

PENSION FUND SPENDING ON STRESS TESTS AND MODELING TO SURGE

- One in three pension funds (33%) expect a dramatic increase plus more than half (54%) expect a slight increase
- Growing focus on illiquid and esoteric asset classes to boost yield, as well as climate risk, is driving rise in spend

Pension funds are set to boost spending on stress testing and scenario modeling in response to increased levels of uncertainty and growing risks. This is according to new research* from Ortec Finance, the leading global provider of risk and return management solutions for pension funds and other institutions.

Its international study with pension fund managers responsible for a collective \$1.946 trillion assets under management found one in three (33%) expect industry spend on stress testing and scenario modeling to increase dramatically over the next three years while another 54% expect a slight increase.

When it comes to expenditure on these areas for their own funds, there is even more support for increased spending – 92% of the pension funds interviewed in the US, UK, Australia, Canada, the Netherlands, Switzerland and the Nordics say they will increase spending.

The biggest factor driving this increased spend is the growing focus by pension funds on illiquid, unlisted, and esoteric assets as the search for yield intensifies, the study found.

Second and third rated reasons for increasing spending are climate risk scenarios and increased regulatory pressure leading to a demand for more reporting. The growing focus on transparency, increasing risks for schemes and technological advances were rated fourth, fifth and sixth, respectively.

Technological advances are having an impact in another way, however. Almost all funds (97%) agreed that the ever more sophisticated range of investment strategies pension funds can deploy due to enhanced technology requires improvements in stress testing

and scenario modeling as well as more frequent monitoring of assets, liabilities, and funding levels.

Marnix Engels, Managing Director, Pension Strategy, Ortec Finance said: “Stress testing and scenario modeling is clearly vital for pension funds and there is widespread recognition that the industry as a whole and funds themselves have to spend more to meet their goals.

“It is interesting to see that the main reason spending will rise is because funds have had to widen the range of assets they invest in so that they can deliver the yield required to meet their obligations.

“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 some of which were previously not adequately accounted for and modelled such as climate risk 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, climate scenario modeling, portfolio construction, performance measurement and attribution, and financial planning.

- Ends -

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

For more information, contact:

Phil Anderson, Perception A.

phil@perceptiona.com /0044 7767 491 519

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