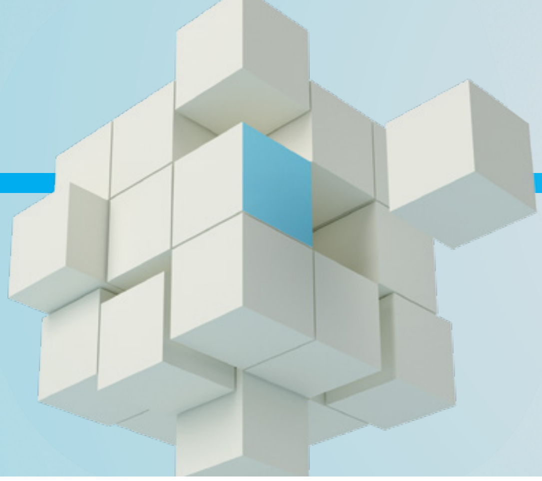

Amundi Investment Solutions

Trust must be earned

#21 / July 2024

Pension funds letter

Building together smart solutions to face a challenging environment

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Executive summary

All together to talk "Adaptation in Motion"

Four years ago, the Covid-19 pandemic brought about an instant and permanent shift in the way many of us work. Virtual communication has replaced much of the face-to-face contact that we had previously been accustomed to. While the convenience and savings of web-conferencing means it's a trend that's here to stay, in-person interaction still retains many benefits.

This June, the Amundi World Investment Forum gathered clients from across the globe to a two-day conference in Paris. It is an occasion for learning about the many different trends that are transforming our lives. The ever-accelerating technological advances that continue to revolutionise working life form part of these. However, these such events are also a platform for connection and sharing experience with fellow investment professionals face-to-face, building relationships and fostering collaboration.

A series of peer-to-peer sessions were held as one of the formal settings for this type of exchange. Our first article of this Pension Fund Letter reviews some of the main points of discussion at the peer-to-peer group for pension funds. We hope to host further sessions for this type of exchange, both virtually and in-person, allowing you to continue and broaden the discussions in a format that works best for you.

Our second article turns to another trend that is reshaping our lives in different ways; geopolitics. A major topic at the 2024 Forum, here we focus on how we track geopolitical risk and the main risks to watch out for in the next six months. We also look at the results of some of the recent elections and what these might mean for investors.

We then turn to an evolution specific to the pensions market: the switch towards DC schemes. More particularly, we consider how to manage the distribution phase in the context of different investment goals and longer life-expectancy. We explain how a new way of optimising retirement portfolios could help.

Finally, we finish with our regular review of pension funding ratios. As record market performance continues to improve funding ratios, countries such as the UK are starting to consider options for dealing with their large surpluses. We take a closer look.

What's new & coming up?

13 & 14 June
Amundi World Investment Forum
Watch the highlights, featuring Sanna Marin & Gordon Brown.
Watch now

Amundi Outlook

July 2024
Mid-year Outlook
Explore the investment focus for the second half of 2024. Are we heading towards a multi-speed global economy?
Read the paper
Watch the playback

COMING SOON

September 2024
Back-to-school webinar
Discover the investment themes to watch out for as we head towards another major election.

Sofia SANTARSIERO
Head of Institutional Solutions & Innovation

Tom DENEKE
Business Solutions & Innovations

Forging connections and sharing pension experience

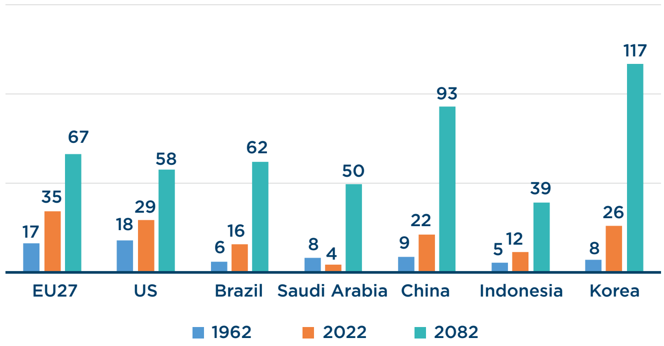
Amundi's annual thought-leadership event, the Amundi World Investment Forum, takes place in June each year. It is an occasion for industry leaders, policymakers, and visionaries to share their view on the future of investment through a mix of keynote speeches and roundtables. It is also a chance for finance professionals to meet their counterparts and discuss common concerns. This year, for the second time, we hosted a peer-to-peer roundtable dedicated to pension funds.

The roundtable gives an opportunity for pension fund professionals to come together and exchange thoughts, ideas and opinions with their peers from around the globe, while Amundi experts foster a lively discussion on crucial topics in the pension fund landscape. This year's peer-to-peer session covered three main sections:

Addressing the heterogeneity of pension funds' objectives and constraints. To start off the session, Amundi's Karin Franceries (Head of OCIO Advisory) highlighted the different situations and challenges for participants. Given that session was joined by pension funds from Europe, Asia and the Americas, covering DB, DC and hybrid funds, addressing the different frameworks and challenges they face is key. While the traditional DB-DC divide is widely documented, the challenges that are faced at a country level in funding pensions are less well-understood. For example, **the role of mandatory supplementary pensions varies significantly across geographies**, with EU27 pension levels sitting at 55% of earnings, compared to 42% for the UK and 88% in Brazil[1]. For reference, world pension assets represent roughly $52tn out of the $176tn total for asset owners[2]. Participants compared demographic data such as the actual and projected changes in across regions as the **old age to working age ratio continues to increase exponentially** (Figure 1). They also learnt about how other countries tackle the retirement challenge.

In addition, comparison of ESG and net-zero integration across pension funds enabled participants to understand global retirement responsible investment dynamics. Out of the Amundi interviewed peer group, **51% of pension funds have already adopted or are adopting a net-zero by 2050 goal**[3]. For many, these introductory figures gave an opportunity to understand how their country and fund compares to peers.

Figure 1: Old age to working age ratio

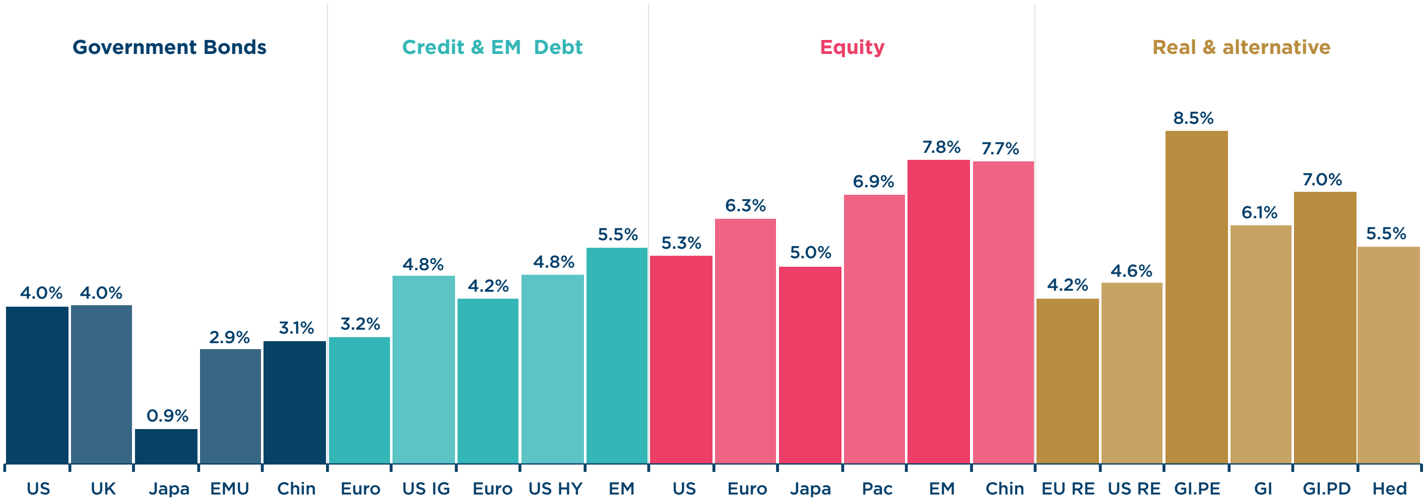


Source: OECD, PENSIONS AT A GLANCE 2023 © OECD 2023.

Emerging Markets Debt (EMD) opportunities were at the forefront of this year's peer-to-peer session, with Amundi's Sergei Strigo (Co-head of EM Fixed Income) initiating the discussion on where EMD falls in the asset allocation framework (Figure 2). Participants were generally surprised by the magnitude of this asset class, representing nearly 30% of global fixed income[4], prompting further debate surrounding EMD allocations.

1. OECD, Pensions at a glance, 2023
2. Willis Towers Watson, Global Pension Assets Study 2023
3. Amundi / CREATE Survey 2023
4. LHS, Amundi, JP Morgan. Data as of December 2023

Figure 2: 10-year expected returns - local currency



Source: Amundi CASM Model. Data as of 29 March 2024. For additional information see 'Sources and Assumptions' section at the end of this document. The forecast returns are not necessarily indicative of future performance, which could differ substantially. IG=Investment Grade, HY=High Yield, RE=Real Estate, PE=Private Equity, PD= Private Debt, Infra.=Infrastructure. Red arrows down indicate lower expected returns vs last year forecasts, green arrows up indicate higher expected returns.
Explore the data visualiisation: https://research-center.amundi.com/article/capital-market-assumptions-2024

One historical reason for low EMD allocations outside their home market highlighted by participants specifically concerns EM-based pension funds as a result of their domestic exposure: **home-bias already represents an EMD allocation**. In these cases, further investments in the asset class are often limited. Another reason for the relatively low allocation levels seen today is the large impact of downside risk on the index: a small group of poorly performing EMs can prove to be a significant drag on performance. Due to the requirement for **selectivity** and a focus on **risk management**, an active approach is considered to be beneficial in managing risk, especially in EMD.

Participants also discussed the potential for ESG contribution strategies in EMD, since the additional **real-economy impact** of investing is generally **considered to be higher** than in developed market counterparts. The sustainable fixed income market is growing rapidly in emerging markets, with the bulk of issuance coming from green bonds. This offers investors the opportunity to address sustainability issues in a market characterized by high additionality, which also has a relatively large financing need, and where current allocations are not sufficient[5].

One factor the participants highlighted as currently hindering increased EMD allocations is the **interrelation to the US market**, which is two-fold. Firstly, many EMs follow the US in terms of rate cycles due to currency fluctuations. Secondly, the inverted curve in the US is currently considered to be an argument against increasing EMD exposures, since the relatively high carry in short-term USD securities seems relatively compelling. However, US rate cuts and curve normalisation are likely to change EMDs relative positioning.

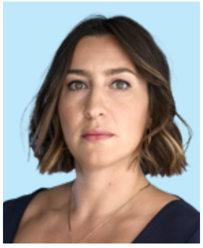
Climate Indexing

As a closing subject, Amundi's Frédéric Hoogveld (Head of Investment Specialists & Market Strategy, ETF, Indexing & Smart Beta) fostered a discussion on climate indexing, starting by highlighting the significant flows the asset class has seen in recent years, as well as the evolution of its complexity. Paris-Aligned Benchmarks (PABs) and Climate Transition Benchmarks (CTBs) have been key in democratizing the climate ETF space. The use of these type of strategies was discussed at length, and also covered the possibilities for stewardship in the climate ETF universe. For example, participants **typically preferred segregated accounts** over funds due to the enhanced possibility for engagement.

Another key takeaway was the **relative preference for active management** in fixed income, since the idea that an increased debt burden leads to a larger allocation within the index seems counterproductive to many. **Overall, the occasion provided an opportunity to clients to share their insights on the practical implementation of climate indexing, with a broad range of different perspectives fostering debate.**

5. IFC, Bloomberg, Environmental Finance, Climate Bonds Initiative. Data as of December 2023

Vincent MORTIER
Group Chief Investment Officer



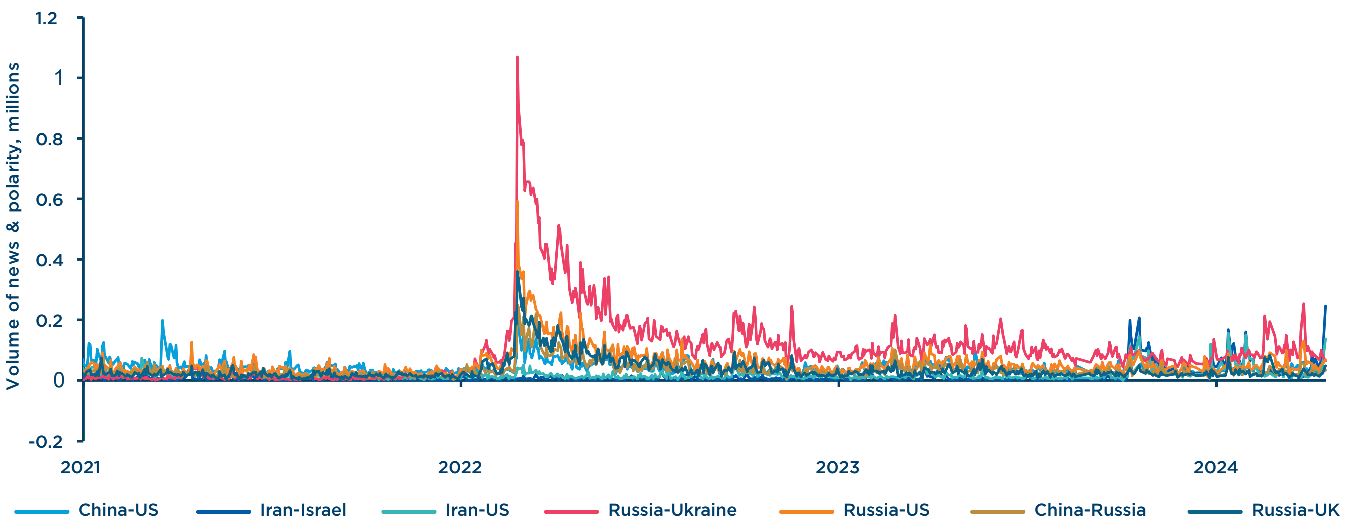
Anna ROSENBERG
Head of Geopolitics, Amundi Investment Institute

Tracking rising geopolitical risk & monitoring election outcomes

Geopolitical risk is likely to rise for the remainder of this decade as a result of the growing number of actors involved, the tectonic geopolitical and technological shifts underway, and deteriorating bilateral relations. Protectionism, sanctions, tariffs, export controls and trade wars will only intensify.

To better understand geopolitical trends, Amundi has developed a *Geopolitical Sentiment Tracker*. **The tool aims to inform the investment process: it includes a variety of datapoints allowing investors and researchers to better understand and be alerted to rising risks. It also allows our teams to identify opportunities**.

Figure 1: An increasing number of tense bilateral relations now contribute to higher overall geopolitical risk



Source: Amundi Investment Institute, Geopolitical Sentiment Tracker - bilateral relations between country pairs. Data as of 15 April 2024.

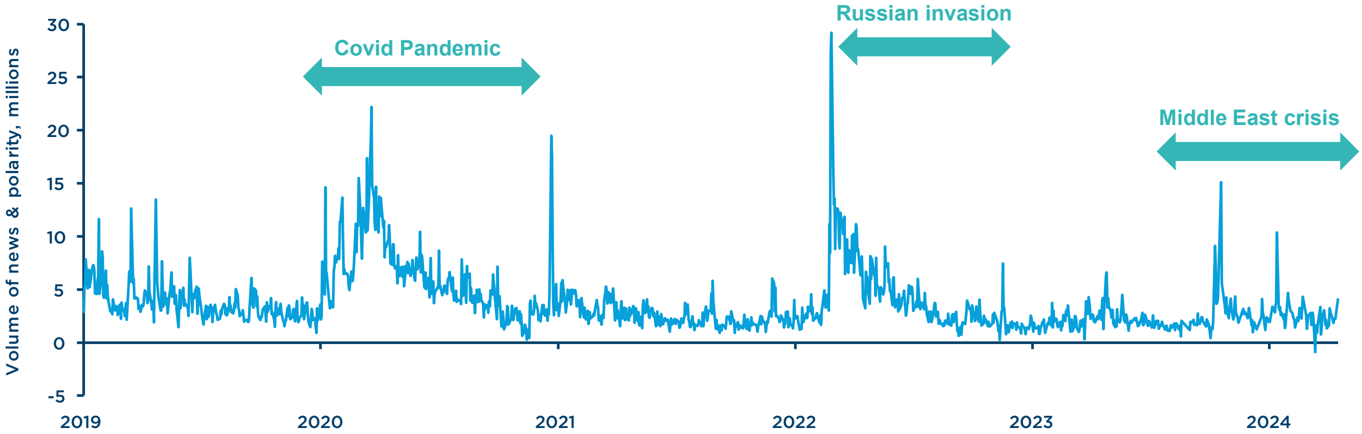
We can deduct from the data in our new tracker, that the 2020s are likely to remain a period of elevated geopolitical risk.

Since Russia's invasion of Ukraine, more countries are contributing to driving geopolitical risk. Hamas' attack on Israel and the subsequent involvement of many different (and also new) actors in the ensuing tensions in the Middle East further accentuate these dynamics.

Of course, today's tensions are a result of the developments of prior decades. For example, 9/11 and the Great Financial Crisis laid the foundations for many of the political realities we see today in the Middle East and within Western democracies.

However, when we zoom into the 2020s, the impression that emerges is that the number of crises with global impact, and the pace at which they occur, are accelerating: the **Covid pandemic lead to the break-down of global trade ties**; Russia's invasion of Ukraine caused major ruptures between traditional allies; the Middle East crisis is threatening to draw Iran, Israel and the United States into a bigger war. Meanwhile, a geopolitical power realignment is creating **more complexity** and **more tension** in many different directions.

Figure 2: Only 4 years in, the 2020s have already seen various crises with global impact



Source: Amundi Investment Institute, Geopolitical Sentiment Tracker - Geopolitical risk is measured through the tensions identified between countries based on wordwide news. Data as of 15 April 2024

Amundi's Geopolitical Sentiment Tracker[1]

Both quantitative and qualitative analysis shows that geopolitical risk is mainly driven by relations between two countries. It is therefore important to track these bilateral relations and understand them in real time. Of course, a country's risk exposure is driven by several components, all of which have to be tracked to obtain a holistic assessment.

We also assess a country's local political stability based on real-time data that alerts us to changes in the domestic political atmosphere.

In addition, we measure 'fundamental' political stability, based on low-frequency data from international organisations, to better understand the underlying 'health' of a country's political and legal institutions, security infrastructure, human rights, press freedom, etc.

Lastly, we add all of these components – local risk, bilateral relations risk, fundamental stability - into an overall ranking that alerts us when a country moves up or down the scale. The world's geopolitical hotspots are the worst performers in our Geopolitical Sentiment Tracker.

A new window of vulnerability opens in the second half of the year

History tells us that the more economic friction, the higher the risk of military conflict. **The next few months will be crucial in determining the direction of various geopolitical hotspots**.

The **outcome of the US election will be pivotal** with US foreign policy differing significantly under a Biden or Trump presidency, although **any incoming US administration will preside over worsening ties with China**. The period between November and January, which could see a change in the US administration, presents a window of vulnerability, both domestically and internationally. Forces seeking to weaken US influence in the world could decide to explore how far they can go. China's military manoeuvres in the South China Sea and North Korea's positioning towards the South must be monitored.

We anticipate increased fighting between Russia and Ukraine in the second half of the year. Russia aims to capture as much territory as possible before a potential change in the US administration and a possible ceasefire. At the same time, Ukraine's defensive capabilities are likely to improve with the arrival of new weaponry and more manpower at the front.

The crisis in Israel and Gaza will likely continue in the second half of the year due to Israel's war goals and domestic politics. An escalation between Israel and Lebanon, as well as between Israel and Iran, remains possible and both could end up involving the US.

In Europe, a new EU Commission and parliament will come into office and will need to adapt to the new geopolitical realities. Europe will have to refine its approach to China: balancing growing tensions without 'rocking the boat' as the EU relies on Chinese inputs for its green ambitions and can also benefit geopolitically and economically from the US/China rivalry.

1. https://research-center.amundi.com/article/geopolitical-risk-will-grow-here-how-we-track-it

Implications on commodities

The dynamics of commodities and geopolitical tensions are interconnected. Crude **oil** is a key stress marker in the Middle East. **Base metals** are tied to the energy transition and implicitly to the US-China tech war, amid mining tightness and supply concentration. **Metals** are a crucial stake in Africa too, where the West is competing with China for influence. **Natural gas** and **wheat** are being weaponised in the Ukraine war, while access to Russian resources is being dramatically reshaped. Beyond its safe-haven status, **gold** is increasingly used as a means to diversify away from dollar transactions. **Water**, another crucial mineral resource, sees demand from climate change, urbanisation, mining and industry colliding with tighter and more concentrated water supplies. Commodities are thus connected to most geopolitical tensions.

Commodity prices suggest geopolitical risk is set to structurally intensify, but we see more risk coming from Asia than from the Middle East. Supply/demand dynamics matter more for crude prices than escalation risk in the Middle East. The implied odds that a major oil producer is drawn into a broad conflict, leading to a supply shock, are low. The bigger geopolitical forces in the region are filling the void left by the US's strategic refocus on Asia and the gradual phasing out of fossil fuels. This calls for diplomatic normalisation, a refocus on the economy and carrying out a number of mega projects, including Saudi's Vision 2030 project. **Metals now appear more exposed to geopolitics than energy**, particularly copper and rare earths. Rising gold prices evidence the general perception of structurally higher geopolitical risk.

We see oil prices in a range slightly tilted to the downside. Gold would reach $2500/oz and copper prices would settle above $10000/t.

The election wrap-up

As 2024's active election-cycle continues to accelerate, what do the recent election results in Europe mean for investors?

The European parliamentary elections

The 2024 European Parliament elections took place between 6 and 9 June 2024. The results indicate that the centrist parties should be able to form a working coalition. The European People's Party (EPP) increased its parliamentary seats. At the same time, parties such as Identity and Democracy (ID) and European Conservatives and Reformists (ECR) with far-right credentials also gained seats.

The elections took place in a clearly improving economic environment, following a technical recession in the second half of 2023. **Leading indicators and surveys are increasingly pointing to a better second half of this year**.

Europe has strengths it can mobilise. EU countries are highly diverse economically (countries have different specialisations) and Europe has very abundant financial savings of households (estimated at over €35,000 bn in the EU) that could be used to make these economies more dynamic.

The short-term outlook is improving. To keep the pace and overcome the medium-term challenges of the EU economy (i.e. poor demographics, weak research and development investment, low productivity) the EU needs to enhance the economic and financial integration, improve fiscal governance and strengthen the capital market union.

We expect Eurozone growth at 0.8% in 2024 and 1.2% in 2025. Employment rose by 0.3% in Q1, confirming anecdotal evidence that the labour market has continued to tighten, with companies hoarding labour in anticipation of a rebound in growth.

This comes, however, with **considerable differences from country to country** and from sector to sector. Germany is likely to be the main laggard this year due to weak investment and exports. Countries such as Spain should fare better. Services are improving while manufacturing remains under pressure. The only exception is Spain, expanding in both manufacturing and services. In 2025, we expect a more broad-based recovery in the Eurozone, supported by improved purchasing power and easing financial conditions.

French legislative elections

After two rounds of voting, July 7 brought the results of the French legislative elections. The split of seats was more balanced than expected, with the leftist alliance Nouveau Front Populaire (NFP) come first, followed by President's centrist group Ensemble, with the right-wing coalition, Rassemblement National (RN) in third position. With three blocks of seats of roughly equal size, there is no obvious governing majority in the new parliament. The most likely scenario therefore is that there will be a hung parliament, with the need to form a **coalition**. This step is **likely to take time and a lot of negotiation**.

The first deadline facing the government is at the end of September. By then, as stipulated in the constitution, the government will need to send the Finance Bill to parliament.

In the absence of an absolute majority, there is no obvious Prime Minister. Between the resignation of the current government and the formation of the new government, outgoing ministers will manage any urgent current affairs.

In fixed income, a reasonable range for the OAT-Bund yield spread could be between 60 and 80 basis points, but there may be volatility depending on the political news flow. Should this spread overshoot towards 100 bps, there may be an opportunity for investors to enter a liquid market with a decent yield premium. There is also room for the equity market to recover, as valuations are in line with the other European markets and large-cap diversified companies are exposed to the global cycle.

Economic outlook for France: We expect the country's economic recovery to progress during 2024 and improve in 2025, even as inflation continues to come down. We forecast real **GDP growth of 0.9% and 1.3% for 2024 and 2025** respectively. Easing monetary policy, as well as a recovery in investment and domestic consumption, should support economic growth. **Swings in confidence**, driven by political uncertainty, **will be worth monitoring** since this could affect consumption.

The approval of the budget law will be the main test of any new government. Whoever forms the government, their room for manoeuvre will be very limited, as they will be constrained by EU fiscal rules.

UK General Election

On July 4, the Labour Party won a large majority in parliamentary elections, returning to power for the **first time in 14 years**. For **fixed income**, our view is that Starmer's election takes British government bonds a **step closer to becoming a safe haven** with the UK scoring well on inflation and fiscal dynamics, as well as on political risk. A re-rating is merited and would be a big turnaround after several years of volatility, marked by a sharp increase in yields and term premia.

The new government's limited room for fiscal manoeuvre and the imminent start of the Bank of England's rate cutting cycle leads us to **favour UK government bonds**, both in absolute terms and also relative to their US, German and French counterparts. This is especially the case given debt-to-GDP dynamics could be more worrying in the United States and in some euro zone countries.

While UK fixed income doesn't have a huge weight in global benchmarks, there may be a case for international investors to reconsider their strategic allocation given it offers a way to **add a good-quality yield with interesting diversification characteristics**.

In equities, we view the election results as broadly **neutral for UK markets** given the large poll leads have given stocks plenty of time to reflect this outcome. Moreover, Labour's plans do not represent a massive deviation in policies from the outgoing Conservative party.

In terms of market capitalisation, the UK equity market is dominated by multinationals that earn the majority of their revenue from outside the UK. Companies with a greater domestic focus will be more affected by the election outcome.

Any equity market slippage or volatility in the wake of the elections may present some opportunities to add to UK exposure given the UK market is currently trading at around 11 times forward/price earnings, which is **fairly cheap compared with its peers**, and has a dividend yield of almost 4%. It is also a lower-beta defensive market that exhibits a higher return on equity than its continental European counterpart, so stands to benefit if there are bouts of increased volatility.

With contributions from

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How to design a decumulation strategy that optimises the goals of the pension-holder?

The importance of decumulation[1] strategies in retirement has gained traction in recent years. Government pension reforms are driving a move away from defined benefit (DB) schemes, which promise an income for life, in favour of defined contribution (DC) plans which offer no such guarantee.

A big difference with the accumulation phase of DC schemes is that **default strategies for decumulation are not yet common**. It falls to the retiree to choose if they want an annuity and/or to select the appropriate mix of funds offered by their investment provider.

The retirement conundrum

Retirees with DC pensions have to ask themselves two main questions:

- How much of my retirement funds should I withdraw?
- How do I invest the remaining funds?

The answers to these two questions are complex, relying on comprehensive consideration of long-term risks, spending needs and market conditions.

Traditionally, individuals strive to increase their saving rates and maximise investment returns during their working life (the accumulation years). Yet, the decumulation process is equally important.

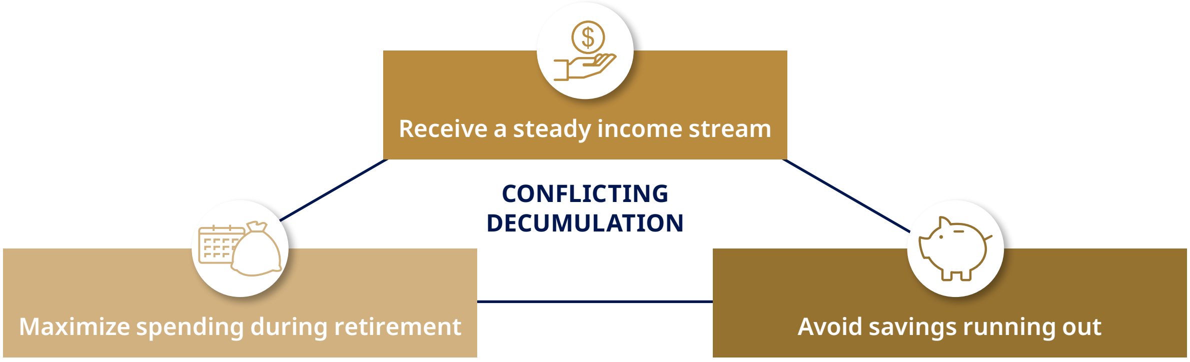
Generally, a retiree has three options to deal with their savings:

OPTION 1 at retirement	OPTION 2 at retirement	OPTION 3 at retirement
Withdraw all savings from financial markets	Purchase a life annuity and receive regular payments throughout lifetime	Continue to invest savings in the financial markets while being able to draw from savings at any time

Defining a decumulation strategy

Designing strategies for the decumulation phase involves a high degree of complexity. Common retirees' goals include a desire to i) receive a steady income, ii) spend as much as possible during retirement (maximise withdrawals)[2] and iii) be protected against the risk of outliving retirement savings. Yet, these cannot all be pursued simultaneously, as they may conflict with each other. Strategies also need to take into account individuals' preferences for consumption rates, bequests (i.e. inheritance) and risk tolerance levels.

1. Decumulation refers to the drawing down of savings during the retirement period.
2. Maximise withdrawals adjusted for retirees' desire for exit thresholds to buy annuities or to make bequests.



Amundi Investment Institute has carried out research to compare different approaches and, in the process, **developed a new decumulation strategy, the *"Success Rate Optimiser"*:**

Approaches	Main features	Advantages	Disadvantages
Traditional Method	- An inflation-adjusted withdrawal rate of 4% of the initial portfolio value - A constant asset mix	- Simple approach - Steady real income stream	- Fixed asset mix can lead to a portiolio running out of money earlier than expected
Utility Optimiser	- Retirees preferences are modelled using utility functions - Optimises the expected utility of an individual's lifetime consumption using a constant asset mix - Optimal consumption level depends on a portfolio's value	- High success rate given the amount consumed depends on the value of a portfolio	- Consumption level impacted by markets (e.g. low withdrawals can be caused by market losses), translating into low retirement income in adverse market environments - Fails to deliver a steady income
NEW			
Success Rate Optimiser	- Consumption is planned & asset allocation is dynamically driven by the value of a portfolio - Risk asset allocation falls as the value of a portfolio rises (and vice versa) - Probability of success is optimised	- Dynamic asset allocation to optimise the success rate with a take-profit feature - A planned income stream - Adapts to uneven consumption or markets & offers customisation	- Value of portfolio can be negatively impacted over time by a decreasing allocation to risky assets

Source: Amundi Investment Institute, for illustrative purposes.

The Success Rate Optimiser and dynamic asset allocation

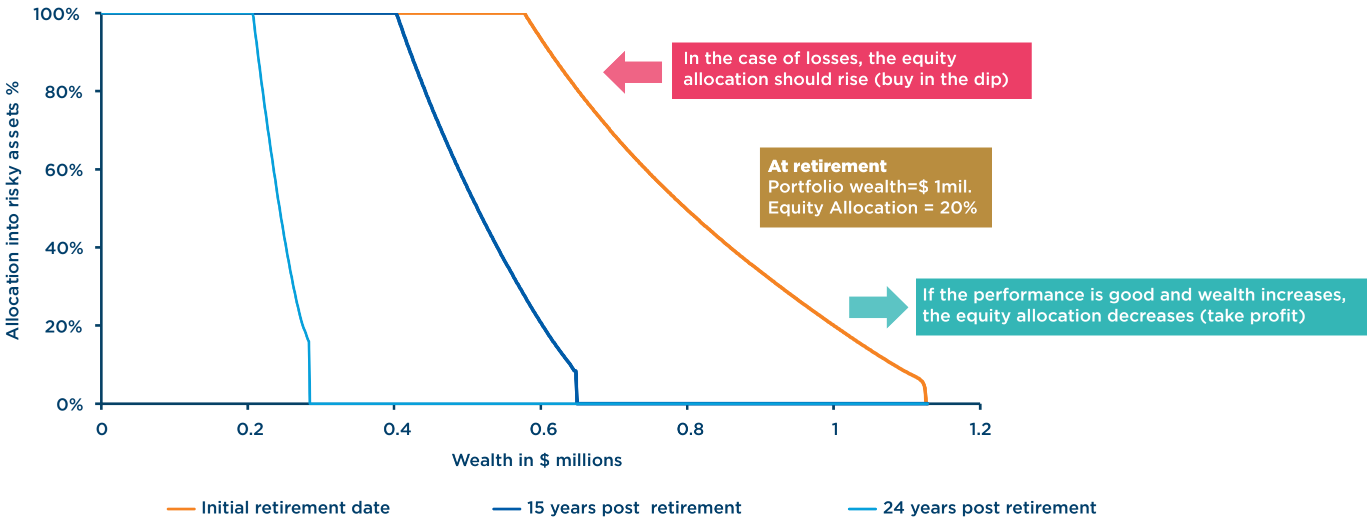
When compared to other retirement strategies, one important feature of the *Success Rate Optimiser* is its **dynamic asset allocation approach**. With the growing popularity of DC schemes, the concept of an asset allocation strategy that becomes more conservative as the value of a portfolio increases has captured the attention of investors. Such a strategy **helps to dynamically manage the multifaceted risks** within a DC pension scheme, where prioritising one risk over another can have unintended consequences.

For example, an overly conservative portfolio intended to minimise the frequency and size of portfolio losses may increase the **risk of retirees outliving their savings** (longevity risk). A portfolio derived using the Traditional Method is a good example. Here, retirees follow a constant mix strategy to spread their investments between risk-free and risky assets, no matter the value of the portfolio, or how close they are to the end of their investment horizons. Alternatively, the *Success Rate Optimiser* fixes consumption so that **when a portfolio performs well, the allocation to safer investments increases** (e.g. cash), and when performance is poor, the allocation to more risky assets rises in the expectation that those assets will help to recover losses.

Figure 1 portrays the asset allocation strategies used in the *Success Rate Optimiser.* Allocation excludes the amount that is going to be withdrawn for consumption. For simplicity, the initial portfolio value is set at 1.0 (e.g. $1 million after adjusting for the amount needed to cover future consumption levels) and the investment horizon is 30 years. The curved lines represent risk asset allocation solutions (%) at different dates during retirement.

The orange line is the position of an individual at the start of retirement with a 30-year investment horizon. According to this line, if a retiree's wealth is at $1 million, 20% should be allocated to risky assets. If wealth increases to $1.1 million, the allocation to risky assets falls to zero and, alternatively, if wealth decreases below $1 million, the same allocation increases rapidly. This highlights that **when a retiree has less wealth, there is a need to invest more in riskier assets** with higher expected returns in order to achieve his/her objective.

Figure 1: Risk asset allocations at different dates during retirement



Source: Amundi Investment Institute, for illustrative purposes.

An optimiser that allows for customisation

Importantly, the *Success Rate Optimiser* offers the **potential for customisation**. For example, a maximum risk asset weight can be chosen as a constraint. Moreover, since future consumption is fixed, withdrawals can be met by investing entirely in risk-free assets as soon as the value of the portfolio exceeds a set threshold. **This option to take profits contributes to these strategies' high success rates**. Deciding on the amount of income withdrawal is a very challenging task for retirees, requiring a consideration of long-term risks (e.g. inflation and/or a rise in life expectancy) and consumption needs that may also vary due to differences in financial circumstances and preretirement expenditure.

Testing and follow-up research

The research paper uses variations of the different models to test the robustness of the strategies. For example, we considered complementary performance indicators in addition to the strategies' average success rates (success defined as the occurrence of simulations where retirement savings are above zero at the end of the simulation), such as their survival times (how long savings last), or wealth levels reached at the end of the simulation. We also considered alternative interest rate and consumption rates environments.

Overall, Amundi's research highlighted that **decumulation investment strategies should be designed with a dynamic asset allocation approach, defined consumption goals, fixed investment horizons and clear objectives to optimise their success rates**.

Follow-up research is planned to examine the **impact of transaction costs** (including how they can be reduced) within this approach; to consider **alternative definitions of the risk-free rate** for retirees; and to **adapt the modelling** (initially performed at an individual level) **to mutualised strategies** such as decumulation target date funds.[3]

Additional contributions from

Monica DEFEND

Head of Amundi Investment Institute

3. A target date fund is a fund that seeks to grow assets over a defined period of time for a specific goal.

Case Studies
HOW TO SET A DECUMULATION STRATEGY?

It is our belief that effective decumulation planning is the result of careful accumulation planning, as well as a smooth transition between accumulation and decumulation stages. We split this case study into two examples, illustrated by two individuals living in Singapore at different stages of their retirement planning.

Participant 1:

Heng, 50, is an ENT surgeon, he has an adult child and lives in Singapore.
Heng will retire in fifteen years. He has a comfortable income, as his senior role continues to increase his income.

Retirement objective: An income in retirement of 10,000 SGD per month.

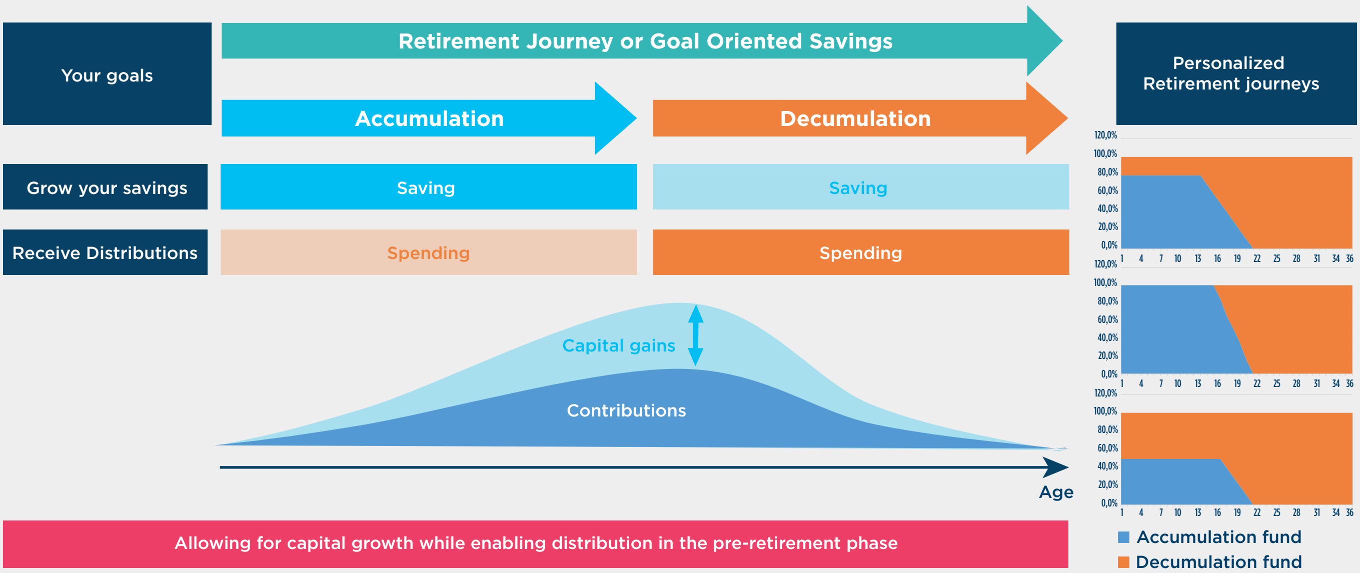
Participant 2:

Michelle, 66, married and mother of two grown-up children, is now retired and lives in Singapore.
Having spent her life working as a university lecturer, she now wishes to enjoy a peaceful retirement, while maintaining her standard of living. She would also like to bequeath part of her capital to her two grown-up children and her grandchildren.

Retirement objective: Receive a retirement income of 1,200 SGD per month and leave the remainder of her retirement savings to her heirs as inheritance.

What retirement investment solution would allow them to achieve these objectives?

Figure 1



Source: Amundi, July 2024

Each retirement journey is built around two primary goals:
- Grow savings
- Receive an income distribution

Two dedicated retirement building blocks[4] have been constructed, one for each of these fundamental retirement objectives (Figure 1):

- the **Growth** building block
- the **Distribution** building block

A dedicated glidepath for every participant

In this very efficient retirement framework, **any retirement journey goal can be achieved simply by combining allocations to the growth and distribution building blocks** according to the aspirations of the participant. Depending on their anticipated schedule of contributions (lump sum, periodic, or ad-hoc), these contributions are allocated to the growth and distribution blocks to reflect the expected pot of savings they want to achieve at a future date and the amounts of income they wish to receive during predefined periods.

The right-hand side of Figure 1 shows three examples of dedicated glidepaths, all using the same two building blocks.

With only two building blocks, we can construct an effective individualised glidepath for any type of participant.

Participant 1: Heng, 50 years old

Heng has 300k SGD to invest and plans to retire in 15 years in 2039.

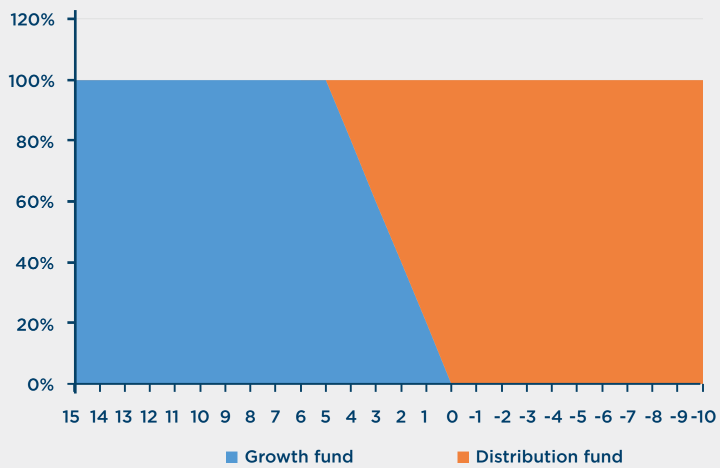
To maintain his current lifestyle, Heng wishes to target a minimum monthly retirement income of 10 000 SGD for a period of 15 years.

Plan: A one-off investment of 300 000 SGD, followed by 5 000 SGD monthly for the next 15 years. This will represent a cumulative contribution schedule of 1,200k SGD.

Strategy: The growth fund to build wealth for the first 10 years. Then this will be gradually transitioned into the distribution fund over a period of 5 years. For the next 15 years, the distribution fund will be used to meet the retirement income needs.

Profile :
Heng, age 50
Job: Surgeon
Lump sum: 300 000 SGD
Periodic contrib 15Y: 5 000 SGD/month
Distrib 15Y: 10 000 SGD/month

Heng's Glidepath



The growth building block has an annual expected return of 7.2%[5].

The distribution building block has an annual expected return of 5.4% and a distribution rate of 8% [5].

Applying this dedicated glidepath, using our central scenario, Heng's capital can be grown up to 1,890k SGP on retirement, with 1,100k SGP remaining after 15 years of decumulation.

4. Each building block is a multi-asset diversified vehicle composed of return-seeking and income-seeking underlying strategies or funds, that can combine passive and active solutions.
5. Source: Amundi Capital Market Assumption as of December 2023

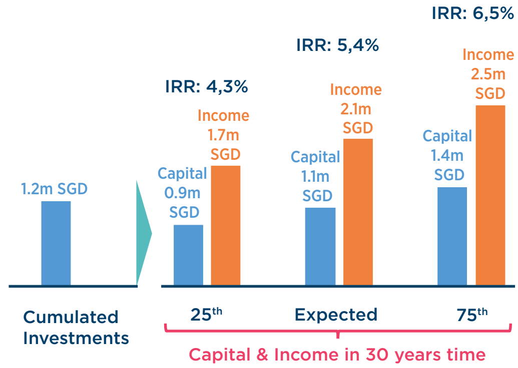
Maximise income generated at retirement phase starting in 15 years and over 15 years

Criteria:

- 300,000 SGD investments one-off
  & 5,000 SGD investments per month for 15 years
- Willing to receive 10,000 SGD per month once retired

Proposed strategy:

First 10 years: 100% growth investments,
then 5Y gradual derisking into distribution strategy.
After retirement, all assets are invested
in distribution strategy (during 15Y)



Source: Amundi, as of June 2024. The right-had chart shows the remaining retirement savings for a central (expected), low (25th centile) and high (75th centile) scenario and the accumulated income received after 15 years of accumulation and 15 years of decumulation (total 30 years).

Participant 2: Michelle, 66 years old

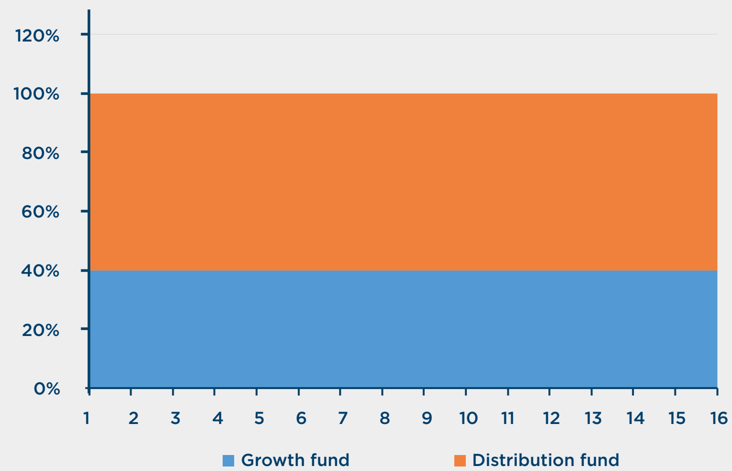
Profile :
Heng, age 66
Job: Retired professor
Lump sum: 300 000 SGD
Distrib 15Y: 1 200 SGD/month

Michelle has 300K SGD to invest and wishes to receive 1200 SGD monthly. She wants to maintain a comfortable standard of living, but also to put something aside as inheritance for her children and grandchildren.

Plan: A one-off investment of 300,000 SGD. For the next 15 years this will be split 50-50. Half goes into the distribution strategy for retirement income, and the other half goes into the growth strategy for her heirs.

Strategy: Using the same investment returns as for Participant 1, in our central scenario, Michelle will have received a total of 232k SGD after 15 years. Her remaining savings would be estimated at 334k SGD.

Michelle's Glidepath



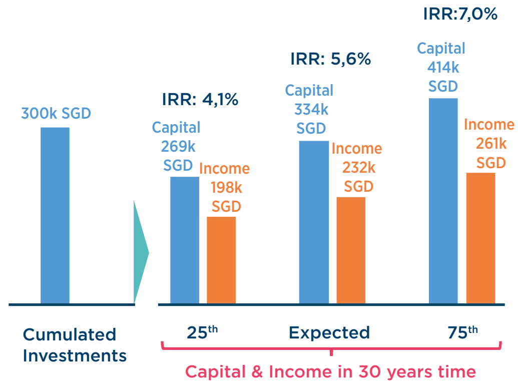
Generate income for retirement and grow assets for her heirs

Criteria:

- 300,000 SGD investments one-off
- Willing to receive 1,200 SGD/month for 15 years

Proposed strategy:

During next 15 years: 60% investment in decumulation strategy (for her) and 40% in growth strategy (for her heirs)



Source: Amundi, as of June 2024. The right-had chart shows the remaining retirement savings for a central (expected), low (25th centile) and high (75th centile) scenario and the accumulated income received after 15 years of decumulation.

What do we learn from these case studies?

Objectives in retirement can vary significantly from one individual to the next. This is the challenge that is highlighted in our discussion paper, *Optimal Decumulation Strategies for Retirement Solutions*[6], namely that one may seek several objectives at once. Our decumulation retirement framework turns this complexity into simplicity by proposing **one investable building block for each type of retirement objective.**

Here, we consider only two types of objectives: growing assets and providing a distributing income. Another common retirement objective is seeking to purchase an annuity some years into the future, which requires a building block invested in annuity matching assets. These multiple possible objectives for decumulation is what makes decumulation strategies more complex:

MORE OBJECTIVES	CHOOSING THE RIGHT GLIDEPATH	NEED FOR FLEXIBILITY
In the decumulation phase there are **potentially more objectives** (or retirement KPIs) to address than in the accumulation phase.	During decumulation, generally individuals no longer work meaning there is no longer a fresh source of working income. Hence **getting a decumulation glidepath right is even more important.**	In decumulation, **a flexible strategy is even more important** due to multiple sources of uncertainty (health, personal circumstances, or those of one's beneficiaries). Where there are no other financial means, it is the decumulation strategy that needs to respond to any changes of circumstance.

As a result, ensuring that a decumulation strategy offers a simple and efficient way to achieve the competing retirement objectives of participants like those illustrated is essential.

For simplicity, we have presented the case studies for one individual at a time. Pensions' schemes and sponsors aim to provide retirement solutions for groups of individuals. To do so it is necessary to **construct groups and subgroups of people that share common characteristics.** The framework presented above would then be applied to each sub group, using the same building blocks.

6. https://research-center.amundi.com/article/optimal-decumulation-strategies-retirement-solutions

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Amundi

Favourable markets improved pension funding ratios once again

Last quarter showed positive performance for equities, together with a moderate increase of interest rates. These two combined increased average funding ratios to experience new historical highs.

Year to date: favourable markets, while rates remain high

The first quarter of 2024 was **positive for the large majority of risky assets**, whilst sovereign bonds experienced weaker performance due to persistent inflation data and a still relatively strong economy leading investors to price in fewer rate cuts.

Overall, the **economic backdrop has improved** compared to expectations at the start of the year and global economic data kept **surprising on the upside**. The raised hopes that a soft economic landing was still on the horizon in the US provided a major boost to several risky assets: equity, high-yield credit and oil had a very strong first quarter. Several equity indices **reached historical highs** also on the back of strong corporate earnings and positive sentiment around the development of artificial intelligence technology. After this positive first quarter, April marked a new market phase as uncertainty rose across the board. May was a positive month for risk assets favoured by US inflation easing from its pace in Q1, a relatively dovish Fed and better than expected corporate earnings.

Between end of February and end of May, these factors have translated into a moderate equity rally: Global Developed Markets experienced positive performance both for the MSCI World Equity (+3.8%) and the Emerging markets (+3.5%) in USD terms. UK equities were the best performers among the main developed countries supported by their exposure to commodity companies: the FTSE100 index rose +9.9%.

Bonds have been under pressure amid the higher uncertainty about central bank direction, with US 10Y yields touching new YTD highs and investors expecting US rates to stay higher for longer. German 10-year yields rose from 2.40% in February to finish May at +2.64%, whilst the 10-year UK yields rose approx. +19bps from +4.11% to +4.30%, and 10-years US yields increased by 26bps (from 4.25% to 4.51%).

Impact on funding ratios

All in all, both positive equity returns and interest rate increases led to **improved funding ratios for pension funds**: Equity had a positive impact on assets, while interest rates had a larger impact in terms of liabilities reduction than in terms of reduced asset returns. As the funding ratios were already very strong in February, the average levels are now experiencing **new long-term historical highs**, especially in the UK.

	31/12/2018	31/12/2019	31/12/2020	31/12/2021	31/12/2022	30/06/2023	31/12/2023	29/02/2024	31/03/2024	30/04/2024	31/05/2024
Netherlands	103.60%	104.30%	100.20%	114.30%	115.79%	117.80%	114.60%	116.70%	116.70%	117.50%	119.00%
UK	95.70%	99.20%	95.50%	107.70%	136.47%	145.80%	142.80%	146.10%	146.50%	148.80%	149.41%
US	86.10%	86.80%	87.90%	95.50%	98.20%	100.50%	100.90%	104.40%	104.50%	105.60%	105.70%

Sources: - UK data: Purple Book, PPF S179 funded status. - Netherlands data: Dnb - US data: Aon Pension Risk Tracker.

What could the current UK pension surpluses lead to?

The current estimated average s179 funding ratio of UK pension is 149.4% as of end of May 2024. This means a lot of schemes are **experiencing large surpluses**. For schemes closed to new members and new accruals, those surpluses can lead sponsors to perform **buy-outs** to an insurance company, to get rid of their DB pension risk forever. It should be noted that liabilities valuation on a buyout basis are significantly higher than on a s179 accounting basis: in March 2023, the aggregate funding ratio of UK pension funds was reported to be 134% in s179 vs 112% in buyout basis[7]. This difference is due to many factors, such as differences in discounting rate, and the longevity risk premium. Thus, a rough estimate of a 120% funding ratio (on an accounting basis) would be needed to perform a full buyout.

Now, if we suppose a pension fund with a 150% accounting funding ratio performed a full buyout, what would become of the 30% surplus? Several scenarios are currently available, such as a **pension increase** for the DB scheme members, **recycling** those surpluses **as contributions to a DC scheme** if embedded in the same trust, or even some direct payments to the sponsor or members. In all cases, these options must be negotiated between the sponsor and the trustees, and most of them can only be performed after a full buyout.[8]

But if those surpluses could be extracted more easily for one purpose or another, pension schemes could be **incentivised to run on** (i.e. not to perform buyout), and look for more rewarding, albeit riskier, options. The previous government performed a consultation that led to proposals which aim **to encourage pension funds to continue to invest more in rewarding assets**[9]. A key feature of these proposals was to provide stakeholders easier access to surpluses, for example by lowering the minimum conditions in terms of funding level (currently at least 100% in a buyout basis). But with the snap elections, the new government's stance is now uncertain, and **how the current regulation will change in the near future is still unknown**.

7. https://www.ppf.co.uk/-/media/PPF-Website/Public/Purple-Book-Data-2023/PPF-The-Purple-Book-2023.pdf
8. https://www.wtwco.com/en-gb/insights/2024/06/reforms-to-pension-surplus-rules-wtw-evaluates-the-uk-governments-proposals
9. https://www.ipe.com/news/uks-autumn-statement-proposals-encourage-db-schemes-to-run-on/10070219.article

CROSS ASSET Investment Strategy
MAIN AND ALTERNATIVE SCENARIOS

	MAIN SCENARIO Resilient multi speed growth PROBABILITY **70%**	DOWNSIDE SCENARIO Renewed stagflationary pressure PROBABILITY **20%**	UPSIDE SCENARIO More disinflation with productivity gains PROBABILITY **10%**
GEOPOLITICS	• Ukraine/Russia: ongoing fighting (no ceasefire in sight). • Israel: Higher risk of escalation. But military conflict to stay local. • China/US: a controlled downward trajectory. • More protectionism, friend friend-shoring	• Worsening Ukraine war. • Widening conflict in the Middle East. • More protectionism and increased retaliation to protectionist measures.	• De-escalation / ceasefire in Ukraine. • Permanent ceasefire between Israel and Hamas • Lower energy / food prices.
INFLATION & POLICY MIX	• Disinflation trend in place but slower, sticky core (services) • DM CBs: Fed funds rate -50bp by end end-2024, ECB -75bp. • Most EM CBs at peak rates. • Different fiscal policies: restrictive stance in the EU; still supportive in the US; moderate targeted measures in China.	• Sticky or resurging inflation leads to tighter financial conditions. • Financial stress. • Central Banks initially refrain from cutting rates because of inflation. A possible recession could lead to rate cuts, but only later.	• Faster disinflation. • More rate cuts than in the central scenario.
GROWTH PATH	• Resilient multispeed growth: slow recovery in Europe; a mild deceleration in the US; controlled slowdown in China. • Growth gap still favours EM.	• Recessionary outlook.	• Growth returning to potential earlier. • US potential growth revised up.
CLIMATE CHANGE	• Climate change hampers growth and exacerbates stagflationary trends.	• Further policy delays imply more adverse climate events.	• More decisive policy measures to address transition to Net Zero.

RISKS TO CENTRAL SCENARIO

LOW — PROBABILITY — HIGH

	10% Market disruption triggered by credit event or other accidents	15% CBs wrongly calibrating monetary policy leading to a recession	20% Geopolitical crisis with global spillovers	20% Reacceleration of inflation (US)
MARKET IMPACT – Positive	for US Treasuries, cash and gold	for cash, JPY, gold, quality vs growth, and defensives vs cyclicals	for DM govies, cash, gold, USD, volatility, defensive assets and oil	for TIPS, gold, commodity FX and real assets
MARKET IMPACT – Negative	for credit	for risky assets and commodity exporters	for credit, equities and EM	for bonds, equities, DM FX and EM assets

Source: Amundi Investment Institute as of 3 July 2024.
DM: developed markets. EM: emerging markets. CB: central banks. USD: US dollar. TIPS: Treasury inflation-protected securities. FX: foreign exchange markets.

CROSS ASSET Investment Strategy

AMUNDI ASSET CLASS VIEWS

In focus this month

- **European equities:** We keep a slightly constructive stance on Europe and UK given a reasonably strong growth outlook and expectations of rate cuts The UK remains an attractively priced market, with high dividend yields and a defensive tilt.

Equity and global factors

REGIONS	Change vs M-1	--	-	=	+	++
US				●		
Europe	▼				●	
Japan				●		
EM					●	
China				●		
EM ex China					●	
India					●	

GLOBAL FACTORS	Change vs M-1	--	-	=	+	++
Growth			●			
Value					●	
Small caps				●		
Quality					●	
Low Volatility				●		
Momentum				●		
High Dividend				●		

Fixed income & FX

GOVIES	Change vs M-1	--	-	=	+	++
US					●	
EU core				●		
EU periph.				●		
UK					●	
Japan			●			

CREDIT	Change vs M-1	--	-	=	+	++
US IG				●		
US HY			●			
EU IG					●	
EU HY			●			

EM BONDS	Change vs M-1	--	-	=	+	++
China govt.				●		
India govt.					●	
EM HC					●	
EM LC				●		
EM corp.					●	

FX	Change vs M-1	--	-	=	+	++
USD					●	
EUR			●			
GBP			●			
JPY					●	
CNY			●			

Source: Summary of views expressed at the most recent global investment committee held on 19 June 2024 . Views relative to a EUR based investor. Views range from double minus to double positive, = refers to a neutral stance. This material represents an assessment of the market at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This information should not be relied upon by the reader as research, investment advice or a recommendation regarding any fund or any security in particular. This information is strictly for illustrative and educational purposes and is subject to change. This information does not represent the actual current, past or future asset allocation or portfolio of any Amundi product. FX table shows absolute FX views of the Global Investment Committee.

▼ Downgrade vs previous mont

▲ Upgraded vs previous month

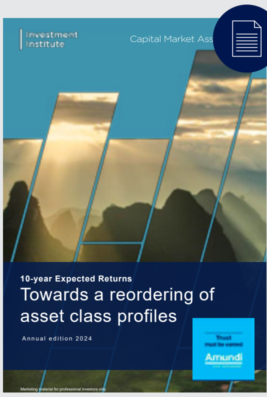
To go further: The Amundi Research Center

Amundi Investment Institute

In an increasing complex and changing world, investors need to better understand their environment and the evolution of investment practices in order to define their asset allocation and help construct their portfolios. This environment spans across economic, financial, geopolitical, societal and environmental dimensions. To help meet this need, Amundi has created the Amundi Investment Institute. This independent research platform brings together Amundi's research, market strategy, investment themes and asset allocation advisory activities under one umbrella; **the Amundi Investment Institute**. Its aim is to produce and disseminate research and Thought Leadership publications which anticipate and innovate for the benefit of investment teams and clients alike.

To find out more, please visit: research-center.amundi.com

ESG and Net zero



2024 mid-year outlook

Thematic Papers