Leadenhall
Capital Partners

The Taskforce on Social Factors (TSF) Consultation on:

Considering Social Factors in Pension Scheme Investments: Guide from the Taskforce on Social Factors

29 November 2023

Please find below the response from Leadenhall Capital Partners LLP (Leadenhall) to the TSF's consultation on Considering Social Factors in Pension Scheme Investments. Leadenhall is one of the largest managers in the world of Insurance Linked Strategies (ILS) with assets under management of $4.7bn as at 30 October 2023.

Insurance Linked Strategies help provide societies with social resilience from systemic risk events, often with high severity and low frequency. This includes providing protection from meteorological and climate events allowing communities to invest through these risks and recover from them if risk events occur.

Please find our detailed responses to the consultation's 7 questions below. Should you have any questions or points of clarification to our responses please do not hesitate to contact us. If you would like discuss our views further we would also pleased to give more colour at one of you roundtable events.

Yours sincerely,

The ESG Committee

Leadenhall Capital Partners LLP

Q1. Do you agree the report will be helpful for pension scheme trustees to better understand social issues and the impetus to act on them?

Not fully. The report covers some social issues related to workforce issues (eg. modern slavery), supply chains, communities and consumers/end users. However after describing how social issues are interlinked with systemic issues the guide does not address how pension funds can invest and measure social factors to help societies address systemic issues.

(Re)insurance and Insurance Linked Strategies (over $600bn in market size as detailed in Aon's 'Reinsurance Market Dynamics' as at Jun 2023) provide protection from high severity, low frequency events, often culminating in systemic events for societies. (Re)insurance provides social resilience from pandemics, floods, wildfire, excess morbidity, earthquakes, hurricanes and other systemic events. In recent years reinsurance and ILS instruments have provided funding for communities enabling them to rebuild from these types disaster events and supplied resilience so that businesses and residents can continue to function and invest through these risks.

Furthermore the social resilience and protection provided is quantifiable (based on (re)insurance limits) and not related to more qualitative social indices and metrics that are mentioned in the guide.

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As ILS provides strong quantifiable social resilience from systemic events it should be referenced in the guide as an investment that provides measurable social factors. Global universal owners referred to in the guide have historically invested in ILS given that its market size has a place in market portfolios and that its risks help diversify portfolios away from the cyclical financial risks of traditional investment markets.

The World Bank is referred to in Appendix 1. The World Bank issues IBRD catastrophe bonds on behalf of developing markets. It facilitates the provision of social resilience to economies where people cannot afford insurance helping protect those countries exposed to systemic meteorological and climate risks. The social benefits provided are significant including a number of Sustainable Development Goals (SDGs):

- 11.5. Reducing the adverse effects of natural disasters on cities and communities and building them back to better standards
- 13.1. Strengthening resilience and adaptive capacity to climate-related disasters
- 1.5. Building the resilience of those in poverty to environmental, economic and social disasters
- 8.10. Providing universal access to insurance and financial services.

Private transactions and insurers of last resort can also help provide resilience to less developed communities.

Consequently we recommend that Insurance Linked Strategies that provide significant resilience to systemic risks are mentioned and described in section 1 of the guide. We also recommend that the World Bank's IBRD cat bonds are referred to in appendix 1 to provide a data source regarding this issue.

Q2. For scheme trustees, does this report adequately address and provide a way forward for your scheme circumstances?

Many UK pension schemes have holdings in Insurance Linked Strategies. Leadenhall manages $4.7bn in ILS, of which many investors are pension funds. The numbers of investors allocating to ILS is also likely to continue to grow given that yields in the space, issuance and the opportunities to provide social resilience have all been increasing in recent years. We therefore recommend that ILS is referred to as an investment that helps address systemic social risks.

Q3. Do you see the proposed systematic materiality assessment framework for social factors as something you can practically implement in your portfolio?

We view the proposed systematic materiality assessment framework for social factors as being a constructive way to consider social risks. However when considering the social factors associated with Insurance Linked Strategies risks are usually viewed by region/country, risk/peril (eg. hurricane, earthquake, excess mortality, etc) and company/counterparty.

We therefore recommend that the sector category in the country, sector and corporate level categorisations includes protection from systemic risks (including meteorological, climate and other reinsurance perils). We also recommend that the corporate assessment includes protection from meteorological and climate events within category 3 for affected communities (or category 4 for consumers and end users).

Q4. Do you believe the three-level framework for addressing social factors in pension portfolios provides useful developmental guidance?

Yes although we recommend the additions above so that the framework is inclusive of the Insurance Linked Strategies asset class.

Q5. Do you agree with the resulting recommendations for the pensions ecosystem?

Leadenhall's view is that the recommendations should include for trustees, regulators and potentially investment consultants considering how their investments can provide social resilience from systemic societal risks. These risks include meteorological and climate events. Social metrics are readily available from ILS managers such as the quantitative levels of protection (or limits) provided by ILS strategies.

Q6. Do you find the information in appendices practical and informative?

The appendices don't provide examples of the social resilience factors and metrics that Insurance Linked Strategies provide to societies protecting them from systemic social risks. Where the World Bank is referenced in Appendix 1 the example cat bonds that they issue to protect developing markets where people cannot afford insurance can be referenced:

https://treasury.worldbank.org/en/about/unit/treasury/ibrd/ibrd-capital-at-risk-notes

Ultimately index providers and specialist ESG data sources are not required for Insurance Linked Strategies. The social resilience or (re)insurance protection (limit) that is provided to insureds is a fundamental data item in the (re)insurance industry that is required when pricing and modelling the severity and frequency of meteorological and climate risks. Consequently ILS managers and (re)insurers can provide this without intermediation from specialist ESG data providers.

Q7. Is there anything else that you would like to see covered?

As described in the previous answers Leadenhall recommends that Insurance Linked Strategies (ILS) are referenced as an asset class that provides societies with protection from systemic social risk. Social factors and metrics are readily available for these strategies including the resilience / protection / limit that they provide from these potential events. Many large global universal owners invest in ILS providing social protection. The reinsurance market is also of a similar size to other capital markets and so has a place in market portfolios. Compared to other institutional investment markets there are many UK pension funds and so the pension market and their advisers is more fragmented. This can result in the UK pension market having less scale than other overseas markets. However this should not prevent UK pension funds from recognising the systemic social resilience that ILS can provide to societies and benefiting from the considerable return and sustainability opportunity in the space.