Insight INVESTMENT

UK PENSIONWATCH
REVIEW OF Q2 2026

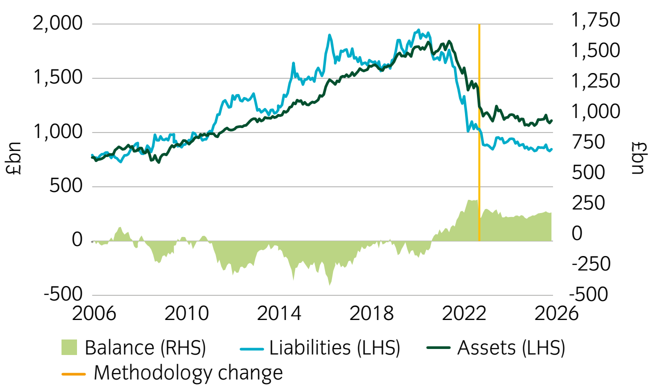
An overview of news, market movements and insights focused on defined benefit (DB) pension schemes.

HIGHLIGHTS

- The funding surplus for the PPF 7800 Index was unchanged after the first two months of Q2, and we expect the surplus to have remained largely unchanged in June given market movements.
- At 20-year maturities, nominal gilt yields ended the quarter lower, while inflation-linked gilt yields rose. The Bank of England kept the base rate unchanged. Risk-asset performance was positive, as the Iran conflict showed signs of deescalation and corporate earnings showed meaningful improvements, while the performance of major government bond markets was muted.
- The Pension Schemes Bill received Royal Assent, resulting in the most significant UK pensions legislation in years. This was followed by a range of publications from The Pensions Regulator (TPR), including a consultation on regulations regarding DB surplus release.

PENSION FUNDING STATUS UPDATE

Figure 1: DB pension scheme assets and liabilities versus funding surplus[1]



The PPF 7800 index funding surplus was unchanged after the first two months of Q2. At the end of May, the PPF 7800 index had a funding surplus of £263.8bn, the same level as at the end of Q1, and up from £259.7bn at the end of December 2025.

Table 1: PPF 7800 Index data[1]

£bn	Q2 2025	Q3 2025	Q4 2025	Q1 2026	Latest data May 2026
Assets	1,086.5	1,078.6	1,120.6	1,105.0	1,109.6
Liabilities	859.7	834.4	860.9	841.2	845.8
Surplus	226.8	244.2	259.7	263.8	263.8

NEW: CONSULTATION ON DB SURPLUS RELEASE

The Department for Work and Pensions (DWP) opened a consultation on regulations for DB surplus release. Key questions include:

- **What is the right funding threshold for surplus release?** The draft regulations propose that schemes should be permitted to release surplus once they are fully funded on a low dependency basis, rather than the current, more stringent buyout-based test.
- **How should future funding risks be assessed?** The proposals introduce a new three-year forward-looking funding test, requiring actuaries to certify that the scheme is expected to remain at or above its low dependency funding level after any surplus release.
- **What governance and advice should trustees obtain?** The consultation seeks views on the definition of "appropriate advice" and the role of the scheme actuary in assessing whether surplus can be released.

The deadline for responses is 2 September 2026. The consultation can be found here.

[1] Source: PPF 7800 index. Data as at 31 May 2026. Due to updated methodology, although general trends are still visible, figures from 2023 onwards are not directly comparable with those from earlier years.

NEWS
AND TRENDS

NOMINAL YIELDS OUTPACE REAL YIELDS

Longer-dated nominal gilt yields fell by the end of the quarter, while index-linked gilt yields rose, with both trends particularly pronounced at the shorter end of the curve and moderating at the longer end.

- The Bank of England's Monetary Policy Committee (MPC) kept the UK base rate at 3.75% at both its April and June 2026 meetings. At the April meeting, the vote was 8-1 in favour of holding rates, with one member voting for a 25bp increase to 4.0%; at the June meeting, the MPC voted 7-2 to leave rates unchanged, with two members voting for a 25bp increase to 4.0%.
- The CPI measure of year-on-year inflation fell from 3.3% in March to 2.8% in April, and remained at that level in May, so inflation was still above the Bank's 2% target. Core CPI eased from 3.1% in March to 2.5% in April, before ticking back up to 2.6% in May.
- 20-year index-linked gilt yields increased by 24bp over the quarter to a real yield of 2.38%, and 20-year nominal gilt yields declined by 1bp to a nominal yield of 5.63%. At the very long end of the curve, 30-year real yields rose by 13bp, while nominal yields fell by 3bp.

Figure 2: 20-year index-linked gilt yields[2]

PENSION NEWS AND TRENDS

- **Pension Schemes Bill becomes law:** After both the House of Commons and House of Lords agreed on the final text of the bill, it received Royal Assent to become the Pension Schemes Act 2026[3]. The Act is the most significant UK pensions legislation in years, including rules on DB surplus flexibility, DC consolidation, value-for-money oversight, default retirement solutions and LGPS reform.
- **Pensions Commission publishes interim report:** The Second Pensions Commission, announced by the government in July 2025, published an interim report[4], which highlights several points.
  - An ageing population requires a renewed and sustainable settlement for retirement adequacy
  - Pension policy should enable everyone to achieve a decent standard of living in retirement with the non-means-tested State Pension as a foundation
  - Automatic enrolment has increased workplace pension saving but not enough for low and middle earners
  - Many people are not saving at all, and the length of working lives is also a driver of adequacy
  - Decumulation choices decisively impact people's retirements and stronger guardrails are needed
  - The existing settlement provides firm foundations but needs strengthening for the long term

  The final report of the Commission is due in 2027.
- **Pensions UK outlines framework for encouraging UK investment:** In a new report the industry body says UK pension schemes have the appetite to invest in the UK, and outlines changes to encourage further investment[5]. The report outlines four necessary changes:
  1. Better policy coordination and accountability across Government and public bodies.
  2. Public finance bodies that genuinely enable pension access through suitable vehicles.
  3. A stable regulatory environment that supports long-term investment and a shift from cost to value.
  4. Improved guidance, training and engagement across trustees, advisers and consultants, allowing time for understanding to be gained and decisions to be taken.

[2] Source: Insight and Bloomberg. Data as at 30 June 2026.
[3] Pension Schemes Bill becomes law, 29 April 2026, UK Parliament.
[4] Pensions 2050: Evidence and Future Priorities (PDF), May 2026, The Second Pensions Commission.
[5] 2030 Ready: From commitment to deployment, May 2026, Pensions UK.

- **Most UK DB schemes in healthy surplus:** The Pensions Regulator said that 80% of schemes are in surplus on a low dependency basis, with 60% of schemes funded at more than 110% on this basis, as at 31 December 2025[6]. On a more conservative buy-out basis, it said 60% of schemes are in surplus. TPR issued several further publications in the quarter focused on different aspects of DB scheme surplus release and endgame planning (see the Regulatory News section for more information).
- **Growth in the professional trustee market is slowing:** Appointments of professional trustees rose by 3% in 2025, down from 8% in 2024 and 12% in 2023, according to a survey by WTW[7]. The professional corporate sole trustee model remains the fastest-growing part of the market, now accounting for just under half of professional appointments. Growth in this area is closely linked to settlement activity, according to WTW.
- **DWP appoints new chairs of TPR and PPF:** Emma Douglas, former chair of Pensions UK, was appointed chair of TPR and takes up the role from 1 July 2026, when the interim chair Kirstin Baker ends her term[8]. Joanne Segars, former CEO of the Pensions and Lifetime Savings Association (now Pensions UK), takes over from Kate Jones to become chair of the PPF, also from 1 July 2026[9]. Both appointments are for five-year terms.

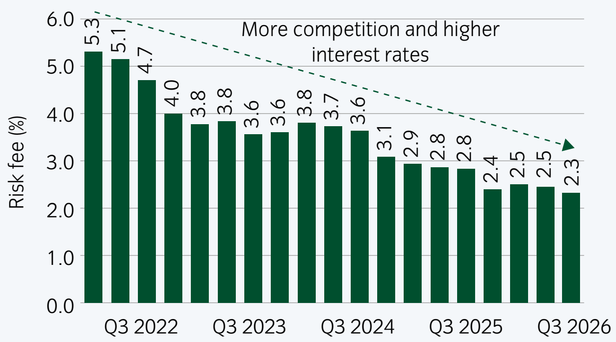
THE CASE FOR LONGEVITY HEDGING

The next biggest risk for UK defined benefit pension schemes, after interest rates and inflation, is longevity risk. Demand is growing for longevity swaps, which offer an efficient and effective way for DB schemes to hedge this risk.

Notably, strong competition in the market, and rising interest rates, have led to a significant decline in the risk fee charged for longevity swaps (see Figure 3).

For more information on longevity hedging, read our short paper on 12 key facts to help demystify longevity hedging for trustees.

Figure 3: Longevity hedge pricing has fallen in recent years[10]



Insight wins major categories at the UK Pensions Awards 2026

We are pleased to highlight that Insight was named Investment Manager of the Year, LDI Manager of the Year, Fixed Income Manager of the Year and CDI Manager of the Year at the UK Pensions Awards 2026[11].

[6] Annual Funding Statement 2026, May 2026, TPR.
[7] Professional Trustee Survey 2026, 26 June 2026, WTW.
[8] Emma Douglas appointed new Chair of The Pensions Regulator, 21 April 2026, DWP.
[9] DWP appoints new Chair of Pension Protection Fund (PPF), 13 May 2026, DWP.
[10] These estimates are based on the indicative longevity swap pricing methodology used by Barnett Waddingham LLP. Their indicative longevity swap pricing methodology uses a combination of market pricing data and input from 25+ insurers and reinsurers representing the vast majority of the longevity risk transfer market. The estimates are indicative only and they make no allowance for intermediary fees.
[11] UK Pensions Awards 2026 – The Winners, 12 June 2026, Professional Pensions. Awards do not constitute a recommendation of Insight or its services. Awards are not wholly indicative of past or future performance. The description and the selection methodologies of awards may be subjective and will vary.

REGULATORY NEWS

Consultation opened on DB surplus release regulations

The DWP opened a consultation on regulations for DB surplus release[12] (please see page 1 for more details). The deadline for responses is 2 September 2026.

Government to review regulations for Flexible Apportionment Arrangements (FAA)

Pensions Minister Torsten Bell announced that the government will review the use of FAAs[13].

Bell explained that after the Stagecoach transaction in December 2025, when existing legislation was used in a "novel" way for an asset manager to assume responsibility for another employer's DB pension scheme, the government will "review this area of legislation to ensure the regulatory standards and safeguards evolve and keep pace with the innovation we are seeing in the pension market".

Bell added: "Where providers are looking to run schemes for profit, this can work in scheme members' interests but regulatory standards and safeguards must evolve to match the new risks this creates".

Regulator issues guidance for DB schemes

The Pensions Regulator (TPR) issued a series of notable publications over the quarter.

- **New guidance for trustees and employers of DB schemes, and DB and DC hybrid schemes, covering different ways to achieve their schemes' long-term objectives[14].** The guidance covers running on, achieving self-sufficiency, transferring to a consolidator, and an insurance transaction.
- **Coinciding with the publication of the DWP's consultation on draft regulations, TPR issued a statement to "support discussions between trustees and employers on surplus release options"[15].** The statement outlines principles for trustees to consider, along with examples of how new legislation could change how trustees approach these issues.
- **An article by Ben Gunnee, TPR's Executive Director of Market Oversight, focused on the potential for further innovation in the DB landscape, with a focus on endgame solutions[16].** The article discusses the Stagecoach transaction and questions for trustees considering such approaches.

TPR calls on DB and hybrid schemes to prepare data for dashboards

The Pensions Regulator launched a regulatory initiative targeting DB and hybrid pension schemes "to assess how they are preparing their data ahead of connecting to dashboards, to ensure their members get accurate, up to date information"[17].

The initiative will target 240 private sector DB and hybrid schemes, with a particular focus on the readiness and accuracy of value data. According to TPR, because DB and hybrid schemes do not have existing obligations to issue annual benefit statements, their value data is more likely to be out of date.

HMRC publishes draft regulations on GMP calculations

A technical consultation issued by HMRC focuses on the calculation of pension input amounts where there has been a guaranteed minimum pension (GMP) conversion made in respect of cash balance and DB arrangements for the purpose of the annual allowance charge[18].

The proposed approach means that "members should not face a worse tax outcome simply because of the method chosen to equalise benefits". The deadline for responses is 13 July 2026.

FRC issues final guidance on historic amendments to scheme rules

The Financial Reporting Council (FRC) issued finalised guidance to support pension scheme actuaries providing retrospective confirmation to validate historical changes to pension scheme rules[19]. The guidance looks to address uncertainty raised by the Virgin Media v NTL Pension Trustees judgment.

[12] Surplus Flexibilities for Defined Benefit Pension Schemes: Unlocking Value for Employers and Scheme Members, 10 June 2026, DWP.
[13] Flexible Apportionment Arrangements: Statement made on 16 June 2026, UK Parliament.
[14] New models and options in defined benefit pensions schemes, 3 June 2025, TPR.
[15] New defined benefit surplus flexibilities, 10 June 2026.
[16] New thinking for trustees considering endgame solutions for defined benefit schemes, 19 June 2026, TPR.
[17] DB and hybrid schemes urged to act now to get their value data ready for dashboards, 14 May 2026, TPR.
[18] Guaranteed minimum pension conversion provisions, 8 June 2026, HMRC.
[19] Technical Actuarial Guidance: Confirmation under sections 102 and 106 of the Pension Schemes Act 2026 (PDF), May 2026, FRC.

MARKET REVIEW AND OUTLOOK

Table 2: Q2 2026 market review[20]

		Market levels			Q2 2026 change
		31 Dec 25	31 Mar 26	30 Jun 26	
Gilts	20 year yield (%)	5.24	5.64	5.63	-0.01
Index-linked gilts	20 year yield (%)	2.07	2.14	2.38	0.24
Interest rate swaps	20 year yield (%)	4.53	4.90	4.86	-0.04
Inflation swaps	20 year yield (%)	3.06	3.39	3.17	-0.22
Other bond markets	US 10 year yield (%)	4.17	4.32	4.47	0.15
	German 10 year yield (%)	2.86	3.00	2.86	-0.14
	Japan 10 year yield (%)	2.07	2.35	2.68	0.33
	JPM EMD yield (%)	5.87	6.37	6.10	-0.27
	iTraxx Europe 5 year spread (bp)	51	71	52	-20
	Bloomberg Barc UK IG spread (bp)	82	98	86	-13
Money market rates	UK base rate (%)	3.75	3.75	3.75	0.00
	US Fed target (%)	3.5 - 3.75	3.5 - 3.75	3.5 - 3.75	0.00
	6 month GBP repo (%)	3.92	4.25	4.06	-0.19
	SONIA (%)	3.73	3.73	3.73	0.00
Gilt: swap spread (SONIA)	Index-linked 2044 z-spread (bp)	70	70	71	1
	Conventional 2045 z-spread (bp)	78	75	73	-2
Currency	GBP/USD	1.35	1.32	1.33	0.3%
	GBP/EUR	1.15	1.14	1.16	1.4%
Equity	FTSE 100 (TR)	11,403	11,794	12,270	4.0%
	S&P 500 (TR)	15,220	14,561	16,774	15.2%
	Euro Stoxx 50 (TR)	14,128	13,622	15,697	15.2%
	Topix (TR)	5,559	5,752	6,579	14.4%
	MSCI World Equity (£, TR, unhedged)	25,348	24,930	28,178	13.0%
	VIX	15.0	25.3	16.5	-34.9%

[20] Source: Bloomberg. Data as at 30 June 2026. TR = total return index.

ASSET CLASS OUTLOOK

- **Investment grade credit:** Spreads tightened sharply in the second quarter, supported by strong earnings momentum and hopes of conflict de-escalation. This move returned valuations close to the tightest levels since the global financial crisis. However, elevated all-in yields continued to draw investor demand despite heavy primary supply. This issuance has been led by hyperscaler tech companies, whose capex financing needs remain relentless. They are accessing global markets at pace across a range of different currencies. If this trend persists, then the tech sector's weight in major bond indices will rise materially, albeit from a low base. For now, we favour US dollar issuance, where the market depth provides greater resilience to near term saturation. That said, we are closely monitoring non-dollar markets for emerging relative-value opportunities. Strong tech supply is exerting pressure on spreads within that sector, with AA-rated issuers now trading in line with A-rated credits in other sectors, reflecting ongoing supply overhang. Where mandates allow, we see an opportunity to add selectively at these levels. In this environment, dispersion is rising, reinforcing the importance of disciplined active management, careful security selection, and a focus on relative value.
- **High yield credit:** Despite a volatile global backdrop, high yield markets have shown notable resilience, with steady income continuing to underpin returns. Encouragingly, many issuers remain disciplined, actively deleveraging and managing balance sheets in contrast to rising leverage at the sovereign level. However, the market is becoming increasingly differentiated, with rising levels of dispersion among issuers. AI is a key catalyst for this, driving new supply to fund the infrastructure build out, while also disrupting existing business models, especially in the software sector. Although there are positive signs that the conflict in the Middle East may be on a deescalating path, the outlook remains uncertain. This leaves us with a bias towards US issuance given that the US has a stronger growth outlook and is more insulated from higher energy prices. Defaults remain low by historical standards, and we see little reason for a material deterioration given the improving quality of public high yield debt issuers and the continued migration of weaker credits toward private markets. We see promising opportunities to add exposure in telecommunications, healthcare, and other industries that are likely to be less affected should the conflict flare up once again.
- **Structured credit:** Fears that the outbreak of war could weaken the US growth outlook proved short-lived, as economic data continued to point to resilience while falling energy prices helped ease inflation risks. In the US, the labor market showed signs of improvement, which should counterbalance higher gasoline prices. If the Strait of Hormuz fully reopens, energy prices should decline further, which would take pressure off the Fed to hike. In Europe, the European Central Bank has tightened policy, and while the growth outlook has weakened, we believe the region should avoid recession. Given this relatively benign outlook, demand has shown no signs of softening, with new issues typically well oversubscribed and secondary markets well bid. Issuers have increased supply to take advantage of these conditions, particularly in consumer-related sectors. Our focus remains on senior, well-protected parts of the capital structure, prioritizing transactions with robust underwriting, strong servicing and structural protections that preserve cashflows in downside scenarios. We believe this positioning should help insulate portfolios from ongoing macro, inflation and geopolitical uncertainty, while allowing us to pursue attractive income and relative-value opportunities through 2026.

ECONOMIC REVIEW

Consensus growth expectations for 2026 were revised lower over the quarter, with the eurozone seeing the most significant downgrade. Both the eurozone and Japan are now expected to grow by 0.6% in 2026, reflecting a 0.5% downward revision for the euro area and a 0.2% cut for Japan. US growth has also been downgraded, albeit more modestly, with forecasts reduced by 0.2% to 2.1%, leaving forecasts meaningfully stronger than other developed markets. Looking ahead to 2027, the growth outlook remained broadly stable for the US, with activity expected to hold at 2.1%. In contrast, growth in both the euro area and Japan is still expected to pick up, but expectations for the pace of acceleration moderated compared with the start of the quarter. Inflation pressures are expected to increase and remain elevated given higher energy prices, with global inflation expected to peak at 4.3% in 2026 before easing to 3.7% in 2027. Forecasts were significantly raised over the quarter. In the US, inflation is expected to reach 3.4% in 2026, well above the Fed's target, but forecasts for the eurozone experienced the largest change. The consensus 2026 forecast was revised up by 0.7% to 2.9%, while the consensus 2027 forecast was revised up by 0.2% to 2.2%.

Table 3: Consensus growth and inflation expectations[21]

Growth (real GDP)	Consensus[22]			Change over Q2	
%	2025	2026F	2027F	2026F	2027F
UK	1.3	1.0	1.1	0.1	-0.2
US	2.2	2.1	2.1	-0.2	0.1
Eurozone	1.5	0.6	1.2	-0.5	-0.2
Japan	1.1	0.6	0.8	-0.2	-0.1
China	5.0	4.6	4.4	0.0	0.0
Developed markets	1.9	1.6	1.8	-0.2	0.0
Emerging markets	4.5	4.1	4.2	-0.3	0.1
Global	**3.2**	**2.9**	**3.1**	**-0.1**	**0.0**

Inflation (CPI)	Consensus[22]			Change over Q2	
%	2025	2026F	2027F	2026F	2027F
UK	3.4	3.2	2.6	0.5	0.3
US	2.7	3.4	2.5	0.4	0.0
Eurozone	2.1	2.9	2.2	0.7	0.2
Japan	3.2	2.0	2.1	0.0	0.1
China	0.0	1.2	1.1	0.3	0.1
Developed markets	3.4	3.6	2.8	0.5	0.2
Emerging markets	2.5	3.5	3.1	0.6	0.3
Global	**3.4**	**4.3**	**3.7**	**0.7**	**0.4**

UK YIELD CURVE

The nominal gilt yield curve fell in Q2 2026, with shorter-dated yields declining by more than the longer end; while the inflation-linked gilt curve rose, with shorter-dated yields rising by more than the longer end. Two-year nominal gilt yields decreased by 29bp over the quarter. At longer maturities, 20-year nominal gilt yields fell by 1bp, ending the quarter at 5.63%, while 30-year nominal gilt yields fell by 3bp to 5.89%. Inflation-linked gilt yields rose significantly at the short end, with 2-year real yields increasing by 53bp and 10-year real yields rising by 20bp. At the longer end, 20-year inflation-linked yields rose by 24bp and 30-year yields by 13bp.

Figure 4: Gilt yield curve[23]

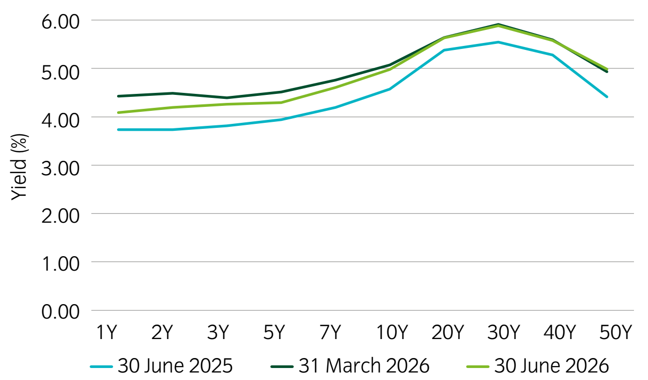
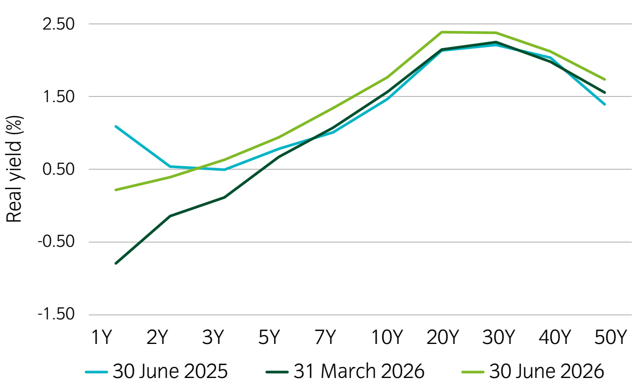


Figure 5: Index-linked gilt yield curve[23]



[21] Source: Insight Investment and Bloomberg. Data as at 30 June 2026.
[22] F= Forecast. Bloomberg consensus forecast.
[23] Source: Insight and Bloomberg. Data as at 30 June 2026.

PERSPECTIVES

PERSPECTIVES

Running on and DB surplus release – an overview for trustees

We believe it makes sense for trustees to develop a clear understanding of running on and the associated practicalities now that the Pension Schemes Act 2026 has received Royal Assent.

Running on and releasing surplus can create real value for members and the sponsor. Trustees need a clear, shared reason for doing it, and a practical plan for how it will work. It will not be right for every scheme.

▶ Read more in our paper here.

A new world for DB schemes

As the landscape for UK DB pension schemes continues to evolve, trustees and sponsors face an array of strategic choices amid regulatory change and economic uncertainty.

We share our thinking on how DB schemes can run on while keeping their options open. We explain how to do this while ensuring an effective and efficient liability hedge. And we look at the potential impact of longevity risk and how to mitigate it.

▶ Read the paper here.

UK debt sustainability: implications for liability hedges

Unease around the UK's debt sustainability has grown, but in our view, the risk of a UK default is extremely low.

DB pension schemes considering how best to hedge their liabilities may wish to consider changing gilt market dynamics, and for DB scheme trustees considering diversifying exposure away from gilts, there are a range of options to consider.

▶ Read the paper here.

Scraping the barrel: oil products – who runs out of what, and when?

Disruption in the Middle East has exposed fragile supply chains, pushed inventories lower, and increased the risk of shortages across key oil products.

While the world is not running out of oil, bottlenecks are emerging and they are becoming increasingly important for investors to understand.

▶ Read more in our paper here.

IMPORTANT INFORMATION

RISK DISCLOSURES

Investment in any strategy involves a risk of loss which may partly be due to exchange rate fluctuations.

Any projections or forecasts contained herein are based upon certain assumptions considered reasonable. Projections are speculative in nature and some or all of the assumptions underlying the projections may not materialise or vary significantly from the actual results. Accordingly, the projections are only an estimate.

Portfolio holdings are subject to change, for information only and are not investment recommendations.

ASSOCIATED INVESTMENT RISKS

Investments in bonds are affected by interest rates and inflation trends which may affect the value of the portfolio.

The issuer of a debt security may not pay income or repay capital to the bondholder when due. The return risk to a portfolio is higher where a portfolio is highly concentrated in such an issuer.

The investment manager may invest in instruments which can be difficult to sell when markets are stressed.

Derivatives may be used to generate returns as well as to reduce costs and/or the overall risk of the portfolio. Using derivatives can involve a higher level of risk. A small movement in the price of an underlying investment may result in a disproportionately large impact on the portfolio.

A credit default swap (CDS) provides a measure of protection against defaults of debt issuers but there is no assurance their use will be effective or will have the desired result.

Investments in emerging markets can be less liquid and riskier than more developed markets and difficulties in accounting, dealing, settlement and custody may arise.

Where high yield assets are held, their low credit rating indicates a greater risk of default, which would affect the value of the portfolio.

Property assets are inherently less liquid and more difficult to sell than other assets. The valuation of physical property is a matter of the valuer's judgement rather than fact.

The specific collateral used to secure a loan may decline in value or become illiquid, which would adversely affect the loan's value. Also, many loans are not actively traded, which may impair the ability of the portfolio to realise full value in the event of the need to liquidate such assets.

Leveraged funds: as a result of market conditions, the value of the assets held by a fund may fall and result in a higher degree of leverage than is deemed appropriate by the investment manager. In order to reduce the degree of leverage, the investment manager may seek to reduce a funds' total asset exposure. Investors would need to subscribe for additional shares in order to maintain the level of sensitivity to market movements. Where such an event is unanticipated, this may result in the investors having less sensitivity to market movements than they might consider appropriate to their individual requirements until they have subscribed for additional shares.

Money market funds: an investment in a money market fund is not a guaranteed investment and it is different to an investment in deposits as the principal invested is capable of fluctuation. Whilst preservation of capital is a major component of the objective it is not guaranteed. The value of capital invested in a money market fund may fluctuate. The Fund does not rely on external support for guaranteeing its ability to sell its assets and/or meet redemptions (liquidity) or stabilising the fund's price per unit/share (Net Asset Value). Neither Insight nor any other BNYM group company will provide capital support in the event of any capital loss, which will be borne by the investor.

LONGEVITY

General information

The information within this document, and any related presentation, is intended only to provide general and preliminary information and does not address the circumstances of any particular customer. The content does not constitute professional, investment and/or financial advice, nor does any of the information herein constitute a complete statement of the matters related to this product or the relevant laws relating thereto.

Investment advice

Insight will not provide any advisory services (including the provision of "proper advice" pursuant to section 36 of the Pensions Act 1995) to customers in connection with derivative-based longevity swaps. Customers must ensure the suitability of a derivative-based longevity swap structure in relation to their particular circumstances and are required to seek their own independent tax, regulatory and legal advice in connection with the same.

Third party

Specific service providers that may be referenced within this document or during any associated presentation are intended as examples only and such references should not be taken as an endorsement or recommendation by Insight. Customers are required to conduct their own due diligence in consultation with their professional advisers prior to the selection and engagement of any such service providers and customers retain ultimate responsibility for such engagements.

Reliance

Although the material contained herein, and any information which may be given in a related presentation, was prepared on the basis of information and advice that Insight believes to be reliable, Insight is making the information available to customers without representation or warranty, express or implied, by Insight as to the accuracy or completeness of that information and without any responsibility on Insight's part to revise or update the information. The customer is required to make its own analysis and decisions with respect to a derivative-based longevity swap and the associated documents and agreements, independently and without reliance on information provided by Insight and based upon such investigation and analysis, as it deems appropriate.

Counterparty risk

The swap involves entering into an ISDA-style derivative contract with a reinsurer as the longevity risk taker. While the longevity derivative swap will be collateralised, there remains residual counterparty risk. Customers must ensure they understand the credit profile of the reinsurer counterparty.

Given the generally long-dated nature of these trades, there is an inherent risk that the reinsurer(s)' credit rating may fall significantly below the levels applicable at the inception of the longevity swap trade, potentially indicating the reinsurer(s)' inability to pay debts which, ultimately, shall lead to default under the ISDA. While the ISDA agreement will include mitigation measures - such as collateral arrangements and credit rating downgrade triggers allowing an early exit following the reinsurer(s)' credit rating downgrade - these arrangements won't completely eliminate the risk of reinsurer(s)' insolvency. In such a scenario, the customer may not only lose the benefit of the hedge and incur replacement costs but could also suffer a loss of any collateral posted to the reinsurer(s) in respect of the longevity derivative swap transaction.

Longevity derivatives

Past performance or market conditions are not indicative of future results. The value and effectiveness of a longevity derivative swap depend on a range of factors, including mortality experience, market conditions, and reinsurer counterparty creditworthiness. There can be no assurance that the product will achieve the intended risk mitigation or financial outcomes.

The proposed derivative-based longevity swap structure requires collateral to be posted on a daily basis and adjusted as the swap's value changes. This creates cash-flow demands as well as liquidity pressure and unplanned funding requirements or margin calls, especially during market volatility or stress events.

Although there's growing interest, the longevity swap market remains relatively illiquid, especially for bespoke or large contracts.

FIND OUT MORE

Institutional Business Development
enquiries@insightinvestment.com

European Business Development
europe@insightinvestment.com

Consultant Relationship Management
consultantrelations@insightinvestment.com

company/insight-investment

www.insightinvestment.com

16615-07-26