



World Pension Alliance Annual Conference 2024

Opening Remarks

**Matti Leppälä – Chair, WPA and CEO/ Secretary General,
PensionsEurope**

Pension and Politics – 2024 and after

**Moderator: Matti Leppälä – Chair, WPA and CEO/ Secretary General,
PensionsEurope**

- **Karol Fernández – Executive Vice President, FIAP Internacional and academic,
Universidad San Sebastián**
- **Greg Heise – Partner at George & Bell Consulting, Vancouver B.C.**
- **Katy Little – Head of Parliamentary and Stakeholder Affairs, Pensions and
Lifetime Savings Association**
- **Anthony J. Roda – Principal, Williams & Jensen**
- **Onno Steenbeek – Managing Director Strategic Portfolio Advice, APG Asset
Management**

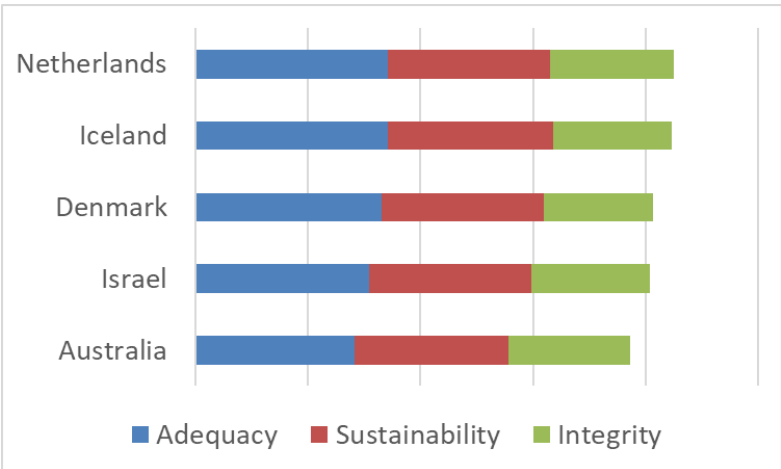
The Netherlands



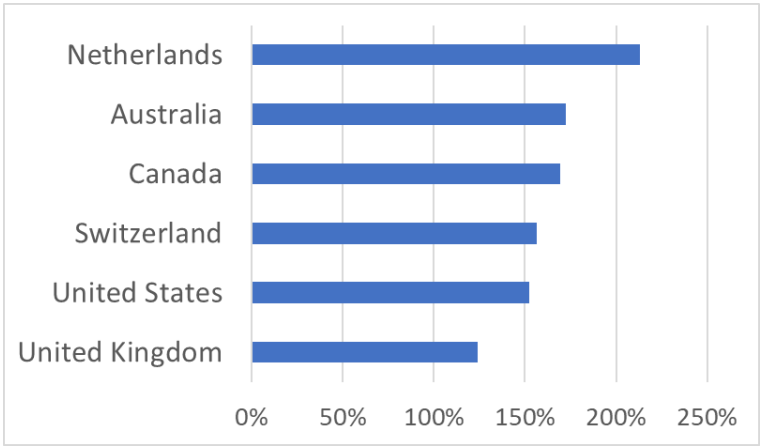
World Pension Alliance
Annual Conference
18 June 2024

| | Participation | Contracting parties | Financing | | Contract | |
|----------------------|------------------|--|----------------------|--------------|-----------------------|--|
| First Pillar | Mandatory | Government | Social contributions | PAYG | DB | Around €1,500 |
| Second Pillar | Mandatory | Social partners | Pension contribution | Fully funded | DB or DC, or “hybrid” | Average around €1,500 |
| Third Pillar | Voluntary | Financial institutions and private individuals | Insurance premium | Fully funded | DC | Small for self-employed, negligible for others |










Mercer Global Pension Index



Assets / GDP



Second pillar: types of pension funds

| Type | # Funds | Assets | Examples |
|--------------|---------|--------------------------|---|
| Sector | 60 | € 1,200 billion (79%) |    |
| Corporate | 150 | € 300 billion (18%) |    |
| Professional | 8 | € 50 billion (3%) |    |

Structural reform Second Pillar

What stays the same

- Social partners in charge, trustees decide
- Mandatory participation
- One collectively managed asset mix
- Monthly benefit payments for life
- NO detailed portfolio information
- NO choice options

The main changes

- Individualized pension accounts
- Accrued DB-benefits transformed into accumulated capital
- Complex system of rules to distribute returns over age cohorts

→ A step from DB-like towards DC-like

OVERVIEW OF UK PENSION SCHEME TYPES

Defined Benefit (DB) Schemes:

Trust-based pension schemes run by an employer which offers pension benefits based on salary during working life.

Defined Contribution (DC) schemes:

Trust or contract-based schemes run by a third party in which pension contributions are invested individually & benefits depend on pot size at withdrawal & method of accessing savings (e.g. drawdown vs annuity)

Open vs Closed DB Schemes:

UK DB schemes are either open to new members, closed to new members but open to new accruals or closed completely.

Local Government Pension Scheme (LGPS):

The LGPS is a DB pension scheme for employees working in, or within organisations working with, local government. It is made up of three schemes – the England and Wales scheme and devolved schemes in Scotland and Northern Ireland.

Master Trust Schemes:

Trust-based, DC pension scheme run by a pension provider & open to multiple employers.

Group Personal Pension Schemes:

Contract-based, DC pension scheme run by a pension provider, designed for a group of employees working for a single employer.

Individual Personal Pension Schemes:

Contract-based, DC pension scheme run by a pension provider, designed for a single individual.

| | MEMBERSHIPS | ASSETS |
|--|--------------|----------------|
| MASTER TRUSTS | 20.7 million | £78.8 billion |
| DC | 11.3 million | £284.5 billion |
| DB | 9.7 million | £1720 billion |
| LOCAL GOVERNMENT PENSION SCHEME (LGPS) | 6.9 million | £425 billion |

KEY PENSION THEMES - 2024 GENERAL ELECTION



Pensions and Growth: Build on the policies set out in the Edinburgh Reforms to enhance the UK's reputation as the most innovative global financial centre alongside the implementation of the Mansion House reforms.

State Pension: Continued commitment to the triple lock with the addition of ensuring the personal allowance for pensioners also rises by the triple lock, guaranteeing that the new State Pension is always below the tax-free threshold.

Tax: The conservatives will not introduce any new taxes on pensions. They will maintain the 25% tax free lump sum and maintain tax relief on pension contributions at their marginal rate.



Pensions and Growth: Labour will adopt reforms to ensure that workplace pension schemes take advantage of consolidation and scale, to deliver better returns for savers and greater investment for UK PLC.

State Pension: Labour will retain the triple lock for the state pension.

Pensions Review: Labour will undertake a review of the pensions landscape to consider what further steps are needed to improve pension outcomes and increase investment in UK markets.

U.S. Retirement Assets

Data from Investment Company Institute (end of 2023)

DB Plans

\$ 3.2 T (private sector)

8.7 T (governmental)

11.9 T

Account-Based (IRAs & DC Plans)

\$13.6 T (IRAs)

10.6 T (DC plans)

24.2 T

The Regulators

U.S. Treasury Department Internal Revenue Service

- Participation, vesting, and funding
- Tax law related to “qualification”
 - Single-employer or multi-employer private sector plans governed by ERISA* and
 - State or local governmental plans governed by the federal tax code

U.S. Department of Labor

- Fiduciary responsibilities, including cyber protections
- Prohibited transactions
- Disclosures to participants
- Missing participants

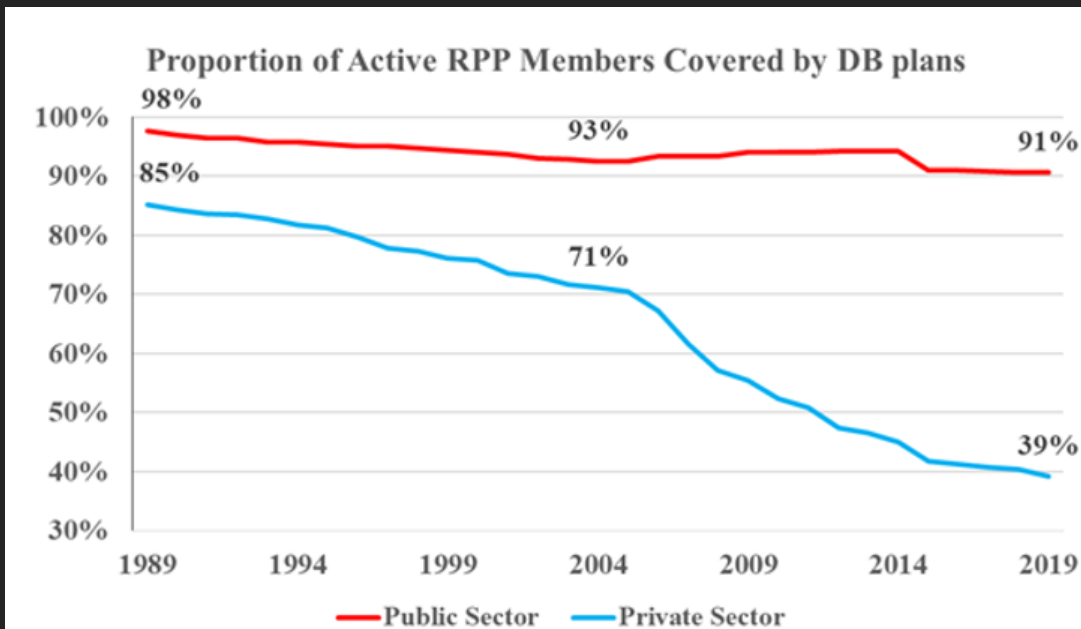
Pension Benefit Guaranty Corporation

- Insurance of ERISA plans and Special Financial Assistance Program (multi-employer plans)

* *Employee Retirement Income Security Act of 1974*

Three Pillars of Canadian Retirement System

- **Old Age Security (OAS)**
 - Residency-based system
 - Funded through general tax revenues
- **Canada Pension Plan (CPP)/Quebec Pension Plan (QPP)**
 - Employment-based system
 - Funded through payroll contributions from employees and employers
- **Private Savings**
 - Employer Pensions: Defined Benefit (DB) and Defined Contribution (DC) plans
 - Personal:
 - Registered Retirement Savings Plan (RRSP): Tax-deductible contributions, investment growth tax-deferred
 - Tax-Free Savings Accounts (TFSA): Contributions made with after-tax dollars (but withdrawals are tax-free), investment growth tax-deferred
 - Non-registered savings



Canadian Retirement System Trends

- **CPP/QPP: \$650B**
- **Employer Pension Plans: \$2.3T**
 - Public sector: 1.6T
 - Private sector: 0.7T
- **Private Retirement Savings Plans: \$1.5T**





Introduction

The International Federation of Pension Fund Administrators brings together pension funds managers (trade unions and individual managers) from 10 countries, mainly from LatAm.

AUM of FIAP's members pension funds= **US\$730 billion** around 25% of GDP.

Our aim is to collaborate in the improvement and consolidation of pension systems based on savings, to provide pensions within a financially sustainable system and contributing to the economic growth and development of countries.





Some figures

**Voluntary
saving
pillar**

**Contributory pillar
(PAYG, FF-DC and
hybrid)**

Non-contributory pillar

**10% of population is currently 65+
(double in next 20 years)**

**25% of 65+ population in LatAm do not
have any kind of pension**

**Only 38% of population in working age
contribute to social security**

Break
Back at 16:35

Sustainable Finance – State of Play and Future Trajectories

Catalina Secreteanu – Managing Director, Client Solutions, Europe
for Morningstar Sustainalytics

ESG Today and Innovation Ahead

Catalina Secreteanu

Managing Director, ESG Solutions Europe

18 June 2024



Voice of the Asset Owner Survey and Approach

- The annual survey is designed and conducted by Morningstar Sustainalytics & Morningstar Indexes in conjunction with Opinium Research
- It is intended to gain insight into issues that motivate, guide & challenge asset owners' investment policies and practices
- **Qualitative phase** > in-depth interviews with select global AOs
- **Quantitative phase** > comprehensive survey of 500+ global AOs

The Many Hats of the Asset Owner

Hat 1: Global Investment Manager

Hat 2: Communicator and Influencer

Hat 3: Steward of Global Capital

Hat 4: Operations Manager

Hat 1: Asset Owner as Global Investment Manager



Russia/Ukraine, Israel/Gaza, and the impact of China



Global interest rates



Elections in Europe and the US creating political uncertainty

Hat 1: Asset Owner as Global Investment Manager

“The whole political situation that's going on now, right now there's a democratic administration, split government, but I've got an election coming up in, oh my goodness, what, six months? And then there could be a huge shift. And so, you're trying to be mindful of that and navigate or try to understand, okay, what's most likely to happen.”

US Public Pension Fund

“We are already being more cautious on investing in emerging markets, and especially China is kind of becoming a red flag in the coming period. I expect we will only invest actively in emerging markets and not via passive mandates.”

European Corporate Pension Fund

“Interest rates would be the big one. I mean if there were some huge market decline, that would feed through as well. But for the defined benefit plan, it's an interest rate story and what's happening on that side.”

US Corporate Pension Fund

Hat 2: Asset Owner as Communicator & Influencer



Complexity of the role; managing internal and external stakeholders



In Europe, the changing pensions landscape



In the US, the communications challenge surrounding ESG



Collective engagement and the utility of industry groups like
PRI

Hat 2: Asset Owner as Communicator & Influencer

“...in the Netherlands we're doing this big pension transition, so all Dutch pension funds are facing the same. We're going from a DB type of pension system to a DC so that's a big change.”

Dutch Pension Fund

“There's so many attacks and interference from politicians in terms of the fiduciary responsibility of public pension funds in the United States.”

US Public Pension Fund

“Does PRI offer value? I think they do. The set of relationships, the stamp, the sounding board. They do their best to keep us informed on the issue topics. To be honest, we could have more involvement. We could get more out of the relationship. It's not a priority, unfortunately.”

US Public Pension Fund

Hat 3: Asset Owner as Steward of Global Capital



Climate remains the key material factor, with focus on scope 3 emissions, water and biodiversity



Data quality is perceived as better for "E" than for the "S" and "G" factors



Governance came up as a factor that has always been important and is increasingly tied to ESG-related topics



AOs voiced concerns around where better corporate governance is needed

Hat 3: Asset Owner as Steward of Global Capital

“Climate is in the lead and that's because the data that's available is better.”

US Corporate Pension Fund

“The biggest gap most definitely is biodiversity. I think that's probably a gap for most asset owners”

US Public Pension Fund

“Another challenge is, yes, the data...We know that some data are still missing, some are still not fully reliable because the companies also have to understand the way they have to report and sometimes we see some variations.”

European Insurance General Account

Hat 4: Asset Owner as Operations Manager



Asset owners are practical and resourceful



Asset owners navigate administrative complexity



If asset owners cannot find a tool, they will build it themselves



Tools are improving, but they are still not where they need to be

Hat 4: Asset Owner as Operations Manager

“Sustainable investment will stay very high on agenda with a lot of regulation, which is really challenging, which is complex to implement. We know that we have to face issues that are not yet solved about data quality, data availability in some areas.”

European Insurance General Account

“I’m a pioneer of cookie cutter processes. They exist, I’ll find them...We will try our best to stick them together with tape and hope they hold.”

US Public Pension Fund

“In terms of certain products not being available, maybe we're lucky because we have a certain size, but if things are not available, we try to make them ourselves.”

European Pension Fund

“So you have limited resources and sometimes you have to be jack of all trades...you have to be really creative and innovative... ESG professionals often feel like they constantly have to keep learning.”

Australian Superannuation Scheme

|| Poll Question

We've identified the 4 "hats" that emerged in our survey.

Is there a "hat" that we should consider diving in to more for our quantitative survey?

- a) Global Investment Manager
- b) Communicator and Influencer
- c) Steward of Global Capital
- d) Operations Manager
- e) Other

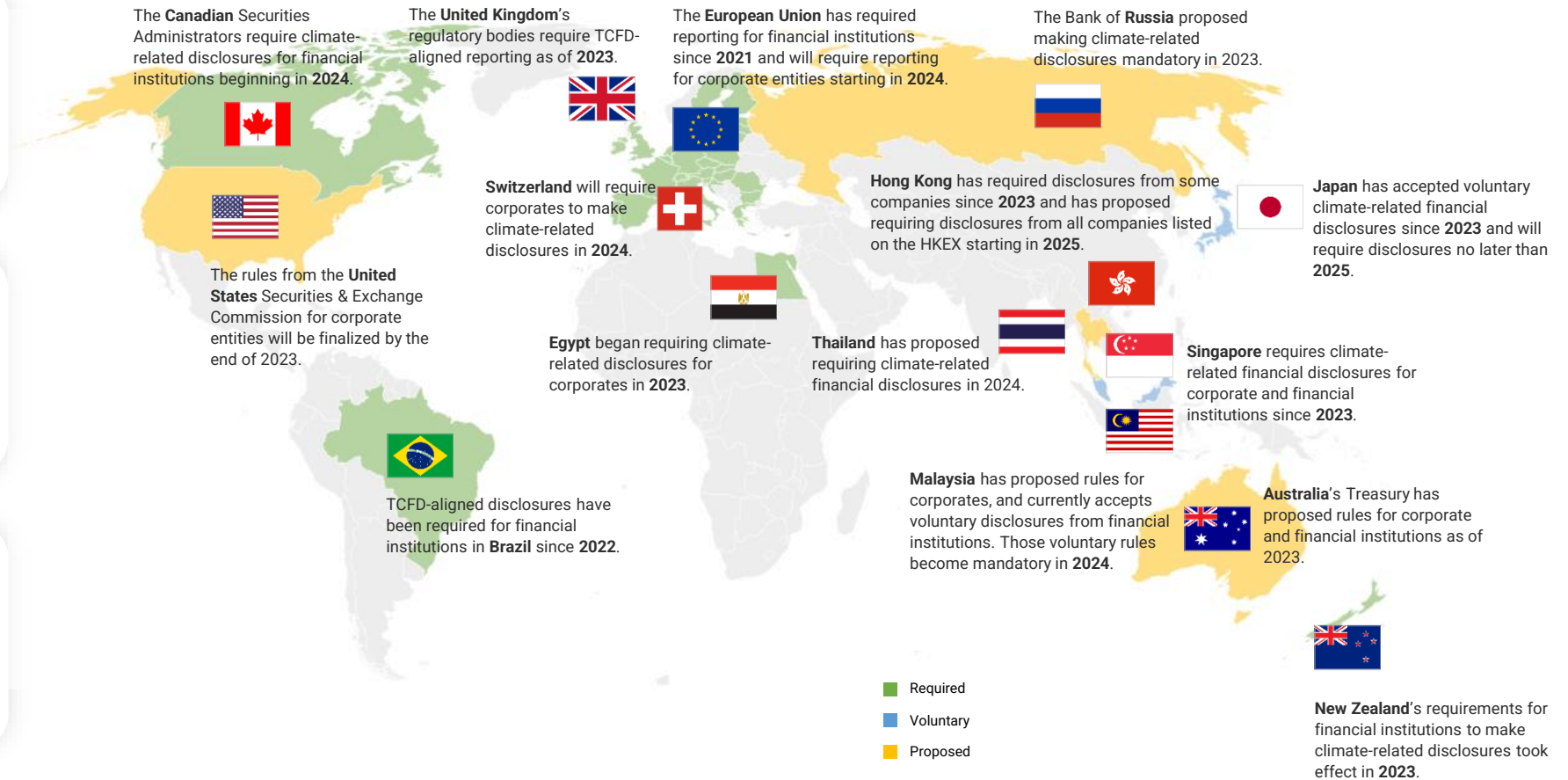
ESG Regulation Continues to Develop and Evolve in 2024

Managing and reporting on climate risk is mandatory in multiple jurisdictions globally.

Insurers, pension funds, asset managers, wealth managers and banks are held accountable for long term material ESG and climate risk.

ESG and climate considerations in labelled funds comes with significant disclosure requirements.

SDR vs SFDR



Increasing guidelines on funds' names using ESG or sustainability-related terms ESMA and FCA

ESMA

| Restricted sustainability-related terms in fund names | Restrictions | | | |
|---|---|------------|--|---|
| | Min. 80% of investments meet sustainability characteristics or objectives | Exclusions | Invest "meaningfully" in sustainable investments as per SFDR | Additional requirements |
| Environmental | Yes | EU PAB | No | N/A |
| Sustainability | Yes | EU PAB | Yes, but no minimum prescribed | N/A |
| Impact | Yes | EU PAB | No | Positive and measurable social or environmental impact alongside a financial return |
| Social | Yes | EU CTB | No | N/A |
| Governance | Yes | EU CTB | No | N/A |
| Transition | Yes | EU CTB | No | Clear and measurable path to social or environmental transition |

Source: Morningstar Sustainability Research, based on ESMA34-472-440 Final Report on the Guidelines on Funds' Names (europa.eu). PAB stands for Paris-aligned benchmarks; CTB stands for climate-transition benchmarks.

FCA



Invests mainly in assets that **focus on sustainability** for people or the planet



Invests mainly in assets that may **not be sustainable now**, with an aim **to improve** their sustainability for people or the planet over time



Invests mainly in **solutions** to sustainability problems, with an aim **to achieve a positive impact** for people or the planet



Invests mainly in a **mix of assets** that either focus on sustainability problems, aim to improve their sustainability over time, or aim to achieve a positive impact for people or the planet

Source: SDR policy statement. Morningstar Research.

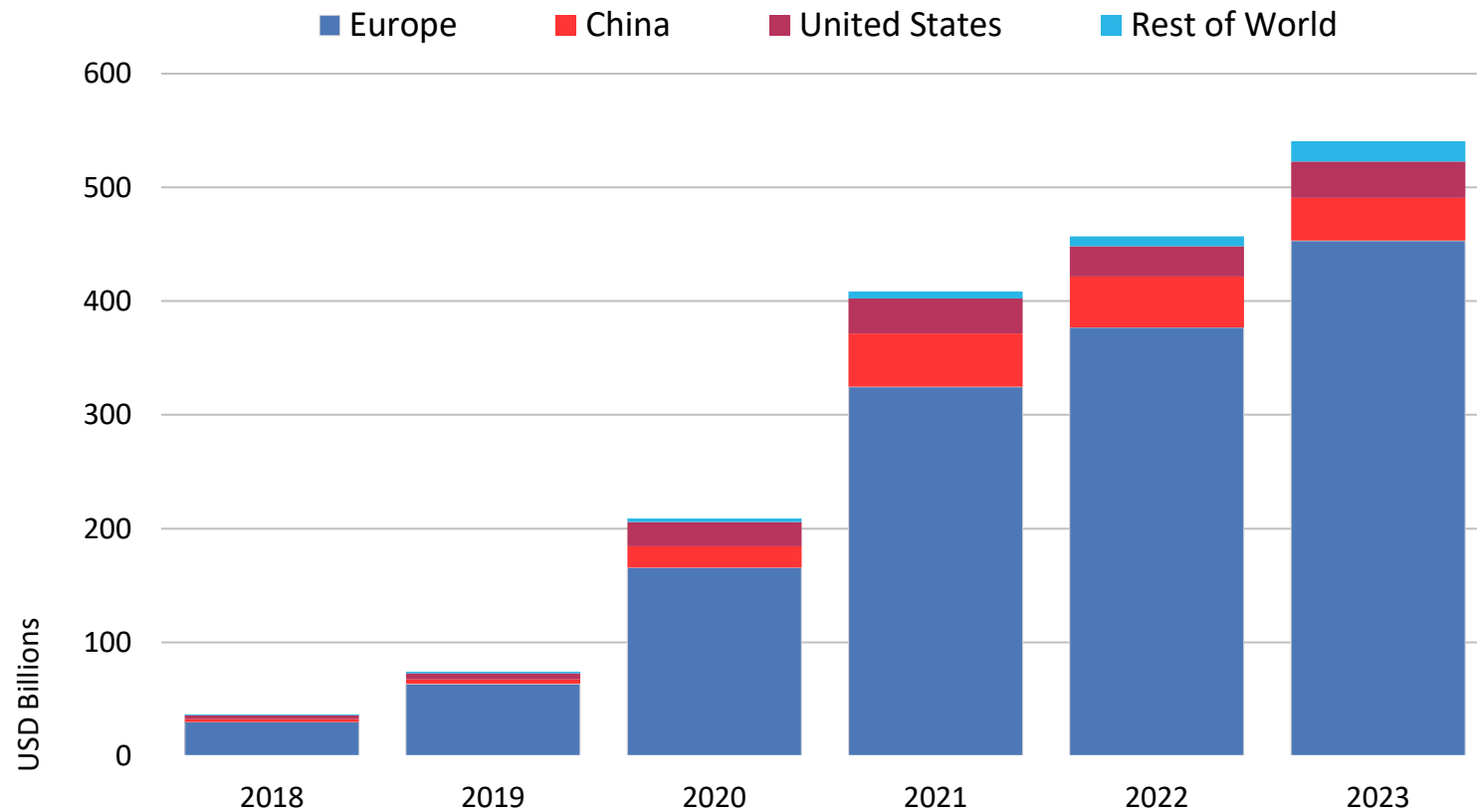


Innovation Ahead

Climate-related funds set to continue expanding

Global assets have x14 in the past 5 years to reach over half a trillion dollars

Global Assets in Climate Funds (By Region)



We see continued innovation in climate strategies

Assets in Climate Funds Climb to \$540 billion

- Assets in mutual funds and ETFs with a climate-related mandate globally rose by 16% in 2023 to \$540 billion, driven by continued inflows, product development, and market appreciation.
- Europe accounted for 84% of these assets, while China and the United States ranked far behind, with market shares of 7% and 6%, respectively.

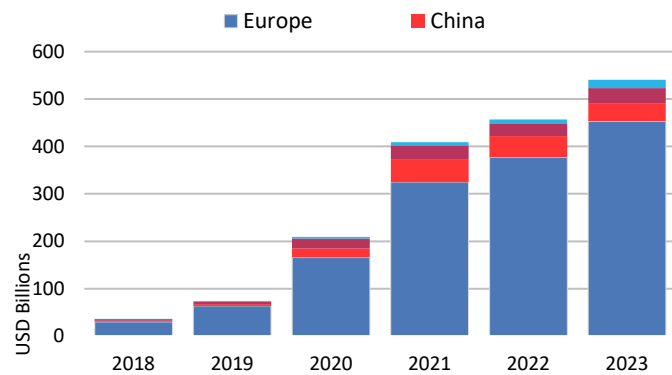
Climate Transition Strategies Grow by 30%

- Climate Transition strategies, which tilt toward companies that are better prepared for the transition to a low-carbon economy, grew by 25% in 2023 to nearly \$210 billion, globally.
- Clean Energy/Tech fund assets slid by 23% to \$58 billion, mainly due to high interest rates, inflation, and falling valuations in renewable energy stocks.

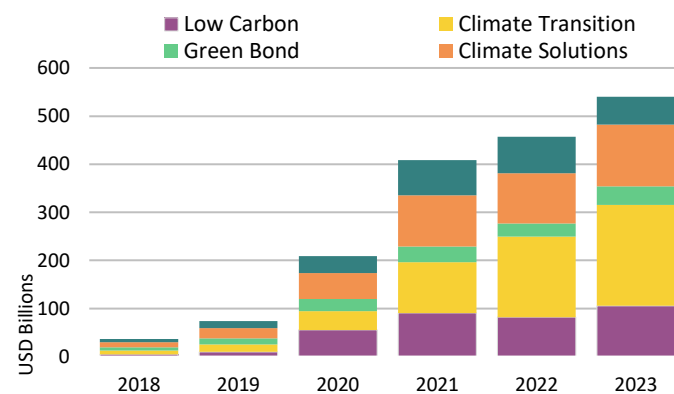
Global Flows Were Lower—Yet Positive—in 2023

- Flows into climate funds amounted to \$40 billion globally in 2023, accounting for more than half of the total flows into the overall fund universe, which netted \$75 billion.
- Still, the \$40 billion inflows into climate funds last year represented the lowest levels in four years

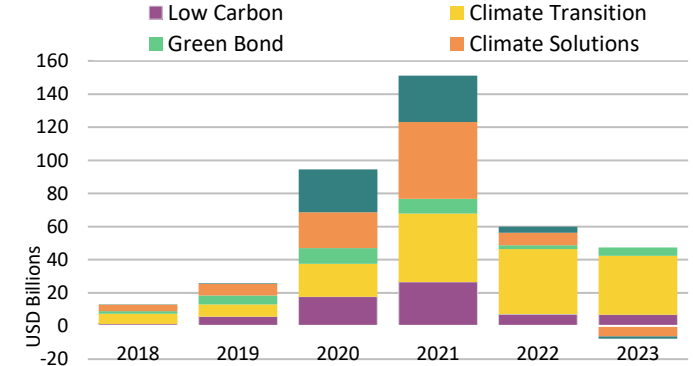
Climate Funds by Region



Climate Funds by Category



Global Flows Into Climate Funds





Q&A

For more information, please contact:



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ESG pushback and regulatory fatigue. Where are we heading to?

**Moderator: Matthies Verstegen – Head of Brussels Office,
Pensioenfederatie**

- **Flavia Micilotta – ESG Investment Specialist Wealins and OPSG member**
- **Jane Moffat – Head of US state government relations, Blackrock**
- **Daniela Mohr – Senior ESG Investment Analyst, AFP Cuprum**

Closing Remarks

Alex Mckinnon – President, MEBCO

**Thank you for your
attention !**