

2024: The game has changed.

With new world opportunities, new world strategies are required

"Some schemes are in touching distance of buyout now but haven't consider wider stakeholder objectives or don't have the liquidity to transact – for those a new approach may be needed"

Barry Jones, Isio Chief Investment Officer

Why now?



Higher interest rates are bringing new risks



Asset allocations remain out of kilter, particularly for illiquids



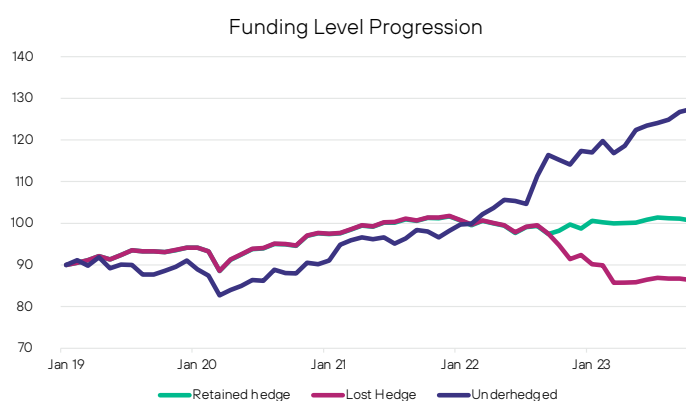
Innovative end game solutions are here or in the pipeline

"Higher interest rates are impacting covenant, funding and the regulatory environment plus the relative attractiveness of different asset classes – the game has changed"

Rich Forrest, Head of Strategy

What happened?

The 2022 LDI Pensions Crisis caused a hurricane in the DB world. Some were **blown fast along their intended route, some materially backward, whereas some had plain sailing**. Almost all have had to react.



What next?

Looking forward the rules of the game have changed and are being encouraged to change under the Mansion House wrapper.

Objectives may not have been reviewed in light of these new opportunities, to consider whether these might benefit members, sponsors and trustees versus the more traditional route of targeting self-sufficiency or buyout, or the risks of changing course now.

Our aim

We believe now is the time to review your objectives and agree a way forward. A meeting early in 2024 with all stakeholders is key to making sure everyone is fully bought-in to the path ahead.

We are fully versed to help you make the right decision for your scheme.

If you want to sign up please get in touch with your usual Isio contact.



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Re-establishing strategy in 2024.

2022 was the year of the pensions crisis, with emergency actions required by trustees to maintain liquidity and liability hedges.

2023 was a year of stabilisation, reflection and re-assessment (and compromise?) to get strategies into a steady state in an ever-changing environment.

But the game has changed – and this requires a re-establishment of strategy in 2024 to get this right.

What has changed?



Higher interest rates are bringing new risks

Higher interest rates, designed to slow the economy and tame inflation, are bringing new risks – covenant strength is changing as debt servicing costs are increasing, impacting those companies with already weaker covenants or where the scheme size dwarfs that of the company's balance sheet (even with materially smaller scheme size post-crisis).

Is the level of investment risk aligned to your company's affordability in this higher interest rate environment?

Does this assessment capture out-of-model risks such as deflation, severe defaults by corporates and governments, or an immediate climate emergency?



Asset allocations remain out of kilter, particularly for illiquids

The pensions crisis saw asset allocations change rapidly, with many schemes having to top up LDI collateral balances at short notice and then in response to the resulting guidance from regulators, often using the most liquid assets.

The result for some is larger than intended holdings in illiquid assets that can only be realised at large discounts to current values, which could significantly impact funding positions.

Are these resulting asset allocations and liquidity profiles still appropriate given ongoing risks and objectives, and are there now more optimal solutions for realising these assets?



Innovative end game solutions are here or in the pipeline

2023 saw Jeremy Hunt's Mansion House speech suggesting a new era for pension scheme consolidation, whilst Clara completed the first UK pension superfund transaction.

New entrants to the buyout insurance market were welcomed, but capacity remains constrained (and is likely to some for time, particularly for those not already on the waiting list) and risks concentrated, whilst a dampening of solvency requirements could increase risk in the sector.

Will buyout remain the gold-standard for trustees when considering their members' best interests and potential changes in the insurance regime, and/or will Companies be more open to sharing surplus in light of the changing tax regime?

If buyout is no longer the desired end goal, what other options are available to trustees and companies now and in the future?