

UK PENSION FUNDS BOOST STRESS TESTING AS RISKS GROW

- 93% of funds have increased their stress test budget and all believe industry spending will rise over the next three years
- But just 47% believe pension funds are well-prepared to meet challenges of inflation and climate change

UK pension funds have increased their spending on stress testing and scenario modeling and forecast investment in the sector will surge as they grapple with growing risks, new research* from Ortec Finance, the leading global provider of risk and return management solutions for pension funds and other institutions shows.

Its study with UK pension fund managers responsible for a collective \$186 billion assets under management found 93% say their stress testing budget is being increased and all predict industry spending will rise over the next three years.

The research by Ortec Finance, which has clients with over €3 trillion in assets under management and an office in London, found 27% of UK pension fund managers expect a dramatic increase in spending on stress testing and scenario modeling.

Key risks include inflation and climate change but less than half (47%) of fund managers surveyed believe pension schemes are well-prepared to deliver yield while remaining fully-funded or buy-out ready in the face of those challenges. Around 27% say pension funds are poorly prepared while 23% characterize preparations as merely okay.

All fund managers are braced for rising inflation with 47% expecting a dramatic increase over the year ahead and 53% a slight increase. However, 50% say their scheme is very well-hedged while 47% say it is quite well-hedged.

Plans to address climate change risks include increasing their allocations to green investments – 77% said they will increase their allocation to climate-focused funds over the next two years while 63% intend to increase allocations to green bonds. The research found the asset class most in demand would be investment grade fixed income which 90% said they would increase their allocation to it.

Technological advances are also playing a part in boosting spending on stress testing - almost all (97%) of those questioned said the adoption of more sophisticated investment strategies which technology enables means more time has to spent on stress testing.

Deon Dreyer, Managing Director Ortec Finance UK said: “Stress testing and scenario modeling is becoming more important for pension funds in the UK and that is reflected in the increased budgets across the industry and plans to keep investing more.

“The risks funds are facing are increasing with inflation and climate change identified as the biggest challenges to schemes trying to deliver yield so they can remain fully-funded or be buyout ready.

“Pension funds need to manage their balance sheet effectively in order to achieve long-term objectives while dealing with short-term risks. That includes identifying major risk sources as well as looking at future pensions, contributions, and funding levels.”

Ortec Finance models and maps the relevant uncertainties in order to help pension funds monitor their goals and decisions. It designs, builds, and delivers high-quality software models for asset-liability management, risk management, impact investment, portfolio construction, performance measurement and attribution, and financial planning.

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Notes to editors

* Independent research company PureProfile interviewed 201 pension fund managers responsible for a collective \$1.946 trillion assets under management based in the US, UK, Australia, Canada, the Netherlands, Switzerland, Denmark, Finland, Norway, and Sweden using an online methodology during June 2022

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About Ortec Finance

Ortec Finance is the leading provider of technology and solutions for risk and return management. It is our purpose to enable people to manage the complexity of investment decisions.

We do this through delivering leading technologies and solutions for investment decision-making to financial institutions around the world. Our strength lies in an effective combination of advanced models, innovative technology, and in-depth market knowledge.

This combination of skills and expertise supports investment professionals in achieving a better risk-return ratio and thus better results.

Headquartered in Rotterdam, The Netherlands, we also have offices in Amsterdam, London, Toronto, Zurich, New York, and Melbourne. www.ortecfinance.com