Bulk annuities and social infrastructure: Investing in change

In a record-breaking year for bulk annuity deals, Aviva has ensured that its annuity money is put to good use, through investing in social infrastructure

Once totalled up, the value of transactions in the bulk annuity market is likely to exceed £40 billion in 2019. This smashes the 2018 amount of £24 billion, which was itself a record-breaking year.

2019 just kept getting bigger and better for the sector, which, along with record volumes, also saw a series of exceptionally large deals occur, such as the biggest-ever bulk-annuity transaction, the GEC 1972 Plan buyout for over £4.7 billion, and for Aviva's defined benefit solutions team, the completion of a record £1.7 billion bulk annuity buy-in transaction with its parent company's DB pension fund.

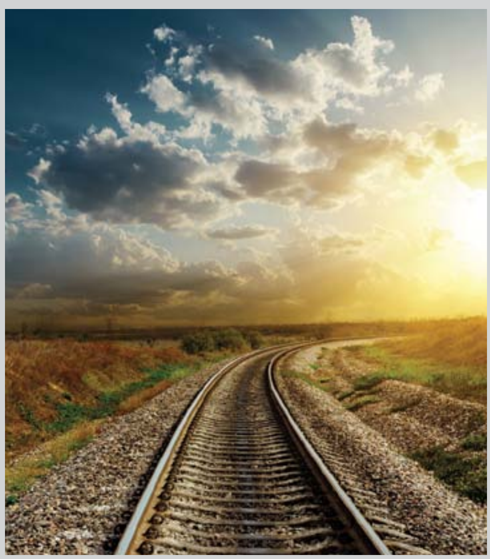
"It has been a record-breaking year for the de-risking market," Aviva managing director of defined benefit solutions, Tom Ground, says, "with the largest six transactions of 2019 being larger than any previous year. Within the sector, instead of pension fund trustees having to make full investment decisions, the trend is more towards full buyout."

Another positive trend over the past couple of years has been the attention given to environmental, social and governance (ESG) issues when investing. Trustees are increasingly focusing on this in response to increased member interest, and in the wider society, trends such as the Extinction Rebellion movement, and Greta Thunberg being named Time Person of the Year, show just how strongly these issues resonate in society.

Many of those responsible for investing pension fund and insurance money have seen which way the wind blows. They have taken action to increase their ESG credentials before being required to do so, for instance through the Bank of England's Prudential Regulatory Authority (PRA)'s climate change requirements from October last year, which require banks and insurers to enhance their approach to managing the financial risk from climate change.

One such provider, joining together these two major trends – bulk annuity deals and ESG investing – is Aviva. It has implemented a significant amount of bulk annuity deals over the past 12 months, completing over 50 transactions, while ensuring it is a whole-of-market provider, offering bulk-annuity contracts to pension schemes of all sizes.

As continuing innovation is at the heart of its work, Aviva has also spent the



On the right tracks

In August 2019, Aviva announced that it has provided senior debt financing in the recently closed £400 million deal towards a new fleet of trains for Abellio UK's newly-renamed East Midlands Railway franchise.

The deal will see a fleet of 33 state-of-the-art, five-carriage trains being introduced across the Midland Main Line, which connects cities including Sheffield, Nottingham, Leicester and Derby with London St Pancras. The fleet is expected to be operational by 2022.

Built by Hitachi and based on bullet train technology, the trains will offer improved passenger experience, superior operational efficiencies and greater environmental credentials.

Following this deal, in December Aviva invested again in the railway sector, this time providing over £200 million of debt-financing towards a fleet of new rolling stock for the West Coast Partnership rail franchise, which will operate under the new 'Avanti West Coast' rail service, on one of the UK's busiest rail lines.

Also comprising a fleet of Hitachi trains, the 135 vehicles are based on bullet train technology, and so will be quieter and greener than the rolling stock they replace. They are expected to reduce carbon dioxide emissions by 61 per cent across the franchise.

The 10 seven-carriage, electric units and 13 five-carriage, electric-diesel, bi-mode trains are scheduled to enter service from 2022, and will connect North West England, North Wales and the Midlands with London.

An arresting development

In November Aviva provided an £85 million senior fixed-rate term-loan facility, refinancing six operational police investigation centres across Norfolk and Suffolk, on behalf of the annuity business of Aviva UK Life.

The facility was used to refinance existing floating-rate debt and swap arrangements and is Aviva's fifth deal in the 'blue light' sector. Located at Wymondham, Aylsham, Great Yarmouth, Ipswich, Bury St Edmunds and Kings Lynn, the police investigation centres originally reached financial close in 2010 on a standard form project agreement with Norfolk Police Authority and Suffolk Police Authority.

past year building upon its already strong ESG credentials. In November it signed up to the United Nations' Net Zero Asset Owners Alliance, which brings together the world's biggest pension funds and insurers to commit to net zero emissions in their investment portfolios by 2050. Aviva also plans to align its investment portfolios with the 1.5C target set out in 2015 at the Paris Climate Summit.

But this has been no jumping on the bandwagon for the company, which has spent around 10 years helping ensure its assets are put to use in a positive manner in this country, and is now looking internationally, to really make a difference to the world we live in.

It's an impressive record too. Ground notes that Aviva has invested around £15 billion in social infrastructure. This includes: £3 billion in the healthcare sector, such as hospitals, GP centres and drop-in clinics, £2 billion in education, such as schools and libraries, another £2 billion in student accommodation and other university financing, £3 billion in rail *[see 'On the right tracks' boxout]*, £2 billion in renewables, such as offshore wind farms, and their associated infrastructure, £1.5 billion in housing and nearly £1 billion in local services, such as street lighting, emergency services and policing *[see 'An arresting development' boxout]*.

The past two years alone have seen nearly £4 billion of Aviva's annuity premiums invested in this way. These investments have primarily been in the UK; however, Aviva's annuity fund has recently made social infrastructure investments in France, Germany and Canada, and has been looking closely at potential social infrastructure opportunities in other EU countries, as well as the USA. Also in 2019, the company decided to combine its revenue from both bulk and individual annuities, in order to further increase its buying power and make an even greater positive impact.

Pension fund savings being invested in an ethical manner is great news to the majority of individual retirement savers. Pension scheme trustees too will be pleased to hear this, both on behalf of their members who are increasingly interested in such matters, and due to requirements such as the Financial Reporting Council's updated UK Stewardship Code, which, from last month, will require pension schemes to declare whether they have taken ESG factors into account when investing member funds.

The old concerns that socially-responsible investing means sacrificing returns also seem to have died away.

"Social infrastructure is a good investment and is of course for the long-term good of the planet and society, making the investment more likely to be sustainable and provide positive returns in the long term," Ground says.

"The impact of what we are doing with these social infrastructure investments is going to keep on growing. It's taking the assets away from a shorter-term investment approach, in and putting them to work to invest in the next generation. It is investing for our children and grandchildren."

Investing by numbers

Aviva's £15 billion investment in social infrastructure:

- £3 billion in healthcare, such as hospitals, GP centres and drop-in clinics.
- £2 billion in education such as schools and libraries.
- £2 billion in student accommodation and other university financing.
- £3 billion in rail.
- £2 billion in renewables and associated infrastructure.
- £1.5 billion in housing.
- Nearly £1 billion in local services such as street lighting, emergency services and policing.

Aviva managing director of defined benefit solutions, Tom Ground

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