Compound Interest.

PIC's Quarterly Update
Q1 2023

Introduction.

Welcome to the first issue of *Compound Interest*, a new quarterly series which will seek to explore the significant feedback loop which exists between the assets that sit within the UK's c.£6 trillion savings system and the economy; how the pensions these savings back react to volatile markets; what this means for government borrowing, for investment in UK infrastructure, and for levelling up; and how the (unintended) consequences of public policy and regulation underpin and drive these flows.

By sharing our team's thinking and observations on the major trends affecting each of these areas and joining the dots to paint a picture of the systemic flows from our unique perspective, I hope that Compound Interest becomes a valued and insightful part of the discourse around the UK's hugely important financial services sector.

In this first issue we're joining the dots to explain why, slightly counterintuitively, the rise in gilt yields is likely to lead to significantly more investment in regeneration projects around the country. However, this investment comes at a cost for corporate borrowers, particularly lower rated borrowers, and potentially the gilts market.

Topics in this issue include:

- How the 2022 mini-budget accelerated the pension risk transfer market
- The impact on UK government borrowing – who's going to be buying gilts?
- Why borrowers on the listed markets won't benefit
- But why private borrowers will benefit – but with some sectors, like social housing, losing out
- What this means for public policy goals.

We'll aim to strike the right balance between lifting the lid on the themes that our experts think important and reflecting on the major market moments as they happen, but we'd love to hear from you too. If you have any feedback on this, or any future issues of *Compound Interest*, or wish to make suggestions for our experts to cover in future, please do get in touch with the team.

Tracy Blackwell
CEO, PIC

Who we are and what we do.

PIC's purpose is to pay the pensions of its current and future policyholders. Our purposeful investment strategy is carefully constructed to provide the cashflows to match all future pension payments over the coming decades.

The best way to do this is by investing in very secure assets like UK government and high-grade corporate bonds, and the infrastructure the UK needs. Our appetite for risk is low and our timeframe for success is measured over decades, not the next four quarters.

Of a total portfolio in excess of £40 billion, PIC has already invested more than £11 billion in UK productive finance assets such as social housing, renewable energy, urban regeneration projects, and the UK's universities. The best way for us to secure future pension cashflows is by investing in assets that have lots of social value, because what makes sense for society also helps us achieve our long-term aims.

There are still more than £1.5 trillion of defined benefit pension scheme pension promises sitting on UK corporate balance sheets. This figure continues to drag down on UK PLC, and those whose retirements could be poorer than expected, should their employer fail. There is a simple answer: secure pensions backed by investments in infrastructure, for example, which can generate significant social value.

Q1 at a glance.

Key numbers and charts in this quarter

Over £200bn
We estimate that over £200 billion has been paid to UK pension schemes from the companies sponsoring them from 2012 to 2022

£940bn
This compares to c.£940 billion paid in dividends over the same period, or 20% of total dividends by sponsoring companies

20%
More than 20% of DB schemes can afford to fully insure their scheme without recourse to their corporate sponsor

£300bn
There is potential for over £300 billion of UK Pension Risk Transfer ('PRT') demand by 2028

5.1 years
The average length of time for DB schemes to eradicate their deficit and cut reliance on their corporate sponsor reduced from 10.5 years to 5.1 years, during 2022

70%
DB schemes have more than 70% of their portfolios invested in gilts and fixed income, in order to ensure that they are able to pay their members' pensions over a limited time horizon

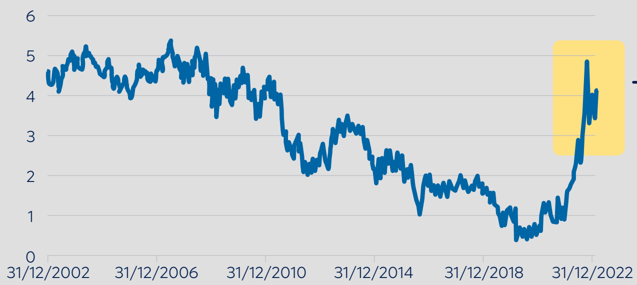
90%
c.90% of DB schemes are closed to future pension accrual and / or new members

£240bn
UK Debt issuance is expected to exceed £240 billion a year up to 2028

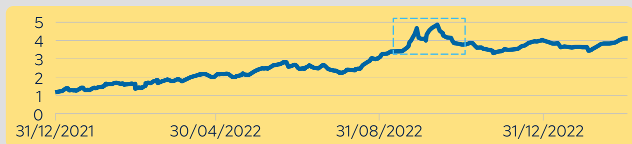
70% to 15%
Insurance companies and pension funds, despite their huge investment in government debt over the past 15 years, have gone from holding about 70% of outstanding gilts, to only holding about 15%

Looking back: What caused the UK Pension Risk Transfer market acceleration? Rising interest rates have improved the funding positions of companies' pension schemes, accelerating their de-risking journey plans.

Illustration 1: Gilt yields have returned to long-term levels (%)



UK Government Sept mini-budget / LDI crisis

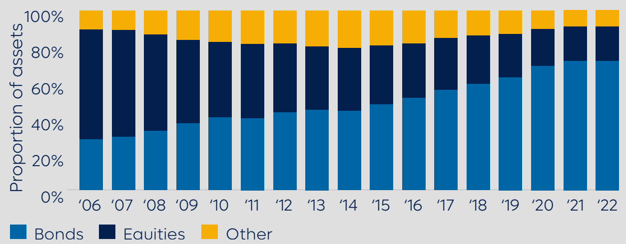


Rising rates have led to a huge rise in buyout funding levels and many more schemes are now much closer to transacting in the insurance market.

Source: Bank of England 2023

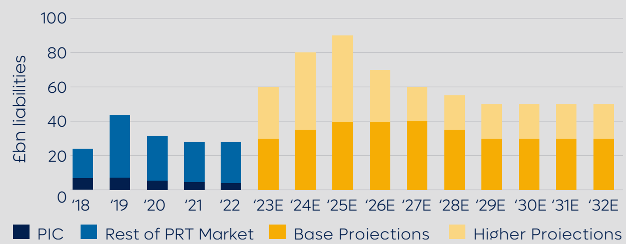
Looking forward: Significant UK PRT market opportunity. As a result of improved funding levels, consultants' latest projections show a huge shift forwards in UK PRT volumes.

Illustration 2: Asset allocation of defined benefit pension schemes (%)



Source: PPF's Purple Book 2022

Illustration 3: Projected buy-in & buyout volumes over the next decade



Source: Hymans Robertson estimate

How the mini-budget accelerated the pension risk transfer market.

By Mitul Magudia, Head of Business Development

Gilt yields have dramatically increased over the past 15 months, underpinning demand in a buoyant pension risk transfer ('PRT') market – through which DB schemes pass to insurance companies.

Dramatic because the unwinding of more than a decade of monetary policy in such a short space of time nearly brought down the UK financial system. Whilst the continued effect of this policy about turn is being felt by bank shareholders currently, the Chief Executives of UK plc will be sighing with relief as they finally see the light at the end of the seemingly endless Deficit Repair Contribution ('DRC') tunnel, as they sought to make good the ever-growing shortfall within their pension schemes. The journey through this tunnel has cost them and their shareholders in excess of £200 billion over the past 10 years – or more than 20% of total dividend payments over the same period.[1]

For more than 10 years UK pension trustees and company sponsors have been grappling with rates inexorably falling to unprecedentedly low levels. The reversal of this trend, however, as the chart below shows, has merely brought yields back to the funding levels we had a decade ago. The issue has been the speed of the unwind, not the unwind itself.

However, that analysis does not take into account that during the course of that decade trustees in large part radically transformed the profiles of their scheme portfolios as they have progressed their de-risking journeys.

As a result of this portfolio reprofiling they have benefitted from the rise in yields to the extent that the average number of years to buyout for schemes sponsored by FTSE100 and 250 companies has more than halved in the year, going from 10.5 years, to 5.1 years by January 2023.

For many companies sponsoring pension schemes this is the opportunity they have been waiting for, as we saw with the biggest ever UK PRT transaction, the £6.5 billion buy-in of two schemes sponsored by insurance company RSA, announced earlier this year. With 20% of schemes now overfunded on a buyout basis there is a real opportunity for them to completely remove this risk from their balance sheet.

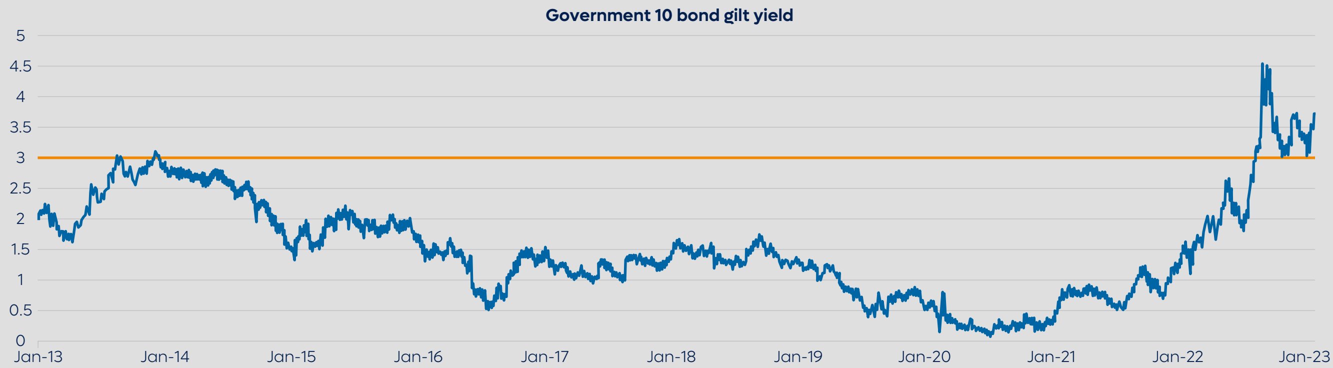
As illustration 4 shows below, as yields go up, the funding for DB schemes goes up, so they are able to move toward PRT.

The impact of ultra low yields on DB schemes

So, whilst the mini-budget boost to gilt yields might have caused short-term liquidity issues for them and wider economic chaos, the resulting much higher funding levels for schemes (meaning much reduced shortfalls) is beneficial for companies for two reasons. First, it will reduce future DRCs, potentially allowing more dividend payments or investments, and second, it will result in an acceleration in the PRT market, which in turn will allow many more companies to fully divest themselves of their pension scheme liabilities.

Many schemes are now expected to reach buyout much sooner than they expected, leading to consultant projections for an extremely busy market in 2023, and for the next decade.

Illustration 4: 10 year gilt yield over the past decade



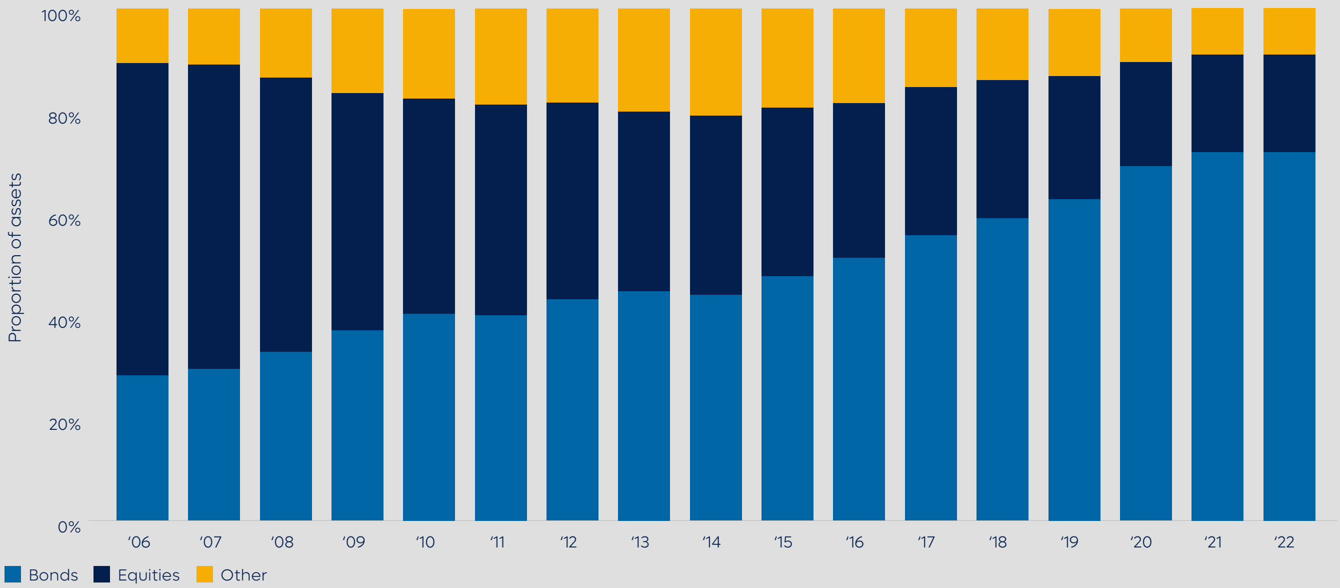
Source: Bank of England 2023

[1] https://www.linkgroup.eu/media/1610/july-2021-dividend-monitor-report.pdf

DB schemes are better prepared to transfer their assets to an insurer precisely because they de-risked over the past decade.

Receiving bonds is strongly preferred by insurers over other assets, including equities, due to Solvency II investment restrictions.

Illustration 5: Asset allocations of defined benefit pensions schemes (%)



Source: PPF's Purple Book 2022

What happens next?

- DB schemes' reliance on equities as long-term investments will continue to diminish.
- The PRT market continues to accelerate as a result of the market reaction to the mini budget, building on a year of gilt yield rises, meaning buyout is affordable for many schemes, making 2023 potentially the busiest buyout market yet seen in the UK.
- The consequence of that trend is that hundreds of billions of Pounds of assets are expected to transfer via the pension risk transfer market over the coming few years, and the economy is expected to benefit from an additional £100 billion of investment into productive assets.
- The remainder of 2023 will be exceptionally busy for the de-risking market, with potential for this to be the largest year on record.
- The cumulative effect of these factors has consequences for the UK listed corporate debt market, as well as for investment in UK infrastructure, as we explore in the next three sections.

CEO's Viewpoint.

Why DB Schemes aren't investing in equities

Illustration 5 above, showing the asset allocation strategies of the UK's 5,000+ DB schemes, illustrates that the percentage of scheme assets held in bonds has risen by almost 60% over the past decade, and by far more since 2006, with a corresponding decline in equity investments. This change in strategy has given wings to the whole debate about saving the City of London as a global financial centre. The argument runs that the only way to save the City is to re-open DB schemes and force them to invest in UK equities. But the superficiality of this argument misses several important factors.

First, a fundamental change in investment strategy for DB schemes would take years to complete, making it useless to resolve current policy issues.

Second, forcing DB schemes to invest in equities means ignoring demographic reality. About 90% of DB schemes have been closed to new members and / or future accrual for years, meaning that the vast majority of members are near to retirement or already retired.

As people get closer to retirement the inherent volatility of equities makes them an unsuitable investment to provide the steady cashflows required to meet regular pension payments.

Were trustees of these schemes to reinvest in equities, they would only have very limited timeframes to make good any deficit caused by adverse equity market movements. Inevitably, many would have to call on their sponsors once again to make good any shortfall that emerges as they turn cashflow negative in poor market conditions. This is not a message that management or shareholders could support, given the huge sums they have already committed, alongside the fact that the vast majority of scheme members no longer have any relationship with the sponsoring company. This means that any solution along these lines will likely have to include a new aggregate sponsor, unless there is some element of risk sharing (i.e the ability to cut member pensions should there be a deficit). The very political nature of these questions means that risk sharing is a non-starter and there is no obvious replacement candidate to stand behind these schemes - the Government is very unlikely to want to guarantee these pensions.

So once demographic reality is taken into consideration, the ideal investment strategy for the majority of these schemes is precisely the one they have been pursuing: holding low risk assets that provide secure, long-term cashflows to meet regular pension payments. It should be noted that DB schemes will support the UK equity market, but only once they have removed themselves from their sponsors' balance sheets by carefully managing their risks in a way which allows them to access the pension risk transfer ('PRT') market. Once this has happened, insurers of DB schemes are using the assets backing these pension promises to fund sectors such as renewable energy, social housing, universities, and urban regeneration, creating considerable social value.

Third, the other, related, factor is the rise of defined contribution pensions, hugely boosted by Auto Enrolment. These pensions should be the driving force for future investment in UK equities as they build to c.£1 trillion over the course of this decade.

But really saving the City – and making it attractive for DC pension investors - requires belated recognition that attracting capital is a competitive game. If the UK doesn't have the elements that make it attractive against other financial centres – proportionate regulation, a supportive tax policy, a better balance between investment for growth and the requirement for dividends, and a culture that celebrates success - then capital will go elsewhere. That also means that the companies which need that capital will go elsewhere as well. It is a vicious circle.

Forcing DB pension schemes to invest in UK equities is a shortcut to a policy disaster. Making UK public equity markets an attractive investment for global capital is the only answer.

Tracy Blackwell
CEO, PIC

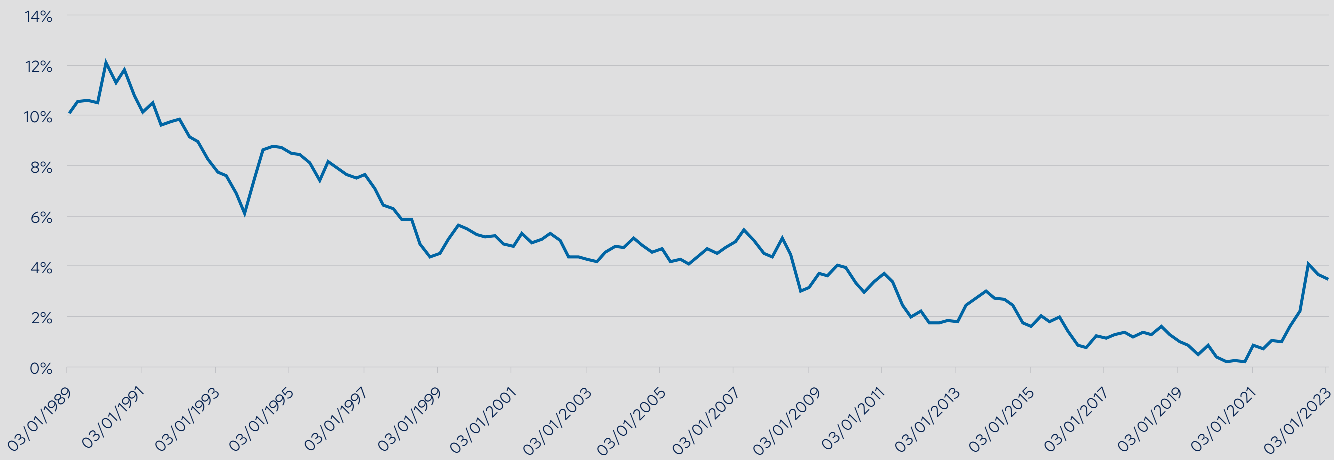
Read on to understand the view from the Public Credit Desk by Hartej Singh, Head of Liquid Credit

The view from the Public Credit desk.

By Hartej Singh, Head of Public Credit

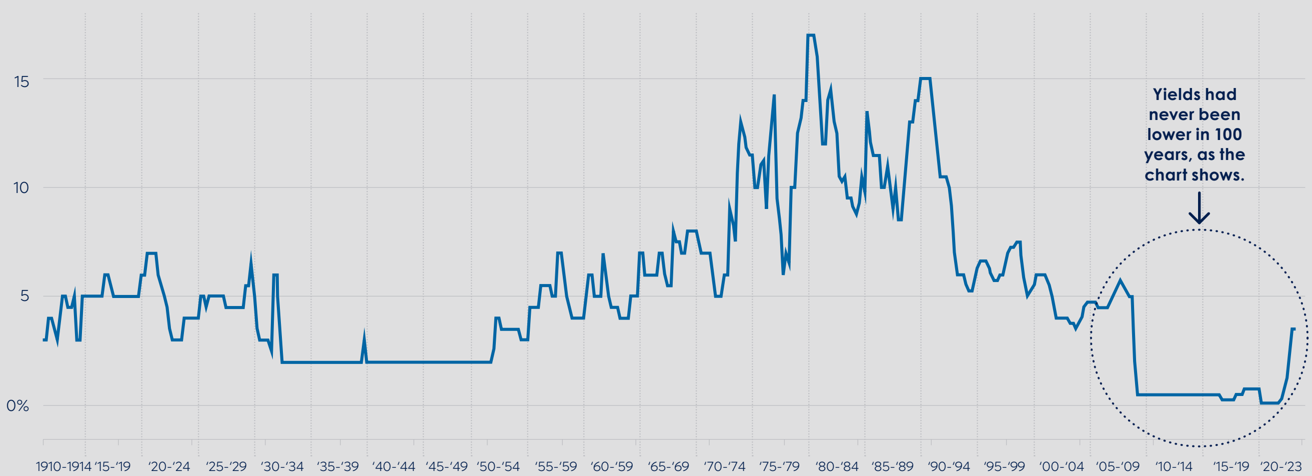
As discussed in the previous section, we have seen a dramatic increase in long-term interest rates. In fact, as the chart below shows, gilt yields have been falling for more than 30 years – the rises which started early last year have not only reversed that secular trend, but following the mini-budget yields spiked to levels not seen since pre-the Global Financial Crisis, even as they came in slightly in the days and months following the market turmoil.

Illustration 6: 10 year Gilt yields



Source: Bank of England 2023

Illustration 7: 100 years of the UK Bank of England's Official Bank Rate – Quarterly - 1 Jan 1910 – 20 Jan 2023



Source: Bank of England 2023

In the previous section we outlined what this means for pension scheme trustees. In this section, we will look at what that means for the public credit markets, in the context of the significant growth expectations within the Pension Risk Transfer market.

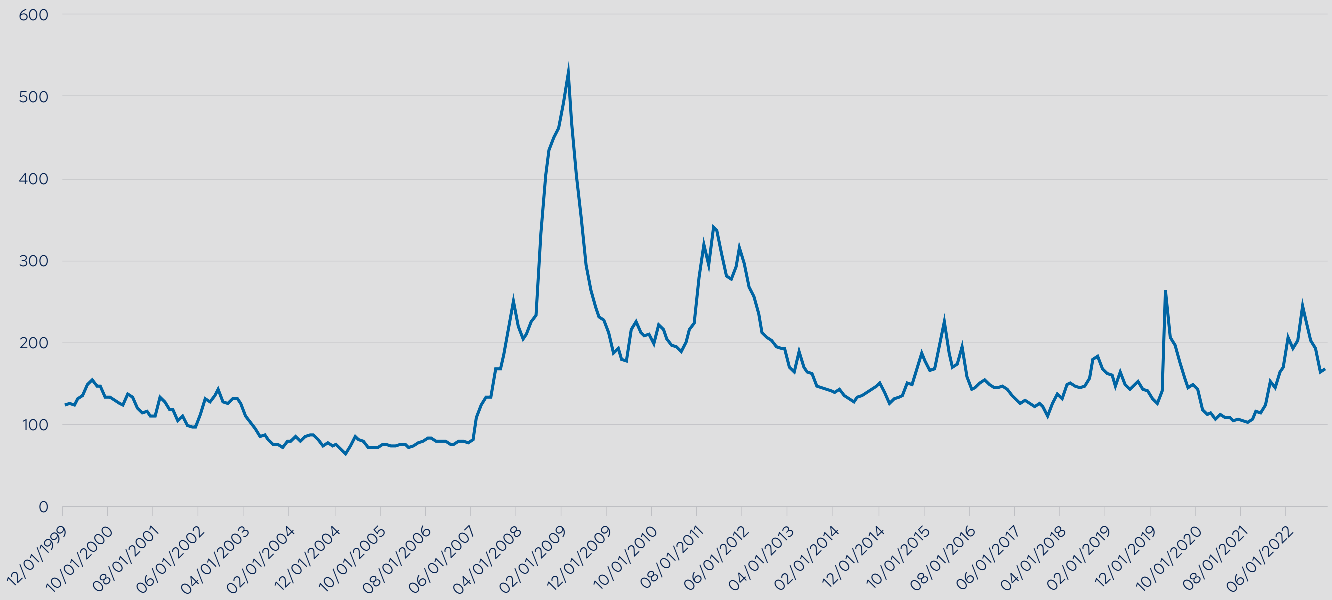
When companies build new facilities or upgrade existing ones, or for a host of other reasons, they may wish to borrow money from investors like PIC. We wish to lend to companies with strong balance sheets and good prospects because we need to match our monthly pension cashflows over future decades. Bonds from highly rated borrowers – listed and privately sourced, as well as investments in urban regeneration projects – rather than equities, provide us with those secure cashflows.

However, for companies – like individuals – which have grown used to ultra-low interest rates, the recent long-term rate rises have a simple consequence: the cost of capital has gone up, in some cases dramatically.

This increased cost will have significant effects on the economy. First, potential borrowers who might have issued debt in the capital markets based on analyses done when the cost of capital was lower, will now be reassessing their borrowing plans. This will of course bleed into corporate decision making and lead to fewer projects being initiated, which is bad for productivity improvements and economic growth.

The second key effect will be on those coming back to market to roll over existing debt. This is already a concern in the commercial real estate market, and the same effect is likely to have an impact on corporate borrowers. Some will inevitably default, having borrowed too much at ultra-low rates and subsequently finding themselves unable to support higher borrowing costs.

Illustration 8: Sterling Corporates spread over government bonds



Source: ICE Bank of America

There is a clear correlation between higher interest rates and lower issuance.

But from our perspective lower issuance in the listed market presents a good opportunity for both high quality issuers, and for private borrowers. PIC is in effect a countercyclical business – with credit becoming scarcer as banks shore up their capital bases and other lenders struggling with the impact of market volatility following the SVB collapse and Credit Suisse's shotgun marriage to UBS, there are very few pools of capital available for borrowers to tap. However, with the Pension Risk Transfer market expected to reach record levels, companies in our sector will be increasingly important funders for investment grade corporates.

Of course, it may also mean that those pension schemes which take longer to act might miss out on the best pricing because there are less assets available overall (it also means that insurers will need to find more assets to lend against).

The final factor to take into consideration when looking at the impact of public credit markets on pricing for the PRT market is credit spreads. These reflect not only the creditworthiness of a company, but also the broader economy. Different participants buy or sell bonds depending on their fears for recession or expectations of growth.

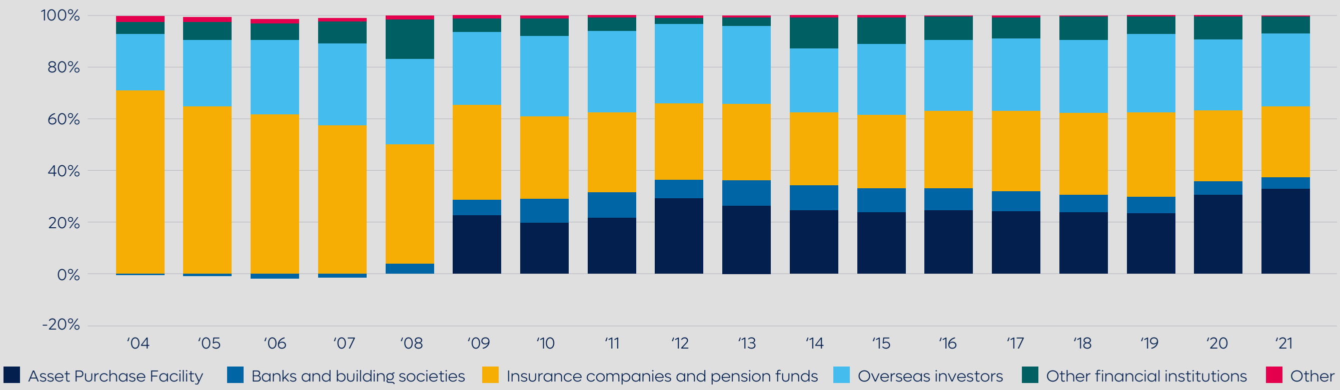
Given PIC is a long-term holder and patient deployer of capital, we choose to time our entry into markets when there is adequate compensation for the risks we take. Through this value-driven approach we are able to offer attractive pricing to schemes and ensure we take well-compensated, diversified risks. As the chart below shows, spreads are trending above their average over the past 10 years – although there have been clear spikes, including at the time of the first Covid-19 lockdown. This trend indicates there will be attractively priced assets available to support pricing for PRT market transactions, although it is impossible to predict the direction of spreads.

But who is buying government bonds?

Over the last 15 years, the UK government has borrowed £1.7 trillion, according to the Office of National Statistics, to finance spending through two major events, the Global Financial Crisis and, more recently, COVID. During this period defined benefit pension schemes, pursuing their de-risking journeys, alongside the Bank of England through its Quantitative Easing ("QE") programme, have been key lenders to the Government, ensuring public services remain funded and that the cost of borrowing remained at historic lows.

In fact, the Bank of England now owns almost 40% of gilts.[1] What's also interesting, and is perhaps less well documented, is that insurance companies and pension funds, despite their huge investment in government debt over the past 15 years, have gone from holding about 70% of outstanding gilts, to only holding about 15%, as the chart below demonstrates.

Illustration 9: Gilt holdings by sector (% total market value gilt holdings)

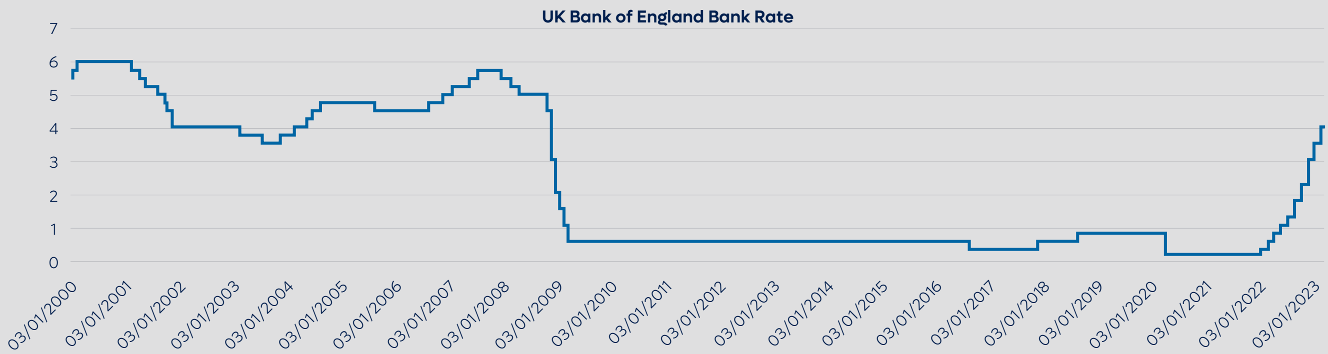


Source: ICE Bank of America

Now that the Bank of England has stopped buying government debt (the LDI crisis notwithstanding) under their policy of Quantitative Tightening, and with DB schemes already having more than 70% of their portfolios invested in gilts and wider fixed income, the question must become who will fund the Government's debt needs?

It is estimated that about £152 billion of gilts will have been issued by the Government up to 2022/23. According to the Office for Budget Responsibility, "The volume of government debt that private sector holders will need to absorb in the coming years is likely to reach the levels last seen during the financial crisis".[2]

Illustration 10: The BoE switched from supporting demand to taming inflation



Source: Bank of England

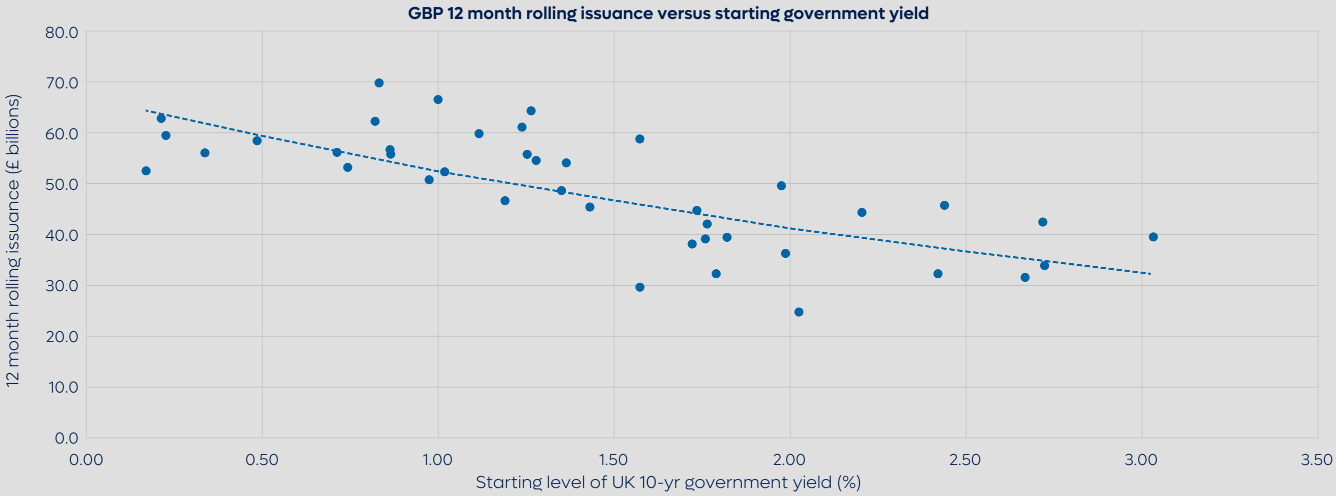
[1] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1062459/DMR_2022-23.pdf
[2] https://obr.uk/efo/economic-and-fiscal-outlook-march-2023/#chapter-2

In October, the head of the UK's Debt Management Office, Robert Stheeman, told MPs that "…net issuance to the market will be the highest in history…There will be an enormous amount of net issuance."[1]

Whilst UK insurers will continue to be net buyers as they take on increasing amounts of DB pension liabilities, the demand for gilts feels like it has suddenly become considerably smaller.

In turn, this likely signals higher yields are here to stay, short of a major crisis and QE being restarted, which compounds the effects noted above, including demand within the PRT market as funding levels continue to improve and DB schemes see their deficits eroded further.

Illustration 11: PIC analysed historical issuance since 2012, and the issuance was higher when the starting yield was lower and vice versa



Source: Pension Insurance Corporation estimate

[1] https://committees.parliament.uk/oralevidence/11568/html/

What happens next?

- The cost of capital for long-term borrowers has increased, as gilt yields have risen alongside the increase in the Bank rate.
- Gilts will need to be priced to attract new buyers, given the government's spending plans, which means that higher yields are here to stay, short of a major crisis.
- In turn this will mean lower deficits within DB schemes, allowing them to reach buyout earlier.
- However, it presents problems for the economy as lower rated borrowers will face issues refinancing, alongside delayed investment plans and therefore lower growth.
- The impact on dividends is unclear as yet.
- Long-term lenders like PIC will seek to invest more in privately sourced debt investments, or in urban regeneration projects, as we explore in the next section.

Read on to understand the view from the private debt markets from Liz Cain, Head of Debt Origination

Private debt markets: 2022 reflections and what does 2023 have in store?

By Liz Cain, Head of Debt Origination

With fewer potential borrowers raising funds in the public markets, what are the prospects for the private debt markets to pick up the slack, and what does this mean for the economy?

Recent events may provide guidance. It was notable that during the period of extreme market volatility in late 2022, the private debt markets remained open for business, particularly in corporates and utilities. In particular we saw a number of public market borrowers pivot to the private market, offering access to a wider investor base and reduced execution risk.

Looking ahead to the rest of the year, the pipeline of projects coming forward for investment remains healthy across corporates, utilities, financials and infrastructure. However, there are economically important sectors that will be less active, and particularly in the UK public finance sector for example, which includes Housing Associations and the UK's universities. This is a direct consequence of the higher borrowing costs following the interest rate rises and higher levels of inflation. They are pausing issuance plans to re-work their business plans. However, there are economic consequences of this pause in activity, particularly in the social housing sector, where we have record waiting lists for housing and any delay in house building has a knock on effect on GDP growth.

However, we do expect issuance in the social housing sector to pick up in the second half of the year. Housing Associations have no choice but to tackle their large waiting lists given the chronic shortage of social housing in the UK and the political pressure this creates.

In addition, there are significant new costs they will have to address related to the Government's net zero ambitions, including the costs of retrofitting Housing Association's properties, for example, so they are compliant with the Regulators' requirement to be carbon neutral by 2050.

Estimates of the cost of making the UK's social housing stock net zero carbon by 2050 vary from £58 billion to £100 billion, according to Buro Happold, the international engineering consultancy.

Investing in the Housing Association sector and other private assets allows PIC to better match its pension liability cashflows and diversify its investment base, helping us to secure more pension liabilities. To date we have invested £3.6 billion in social housing.

We see considerable net zero driven funding requirements across the renewable sector as a whole, as well as potential opportunities in the nuclear sector. As is well documented, the latter in particular requires some form of Government guarantee to underwrite certain risks, such as decommissioning, in order to make these investments suitable for insurers like PIC to invest in.

Funding the net zero transition is a key opportunity for PIC. Our provision of £102 million debt financing to support the delivery of new rolling stock to Corelink Rail Infrastructure Limited who will lease the trains to the operator of the West Midlands rail services is a typical example, in which the ongoing delivery of ESG metrics throughout the long-term duration of each project are a conditional requirement.

Read on to understand more about how PIC generates social and economic value by Hayley Rees, Managing Director of PIC Capital

Generating social and economic value across the UK - investment flows in practice.

By Hayley Rees, Managing Director, PIC Capital

PIC secures UK defined benefit pension schemes, moving the pension promise into the security of the insurance regulatory framework. The increasing demand to achieve this presents some difficult challenges. Just as Housing Associations are looking to re-engineer their finances due to increased interest rates, net zero demands and inflationary pressures, local councils face a £2.4 billion hole in their budgets, according to the Local Government Authority.[1] Given their legal requirement to balance the books each year, many councils have been forced to make difficult funding decisions – and there are no easy solutions.

The reality is that many councils have been forced to cut services or drain reserves in order to balance the books.[2] In particular, both due to rising construction costs and interest rates on Public Works Loan Board ('PWLB'), borrowing has become prohibitively expensive, so that levelling-up projects have been stalled or cancelled completely.[3]

This presents a timely opportunity for pension insurers. Pension insurers have very long-term horizons since we will be paying pensions decades into the future. This means that partnerships with pension insurers and councils with shared long-term interests, can ensure that significant infrastructure investment can be shaped in a way to suit both parties. Private capital from pension insurers is bridging the viability gap, allowing local councils to invest in urban regeneration, and infrastructure developments but also in ordinary services. This is genuine impact investing in motion, where a long-term investor leverages its balance sheet to deliver projects and services local councils desperately need and a catalyst for wider economic prosperity.

Looking beyond traditional sources of borrowing to help bridge infrastructure funding shortfalls, or find innovative ways to provide ordinary services is now helping a number of far-sighted local authorities. Low-risk finance from institutional investors such as pension insurers is funnelling billions of pounds of policyholders' pension savings into productive assets to support local UK infrastructure.

This type of funding does not only need to be for project-based finance. Bromley Council were faced with the challenge of housing families in temporary accommodation. It was bad for families, who were often moving between accommodation depending on availability, and it was bad for the council, who faced burdensome costs, sometimes resorting to purchasing hotel rooms in order to meet the demand. The Council were able to borrow £67 million from PIC, which was used to purchase 300 affordable properties outright. This significantly reduced their cost of emergency nightly accommodation by eliminating reliance on hotel rooms for families in need of temporary accommodation across the Borough. The council was able to save around £1.5 million a year while providing certainty of accommodation to the families in need.

PIC's £130 million investment in a new waterfront neighbourhood, Miller's Quay

[1] Chancellor must act to protect local services from threat of spiralling costs - LGA | Local Government Association
[2] UK councils slashing services to meet £3.2bn budget shortfall | Local government | The Guardian
[3] Inflation surge forces councils to cut UK 'levelling up' projects | Financial Times (ft.com)

What this means in practice

Birkenhead, in Wirral, on the opposite bank of the Mersey from Liverpool, was once a thriving dockyard and booming economic hub. Now, it is an area ripe for regeneration. It features in the Index of Multiple Deprivation as one of the 20% most deprived communities in the UK.

It was clear that the area needed investment to kick-start its revival, however Wirral Council could not fund this alone and is facing the same financial pressures felt across every council, including funding shortfalls in its budget.[1]

Part-funded by central grants, and partly through innovative financing with institutional investors, Wirral Council is working with developers to restore the former dockland into a new economic and residential hub.

PIC's £130 million investment in a new waterfront neighbourhood, Miller's Quay, is the anchor project of Peel L&P's Wirral Waters, the UK's largest urban regeneration project and a key part of the levelling up agenda. The project will transform the banks of the Mersey over the next 30 years, create 20,000 permanent jobs, build new neighbourhoods, and is now the largest regeneration project in the UK.

Illustration 12: Current PIC Capital construction sites in the UK

PIC Capital - Built Environment Overview

- **£1.5bn invested in the built environment**
- **Over 1.6 million on-site hours worked across projects**
- **Over a 970 operatives working across the portfolio, with >50% on average being local labour**
- **Over 40 apprentices/trainees supported across the sites**

North East

University of York	Student Resi - Complete

North West

Manchester, New Victoria	BtR
Manchester, First Street	Long Income
Wirral, Millers Quay	Long Income

Midlands

Birmingham, One East Side	BtR
MK, Bowback House	BtR
Birmingham, Pritchatts Park	Student Resi

South East

Ealing, The Wiltern	BtR
Southwark, LSE	Student Resi
Newham, 3 Thames Road	Long Income
St Albans, How Wood	Senior Living

[1] Wirral Council budget update- Birkenhead News

What happens next?

- Institutional investors do not provide a silver-bullet solution to the financial challenge of levelling-up or the funding shortfalls councils face. In the current economic climate there are no easy fixes.
- There are a growing number of councils that have been thinking about funding in new and innovative ways and, now that high borrowing costs and tough decisions about service provision will become commonplace, institutional investors will certainly play a growing part in the solution.
- PIC has already invested £11.4 billion in assets such as social housing, renewable energy, and the UK's universities. The best way for us to secure future pension cashflows is by investing in assets that have lots of social value, because what makes sense for society also helps us achieve our long-term aims.
- There are still more than £2 trillion of liabilities sitting on corporate balance sheets. This figure continues to bear down on UK PLC, and those whose retirements could be poorer than expected, should their employer fail. There is a simple answer: secure pensions backed by investments which are better managed and generate significant social value.

Thank you!

In the next issue of *Compound Interest* we'll take a closer look at the contribution the Build-to-Rent market is having on the private rented sector. With house price affordability for first time buyers now being the worst they have been for 185 years' – at nine times average earnings – institutional investors in the housing sector, such as PIC, will become increasingly important in providing alternative types of much needed housing stock in the UK.

We'll also take another look at gilt spreads, inflation and what might be keeping DB scheme trustees awake at night.

Do you have a question for our experts?

We'd be delighted to hear from you. Whether you have a specific query raised in this issue of *Compound Interest*, or whether you've a question you'd like us to answer in the next issue.

Please email any questions or observations to **apfel@pensioncorporation.com**

Further information.

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