

The HUB

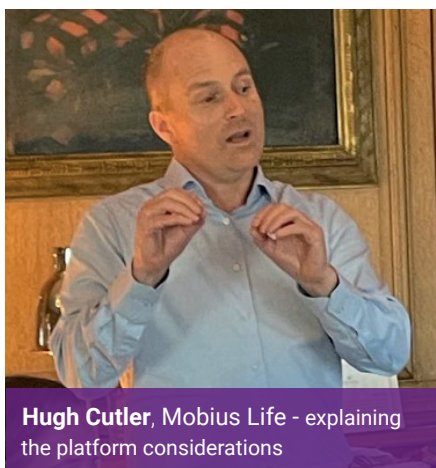
NEWS AND VIEWS FOR INSTITUTIONAL INVESTORS

LTAf Masterclass: Embracing Private Markets in DC Pensions

On the 28th of February 2024, Natixis IM and Carne Group held a masterclass on the new LTAf regime. Here are the highlights of this discussion.

Will LTAfs deliver the step-change in private markets investing Government and Regulators are seeking?

Go back a few years and most Defined Contribution (DC) scheme defaults were invested in a passive equity and bond portfolio. The key drivers of this approach being simplicity and cost. But with the Government and regulators increasingly focusing on value for money, and with an eye on improving the economic fortunes of the UK, DC schemes are being strongly encouraged to think carefully about how they can invest in the UK whilst delivering better, diversified, and more stable returns for scheme members.



Hugh Cutler, Mobius Life - explaining the platform considerations

A key topic that has piqued much industry interest has been the integration of private markets or less liquid assets into DC schemes. We've worked to open up DC investing into private credit through our award winning MV Credit solution, but we know we'll need to go further to meet the challenge being posed by Government and regulators, opening up a wider range of less liquid asset classes into the DC universe.

With our friends at the Carne group – and alongside our speakers from Mobius (to give a platform perspective), the FCA (to give the regulator's viewpoint) and the Investment Association (the architects) - we wanted to understand what some of the key drivers and issues were and delve into whether new Long Term Asset Funds (LTAfs) will really enable more illiquidity in DC.

So, on the fringes of the PLSA annual investment conference in Edinburgh we ran an LTAf masterclass, bringing together across section of industry players - asset managers, consultants, administrators, platforms and regulators - to discuss the opportunities and barriers to expanding the investment horizons for DC schemes.



Nick Groom
Head of UK DC Strategy & Sales
Natixis Investment Managers

Key takeaways:

- Defined Contribution (DC) schemes are being encouraged to invest in private assets in the UK to deliver better, diversified, and stable returns for scheme members, in response to increased focus on value for money and economic improvement.
- There is growing interest in incorporating private markets into DC allocations, but significant barriers exist, such as liquidity, complexity, daily pricing, and cost.
- Long Term Asset Funds (LTAfs) are seen as one of the potential game-changers for bringing private assets into the DC market, addressing challenges such as liquidity management and regulatory compliance, although cost remains a major concern.



Ben van den Tol, Carne Group - helping us to navigate through the legislation

Embracing Private Markets in DC Pensions

The roundtable began with an acknowledgment of the growing interest in incorporating private markets into DC allocations. Look overseas, in Australia, where it is the norm for superfunds to allocate c.20% of their portfolios to private markets. The potential benefits, including diversification and improved returns, for UK DC schemes are substantial.

Attendees noted that we didn't have to go back too far where the perceived view was that there wasn't really a role for active management in DC schemes. But here we are on the cusp of automatic enrolment maturing (and AUM growing sizeably), and the regulators are certainly more neutral, indeed more positive, about the return and risk management characteristics that can potentially be offered by private markets.

Participants of our masterclass discussed the need to facilitate and enable good outcomes for those saving into a DC pension first and foremost.

This is particularly important given the increasing individualisation of pensions and the shift from defined benefit (DB) to DC arrangements post the introduction of auto enrolment. Quite naturally (and rightly), what schemes are invested in is coming under increasing scrutiny. Specifically on private markets, these fit most naturally into default multi-asset funds, which realistically is the only place scale can be achieved, with allocations carefully managed by the providers or Trustees. Above all, when it comes to the overarching investment approach, the need for investments to work for people, the planet and society, whilst delivering good returns is key.

So why hasn't investment in less liquid assets taken off?

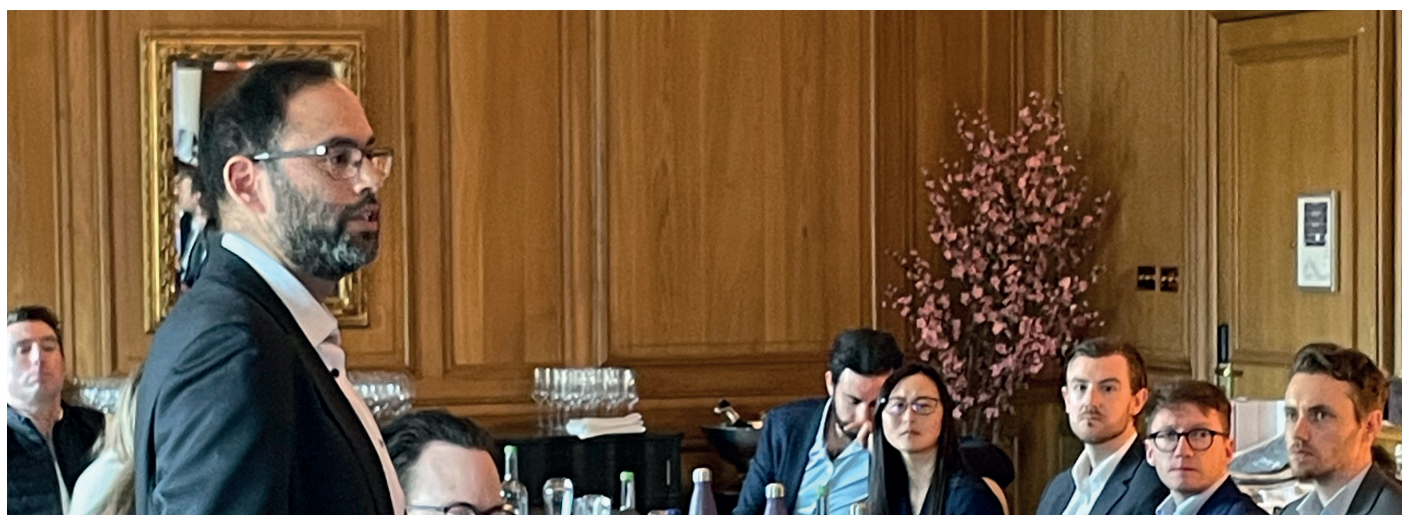
There was much discussion around the reasons why there were, sometimes, significant barriers to investing in private markets. There are well-documented problems around liquidity, complexity around managing such assets (including sourcing and managing underlying investments and due diligence), daily pricing, permitted links, the open or closed nature of funds, gating, accessibility through the investment platforms schemes use, and, of course, cost.

An important point that can quite often get lost in the conversation is that even if a scheme or fund can hold illiquid assets at a total level, individual members will be buying and selling units in the default fund every month (or indeed every day!). This means that

frequent and fair pricing of the private assets is necessary even if dealing is not. And, as we know, past performance is no guarantee of future performance and that applies to illiquids as much as any other investment.

Key barriers to investing in illiquids

- Efforts have been taken to reform the permitted links regime to enable DC investment in illiquids following the recommendations of the Productive Finance Working Group. However, some industry practitioners continue to view them as complex and restrictive.
- Operational challenges exist as illiquid assets can be more complex to manage and may require additional expertise, as valuations and liquidity pose challenges for trustees and administrators coming from a daily trading regime.
- Funds need to be evergreen, and have historically been closed ended vintage based, this represents a challenge for managers to build new structures and processes.
- Private markets need to fit into an extremely low competitive fee regime, and performance fees represent additional potential challenges, although now can be treated outside of the fee cap.



Imran Razvi, The IA – a view from one of the architects of the LTAF

MARKET INSIGHT

DOCUMENT INTENDED EXCLUSIVELY FOR PROFESSIONAL CLIENTS (IN ACCORDANCE WITH MIFID)



Euan Ryan, The FCA - giving us the view from the regulator

The Long Term Asset Fund

The LTAF has been highlighted as a potential game-changer for bringing private assets into the DC market, as well as the wealth and retail sectors too. While there are other ways to access private markets in DC structures, LTAFs can offer a one stop shop for private market, illiquid investment that is optimised for the UK DC market environment, slotting nicely into the UK DC investment framework. LTAFs will allow investors to access a much wider range of illiquid assets, including investments such as: Private equity, private credit, venture capital, infrastructure, real estate, and forestry.

Before we look at some of the key advantages and features of an LTAF, we should remind ourselves that it is just a structure/wrapper that will only ever be as good as the underlying investments. This means everything within it needs to work in its own right, for example, from having the right structure, liquidity points, being evergreen in nature, and meeting an appropriate price point.

A key advantage of LTAFs is that it is an authorised vehicle. This gives schemes, especially smaller ones, comfort and reassurance whilst potentially reducing the due diligence efforts of investing in illiquids individually. The authorisation regime for LTAFs is robust and sets a high bar.

Furthermore, liquidity can be managed either inside or outside the LTAF so schemes can tailor their requirements depending on need (there was a view that managing liquidity in an LTAF was a costly way of doing so, so might not be appropriate for all schemes if it wasn't necessary).

An LTAF is also an open-ended vehicle that can issue an unlimited number of shares, although redemptions will be subject to transactions at set intervals, including appropriate notice period depending on the illiquidity of the investment.

The other key advantage is that it is a permitted links compliant vehicle in its own right... cue lots of nodding from roundtable participants about the challenges presented by the permitted links rules for DC pensions.

One participant even went so far as to note that for schemes of a certain scale, the real (only?) advantage of the LTAF is navigating the permitted links rules, which was well worth doing in itself as that was the root cause of many problems.

Discussion turned to whether this raises a bigger and more fundamental question about the purpose and efficacy of the permitted links rules and whether they needed looking at? It was suggested by some that if they are there for the protection of members/ investors then bypassing them may have unintended consequences, so may call for further protections. It's worth remembering that the LTAF is an authorised fund with a number of additional protections in place. However, others went as far as to say, if the permitted links rules are no longer doing their job then could there be an argument for removing them and then institutional investors can have full control in how they invest? One for a further discussion!

LTAFs aren't the only game in town

While LTAFs are one way of opening up private market opportunities for DC pension schemes, participants discussed other mechanisms for accessing these types of investments outside of the LTAF structure.

The discussion focussed on LP structures and custody arrangements (rather than an investment only platform).

Unit-linked funds can also invest in other private assets as long as they meet the permitted links rules on a look-through basis. It was noted that some platforms can also blend the prices of assets that sit outside of unit-linked funds to create defaults including a wide range of assets if Trustees want to include assets that do not meet the permitted links rules.

The conversation also touched on the challenges of liquidity management in private markets investing and the potential for alternative structures like segregated mandates to offer more flexibility.

Discussants highlighted that some of the alternative solutions do not necessarily solve the challenges of having fair and frequent prices, appropriate liquidity and, of course, the fee constraints that DC schemes face. It was suggested that, ultimately, trustees might like the protections that life funds and LTAFs provide them and their members.

However, no matter how schemes look to access private markets, many of the challenges remain. And importantly the cost factor doesn't get any easier.

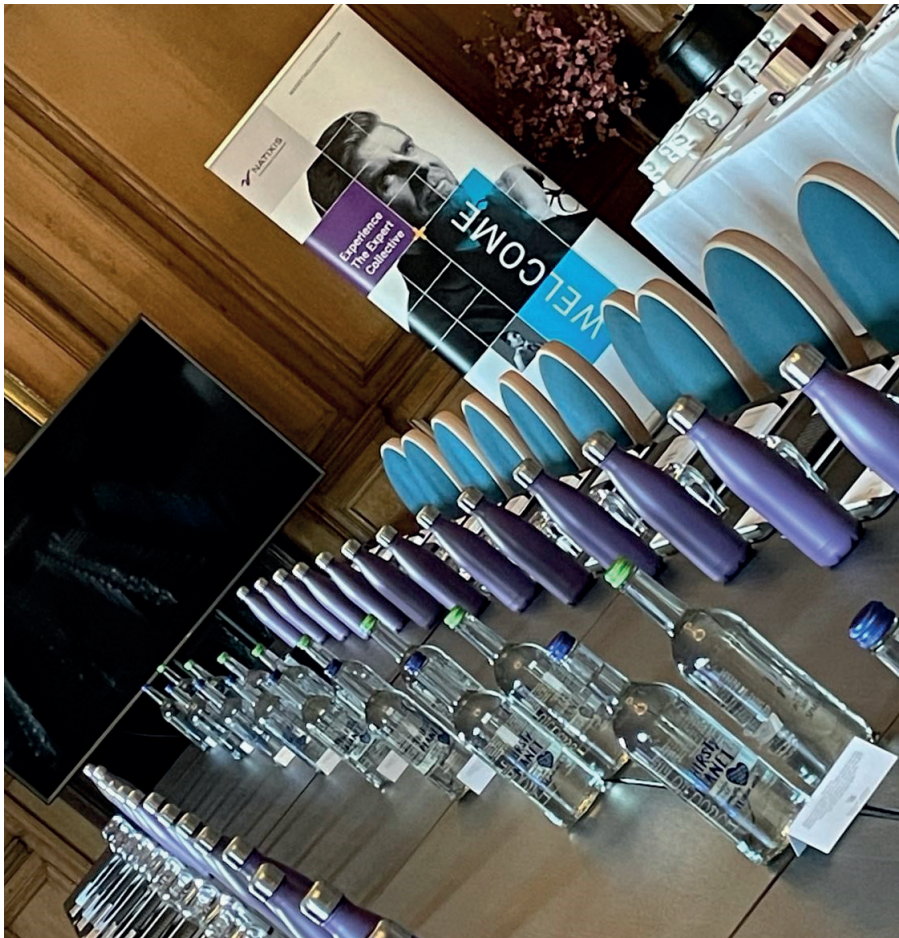
While attendees agreed that scale was important there was also recognition that certain types of private markets investments are massively oversubscribed, which means what you

High level of advantages of an LTAF

- Categorisation of the LTAF as a permitted link in its own right enables schemes via platforms to operate within a regulatory framework and allow them to invest in a wider range of assets, including illiquid alternative investments.
- Underlying funds can invest in the LTAF and gain all the benefits of passporting through Permitted Links Rules.
- Controls on liquidity dates accommodate the less liquid nature of the underlying assets by providing less frequent dealing points and therefore the chance of liquidity mismatch.
- Creates easier access and regulatory support for a wider range of investment opportunities including private equity, private debt, infrastructure, natural capital & real estate, which can offer attractive long-term returns & diversification benefits, as well as reduced price volatility.
- Government and FCA support to remove barriers where necessary and move the dial on allocations to private assets to benefit savers and also assist in growing the UK economy.

MARKET INSIGHT

DOCUMENT INTENDED EXCLUSIVELY FOR PROFESSIONAL CLIENTS (IN ACCORDANCE WITH MIFID)



Looking Ahead

We finished the masterclass discussing potential trends and challenges, focussing on the future of the UK pension industry's regulatory landscape and the importance of bespoke asset allocation for DC schemes. A handful of new LTAFs have, so far, been authorised, and it was noted that there was a healthy pipeline of new LTAFs in the system. However, it's one thing getting an LTAF authorised, its another thing getting a scheme to invest in it!

The integration of private markets into DC allocations represents a significant shift in investment strategies and culture, offering the promise of diversified sources of return, but also presenting new challenges in terms of regulation, liquidity management, and infrastructure. As DC comes of age, so we begin on the next challenge of maturity, the bigger the assets, the bigger the potential risks and rewards.

A really interesting roundtable, debating one of the hot topics in UK pensions. The insights from the industry experts we had at the roundtable highlighted the opportunities and challenges of incorporating private markets in DC schemes, along with the potential for LTAFs to really make a difference, certainly through improving accessibility to more esoteric asset classes.

are buying into is quality of opportunity which will always come at a price.

Put another way, if funds that are charging two and twenty are oversubscribed, the further you stray away from this price point the more you potentially compromise on quality and hence performance, which could lead to a failure to even achieve the hurdle rate. As the saying goes, sometimes you need to be careful what you wish for!

Price is still seen as a problem

While an LTAF structure cuts through some of the operational and regulatory challenges, it doesn't solve one of the major problems of getting such asset classes into DC pensions, the perennial issue of price.

While it is fair to say views were mixed, the prevailing sense from the discussion

was that DC schemes are still too focussed on price as a key driver of decision-making.

The history of cost-based pricing comes from the introduction of stakeholder and then automatic enrolment, with price caps introduced to make sure the DC landscape was suitable for everyone. As soon as the price cap was introduced there has been a race to the bottom on AMC, with many employers using cost as the key decision point when selecting a pension provider. This then filtered through the value and investment chain.

So, we are now in the realms of cultural and attitudinal change to break the idea that lowest cost is best - a key point of the VFM framework... It remains to be seen whether this new framework and increasing interest from, no less than, the Chancellor of the Exchequer will lead to a change in approach.



Francesca McSloy,
Natixis IM - on the case for private assets

Published in April 2024

This communication is for information only and is intended for investment service providers or other Professional Clients. The analyses and opinions referenced herein represent the subjective views of the author as referenced unless stated otherwise and are subject to change. There can be no assurance that developments will transpire as may be forecasted in this material.

Additional notes

This material has been provided for information purposes only to investment service providers or other Professional Clients, Qualified or Institutional Investors and, when required by local regulation, only at their written request. This material must not be used with Retail Investors. It is the responsibility of each investment service provider to ensure that the offering or sale of fund shares or third party investment services to its clients complies with the relevant national law.

Please read the Prospectus and Key Information Document carefully before investing. If the fund is registered in your jurisdiction, these documents are also available free of charge and in the official language of the country of registration at the Natixis Investment Managers website (im.natixis.com/intl/intl-fund-documents).

To obtain a summary of investor rights in the official language of your jurisdiction, please consult the legal documentation section of the website (im.natixis.com/intl/intl-fund-documents).

In the E.U.: Provided by Natixis Investment Managers International or one of its branch offices listed below. Natixis Investment Managers International is a portfolio management company authorized by the Autorité des Marchés Financiers (French Financial Markets Authority - AMF) under no. GP 90-009, and a public limited company (société anonyme) registered in the Paris Trade and Companies Register under no. 329 450 738, Registered office: 43 avenue Pierre Mendès France, 75013 Paris. **Germany:** Natixis Investment Managers International, Zweigniederlassung Deutschland (Registration number: HRB 129507). Registered office: Senckenberganlage 21, 60325 Frankfurt am Main. **Italy:** Natixis Investment Managers International Succursale Italiana (Registration number: MI-2637562). Registered office: Via San Clemente 1, 20122 Milan, Italy. **Netherlands:** Natixis Investment Managers International, Dutch branch (Registration number: 000050438298), Registered office: Stadsplateau 7, 3521AZ Utrecht, the Netherlands. **Spain:** Natixis Investment Managers International S.A., Sucursal en España (Registration number: NIF W0232616C), Registered office: Serrano nº90, 6th Floor, 28006 Madrid, Spain. **Luxembourg:** Natixis Investment Managers International, Luxembourg branch (Registration number: B283713), Registered office: 2, rue Jean Monnet, L-2180 Luxembourg, Grand Duchy of Luxembourg. **Belgium:** Natixis Investment Managers International, Belgian branch (Registration number: 1006.931.462), Gare Maritime, Rue Picard 7, Bte 100, 1000 Bruxelles, Belgium. **In Switzerland:** Provided for information purposes only by Natixis Investment Managers, Switzerland Sàrl (Registration number: CHE-114.271.882), Rue du Vieux Collège 10, 1204 Geneva, Switzerland or its representative office in Zurich, Schweizergasse 6, 8001 Zürich. **In the British Isles:** Provided by Natixis Investment Managers UK Limited which is authorised and regulated by the UK Financial Conduct Authority (FCA firm reference no. 190258) - registered office: Natixis Investment Managers UK Limited, Level 4, Cannon Bridge House, 25 Dowgate Hill, London, EC4R 2YA. When permitted, the distribution of this material is intended to be made to persons as described as follows: **in the United Kingdom:** this material is intended to be communicated to and/or directed at investment professionals and professional investors only; **in Ireland:** this material is intended to be communicated to and/or directed at professional investors only; **in Guernsey:** this material is intended to be communicated to and/or directed at only financial services providers which hold a license from the Guernsey Financial Services Commission; **in Jersey:** this material is intended to be communicated to and/or directed at professional investors only; **in the Isle of Man:** this material is intended to be communicated to and/or directed at only financial services providers which hold a license from the Isle of Man Financial Services Authority or insurers authorised under section 8 of the Insurance Act 2008. **In the DIFC:** Provided in and from the DIFC financial district by Natixis Investment Managers Middle East (DIFC Branch) which is regulated by the DFSA. Related financial products or services are only available to persons who have sufficient financial experience and understanding to participate in financial markets within the DIFC, and qualify as Professional Clients or Market Counterparties as defined by the DFSA. No other Person should act upon this material. Registered office: Unit L10-02, Level 10, JCD Brookfield Place, DIFC, PO Box 506752, Dubai, United Arab Emirates **In Taiwan:** Provided by Natixis Investment Managers Securities Investment Consulting (Taipei) Co., Ltd., a Securities Investment Consulting Enterprise regulated by the Financial Supervisory Commission of the R.O.C. Registered address: 34F, No. 68, Sec. 5, Zhongxiao East Road, Xinyi Dist., Taipei City 11065, Taiwan (R.O.C.), license number 2020 FSC SICE No. 025, Tel. +886 2 8789 2788. **In Singapore:** Provided by Natixis Investment Managers Singapore Limited (NIM Singapore) having office at 5 Shenton Way, #22-05/06, UIC Building, Singapore 068808 (Company Registration No. 199801044D) to distributors and qualified investors for information purpose only. NIM Singapore is regulated by the Monetary Authority of Singapore under a Capital Markets Services Licence to conduct fund management activities and is an exempt financial adviser. Mirova Division (Business Name Registration No.: 53431077W) and Ostrum Division (Business Name Registration No.: 53463468X) are part of NIM Singapore and are not separate legal entities. This advertisement or publication has not been reviewed by the Monetary Authority of Singapore. **In Hong Kong:** Provided by Natixis Investment Managers Hong Kong Limited to professional investors for information purpose only. **In Australia:** Provided by Natixis Investment Managers Australia Pty Limited (ABN 60 088 786 289) (AFSL No. 246830) and is intended for the general information of financial advisers and wholesale clients only. **In New Zealand:** This document is intended for the general information of New Zealand wholesale investors only and does not constitute financial advice. This is not a regulated offer for the purposes of the Financial Markets Conduct Act 2013 (FMCA) and is only available to New Zealand investors who have certified that they meet the requirements in the FMCA for wholesale investors. Natixis Investment Managers Australia Pty Limited is not a registered financial service provider in New Zealand. **In Colombia:** Provided by Natixis Investment Managers International Oficina de Representación (Colombia) to professional clients for informational purposes only as permitted under Decree 2555 of 2010. Any products, services or investments referred to herein are rendered exclusively outside of Colombia. This material does not constitute a public offering in Colombia and is addressed to less than 100 specifically identified investors. **In Latin America:** Provided by Natixis Investment Managers International. **In Chile:** Esta oferta privada se inicia el día de la fecha de la presente comunicación. La presente oferta se acoge a la Norma de Carácter General N°336 de la Superintendencia de Valores y Seguros de Chile. La presente oferta versa sobre valores no inscritos en el Registro de Valores o en el Registro de Valores Extranjeros que lleva la Superintendencia de Valores y Seguros, por lo que los valores sobre los cuales ésta versa, no están sujetos a su fiscalización. Que por tratarse de valores no inscritos, no existe la obligación por parte del emisor de entregar en Chile información pública respecto de estos valores. Estos valores no podrán ser objeto de oferta pública mientras no sean inscritos en el Registro de Valores correspondiente. **In Mexico:** Provided by Natixis IM Mexico, S. de R.L. de C.V., which is not a regulated financial entity, securities intermediary, or an investment manager in terms of the Mexican Securities Market Law (Ley del Mercado de Valores) and is not registered with the Comisión Nacional Bancaria y de Valores (CNBV) or any other Mexican authority. Any products, services or investments referred to herein that require authorization or license are rendered exclusively outside of Mexico. While shares of certain ETFs may be listed in the Sistema Internacional de Cotizaciones (SIC), such listing does not represent a public offering of securities in Mexico, and therefore the accuracy of this information has not been confirmed by the CNBV. Natixis Investment Managers is an entity organized under the laws of France and is not authorized by or registered with the CNBV or any other Mexican authority. Any reference contained herein to "Investment Managers" is made to Natixis Investment Managers and/or any of its investment management subsidiaries, which are also not authorized by or registered with the CNBV or any other Mexican authority. **In Uruguay:** Provided by Natixis Investment Managers Uruguay S.A., a duly registered investment advisor, authorised and supervised by the Central Bank of Uruguay. Office: San Lucar 1491, Montevideo, Uruguay, CP 11500. The sale or offer of any units of a fund qualifies as a private placement pursuant to section 2 of Uruguayan law 18,627. **In Brazil:** Provided to a specific identified investment professional for information purposes only by Natixis Investment Managers International. This communication cannot be distributed other than to the identified addressee. Further, this communication should not be construed as a public offer of any securities or any related financial instruments. Natixis Investment Managers International is a portfolio management company authorized by the Autorité des Marchés Financiers (French Financial Markets Authority - AMF) under no. GP 90-009, and a public limited company (société anonyme) registered in the Paris Trade and Companies Register under no. 329 450 738. Registered office: 43 avenue Pierre Mendès France, 75013 Paris.

The above referenced entities are business development units of Natixis Investment Managers, the holding company of a diverse line-up of specialised investment management and distribution entities worldwide. The investment management subsidiaries of Natixis Investment Managers conduct any regulated activities only in and from the jurisdictions in which they are licensed or authorised. Their services and the products they manage are not available to all investors in all jurisdictions. Although Natixis Investment Managers believes the information provided in this material to be reliable, including that from third party sources, it does not guarantee the accuracy, adequacy, or completeness of such information. The provision of this material and/or reference to specific securities, sectors, or markets within this material does not constitute investment advice, or a recommendation or an offer to buy or to sell any security, or an offer of any regulated financial activity. Investors should consider the investment objectives, risks and expenses of any investment carefully before investing. The analyses, opinions, and certain of the investment themes and processes referenced herein represent the views of the individual(s) as of the date indicated. These, as well as the portfolio holdings and characteristics shown, are subject to change and cannot be construed as having any contractual value. There can be no assurance that developments will transpire as may be forecasted in this material. The analyses and opinions expressed by external third parties are independent and does not necessarily reflect those of Natixis Investment Managers. Any past performance information presented is not indicative of future performance.

This material may not be redistributed, published, or reproduced, in whole or in part.

All amounts shown are expressed in USD unless otherwise indicated.

Natixis Investment Managers may decide to terminate its marketing arrangements for this fund in accordance with the relevant legislation

Natixis Investment Managers

RCS Paris 453 952 681

Share Capital: €178 251 690

43 avenue Pierre Mendès France

75013 Paris

www.im.natixis.com

HUBINT29ENG-0324

MARKET INSIGHT

DOCUMENT INTENDED EXCLUSIVELY FOR PROFESSIONAL CLIENTS (IN ACCORDANCE WITH MIFID)