



Investment Panel

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Association of Financial Mutuals **Investment Survey**

Andrew Epsom – Insurance Client Solutions Director

Nick Woodward – Investment Strategy Specialist

10 October 2022



Your presenters



Andrew Epsom
Insurance Client Solutions
Director



Nick Woodward
Investment Strategy
Specialist

AFM Investment Survey

Context and rationale

- Investment Survey issued to all AFM members in September 2022 - 20 responses in total
- 30 questions – subset of the responses shown here
- Three main drivers to review investment approach
 - A. Investment market and economic changes and uncertainty
 - B. Regulations
 - C. ESG expectations
- Survey focused on 6 key areas:

1. Investment objectives

2. Investment markets /
economy

3. Asset strategy

4. Governance

5. Implementation

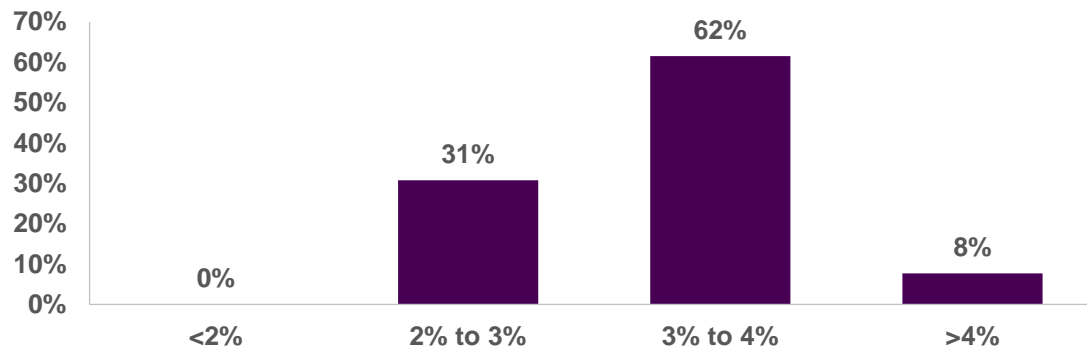
6. Sustainability and
ESG

Benchmarking provides valuable information to aid in more informed and robust investment policies for AFM members

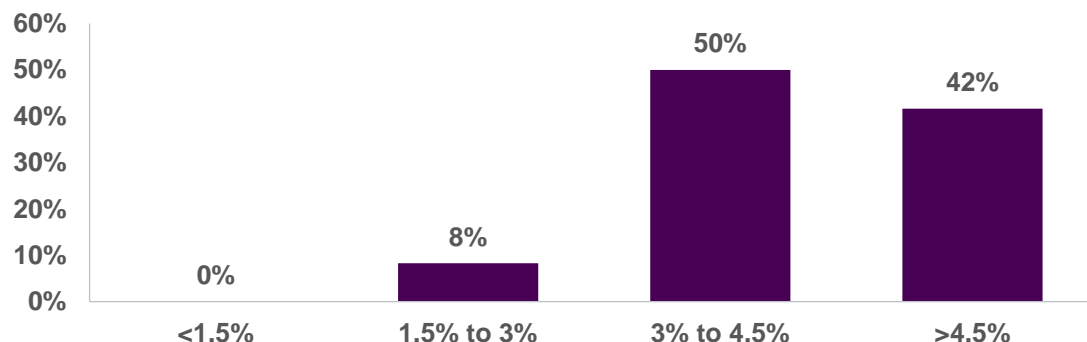
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Investment markets / economy

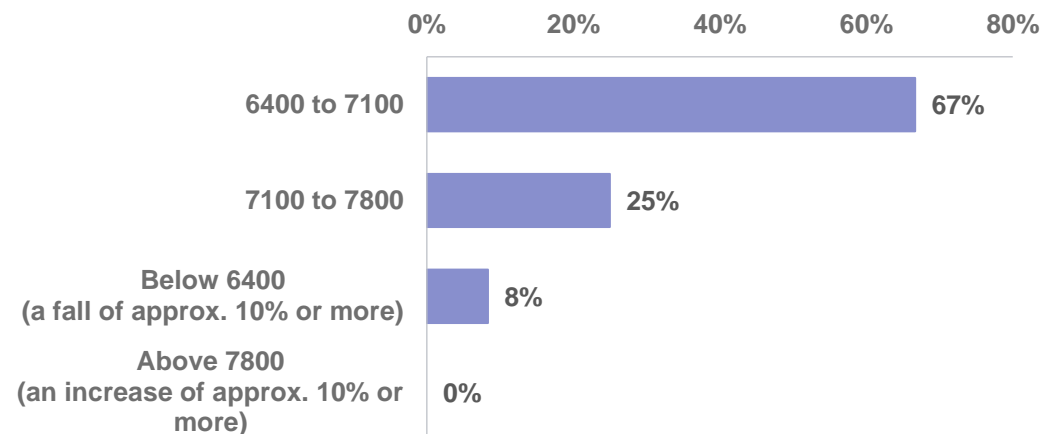
Where do you expect UK price inflation (CPI) to be in 3 years time?



Where do you expect UK base rates to be in 12 months time?



Where do you expect the FTSE 100 will be at year end 2022 (7,148 as at 1 September 2022)?



- Most respondents view price inflation as remaining above 2% target for medium term
- Interest rates expected to further increase materially from current levels
- Generally bearish view on (UK) equities

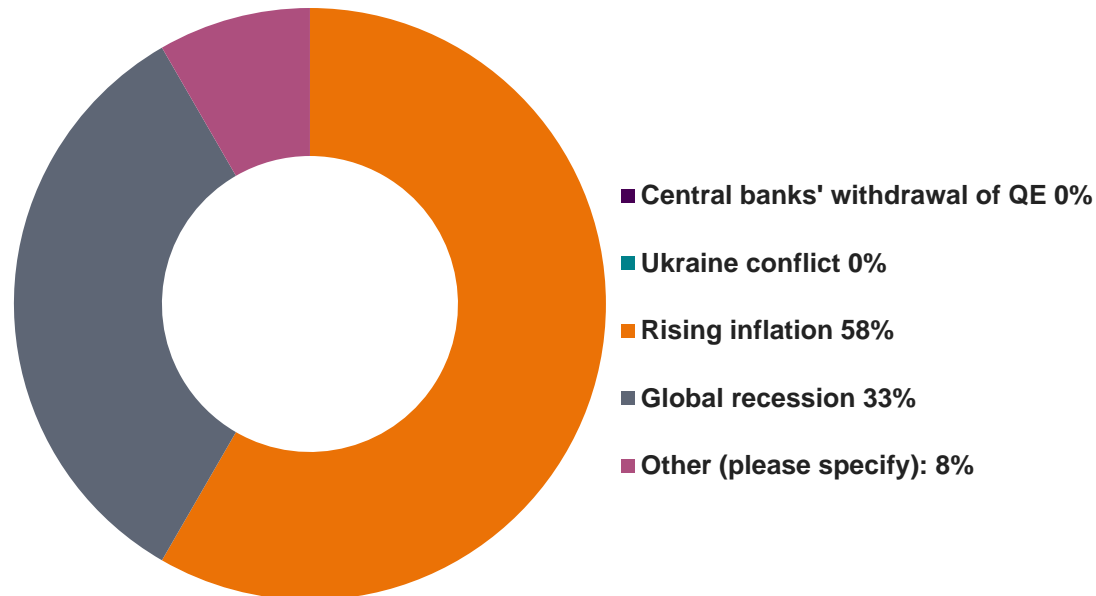
Source: RLAM and AFM as at 30 September 2022.

Expectations for even higher interest rates and price inflation remaining above target levels

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Key risks and challenges

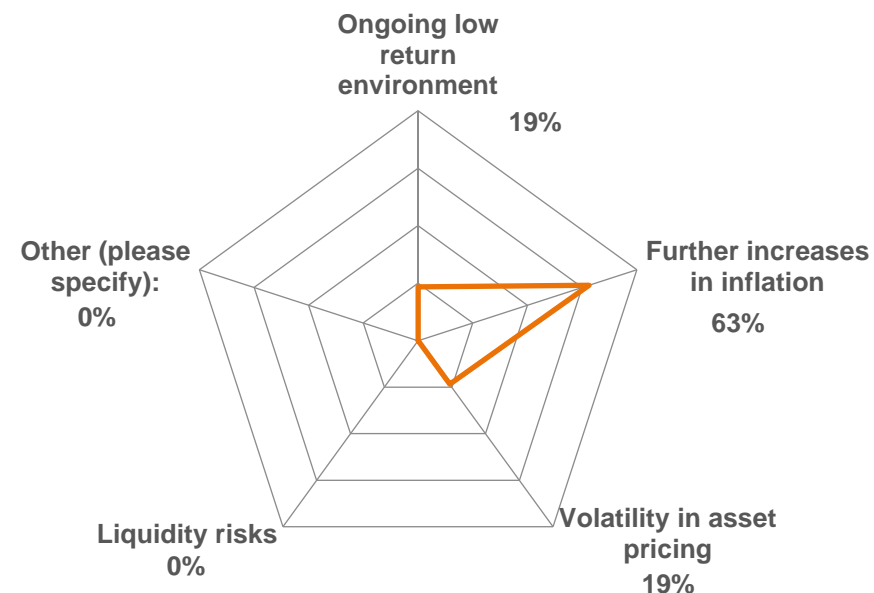
What is the key macro-economic or geo-political risk that could impact on markets over the next 12 months?



- Inflation risks viewed as being key macro risk...
- ... as well as challenge for AFM members in managing investment portfolios
- Low returns and asset volatility also material concerns

Source: RLAM and AFM as at 30 September 2022.

What is the key challenge for your investments over the next 12 months?



Inflationary concerns are at the top of the agenda and are likely to remain there for the foreseeable future

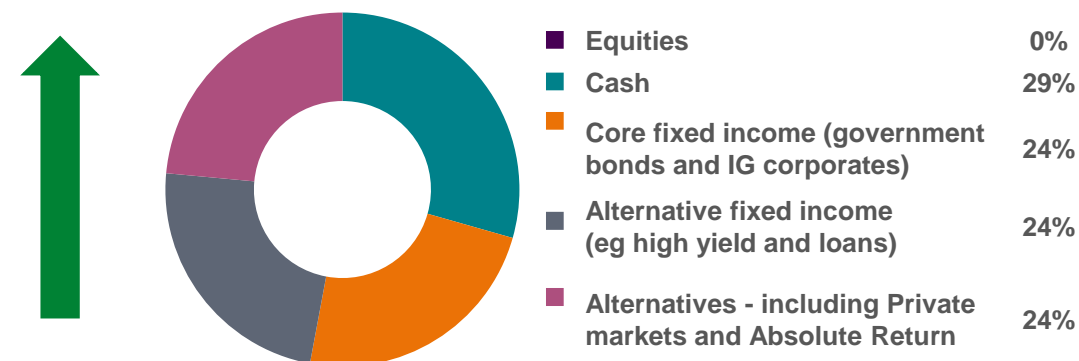
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Asset Strategy

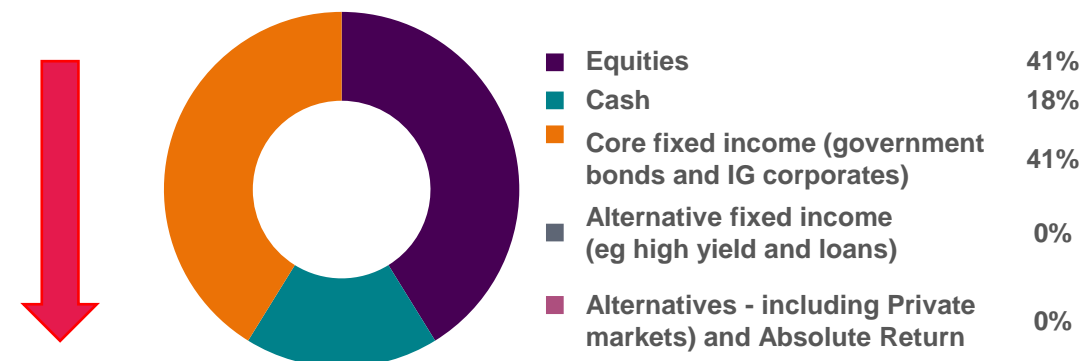
How are you intending to change your asset allocation over 2022/2023?



Which asset class are you looking to increase your allocation to most over the next 12 months?



Which asset class are you looking to decrease your allocation to most over the next 12 months?



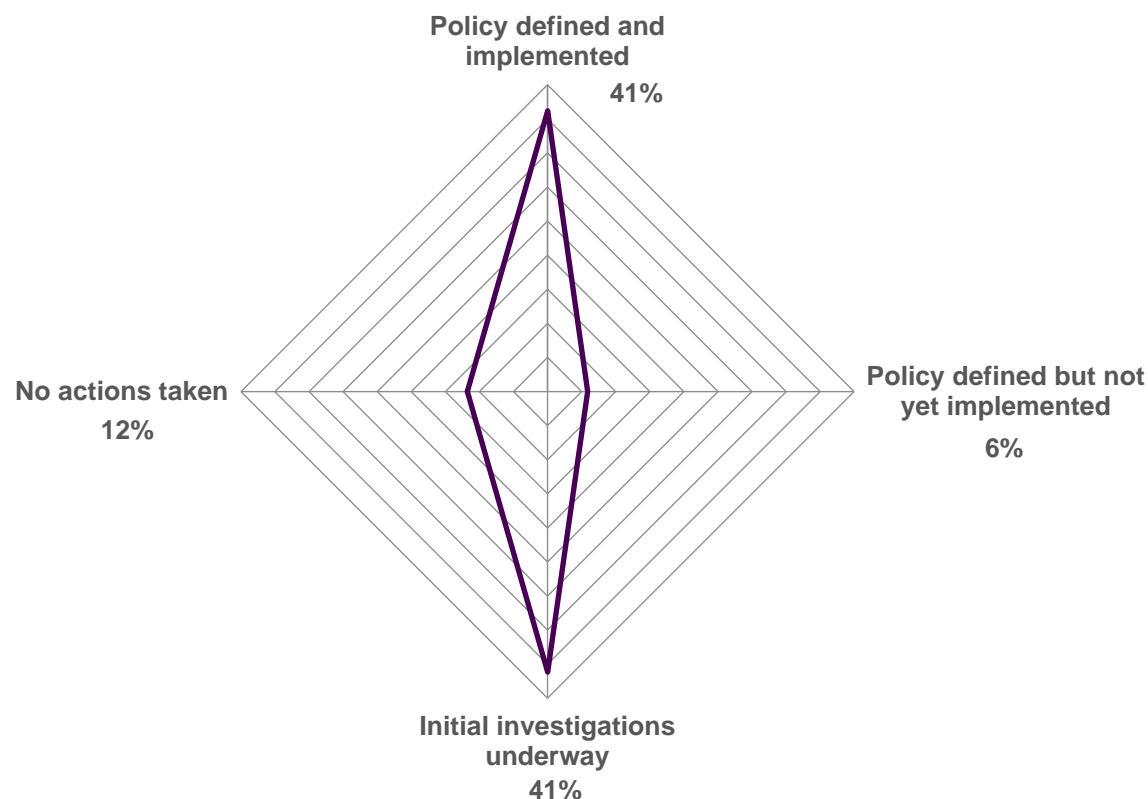
Source: RLAM and AFM as at 30 September 2022.

More than ½ respondents looking to review asset allocation – alternative assets receiving increasing attention

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Sustainability and ESG

Where are you on your ESG investing journey?

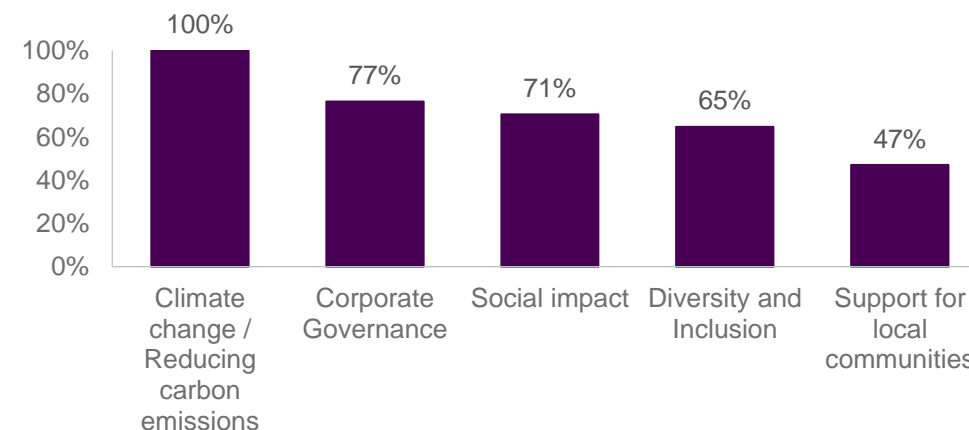


Source: RLAM and AFM as at 30 September 2022.

How are you looking to implement ESG within your investments?



Which aspects of ESG do you take account of in your investment portfolio?

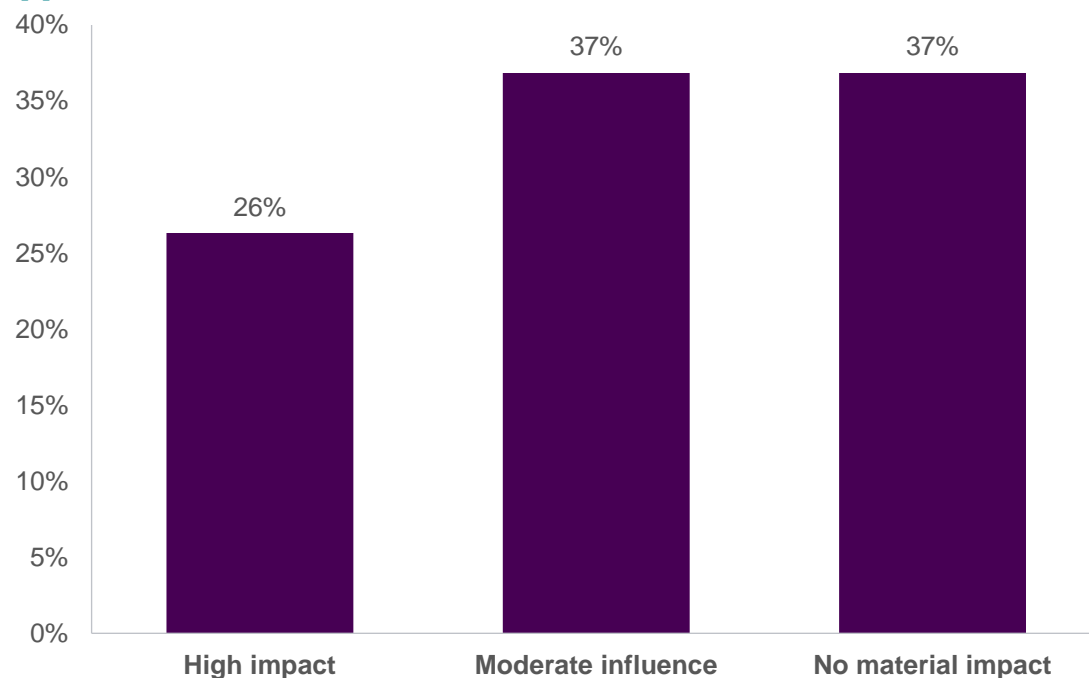


Majority have taken some actions already but for many this remains work in progress

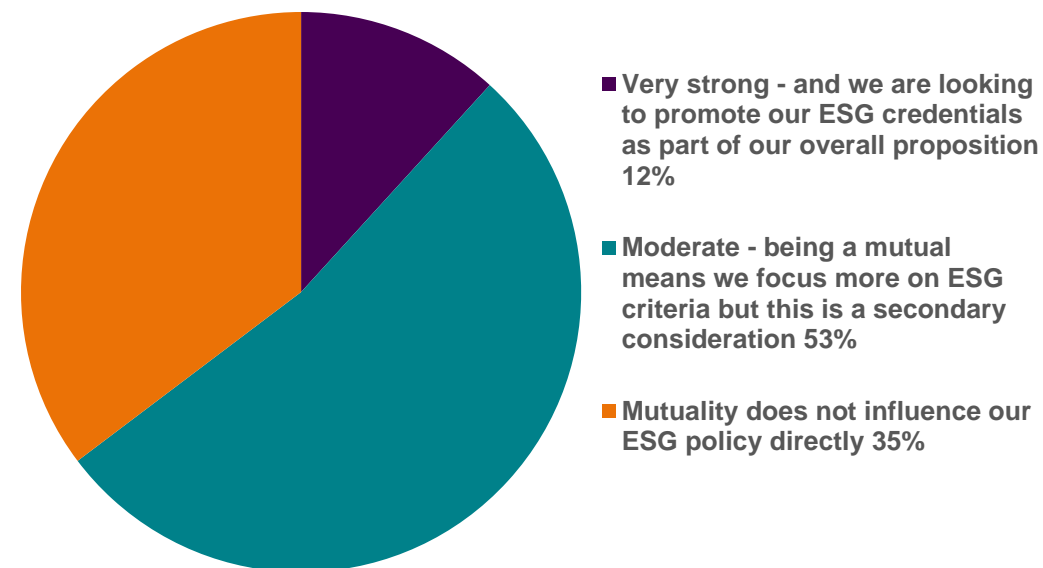
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Mutual context

How much impact does being a mutual make on your investment approach?



How would you best describe your view on the compatibility between mutuality and ESG investing?



"It has the potential to be very strong, but we also need to be clear that we are not increasing risk to our Members"

- Majority of respondents felt that mutuality influenced their investment approach
- Most also thought that their mutual status made ESG investing even more important

Source: RLAM and AFM as at 30 September 2022.

Importance of recognising mutual status in investment approach including ESG

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Conclusions

- Very challenging macro-economic and investment market backdrop
- Regulatory changes and increasing sustainability expectations compounding this
- Higher inflation viewed as key risk
- Over ½ of respondents expecting to review investment approach
- Sustainability and ESG integration still work in progress for many
- Mutual status generally viewed as important driver for asset strategy

The views expressed are the author's own and do not constitute investment advice.

More detailed survey responses and commentary will be available in a follow-up paper

Important information

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Schroders



AFM Conference 2022

Investment Panel Discussion

October 2022

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Investment outsourcing

Considering the push and the pull factors



Regulation

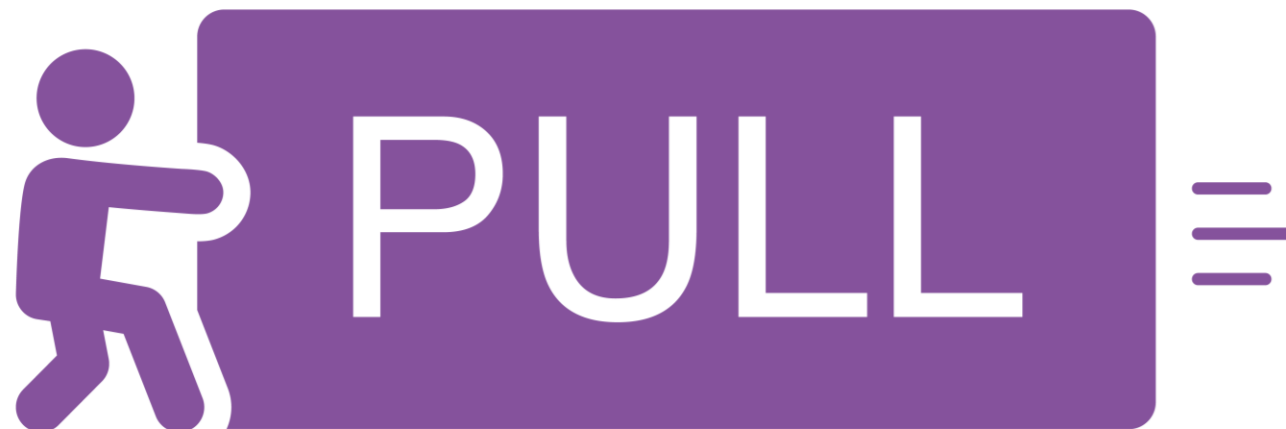


Market conditions

Opportunity set

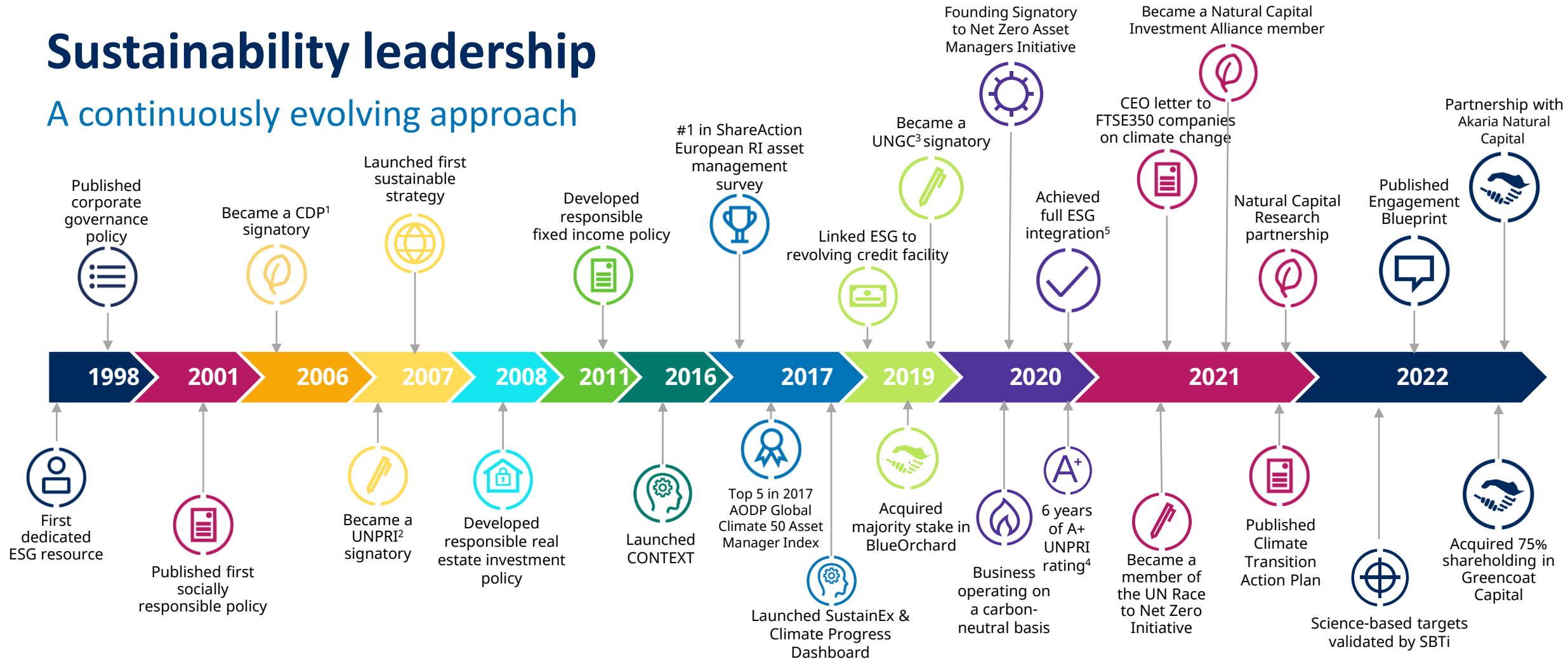


Cost efficiency



Sustainability leadership

A continuously evolving approach



'Issues such as climate change, resource scarcity, population growth and corporate failure have put responsible investment at the forefront of investors' minds. We believe that companies with a strong environmental, social and governance ethos tend to deliver better results for our clients.'

Peter Harrison, Group Chief Executive, Schroders plc

Source: Schroders, September 2022. 1Carbon Disclosure Project. 2UN Principles for Responsible Investing. 3UN Global Compact. 4Strategy and Governance module. 5For certain businesses acquired during the course of 2020 and 2021 we have not yet integrated ESG factors into investment decision-making. There are also a small number of strategies for which ESG integration is not practicable or now possible, for example passive index tracking or legacy businesses or investments in the process of or soon to be liquidated, and certain joint venture businesses are excluded.

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Association of Financial Mutuals – Conference

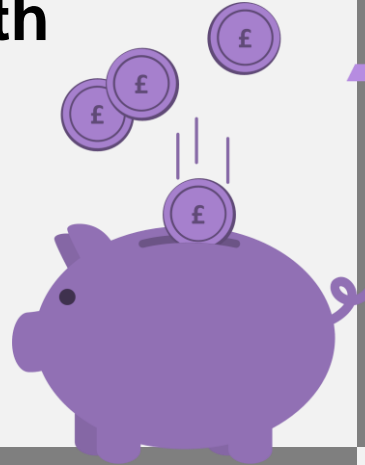
Punil Chaubal

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Remaining relevant

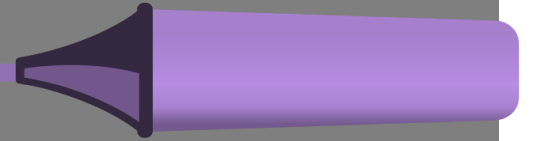
Sustainable member growth

- Economic conditions
- Market volatility
- Climate change / ESG



Product transparency

- Communication with members
- Transparency of investment strategy and purpose



Attracting new members

- Ease of access
 - Aligning products to member beliefs
 - Competitive pricing



Investment strategy

- How appropriate is your strategy?
- Frequency of review
- Treating customers fairly
- Growth asset allocation



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