Retirement News Highlights

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ESG integration, regulations, rate hikes challenging pension funds, Janus executives say

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Pension plans in the U.K, and the U.S. are dealing with regulations and preparing for the end of rate hikes, while also trying to integrate ESG factors, senior Janus Henderson Group executives said at the firm's global media conference on Tuesday.

Anil Shenoy, London-based head of U.K. Institutional, said new pension rules in the U.K. are impacting how British pension funds are constructing their portfolios and in their reporting.

The drive by The Pensions Regulator, the public body that regulates work-based pension schemes in the country to consider and integrate ESG "has led trustees to share with us their priorities for stewardship and engagement e.g., climate change, human rights etc.," for example, he said in a follow-up interview by email.

These trustees are looking to Janus to "understand what is possible in these areas and to provide reporting to demonstrate how we are engaging with companies on their behalf," he noted.

Mr. Shenoy also said that the "dust has settled" from the gilt (government bond) crisis from last October, which saw unprecedented volatility and a sharp increase in long-dated gilt yields that fed through into defined benefit schemes' asset and liability positions.

"The situation has since stabilized with gilt yields being less volatile as well as decreasing from the highs witnessed in October," he added. "The evasive action taken by pension schemes to sell liquid assets, such as investment-grade credit, to meet collateral calls has resulted in many schemes having an asset allocation position which is materially different from their previous long-term position."

For example, he cited, some pension schemes that sold all their liquid-investment grade credit are now overweight in illiquid private assets. "Pension schemes have started to revisit their asset allocations in the light of the new position they face," he noted.

Sander Van Der Ent, Amsterdam-based head of EMEA ex-U.K. institutional, said in the conference that European pension plans are preparing for the end of rate hikes.

But this depends upon the specific pension fund and how their strategic allocation and tactical allocation plans are implemented, he said in a follow-up interview by email.

"Clearly pension funds have more possibilities to earn some income now that interest rates have increased compared to other investment possibilities," he said. "So, there is more to choose from compared to before, such as government and corporate bonds."

With respect to ESG, Mr. Van Der Ent said in the conference that these issues are very advanced in Europe, particularly in the Nordic and Benelux countries. Climate transition and biodiversity are of particular importance to European pensions.

"Climate transition has been important for longer, and pension funds are already implementing this in some form," he said. "Biodiversity is another topic which is getting more on the agenda of pension funds."

Aaron Kilberg, Denver-based head of North America institutional sales, noted in the conference that most corporate defined benefit plans in the U.S. are either frozen or closed to new investors. According to the Milliman 2023 Corporate Pension Funding Study as of the end of 2022, he noted, corporate DB plans are at 99.3% funded status.

Mr. Kilberg further noted in a follow-up interview by email that public pension plans in the U.S. continue to "add to their growth buckets" through public and private equity to improve their funding status.

Also, given that U.S. equities on an absolute basis have recently outperformed non-U.S. equities, he is now seeing an opportunity for U.S. pension plans — mostly public plans — to allocate to international, global and emerging market equities to diversify their current asset mix.

Regarding ESG matters, Mr. Kilberg noted that the U.S. is still far behind Europe. But he also noted that pension plans in the U.S. are typically open to the conversation of ESG integration if assets managers can demonstrate risk-mitigating benefits for the portfolio.

"We are having conversations on ESG integration where appropriate and of value to our clients," he added by email.

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