, wealth solutions, Aon

Paul serves as a partner and is co-head of global fixed income investment manager research at Aon and is based in London. He is responsible for sourcing, evaluating, conducting due diligence, and monitoring fixed income funds on a global basis and assisting clients globally in effective implementation investment portfolios. Prior to Aon, Paul was a fund manager at UBS, Henderson Global Investors and Aviva Investors.

Chair: What is the actual impact problem we are facing across our economies today?

Broderick: Estimates on what it requires to fund the SDGs vary. They seem to centre around $4trn per annum which sounds an awful lot of money. But to put it into context, global financial assets are $450trn, managed assets are $150trn and government spend is about $40trn per annum. Globally, we spent $18trn on COVID relief. The money needed to fund the SDGs is not money we are raising, it is money we are reallocating. The starting point for the entire discussion on sustainability is driven by net-zero. Climate has created an urgency and an awareness that capital can have an impact on climate. Two interesting points have arisen from this discussion also. Firstly, we've started to realise that there is no investment intervention on climate that does not also have a social implication. No matter where you build your windfarms and no matter how you construct your electric vehicles, there is going to be a social implication somewhere in there. Secondly, there is a growing awareness that there is a parallel long-term global crisis around poverty and wealth inequality. You cannot talk about the environment without talking about the social side as well.

Chair: How much do you think the left versus the right and the political swing globally is influencing and holding back asset owners making investments that might have societal or impact aims?

Broderick: I think it's naïve to think that capitalism will solve these problems. I think its more to do with the collaboration between private market assets and government assets. The most effective thing that governments can be doing now is to provide assistance in the form of blended finance. Which is to say consider how government can put its capital into structures that allow market capital to come in. Not all impact investing needs to be carried out in this format, but a lot of it does require this blending. In the US, the entire Inflation Reduction Act of $369bn is largely about blending the finance with market capital in the form of grants and tax credits. So, I do think there is a technology for allowing governments to intervene, but they must do so in a smart manner and try not to solve the problem with a full vertical capital stack but rather think of ways in which they can collaborate with private capital.

Chair: Chris, looking at Hiscox's policies which focus more on the 'E' side, do you think there will be more policies coming in on the 'S'?

Bray: At a board level, we have targets around areas like customer satisfaction and treating customers fairly with their financial journey on the insurance side. We also have policies around not investing in controversial weapons, which is somewhat socially linked. In some ways it is quite difficult to have socially embedded policies. What do you focus on? Do you cover jobs, do you cover financial access for underserved people, do you look at air quality or access to healthcare for example. The 'E' is relatively easy to cover and whilst the 'S' is important, it is really hard to measure.

Chair: Emmanuel, do you want to talk through how your insurance clients are addressing and making impact?

Archampong: There is a natural fundamental alignment between the insurance agenda and the social agenda. Be it general insurers rebuilding properties after a fire or floods or life insurers stepping into that gap with income protection and various other insurance products, there is the alignment here of the insurance function to step in and support often the underserved. One of the areas that often does not get talked about is pension poverty where the adviser community does not always support much smaller pots of pension assets, we are seeing this as a natural place where insurers have been operating in for years through unit linked products, with profits products and increasingly solutions that address the liquidity challenges of decumulation. So, there is a real alignment of what insurers do through the liability side of their balance sheet before even bringing in the asset discussion. I agree with Chris though when he says that the focus for insurers historically has been on 'E', and I feel that is partly because of course the 'E' is a globally significant issue and an easily understood problem in terms of how you quantify the challenge. I feel insurers are engaging with us more on the 'S', discussions. And the questions we are being asked to solve really is how we, as asset managers, can demonstrate in an effective and consistent framework the intensity or the impact asset owners can make on society through their investments. Societal challenges vary widely across geographical regions and so using the SDGs and mapping our investment strategies to that consistent global framework is helpful.

Chair: Tammie, some of those frameworks do exist already don't they, which prove it is possible to measure the 'S', and when considered from a lens of social-outcomes focused investing?

Tang: Yes, we've learnt that investment which also delivers positive social outcomes, is possible, and if you approach it from the lens of 'who are you helping, where are you helping and what outcomes are you helping. We need to target and put capital to areas where it is more needed than not, which is not just geographical, but population focused, and this could include the displaced, the unemployed, the lower income, the disabled. There are many different

Tammie Tang, senior portfolio manager, Columbia Threadneedle Investments

Tammie Tang is a senior portfolio manager in the fixed Income team with a focus on investment grade credit, having joined the company in 2012. She is lead portfolio manager for Columbia Threadneedle's UK, European and global social bond strategies, as well as various institutional UK credit strategies and the Threadneedle Pensions Corporate Bond Fund. Tammie's responsibilities and focus are geared towards generating active returns and alignment with clients' sustainability objectives.

categorisations to consider. We have seen issuers in the bond market consider and specifically target such population cohorts. When they are defining how to allocate their bond capital, some have gone to postcode level to identify and target the lower-income or where there is the lower GDP per capita. The framework should also consider social outcomes supported by the bond capital. This could include basic needs such as housing and healthcare, and extend to more secondary and tertiary needs like education and employment, and access to community services and infrastructure. In addition, the ability to have an impact does not start with a bond label (such as ICMA aligned). An active asset manager, should conduct good bottom-up research of the social outcomes supported and the regions and populations supported, which forms a basis of social impact evidence. Strength in research allows one to construct diversified portfolios that can deliver the return commensurate with a market index and without sacrificing return.

Ramroop: What we have found in the bonds that we have issued is that the sustainalytics framework that we are meant to adhere to is too narrow. So, we publish our own framework, and we measure ourselves against that publicly.

Chair: Corrado, does Foresters have a different approach to impact investing solutions?

Pistarino: We are open-minded with respect to impact investing. If there was evidence that this is a viable investment approach we would be looking at it. It is important to reiterate that our core mandate is to maximise investment performance given our solvency budget. Delivering on this mandate is already a difficult endeavour; adding the dimension of impact to it increases the complexity of the investment process. When it comes to social bonds, I am not convinced that the evidence about their real impact makes it a compelling proposition. So, do we want to be there ahead of most of our peers? Probably not. If then we enlarge our cone of vision and consider the whole of responsible investing, the academic evidence is pretty damning. It is an area that requires further thinking on the part of the investment industry. Let me just raise a point that I consider to be pivotal. Around this table, everyone is convinced that asset allocators have real power

> There is a growing subset who care about supporting a climate transition

to steer the direction of the economy. I strongly object to that view. The economy functions bottom-up, shaped by consumer preferences. Under this perspective, the power of asset allocators is heavily bound. I cannot stop children having a preference for ice creams and, unless we assume that the investor space is homogenous, I cannot presume that there won't be an investor happy to invest in ice cream producers. That is, in my view, the central issue: the fact that the investor landscape is not homogenous and that investors in different jurisdictions have different views on the balance between portfolio returns and societal good, and that that tension cannot be reconciled in the absence of a global statutory framework. I can decide unilaterally to stop funding ice cream producers, but it is doubtful I would be making a tangible impact.

Broderick: I would make the distinction between ESG and impact here. Impact is where your investment activity, not the companies, is putting capital into places where it is making a difference.

Pistarino: As investors in the real economy, we always make a difference. By providing funding or risk capital to viable businesses that employ thousands of people, we fund jobs and improve livelihoods. This is by far the biggest impact that I can think of.

Broderick: I wanted to touch on your scepticism around impact investing. We don't view impact as an asset class. We think there are impact versions of all the existing asset classes. What we are observing is that often the impact version of say infrastructure or real estate for example, has a different set of characteristics that is added to the portfolio construction. On a standalone basis you may say that I have a social housing investment, or another residential investment, but social housing in the UK has different revenue sources and different exposures than other forms of residential real estate. People are not taking advantage of those differentiated risk return diversification characteristics of the impact investments.

Emmanuel Archampong, head of insurance, EMEA, Columbia Threadneedle Investments

Emmanuel Archampong is head of insurance, EMEA, and joined Columbia Threadneedle Investments in 2022. He is responsible for overseeing the company's strategic insurance relationships across EMEA and leads business development for this client segment. Before joining the company, Emmanuel led the development of the insurance business at Wells Fargo Asset management across international markets.

Pistarino: What is the conceptual basis to believe that what people need is coincidentally something that pays the correct level of returns to an investor?

Tang: That for me goes back to the 'Why?' element. Why am I doing what I am doing, why am I investing for better social outcomes and talking to a spectrum of issuers out there. The 'Why' is about supporting our future, financially and physically, and many people will value our future security. There is a growing subset who care about supporting a climate transition and who do wish to avoid the scenario where physical assets become uninsurable, or the scenarios of rising deaths or displacement. When bad scenarios or disasters hit, its usually the most vulnerable in society who are worse off. This further exacerbates the inequality gap – which I also don't believe to be a good thing for financial markets nor asset wealth? Low social cohesion more easily leads to political extremism, which can encourage dramatic changes to financial markets or ways-of-living.

Ramroop: When capital was being allocated into fossil fuels back in the day people did not take these broader aspects we are talking about into

account, resulting in the situation we are now in. If we don't allocate capital more responsibly then you could have a re-run of the climate issue on a more social level with increasing population growth and dwindling natural resources. The question then becomes what return we forego to allocate capital more responsibly. But we do make these decisions anyway, because putting impact aside they are asset classes that we like despite having a lower return.

Broderick: There are investments out there that deliver a market risk return, but they are not understood. Trade finance is a great example. It is a market investment but the education around it is lacking. The work that we have done around social housing at the Impact Investing Institute is similar. People don't realise that there is a value to social housing investment particularly on the equity side. I remember speaking in front of the Social Housing Conference in 2019 saying that housing associations should issue their debt as social bonds. They looked at me perplexed. Today, most housing associations now issue their debt in social bonds. When they issue, they are signing up to a set of standards, use of proceeds reporting and third-party verification that wasn't there before. It is still housing association debt and you still get the same return, but now someone has influenced the housing associations to hold themselves accountable for using their capital in a particular way. That is one of the ways in which impact investors are shaping the way in which these companies operate.

Pistarino: Agreed. Lack of familiarity, experienced by both issuers and investors, creates market frictions. However, in an ideal world where these frictions are overcome, a broader investor base emerges, drawn by the increased attractiveness or desirability of an investment. This dynamic inherently lowers expected returns. Social housing bonds, being highly desirable due to their positive social impact, would likely experience increased demand, resulting in tighter yields. Ultimately, investors bear the cost of generating positive externalities. This intrinsic challenge is unavoidable.

Broderick: The premium on green bonds has almost disappeared, and there is no premium on social bonds. You are right in theory, but in practice what is happening is that people are not necessarily lowering their funding costs by issuing green or social bonds. They are

David Ramroop, chief investment officer, Just Group

David Ramroop is chief investment officer of Just Group, a UK life assurer, whose purpose is to ensure that people have a better later life. Just has c.£25bn in policyholder assets and is active in the defined benefit and retail annuity markets. David started his career in M&A, moved thereafter into asset management and has been at Just since 2013.

connecting with a different type of investor however. One of the things that the housing associations have discovered, is that when they issued social bonds, they were attracting a broader set of investors. That would improve their funding base.

Bray: There is also the idea that equally if the bonds are desirable, maybe the liquidity is better, and the spreads are tighter. If you want to get out of them at some point you can more easily. There are other economic aspects to it beyond yields.

Chair: Angel – where do you stand on this trade off debate? Is there some sort of philanthropic investment from the social impact side here, or do you think you can give that diversification and risk adjusted return without foregoing financial returns whilst achieving societal impact?

Kansagra: Firstly, asset owners are not charities. We look at what is the return first and foremost and then we say does this justify the risk that you are taking. Returns are important for us because we all have our fiduciary duties as we are managing assets that are there to pay off liabilities to the end consumers. From an investment point of view, it should make sense, but that doesn't mean that you look at these things on a standalone basis. As an asset allocator, when I am looking at something I always look at it in the context of my existing portfolio. If it gives me a lower return, then you look at your risk exposure, does it give you diversification of income from other sources. Insurers also look at the capital treatment. At Lloyds, on the private impact side we have looked at private equity first. We are not actually giving up on returns. The mandate that we have given to the portfolio manager is a target to be generated within a certain volatility and to go and find these investments. On the US private credit side, the fund I am talking about is a US mid-market direct lending fund. You can create impact here because they are smaller companies, quite diversified and investing in products that are helping communities etc.

> “It is also positive to see some insurers emphasising the concept of ‘responsible premiums’

Broderick: That's a really important point. It is not just about the risk and return of the individual investment it is about the risk and return in its function within the portfolio.

Archampong: That is exactly the point. The Social investment grade philosophy is consistent with the traditional or core credit objective to deliver attractive risk-adjusted returns and to withstand short term volatility driven by solid fundamental research. The same approach is applied here, whereby we are seeking in addition to traditional sectors diversification from a broad universe including government agencies, regional and local government bodies, mutuals and charities. Issuers include social policy leaders that use public bond markets to finance large scale social solutions and, in the process, creating appropriate and sustainable funding sources for social infrastructure, delivering housing, healthcare and for the community. So, you are right in expecting a social impact strategy to still deliver an attractive risk adjusted return or at least be benchmarked against traditional benchmarks. There is also another observation from the

Angel Kansagra, head of ALM and investment solutions, Lloyd's

Angel heads the asset liability management and investment solutions team at Lloyd's. He is responsible for investment strategy, asset allocation and investment risk. He also leads the design and implementation of public asset investment solutions on the Lloyd's Investment Platform to provide customised solutions to insurers and capital providers in the Lloyd's market. Angel is a qualified actuary.

Corrado Pistarino, chief investment officer, Foresters Friendly Society

Corrado has over 25 years' experience in investment banking, asset management and insurance. He is CIO and chair of the Climate Risk Forum at Foresters Friendly Society. Corrado holds a degree in Physics from Turin University and a Master in Finance from London Business School.

insurance client perspective which is that we see particularly within the life space where there is the distinction between shareholder assets and policyholder funds. One of the ways insurers are motivated to differentiate themselves is by ensuring a proportion of premiums are committed to ESG objectives. In such instances, the policyholders themselves have a voice and can vote with their feet. Even though investment objectives are important the voice of the policyholder is getting louder. In the non-life space we are also seeing initiatives such as "responsible premiums" as some insurers are demonstrating their commitment to invest a prescribed proportion of all premiums in a responsible way.

Chair: David, the more society cares about the obesity problem for example, or phasing out smoking, how much do you have that alignment from your investment perspective to what could be shaping your liabilities and mortality assumptions?

Ramroop: From a social perspective our business and the purpose of our business at Just is to help people achieve a better later life. The only thing that is holding us back from having more impact, is that a lot of the trends that you mentioned Tammie aren't very investment grade favourable. Our parameters mean we don't invest in equity, we hardly invest in sub investment grade, and the bar for an investment grade investment within this impact context is high otherwise we would do more.

Chair: Tammie, Columbia Threadneedle Investments has a decade plus experience in the social bond space, do you want to talk us through the evolution of that market and how deep and liquid it is?

Chris Bray, investment analyst, Hiscox

Chris has been an analyst in Hiscox Group's investment team since 2019, having previously worked in financial consulting and equity fund management. He focuses on quantitative analytics relating to the group's investments, including asset-liability matching, strategic asset allocation and risk modelling. On the responsible investment side he develops and maintains the group's internal ESG investment dashboard, researches new fund investments and monitors ongoing policy/regulatory developments.

Tang: It is quite possible to build a portfolio of 150 separate issuers touching on all the particular social outcome areas that I have already talked about. If anything, when we look at some of the larger pension names in the UK market and what they are investing in, within the private debt space we are also doing the same things but in the wider, more liquid, publicly listedbond market. In addition, as impact investors we care about facilitating that capital in the primary market. Through a lot of work behind the scenes, we will continue to influence and help to reallocate capital in the areas in which we need. We are seeing the delivery of high-grade credit funds with for example, 3-year duration, 6% yield, single A rated, and whilst maximising social impact.

Pistarino: What is your assessment of the success of your engagement activity as a bond fund manager?

Tang: The biggest success is when they do what we ask. Together with Jamie and the Impact Investing Institute, we played a role in advocating the UK Government to do a green gilt. It was over 18 months of work, to engage with the Government, the debt management office, and Treasury, to inform and educate. We'll continue this engagement with the whole spectrum of bond issuers, including government related entities, non-profits and corporates.

Pistarino: How do you define a metric that is homogenous and works consistently across the impact spectrum, ensuring that when you present the numbers, readers can clearly understand and interpret them?

Tang: A deep research element helps and is occurring at every bond level. The research is addressing what are the social outcomes funded and to who and to where.. That deep research element can also map the bond proceeds into alignment with wider industry standards, including the UN SDGs, and also to the Impact Management Norms. These many and multiple

> "By aligning financial goals with social objectives, we pave the way for a more sustainable and inclusive future

dimensions of research can thus be aggregated up and assessed in terms of a ranking of social impact or social investment intention. That strength of social intention is then a key input from a portfolio construction lens, whereby all else equal (including price), we favour investments with more social impact than not.

Kansagra: If someone is an investor in this space, they also look at the cost of accessing these assets. With impact investing, there is so much engagement that the asset manager needs to have, do you think the cost of accessing these products is higher than normal bond funds that you would invest in?

Tang: I believe fees of an impact bond fund is broadly consistent with a traditional or normal high grade credit bond fund. The value proposition should be more compelling given the twin objectives of financial return and positive social impact, supported in both respects by deep research, good process and active engagement.

Broderick: The aspect that is interesting to me about your fixed income strategy at Columbia Threadneedle Investments, is that you start with the financials, and you offer a high quality aggregate portfolio that is meant to compete with any other high quality aggregate portfolio. But then in addition, you are investing in priority areas in the hierarchy of need. Why would this not be attractive to somebody, when you can get market exposure, better quality risk and all the other financial characteristics, but behind it you are conducting this additional effort. That is exactly what impact investing should look like.

Chair: David, Just has issued green and social bonds. Can you talk us through the rationale of issuing the social bond. Was it to offload the same risk but for a 15 basis point 'socialeum' or was it for use of proceeds and to attract end buyers to buy that security with that alignment of interest in both the financial return and social side?

Ramroop: We issued the bonds in a low rated environment but at a a higher spread than what we would issue at now. It was a bit cheaper, and we were the first UK life insurer to issue a green bond and the first insurer to issue a sustainability bond also. We wanted to make this statement and we made some financial benefit from it but that wasn't necessarily the motivation behind it.

Chair: Jamie, any concluding remarks and what is your outlook for the social bond market?

Broderick: We must look at what our peers are already doing in the market, and what they are able to achieve. If the entire industry could just bring their investments up to what their peers are doing, that would be a substantial move of capital.

Archampong: I am very encouraged by the discussion today. What is clear from our conversations around the table is that insurers have a set of investment outcomes that they seek to achieve. The priority remains to deliver high quality cash flows that outperform their liabilities. We know a substantial part of this is done using fixed income assets. Effectively the largest single asset class for insures is fixed income and within that of course investment grade credit. The intensity of credit research, bottom up, in constructing and managing credit is a fundamental part of building out an insurance portfolio. We believe this should always remain the primary objective for insurers. However, that consistent research driven process, that prioritises the selection of robust, high quality cash flows, naturally lends itself well to identifying opportunities in social investing also. Therefore, by aligning financial goals with social objectives, we pave the way for a more sustainable and inclusive future. Thinking about this logically there is a minimum hurdle of quality of cashflows that insures expect. The opportunity for us is really to continue to deliver relative outperformance versus traditional benchmarks. If we can achieve that while targeting specific positive social outcomes, we can in a tangible way enable insurers use their capital for good. Let us continue to drive meaningful change through this approach.

Jamie Broderick, deputy chair, Impact Investing Institute

Jamie Broderick is deputy chair of the Impact Investing Institute, a UK non-profit that aims to accelerate the growth of the impact investing market. He was head of UBS Wealth Management in the UK from 2013-2017. He joined UBS after nineteen years at J.P. Morgan Asset Management, latterly as chief executive of its European business. He joined J.P. Morgan in New York in 1993 and moved to London in 1996.

A green world

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

1 **Nippon Life** has registered as a 'TNFD Adopter', adopting the disclosure recommendations which were finalised by the TNFD in September 2023. The insurer said it aims to improve its corporate value through contributing to the achievement of a sustainable society that is safe and peaceful. It has decided to prioritise the three areas of 'People', 'Community', and the 'Environment'.

2 Folksam Group has become the sole investor of SEK 400m in a green bond issued by Region Skåne to develop care and infrastructure in the region. Region Skåne exists to ensure that the residents of Skåne are healthy and believe in the future. Through collaboration and care across the board, it creates the best possible conditions for a healthy life in Skåne – within business, public transport, culture, health and medical care.

3 Danish insurance companies have reduced their CO2 emissions by 25% since 2020, and all large companies are working with objectives that support the Paris Agreement, a new sustainability report from Denmark's **Forsikring & Pension (F&P)** has revealed. Eight insurance companies – corresponding to 55% of the insurance market – have signed international alliances or declarations with the aim of climate reductions. Overall, the Danish insurance industry invests a total of DKK 150bn. Fifty per cent of the insurance market has set a target for CO2 emissions from their investments or proportion of green investments.

4 **Dai-ichi Life** has decided to participate in "Spring", a new collaborative engagement initiative on biodiversity launched by the PRI. The initiative seeks to maximise the contributions from institutional investors to the global goal of halting and restoring the loss of biodiversity by 2030. Recognising that forest loss and land degradation are important drivers of biodiversity loss, the initiative will identify companies that have the large influence on these drivers.

" Recognising that forest loss and land degradation are important drivers of biodiversity loss

5 **MAPFRE** is to reduce the intensity of greenhouse gas (scope 1 and 2) emissions by 43% in the group's investment portfolio by 2030. Furthermore, MAPFRE will boost investments in solutions facilitating the transition to a low-carbon economy, exemplified by the MAPFRE Renewable Energies II Fund, FCR. This European project, recently launched, focuses on biomethane investments. Beyond mitigating environmental impact, it actively contributes to improving social and environmental conditions in the communities it invests in. Furthermore, MAPFRE said it will also "engage in active dialogue" with a minimum of 20 major CO2e emitters within MAPFRE's investment portfolio, encompassing listed equities and issuers of corporate bonds. This commitment also entails active involvement in consultative working groups focused on the Alliance's financial transition and the working group set up to foster engagement.

6 **Achmea** has published an update to its Climate Transition Plan, setting interim targets to reduce CO2 emissions associated with its insurance policies. Specifically, the update includes targets to reduce average CO2 emissions associated with its individual non-life insurance portfolio, including 15% to 20% of its motor portfolio by 2023, and targets to boost the energy transition, such as offering climate solutions to individuals and businesses. Furthermore, the update includes sustainability initiatives around the healthcare sector and to make its investment portfolio more sustainable including a new engagement programme aimed at CO2- intensive businesses.

7 **China's insurance industry has a new ESG voluntary guide. According to a media release from Ping An, the launch of the Guidance for Disclosure of ESG Information for Insurance Institutions, hosted by the Insurance Association of China, is the first self-regulating document of mainland China's insurance industry, focusing on ESG disclosure. The guidance provides clear standards for insurance companies to disclose ESG information through 23 Tier 1 indicators and 49 Tier 2 indicators. Furthermore, the guidance takes reference from international mainstream ESG disclosure standards, such as those of the Global Reporting Initiative (GRI), Sustainability Accounting Standards Board (SASB), and the Stock Exchange of Hong Kong, and also considers the unique characteristics of China and the insurance industry. For example, the guidance includes disclosure requirements for rural revitalisation, insurance agent management and enhancement, sustainable insurance products, and green investment of insurance funds. The guidance also supports further improving ESG in the insurance industry in terms of management and disclosure quality to better perform the role of insurance companies as a "stabiliser" of society and the "ballast" of the economy.**

8 **UNIQA has become the only Austrian insurance company to receive a seal of approval for its 1.5°C interim targets from the Science Based Targets initiative (SBTi). SBTi is a partnership between the CDP (formerly Carbon Disclosure Project), the United Nations Global Compact, the World Resource Institute (WRI) and the World Wide Fund for Nature (WWF). The initiative defines and promotes targets based on scientific findings and independently verifies these targets set by companies. UNIQA also has a clear roadmap for divesting from fossil fuels such as coal, oil and natural gas. The company is already no longer making any new investments in coal or oil, and no new business is being written in corporate customers' property insurance (oil from 2024). The requirements within the framework of the UNIQA transformation plan are becoming more stringent. Among other things, this also means the end of oil and coal for existing investments or insurance cover for corporate customers by 2030.**

9 **Aegon UK** has announced its commitment to biodiversity protection and restoration by signing the Finance for Biodiversity Pledge. This global initiative brings together financial institutions from 25 countries that are committed and contribute through their investments and finance activities to reversing nature loss in 2030. Aegon UK's decision to sign the Pledge aligns with a growing trend of investors prioritising environmental considerations. Research earlier this year conducted by Aegon UK highlighted that over half (51%) of Aegon UK customers believe impacts on nature, including biodiversity, to be an important consideration when investing in a company.

Insurance Asset Management Conference 2023

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

Experts had the opportunity to address the foremost financial and regulatory challenges facing the insurance sector, with a range of presentations and panel discussions exploring new investment opportunities in the worlds of fixed income and alternatives, as well as the latest on the industry's ESG debate.

Having delivered the keynote speech at the conference the year before, head of prudential regulation at the Association of British Insurers (ABI), David Otudeko, made a return this year to chair the day's events. Throughout the conference Otudeko would introduce an international array of speakers that included chief investment officers, asset managers and policy directors from around the globe.

The first of these was senior adviser in insurance supervision at the Prudential Regulation Authority (PRA), Alan Sheppard, whose keynote speech opened the morning. Sheppard spoke of the radical improvement in the funding position of many DB pension schemes, and should forecasts of the resulting demand for insurance buyouts be borne out, a potential £500bn of long-term savings from pension fund trustees could shift to life insurers over the next decade.

Sheppard also spoke on Solvency UK and how firms must show a strategic will to invest in a way that delivers in long-term growth and stability for policyholders, shareholders, and the wider economy.

Risk and reward

The conference provided the chance for speakers to delve into the alternatives universe and shed light on the assets they view as opportunities in the coming year.

Head of credit and alternative fixed income at Pictet Asset Management, Gareth Payne, assessed both the risks and rewards associated with European direct lending.

"Private credit and private debt has expanded phenomenally over the last decade, particularly in Europe where it's still a relatively nascent

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asset class," Payne said. "It is maturing quickly and when an asset class grows, there are huge opportunities.

"What has driven this growth is the disintermediation and retrenchment of the banking sector, as well as the lack of regulatory appetite for these weighted assets, which has been a real tailwind in private credit."

Head of capital solutions at HSBC Asset Management, Borja Azpilicueta, also provided an analysis of several alternative capital solutions available through HSBC's partnership structures.

He told the room: "Bank assets could help diversify the core composition of a portfolio by providing diversified angle rated returns, still with a very prudent risk profile.

"It does have very low risk, but the risk structure generates a very good return on the capital at risk. This is an asset class that will be repackaged and institutionalised."

Capability and complexity

Discussion around alternatives was at its most prominent when several investment experts entered the stage for a panel discussion chaired by insurance investment advisory leader at WTW, Punil Chaubal.

Schroders was sponsoring the panel and the group's head of insurance solutions, Patrick O'Sullivan, said: "The role of alternatives is dictated by whether you are dealing with life or non-life clients and how much you are allocating on that alternative asset spectrum.

"For pension risk transfer providers looking towards longer dated liquid credit, the natural asset classes are infrastructure debt, real estate debt, and more traditional direct corporate lending.

"In the non-life space, we typically see sizeable allocations to private debt. All of this is dictated by where in the insurer's balance sheet these assets are sitting but also in the nature of the insurer themselves."

> Bank assets could help diversify the core composition of a portfolio

Chief investment officer at Foresters Friendly Society, Corrado Pistarino, discussed the private asset space, and added: "We've built a portfolio across several different strategies. Since around the start of 2022, we've paused as we've been considering our appetite for liquidity. This has happened at time when rates have increased, and we're now in a position in which at the top of our capital structure we're seeing 5-6% returns. Our private assets proposition remains compelling."

A key theme emerging from this panel considered not just an insurer's capability to invest in a particular alternative, but also the complexity that insurers must consider with each investment.

Aviva's head of private assets, Prasun Mathur, said: "Capability and complexity go together in a linear function. You can have a broad spectrum based on what your organisation's capability is, in terms of being able to invest in an asset, and you can move up and down this line. You must constrain in it to your organisation's expectations."

Also sitting on the panel was chief investment officer at Allianz, Ying Ye, and she added: "If you were to capture this complexity premium, you

must work on that, that's the allocation. From an asset management perspective, it's important to highlight how much training and support is being provided. This is a key point for asset owners."

Guessing game

The conference also gave precedence to the more traditional investments in an insurer's portfolio as several speakers covered the fixed income universe.

Managing director, real asset debt at Brookfield, Daniel Parker, gave an overview of real assets, stating that they "form the backbone of the global economy".

"We put real assets into three broad categories; infrastructure, real estate and natural resources," he explained. "It's a different way of looking at the fixed income market.

"If we think about infrastructure, the value of energy assets has never been clearer given the last two years with Russia invading Ukraine, causing a global energy security problem. These assets are critical and form the basis for some good credit investing.

"In real estate, our approach is to look for underlying assets and consider companies with heavy amounts of fixed assets or real estate on the balance sheet to be included, where there is a real tangible asset backing the underlying business.

"For natural resources, the cashflows can be more volatile, but if we are to get the required carbon out of the economy, we're going to need a lot of precious metals, transition fuels and natural gas."

Head of AXA US and UK CRM, Arnaud Lebreton, added that managing a fixed income portfolio in today's market environment requires a "flexible navigation system".

He also commented: "In the last decade, low rates, together with significant changes in the regulatory landscape, have forced insurance companies to materially adjust their asset allocation."

Lebreton stated that 2022 had been a year of "turning points" before adding: "What we've now seen in 2023 is significant yield movements which have tightened financial conditions further."

Global strategist at Loomis, Sayles & Company, Jon Levy, discussed the role of central banks and suggested they are intentionally leaving investors "guessing" about their next moves on interest rates.

He continued: "They're leaving us guessing how long they want rates at current levels, what aspects of changes in the composition of

" They're leaving us guessing how long they want rates at current levels

Insurance Asset Management Conference

inflation dynamics would cause them to raise rates again, and about how much they would be ready to change them.

"Everything that was previously presented with an element of clarity and signalled purpose and intent is now being presented with a higher degree of intentional ambiguity."

A panel discussion on fixed income, sponsored by T. Rowe Price, gave space for several more investment experts to provide insights into where opportunity lies.

Chairing this panel was Aon's co-head of global fixed income manager research, Paul Whelan, who asked panellists for their 12-month outlooks.

Global fixed income portfolio manager at T. Rowe Price, Quentin Fitzsimmons, suggested that the expected interest rate cutting cycle is "unlikely to be a smooth journey".

"We'll see a lot of iterations in the market as we've done this year in terms of pricing lots of cuts in and then pushing them away again," said Fitzsimmons. "In bond markets, the fiscal positions globally are truly eye-watering and that means we are in unprecedented territory, certainly in the post-war period.

"Yield curves are still inverted and that remains a big challenge for a global fixed income investor."

Investment analyst at Hiscox, Chris Bray, highlighted IFRS 17 as an area that investors could be thinking about this year.

"With IFRS 17 we've been thinking

> "This higher rate environment has put a lot of pension schemes much closer to buyout than expected

whether it is a good time to close the gap, and I'd say it is," Bray commented. "We must think how quickly we can do that, what it would mean for accounting, benchmarks and all the operational aspects. And then there's the credit risk. Assuming things are broadly stable, you'll be able to clip 5-6% over the next couple of years, which is a pretty good outcome."

Also sitting on the panel, PIC's head of debt origination, Elizabeth Cain, stated that she sees most opportunity on the liability side.

"This higher rate environment has put a lot of pension schemes much closer to buyout than expected," Cain commented. "Market volumes have hovered around an annual £30bn and if you believe the forecasts that could be up at £70-90bn in the next few years.

"There are huge opportunities, so the challenge is sourcing enough high-quality assets to match those liabilities, particularly in a volatile macro-economic environment."

Chief investment officer at AXA UK, Guillaume Tissot, said: "I fully agree there is opportunity in the bulk annuity market. It's also a challenge because of open ended funds. Amid a lot of economic uncertainty, we're told we must keep investing more. That's a difficult dynamic but it's both an opportunity and a challenge."

L&G head of strategy, Sumit Mehta, added: "The new demand in the bulk annuity market is all longer duration, so that's an additional challenge as we must invest more in probability-matched assets and liabilities. This is challenging because of where we are in the cycle. The issuance at the long end is muted because people don't want to borrow at such high rates and the credit curves have either flattened or inverted."

Going green

In another session, head of sustainable investment at Franklin Templeton, David Zahn, explored the role of green bonds in fixed income portfolios.

"On the fixed income side, you can be much more exact because with green and social bonds, you can see exactly where your money is going," Zahn told delegates. "You know if it's doing something to help the transition or helping the inequalities in the world.

"Are green bonds going to save climate change? Absolutely not, but they can at least help make an important contribution. Green bonds are needed for dedicated high impact portfolios, but any portfolio could benefit from this to help the transition to a low-carbon future."

Head of responsible investments at Nordea Asset Management, Eric Pedersen, continued the green theme as he discussed decarbonisation.

"There are many transition strategies out there, but we're trying to find the companies with a plan, where we have confidence they are going to deliver on that plan, and where in the best of cases we also see the capital expenditure," he said.

"Some companies don't have the technology fully in place to cement to scale. But where technologies are being developed, some companies out there are being ambitious, and these are the ones you should invest in."

Head of global asset management at Nuveen Natural Capital, Skye Macpherson, outlined three global challenges supporting a case for increased investment in natural capital assets.

"The first is a food and timber gap," she said. "We have a growing global population forecast to be 9.7 billion by 2050, which equates to a 56% increase in food production, and a 200% increase in timber production, because of mass demand in multi-story buildings.

"Then there is a land gap. We need to produce more food but can't bring any more land into production. If we continue our current agricultural practices, we'll need twice the land size of India to meet that production, so we must become more efficient.

"The final challenge is that we need to produce more with less, and we need to do that with lower emissions while still protecting biodiversity.

"The UN has forecast that $350bn of investment is needed per annum to improve the sustainability of our production systems and to meet these global challenges. Institutional capital has an important role in this investment."

Collaboration key

The green agenda at this year's conference culminated in the final session of the day as the third panel discussion provided further insights around sustainability.

Insurance Asset Management Conference

> We need to understand how we're going to unlock the transition

This panel, sponsored by Phoenix Group, was chaired by head of responsible investment at Phoenix, Sindhu Krishna, who asked the three panellists where the insurance industry is standing in the ESG debate.

Head of responsible investment at Aegon UK, Hilkka Komulainen, said the last two years had seen a "tremendous amount of excitement".

"Since the 2021 COP summit in the UK, there has been a flurry of net-zero commitments with companies joining the bandwagon," Komulainen commented.

"It is difficult to shift our entire estate overnight into sustainable climate transition funds, but that's also for a good reason. This is a whole portfolio question and individual climate funds are not going to get us where we need to be."

UK chief investment officer at Zurich, David Thompson, said: "With an investment portfolio it is easy to decarbonise in the beginning but to get to the other end, you must factor that the companies in which we are invested in are decarbonising as well.

"You could either go straight to the companies that are completely net-zero, or you must invest in a company and choose to offset what is left, or the companies themselves must offset what is left. All of this together is difficult, but it's how the world has got to decarbonise."

Head of sustainable investments at UK Life at Aviva, Bianca Hanscombe, highlighted the importance of collaboration.

"We need to understand how we're going to unlock the transition," Hanscombe commented. "If a company does great engagement, how do we unlock the money and take on assets we're not used to? How do we get our teams comfortable that they can manage new assets?

"To solve this problem, it can't just be people in our industry but across all of society. How do we bring together all this expertise with people you don't normally work with to help unlock the transition? That is the fundamental question."

Thomson added: "Because we're all competing for assets, and every asset manager out there is trying to get the assets, competition means there is not enough collaboration.

"Collaborating with people you wouldn't normally work with is very difficult. It is incredibly important and a new skill that we quickly need to learn."

Current ponderings on industry themes

SWETANSHA CHAUHAN
GlobalData insurance analyst

On general insurance growth in Vietnam

After experiencing a significant growth of 17.5% in 2022, the general insurance industry is projected to achieve slower growth in 2023 due to a slowdown in Vietnam's economy, which is expected to impact all major general insurance lines. However, the general insurance growth is expected to revive from 2024 onwards with a revival in the global economy and easing inflation levels.

On selecting Clearwater to power its investment management processes

Clearwater meets our operational, regulatory, and investment needs, and gives us the capabilities to consolidate our assets, automate our processes, and optimise our performance. Partnering with a renowned investment management SaaS provider will give us the robust investment management platform to achieve our goals."

DAMIEN DRONSART
Caisse Central de Réassurance (CCR) chief information officer

MARTIN BRADLEY
Macquarie Asset Management, head of infrastructure EMEA

On insurers being part of €8bn commitment to Macquarie European infra fund

Continual investment is needed to develop the infrastructure that provides essential services to communities. The closing of our seventh European infrastructure fund enables us to play a meaningful role in helping meet that need, as we seek to deliver positive impact across EMEA. We have a strong pipeline of investment opportunities and have already begun to establish a robust and diverse portfolio with three investments by the fund to date. We look forward to building on this strong foundation as we continue to deploy in the coming years.

MATT REILLY
Conning head of insurance solutions

On US insurance investment professionals believing AI investment benefits outweigh risks

Years of historically low interest rates demanded that insurers consider unfamiliar asset categories to help improve portfolio yields.

On MEDVIDA completing the acquisition of Metropolis' life insurance portfolio

This transaction demonstrates the innovation that MEDVIDA Partners places at the heart of its business and in finding solutions that adapt to the needs of our counterparties. This, complemented by our capital position, investment expertise and operational platform means MEDVIDA Partners is well-placed to continue to acquire life insurance business in both Spain and throughout Europe.

ANTONIO TRUEBA
MEDVIDA Partners CEO

JAIME ANCHÚSTEGUI
Generali CEO International

On Generali becoming 100% shareholder of its Chinese P&C insurance business

This acquisition is fully aligned with our group strategy, which aims at strengthening our footprint in key Asian markets. Becoming the sole owner of GCI will enable us to further expand our offering, our reach, and our distribution network. I would like to thank CNPC Capital for its contribution and close collaboration in developing GCI together with Generali until now and in the future. Our constructive long-term and forward-looking partnership will continue successfully in the life insurance joint-venture Generali China Life, covering life, health and asset management.