European Pensions
AWARDS 2019

THE WINNERS

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THE WINNERS

JUDGES 2019

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Chetan Ghosh
Chief Investment Officer
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Richard Poole
Legal Director, Pensions & Employee Benefits, Royal Mail Group

Lee Sullivan
Head of Group Pensions
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ALTERNATIVES INVESTMENT MANAGER OF THE YEAR

BNP Paribas Asset Management

BNP PARIBAS
ASSET MANAGEMENT

The call for improved cashflow and pension fund investment returns has created innovation in alternative investments. This year's winner of the European Pensions Alternatives Investment Manager of the Year award has proved that it is passionate about the alternatives space and what it can offer pension funds today, refusing to stand still and re-thinking its approach to meet the changing needs of the market.

Congratulations to BNP Paribas Asset Management (BNPP AM) on being worthy winners of this highly-competitive category.

In partnership with the BNP Paribas Group, BNP Paribas Asset Management is able to offer bespoke lending solutions to institutional investors in order to meet their specific needs.

BNPP AM's CDI capability offers institutional investors access to a broad range of private credit and real assets capabilities, encompassing infrastructure debt, commercial real estate debt, loans, SME lending and structured securities. Leveraging over 50 investment professionals located in the UK, Europe and the US.

Its multi-asset, quantitive and solutions team has responsibility for the daily management of the CDI strategy. This dedicated mulit-asset investment team combines the best of both BNPP AM's fundamental and quantitative expertise. The team has developed a holistic approach with active asset allocation minimising timing risks across the entire CDI and non-CDI portfolio, reducing the potential for opportunity costs that can impact traditional static allocations.

In addition the firm offers defined contribution schemes, requiring a diversified portfolio of private credit, a pooled approach, which allows for the re-investment of cashflows. The firm stood out from the competition with its ability to offer a bespoke, tailored approach to each of its clients' specific requirements.

BNP Paribas Asset Management's CDI capability impressed the judges with its ability to not only offer standard monitoring and reporting of the CDI assets but also conduct active reconciliation of the long-term investment strategy versus flightpath objectives and risk budget.

Its CDI approach is able to offer services across the entire value chain, from portfolio management and origination of assets to loan administration, custody and depository services, with the firm proactively working with the wider BNP Paribas Group to provide quality investment solutions for its clients.

BNP Paribas Asset Management's deserved win was also down to its proactivity in sharing its expertise with its clients, to help provide them with specialist knowledge relating to markets, investment themes and asset classes, as well as topics such as risk control and regulatory issues.

Congratulations again to BNP Paribas Asset Management, a worthy winner in this dynamic sector.

The Alternatives Investment Manager of the Year award went to BNP Paribas Asset Management. Receiving the award were Julien Halfon (centre left) and Phil Dawes (centre right), BNP Paribas Asset Management. John Woods, European Pensions (right) and host Kerry Godliman (left) presented the award.

The evolution of cash-flow driven investing

BNP Paribas Asset Management's Head of Pension Solutions, Julien Halfon, explains how cashflow-driven investing has evolved to meet the specific needs of pension funds

A rare success story to have emerged from the financial crisis was the widespread implementation of liability-driven investing (LDI). By mapping out what pension funds need to pay and investing more than 30% of their assets in LDI, many of them have closely matched their liabilities. However, while liabilities are matched, the LDI approach has created a new headache. Some 85% of UK pension schemes claim to be cash-flow negative, when they need to be generating more cash than ever.

Most pension funds in the UK are closed to new joiners and future accrual of existing members, meaning there is no new money coming into the pot. Meanwhile, membership is maturing and the level of benefit payments they require is increasing. Without new money coming in, trustees look to sponsors to increase contributions or to their investments to provide additional cash-flow. Due to the nature of the investments held in an LDI strategy (gilts and other interest rate dependent contracts), this cash is not easy to find.

Pension funds do have options: cashing in their LDI strategies in favour of more simple and liquid instruments that can be sold to free up the money needed to pay pensions, for example. The problem here is that many of these assets tripped up pension investors a decade ago – leaving only the brave to take this approach again. Equities, for instance, are easy to sell when cash is needed, but their volatility makes them an unattractive choice for prudent trustees running off their funds. Some fixed income instruments, aside from expensive gilts, could provide pension funds with options. But credit, which soared after the crisis, has been another tremendous success, meaning the upside investors once gained from holding these relatively risky assets has been squeezed and now offers limited potential for income over what they might expect from gilts. Demand for real estate and infrastructure equity has made these assets expensive. Also, their limited liquidity makes them impractical for pension funds coming to the tail end of their maturity.

The good news is that there is another option. Over the past few years, a strategy from the insurance industry has been transported to the pension sector: cash-flow driven investing (CDI). Initially, some of the tools that were offered to pension investors were direct copies of those in the insurance sector and overlooked the differences between the two. Today, CDI strategies have been tailored to focus on the needs of maturing pension funds with benefit payments to make. These strategies make use of illiquid fixed income instruments that can work alongside what is held in an LDI portfolio. Despite moving towards their endgame, pension funds are still long-term investors compared to other market participants and can benefit from an illiquidity premium that others cannot.

Many of the illiquid assets that make up the new generation of CDI are well-protected by covenants, with income linked to inflation and a relatively low default rate. Valued less frequently than bonds in the corporate credit market, debt from infrastructure, social housing and some asset-backed securities reduce volatility in pension fund portfolios, while providing a regular income that is higher than that paid by gilts. Unlike equity investments in these sectors, debt matures, returning cash to the lender rather than having to find a buyer for the asset.

CDI is not a full-portfolio solution, but, alongside other strategies, it can help achieve pension funds' payment needs without resorting to a costly buy-out. LDI

certainly put pension funds on the right track, with the evolution of CDI they could be home and dry.