

Inflation & other challenges to Pension portfolio's

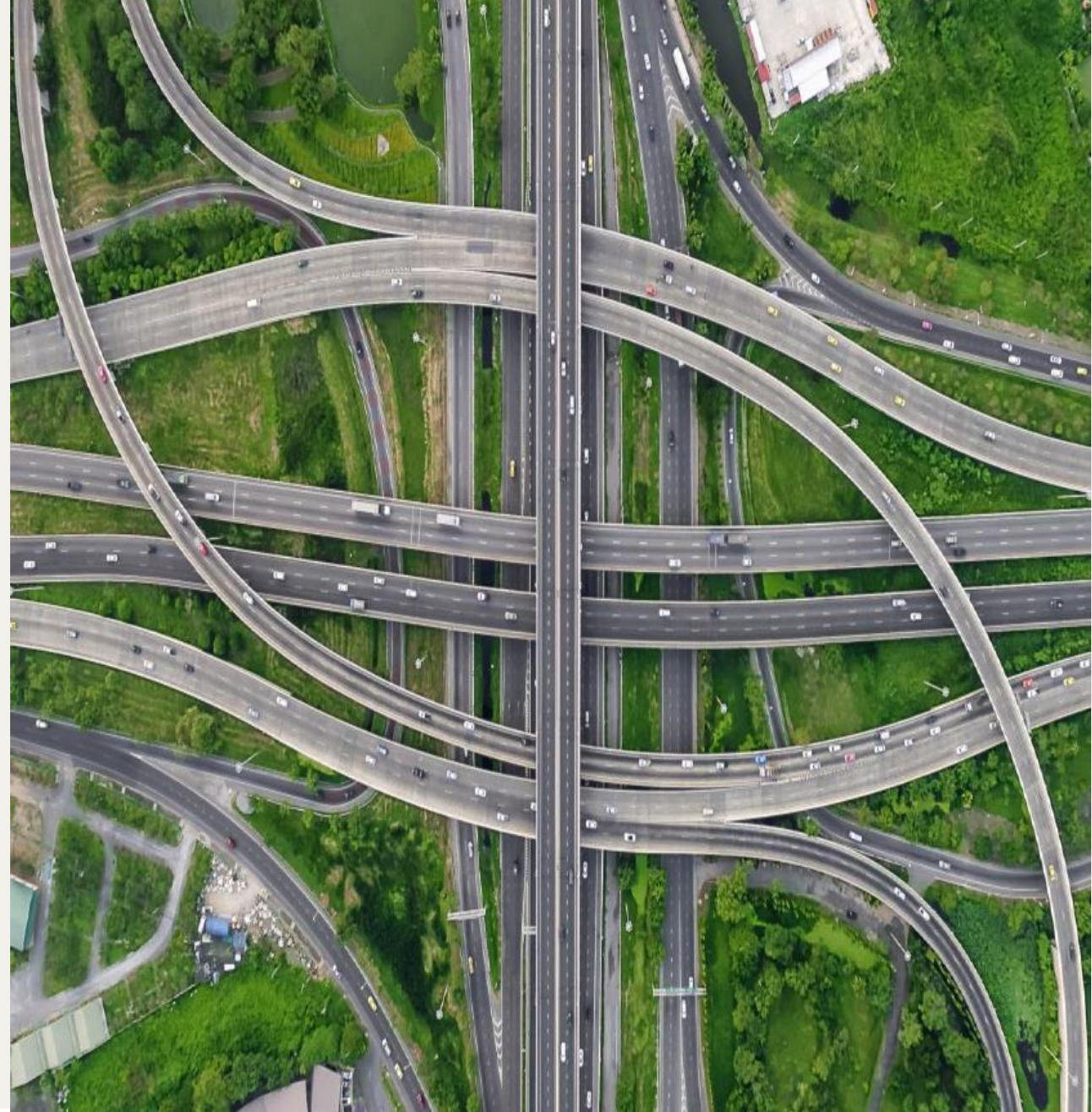
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OECD/IOPS GLOBAL FORUM ON PRIVATE PENSIONS

“Current challenges faced by private pensions”

Bratislava/online, 3 November 2022



Start



War in Ukraine,
sanctions

Rising prices of
energy and food

Covid
lockdowns in
China

Climate Change

Aging

Rising inflation

Rising interest
rates

Stronger US\$

Falling / volatile
equity markets

Falling credits /
high yield / EMD

End of QE
program

Rising policy
interest rates

Government
deficits & debt

Stalling
economic
growth

Tight labor
market

Rising wages



Inflation & retirement income

Sources of retirement income:

- **First pillar** → often fully indexed
- **Second pillar** → conditional indexation
- **Individual pension products** → no indexation
- **Private savings** → no indexation
- **Home ownership** → long-term link with inflation
- **Labour income** → at least partially indexed
- **Children or extended family** → ?

Outlook for inflation

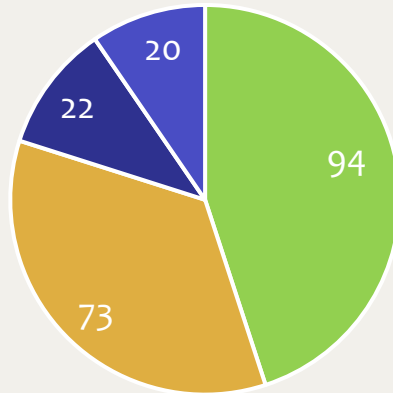
- Growth is slowing
- Inflation likely slowly coming down, but can take some years
- Many risks and uncertainties:
 - Actions by the ECB: mandate vs. high public debt levels
 - Supply side problems: how long?
 - Alternative sources of energy
(=alternative locations to get fossil fuels AND green energy)
 - Wage-price spiral & inflation expectations
 - Fiscal/monetary policy coordination

Portfolio APG

+ interest rate & currency overlay

Fixed Income

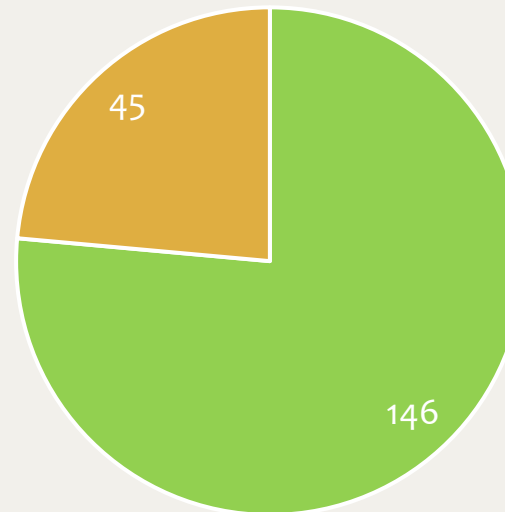
€ 209 billion
(40%)



- Treasury
- Credits
- Emerging markets debt
- Inflation linked debt

Equity

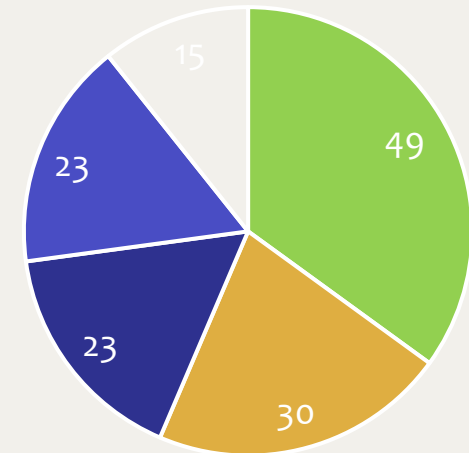
€ 191 billion
(35%)



- Developed markets equity
- Emerging markets equity

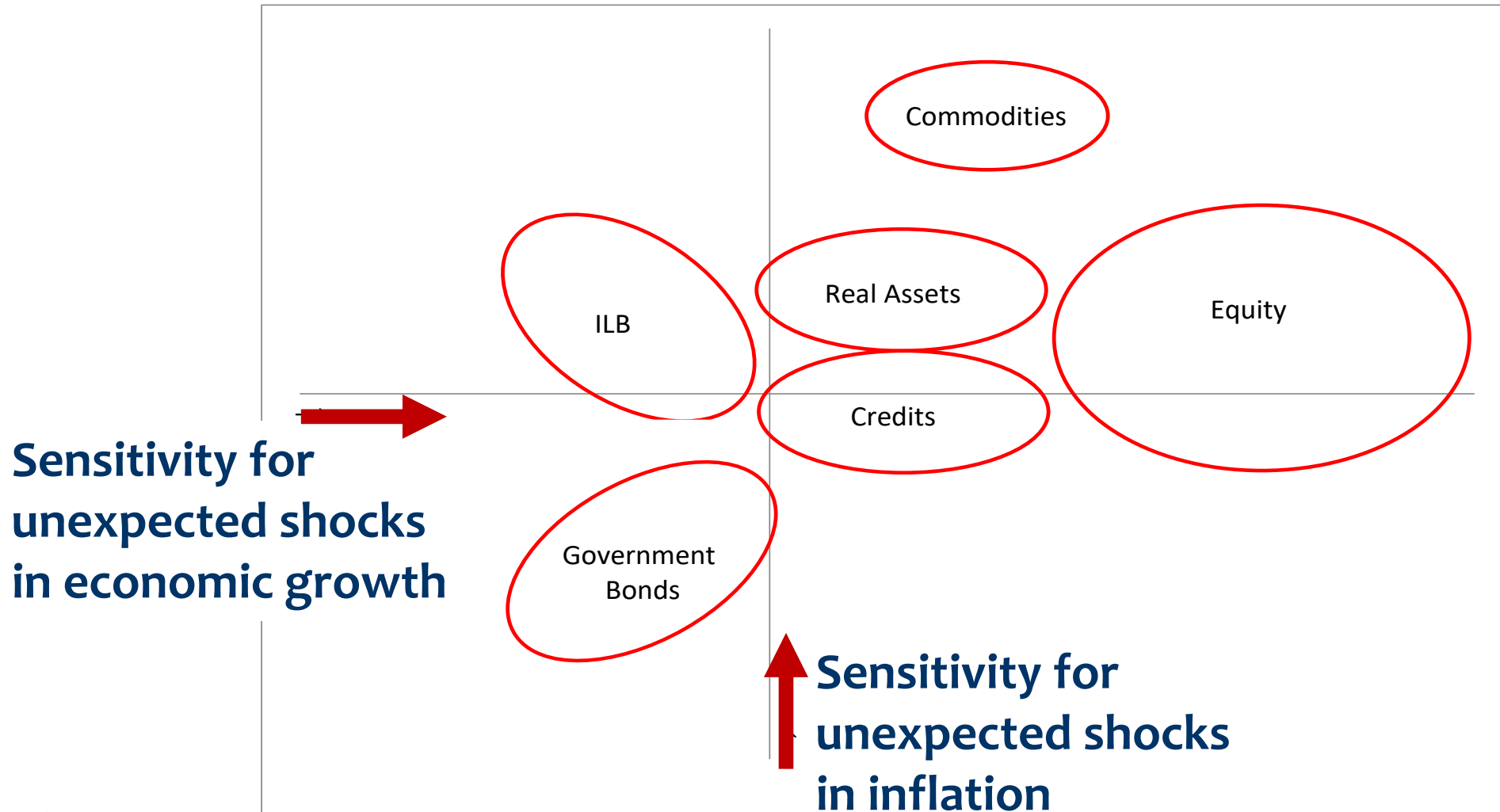
Alternatives

140 billion
(25%)



- Real estate
- Private equity
- Commodities
- Hedge funds
- Infrastructure

Assets in different economic regimes



To conclude

- Diversification always a good idea (regions/asset classes)
- Portfolio construction not a cure for all problems
- Inflation instruments: too late / not available
- First pillar = index-linked bond