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# irfa dispatch

THE RETIREMENT INDUSTRY NEWSLETTER

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# LOCAL NEWS

## Amid discussions around early access to retirement funds – don't lose sight of your retirement goals

South Africans are currently only able to withdraw or transfer their pension funds if they resign, retire or become unemployed. But recent conversations around allowing early access to a portion of retirement funds may have made individuals more aware of their retirement savings. The proposed access has significant implications, because for most South African income-earners, their retirement savings and insurance benefits through their employer are often the only savings and insurance they have. Retirement funds are also the primary vehicle which Government uses to incentivise retirement savings by making contributions tax-deductible.

Most income-earners are already saving far too little and not long enough for retirement. According to Janine Horn, Financial Adviser at Momentum, only 6% of South Africans can retire with enough to maintain their standard of living. This is largely due to the widespread tendency to withdraw retirement savings when changing jobs to fulfil short-term financial needs and wants. COVID-19 has highlighted a need for greater savings to protect against financial stress in emergencies and the widening retirement savings gap. Horn says, "If it drives the wrong behaviour, it can have dire long-term consequences for people who are already saving far too little for retirement.

People often find it difficult to plan ahead, especially with the economic challenges we face on a daily basis. To save between 15 and 20 percent of your monthly salary can seem like a stretch when you have to live day to day, but saving now will definitely pay later." "Growing your savings and having enough money for a comfortable retirement is part of your journey to success," says Horn. Through the continuous analysis and adapting of your investment, you can ensure that you have what you need once you retire and make your dreams a reality. She says that it is the small sacrifices that count when you are young to make your retirement goals real.

"By having and fostering a good relationship with money and ensuring that you rather focus on saving for tomorrow instead of seeking instant gratification today, you can reach your financial goals and build your portfolio instead of watching the money fly in and out of your account. Your medium- and long-term saving goals coupled with your risk profile will largely determine the type of investment that will best suit your needs. "A qualified financial adviser will be able to not only assist with a committed savings strategy but also advise how you can use compound interest and capital gains tax exemptions to minimise tax payable on your investment," says Horn. She says that compound interest is one of the most important concepts when managing your finances. It is at the crux of every medium- to long-term investment allowing you to earn interest on interest - almost like a snowball effect - accelerating your earnings. Each investment journey is unique according to Horn and she advises that to ensure that you have enough capital to fund your retirement, you should consider various investment options.

**Linked Investment** By choosing a linked investment account, you can save your money for five years or longer by investing a regular amount with an optional lump sum. It gives you the freedom to choose how you want to invest and what you want to invest in. Giving you the power to save your money to best suit your needs. Whether it is for your children's education, a nest egg or a holiday – the longer you leave it, the more it will grow. You set the terms by adapting the contract to meet your needs.

**Retirement Annuity**

If you prefer a committed and conservative savings approach, a retirement annuity is the right product for you. Governed by legislation and primarily designed to help you grow your money for retirement, it is a long-term savings plan that enables you to draw a lump sum and buy a monthly income after the age of 55. A retirement annuity not only helps you save and invest but also comes with tax benefits.

**Endowment**

An endowment policy is life insurance which pays a lump sum after a specific term or on death. Although restricted by certain rules, this medium- to long-term policy is a low-risk saving strategy that allows you to leave the legacy you choose by deciding how you want to invest your money. It offers estate planning and tax benefits – especially if you are in a higher income bracket. Horn reminds us that retirement can be a real challenge if not properly planned for. Fluctuating interest rates, inflation, and taxes can eat into the growth of your savings. By making regular monthly payments and investing a lump sum into an investment policy, you can ensure that you will have enough money to turn your retirement dreams into reality.

**FA News | 27 October 2021**

## Preservation funds: Specialised pre-retirement investment vehicles

Preservation funds have some unique features and it is important to fully understand how they work before opting for one.

Preservation funds are specifically designed to preserve accumulated capital which is intended for retirement and make an attractive option for those leaving employment through retrenchment, resignation, or dismissal. However, preservation funds have some unique features and it is, therefore, important to fully understand how they work before opting for one. Firstly, all preservation fund product providers are subject to the same regulatory framework, with the Pension Funds Act and Income Tax Act being the most notable. Upon leaving employment prior to retirement, one of the options available to retirement fund members is to transfer their retirement money to a preservation fund.

Other options include leaving your money in the default investment option of your employer's retirement fund, transferring to your new employer's retirement fund, taking the funds in cash subject to tax, or investing the capital into a retirement annuity in your own name, although it is important to understand the implications of doing so (see below). Transfers to a preservation fund, whether pension or provident, are tax-neutral, as is the case should you transfer the funds to your new employer's fund or an RA. However, before making a final decision, it is important to consider whether or not to make a withdrawal from the fund. Once you have made decisions regarding your withdrawal, the next step is to choose an appropriate strategy for your preservation fund – and this will depend on a number of factors including when you plan to retire, your propensity for risk, and the likelihood of needing to make a full or partial withdrawal from your investment at some stage before retirement.

If you're close to retirement, your priority is likely to be more weighted toward capital preservation whereas if you have a longer investment horizon, you would probably be in a position to take more investment risk. When investing in unit trusts, you will have the flexibility to choose your underlying assets, although keep in mind that preservation funds fall within the ambit of Regulation 28 of the Pension Funds Act which will in turn affect the amount of risk you will be able to take. This piece of legislation is designed to limit exposure to higher risk assets with a view to ensuring that retirement fund money is not exposed to excessive levels of risk.

However, these restrictions can also serve to limit the returns that investors require in order to achieve their investment goals and is, therefore, somewhat contentious. Generally speaking, you may not make additional contributions to your preservation fund except if the money originates from another retirement fund. Also, if you have been awarded a share of your exspouse's pension interest in terms of Section 7(8) of the Divorce Act, you are able to add these funds to your preservation fund. As in the case of other retirement funds, no local dividend tax or tax on interest will be charged to your preservation fund account. Similarly, switches between unit trusts within your fund will not trigger a capital gains tax event. Prior to the age of 55, you are able to make one full or partial withdrawal for each contribution transferred to the fund. If you make a partial withdrawal, keep in mind that you will not be allowed to make another withdrawal related to that contribution, and the remaining money will have to remain invested until retirement or death.

Remember, you are free to set up as many preservation funds as you like. It is important to fully understand the tax implications before making a withdrawal, so ideally ask your product provider to prepare a tax simulation before making the withdrawal. Once you have given the withdrawal instruction, your service provider will apply to Sars for a tax directive on your behalf and will pay out the balance of the funds to you. Remember, in the case of a provident preservation fund, an early withdrawal will have the effect of proportionately reducing the vested and unvested portions related to the contribution. When it comes to formal retirement, you are permitted to retire from any of your preservation funds at any time from age 55 onwards, although the timing of your retirement should form part of your overall retirement plan.

Upon retirement, you will need to make critical decisions with regard to choosing a suitable life or living annuity. When retiring from your preservation fund, you have the option of using the full amount to purchase a life or living annuity. Remember, in the case of a provident preservation fund, you can elect to take the full or part of the vested portion of the benefit as a lump sum, and purchase an annuity with the balance. With regard to the unvested portion, you can take a maximum of one-third lump sum withdrawal, with the remaining two-thirds to be used to purchase an annuity. However, where the pre-tax value of your unvested portion is less than R247 500 at the date of retirement, you are permitted to access the full amount in cash subject to tax.

Because preservation funds are flexible investment vehicles, investors are free to transfer a fund from one provider to another for whatever reason, and this process is strictly governed by Section 14 of the Pension Funds Act, although keep in mind that the funds will need to remain in a preservation fund wrapper. While the funds invested in your preservation fund are protected by your creditors, it is important to bear in mind that your spouse may be entitled to claim a share of your benefits as part of a divorce settlement, although this will depend largely on the nature of your marriage contract. If you are married in community of property, you will be entitled to 50% of your spouse's pension interest, whereas if you are married with the accrual system, any retirement funds held by either spouse will form part of the accrual calculation. Further, keep in mind that the right to claim a share of a member spouse's pension interest only applies to couples who are married or in a civil union. If a couple is living together as 'husband and wife' but is not married under a legal act of parliament, there is effectively no marriage capable of dissolution and therefore no transfer of pension interest benefit. In respect of preservation funds, the pension interest is calculated as the total benefit to which the member would have been entitled to in terms of the fund rules if their membership had terminated due to resignation at the date of divorce. In the event that you die prior to retirement, the money in your preservation fund will be distributed in accordance with Section 37C of the Pension Funds Act which makes provision for the fund trustees to use their discretion when allocating your retirement benefits between your dependants and your nominees (i.e. those people nominated on your policy) based on their financial needs.

Remember, your retirement fund benefits fall outside of your estate, and you, therefore, cannot deal with them in terms of your will. The fund trustees are obliged to undertake an in-depth investigation to determine who your financial dependents were at the time of your death and proportionally allocate the retirement fund death benefit. Your beneficiary nominations are included in this decision process but are simply a guide to the trustees to understand your intentions; they are not legally bound to these nominations. The death benefit is the market value of your investment once all applicable fees and charges have been deducted.

**Moneyweb | 26 October 2021**

## Impact investing: the importance of sustainable infrastructure in emerging markets

*In the first of five articles on emerging market impact investing, Schroders reviews the theme of sustainable infrastructure, why it is needed, and what companies are doing.*

As impact investors in emerging markets (EM), a fundamental element of our investment approach is the contribution companies make to society. This is how companies positively impact the people and environments in which they operate; in essence contributing to a better future for all. One of the ways in which we aim to achieve this is by investing in sustainable infrastructure in emerging markets.

**What is sustainable infrastructure?**

Sustainable infrastructure provides affordable access to essential services and physical structures in a sustainable way. From design, through construction and operation to decommissioning, sustainable infrastructure either minimises negative impacts or actively drives positive economic, financial, social and environmental impacts.

**How does sustainable infrastructure contribute towards the UN's SDGs?**

The United Nations's (UN) Sustainable Development Goals (SDGs) are 17 goals that aim to promote peace, prosperity and the eradication of poverty, all while protecting the planet. Sustainable infrastructure plays a direct role in contributing to three of the SDGs. It should be more resilient than non-sustainable infrastructure and its development would likely promote sustainable industrialisation and foster innovation (SDG 9), as well as help support the creation of sustainable cities and communities (SDG 11). It can also help enhance access to basic services like clean, affordable drinking water and hygienic sanitation (SDG 6).

**Why is it needed in EM in particular?**

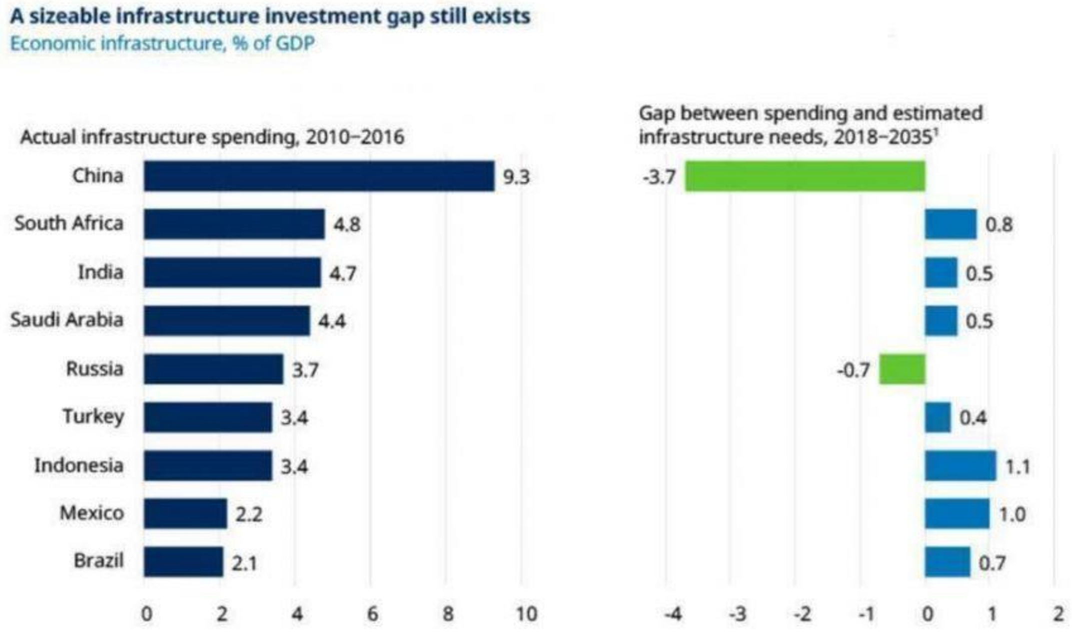
**EM is the perfect place for impact investing**. More than 6.6 billion people, approximately 86% of the world's population, live in developing countries, according to International Monetary Fund (IMF) estimates. Other IMF research forecasts that EM will account for 63% of world GDP by 2023. However, the provision of essential services and other critical infrastructure is far from satisfactory or inclusive in many EM. This means that huge proportions of their populations don't have access to the services that the developed world takes for granted. And while digital inclusion remains a key challenge globally, it is especially so in emerging markets.

The digital transformation is well underway in most emerging and frontier markets, but the degree of progress varies significantly by country. The share of the population which uses the internet is as high as 85% in Russia and 71% in China. In Indonesia the figure is 54%. Although the latest data is only to 2019, the figure falls to 41% for India, and is as low as 34% in Nigeria and 17% in Pakistan. Research from the **OECD** underlines the gap to developed markets. It found that the level of mobile internet subscriptions in OECD countries were double that of developing countries. In fixed line broadband, the equivalent analysis showed subscriptions were three times higher in OECD countries.

**Data from GSMA**, which represents the interest of mobile network providers globally, shows that the mobile broadband coverage gap (defined as those living in areas without mobile broadband coverage) has fallen to 6% of the world's population, equivalent to 450 million people. However, there are still 3.4 billion people who have access to mobile broadband but who do not use it. Indeed, as GSMA highlights, consumers in lower and middle income countries account for over 90% of global unconnected population and 98% of the uncovered population. Internet connectivity is important for a number of reasons, not least because it's an effective way to deliver educational and healthcare services, and can help foster economic growth.

**What is the scale of the response required?**

The response required is significant. Before Covid-19 hit, **it was estimated** that developing countries would need to invest more than $2 trillion a year in infrastructure just to keep up with the next 15 years' projected GDP growth. It can safely be assumed that the figure is now considerably higher. But many EM have sizeable gaps between their current levels of investment and their estimated needs. Indonesia, Mexico, Brazil, India, Saudi Arabia and South Africa are all cases in point, according to **analysis by McKinsey**.




Source: GWI; IHS Global Insight; International Transport Forum, National Bureau of Statistics; McKinsey Global Institute analysis.
Note: [1]Global gap: 0.3% of GDP, or $5.3tn. 602432.

Typically, EM have relied on government funding for infrastructure requirements. But government finances are under pressure, not least because the pandemic has resulted in elevated public debt. Government-debt-to-GDP across 55 developing countries reached a record **59% of GDP in 2020**. The private sector will have an increasingly important role to play in meeting the infrastructure needs in EM.

**What kind of companies are doing so?**

As investors, we look at a range of quantitative and fundamental factors when analysing investment opportunities. The examples below are provided as an illustration of how we analyse the companies mentioned and are not a recommendation to buy or sell any security. As always, valuation is key. Good companies don't always make good investments and our comments are not an opinion as to the value of that company's shares. Internet connectivity is one area where some companies are having a positive impact. For example, Bharti Airtel is a telecommunications company with operations in India and Africa covering 24% of the world population.

With its extensive network infrastructure, Bharti services underpenetrated areas in these countries, improving access to the internet and information on a significant scale. It also offers mobile payment services which promotes financial inclusion. It's a similar story at Kenyan telecoms company **Safaricom**. It delivers connectivity and innovative products and services, including payment solution M-Pesa. It's estimated that the company's positive impact on society is 9.6 times the firm's profit. Another company that is having a positive impact on the environment and societies in EM is Taiwanese bicycle manufacturer, Merida. Its products provide a more sustainable, less carbon-intensive, form of transport within cities and positively impact the health and wellbeing of individuals by promoting exercise.

Samsung SDI is a Korean electronics company and a leading provider of the batteries used in electric vehicles and energy storage systems. The company's products are enabling a global shift to sustainable transport, greener use of energy and lowering carbon emissions. It is also committed to ensuring all stakeholders are treated fairly and to "solving the environmental and social challenges faced by mankind".

**Sustainable infrastructure - just one of five themes**

Investing in companies that provide sustainable infrastructure in EM is just one way in which investors can have a positive impact on the environment and society. Other investment themes that we have identified include responsible consumption, health and wellness, inclusion and the environment.

**FA News | 26 October 2021**

## A word of advice for those planning to emigrate or work abroad

For the tens of thousands of South Africans working abroad who don't know where they'll end up, there's a pension solution you can take with you.

Sable Wealth MD Mike Abbott says South Africans have been phoning the company non-stop looking to emigrate, following the July riots that devastated so much of KwaZulu-Natal and Gauteng. "The rate of inquiries has been intense for the last five years, particularly during the Jacob Zuma presidency, but there's been a noticeable increase in people looking to emigrate since the July riots – and this is coming from all segments of the population," he says. Some plan to emigrate once they retire, but even if that is four or five years away, the time to start planning is now. There are several crucial decisions to make, such as whether to sell your primary SA residence before or after you emigrate. That depends on several factors, such as the country you plan to settle in, says Abbott.

**Overcoming the restrictions imposed on SA pensions**

One of the drawbacks faced by South Africans emigrating after years of accumulating pension savings is the inability to withdraw or transfer those savings to other countries. “A UK pension, for example, can be transferred to a European country or to the US or to Australia. That doesn’t happen in South Africa,” says Abbott. “The pension law doesn’t allow for it. So, you’ve got a situation there where that pension has to remain in South Africa until you are 55 and then you can transfer it to a living annuity. “Alternatively, you can withdraw your pension savings, but you will undo all the tax benefits you’ve accumulated, such as the income tax relief and the tax-free growth, and that’s not particularly desirable.”

Sable International provides the investment portfolios for the Rock Legacy International Pension Plan. Legacy is a simple-to-access offshore pension solution for South African tax residents who have offshore income which, under the recent changes to Section 10 of the tax act, is now taxable in South Africa. Legacy gives such ‘offshore employees’ an opportunity to save into an offshore pension investing in foreign currency portfolios, and have those contributions be deductible for tax in South Africa, There’s nothing unusual or particularly tax aggressive about this. It is literally creating a pension solution that most employees have, but international workers don’t, adds Abbott.

There are tens of thousands of South Africans working abroad as pilots, divers or cruise ship deck hands who are unable to enjoy the benefits of pension savings that employees based in SA do. The Rock Legacy pension solution gives them the chance to accumulate pension savings that will follow them anywhere in the world. The Rock Legacy International Pension Plan meets a few other objectives as well: if the individual ever decides to permanently leave SA, they will have a product which is both a trust and a pension. “So, depending on the jurisdiction they go to, they’ve got a number of different options in terms of how that’s treated for the country they end up in. We find that this solution really meets the needs of someone who’s young, working abroad, but doesn’t know where they’re going to end up settling. It fits very well from that perspective,” says Abbott.

**The spectre of Regulation 28**

SA-based pension schemes will become less attractive due to the spectre of prescribed assets and Regulation 28 in South Africa. Regulation 28 is a retirement fund guideline that defines the percentage of capital that can be invested in various asset classes such as equity, property, bonds and cash. It currently imposes a limit of 25% of savings in property, 30% in offshore assets and 75% in equities. Proposed changes to these limits would see larger allocations for alternative asset classes such as private equity, which would increase from 10% to 15%, and up to 45% for infrastructure (with 25% in a single entity). Abbott says this increases pension schemes' risks and could be a precursor to the reintroduction of prescribed assets – where fund managers will be obliged to invest in asset classes of government's choosing. Says Abbott: "For someone with an international outlook, who thinks they may spend the latter part of their life somewhere else, having a pension that's invested along Regulation 28 is not really that appropriate. So, a more international pension solution makes a lot of sense for a whole lot of different reasons for someone like that."

The Rock Legacy solution accommodates investment solutions that can be selected directly by the client, based on their risk profile and investment time horizon. "Those solutions have got no home bias to any particular country. So, they're completely global and they're very diversified. Because we've got access to UK, European, US and global funds, we can select the cheapest funds from the biggest fund managers in the world. So, we're not restricted like South African-based investors are in terms of their investment choice."

**The importance of keeping good records in offshore trusts**

Offshore trusts can be important in building inter-generational wealth, and record-keeping within the trust can be a relatively simple affair for a South African trust when the beneficiaries have never left SA. Complications arise when the trust is offshore and beneficiaries are spread all over the world and the trust starts making distributions. At that point, the record-keeping of the trust becomes absolutely crucial. Financial planners often end up with clients who have legacy trustees in different jurisdictions, and in different trustee companies. "Management of trust accounts and trust companies is something Rock Legacy specialises in, and you have to have excellent record-keeping to make sound financial decisions going forward, so this is another reason we were attracted to Rock Legacy," says Abbott.

**Easy to sign up and get the tax benefits**

"The great thing about the Rock Legacy Pension Plan is that it is easy for the client to sign up; they can self-select the building blocks, start making the contributions, and get the tax benefits quite quickly," he says. Until recently, South Africans have been able to claim exemption from income tax if they worked more than 183 days outside the country in any year, with at least 60 continuous days outside SA. From March 1, 2020, any foreign employment income earned over and above R1.25 million will be taxed in South Africa, applying the normal tax tables for that particular year of assessment. This exposes South Africans who are ordinarily resident in South Africa to high levels of taxation and a sub-optimal financial planning position. If they are planning to emigrate they sorely need a method to reduce their SA tax bill while keeping funds offshore in an international pension plan. That problem has now been solved with the pension plan that can follow you around the world.

**Moneyweb | 26 October 2021**

## SA ranks 31st on the annual Mercer CFA Institute Global Pension Index

SOUTH Africa ranks 31st in the Global Pension Index, which compares 43 retirement income systems, covering two-thirds of the world's population.

The country had an overall index value of 53.6 points among the countries analysed and for the sub-indices scored 44.3 points for adequacy, 46.5 points for sustainability and 78.5 points for integrity. In comparison to last year, the sub-indices were 43, 46.7 and 78.3 points, respectively. Iceland had the highest overall index value (84.2 points), followed by the Netherlands (83.5 points). Thailand had the lowest (40.6 points). The index uses the weighted average of the sub-indices of adequacy, sustainability and integrity.

For each sub-index, the systems with the highest values were Iceland for adequacy (82.7 points), Iceland for sustainability (84.6 points) and Finland for integrity (93.1 points). The systems with the lowest values were India for adequacy (33.5 points), Italy for sustainability (21.3 points), and the Philippines for integrity (35 points). In comparison to last year, China and the UK showed the most improvement as a result of significant pension reform, which improved outcomes for individuals and pension regulation. Alexander Forbes head of best practice Vickie Lange said last week that South Africa's improved score for adequacy was mainly due to reforms that came into effect in March this year.

"Members of provident funds, who were younger than 55 on March 1, 2021, must purchase an income stream with at least two-thirds of their savings at retirement, unless their savings is less than R247 500. "This, however, excludes savings until March 1, 2021 with growth, which can still be taken as a cash lump sum," said Lange. In South Africa, the report suggested increasing the minimum level of support for the poorest aged individuals, increasing the coverage of employees in occupational pension schemes thereby increasing the level of contributions and assets, introducing a minimum level of mandatory contributions into a retirement savings fund and introducing preservation requirements when members withdraw from occupational pension funds.

The annual Mercer CFA Institute Global Pension Index is a comprehensive study of global pension systems, accounting for two-thirds (65 percent) of the world's population. Mercer senior partner and lead author of the study Dr David Knox said it was imperative for participants in the pension industry to act now. "Governments… have responded to Covid-19 with… economic stimulus, which has added to government debt, reducing the future opportunity for governments to support their aged population. Retirement schemes globally are tipping further towards accumulation-style plans, away from traditional defined benefit plans. Despite the challenges, now is not the time to put the brakes on pension reform – in fact, it's time to accelerate it. "Individuals are having to take more and more responsibility for their own retirement income, and they need strong regulation and governance to be supported and protected," said Knox.

**Business Report | 26 October 2021**

# INTERNATIONAL NEWS

## UK government to review pension charge cap

The UK government will consult on changes to the regulatory charge cap for pension schemes in an effort to unlock investment in innovative businesses, chancellor Rishi Sunak has announced.

The pension charge cap of 0.75% is designed to keep costs down for savers in default arrangements within defined contribution (DC) pension schemes. However, it has been criticised for being too restrictive by some in the pension industry, preventing schemes from investing in alternative investments, including venture capital and illiquid assets. Today's Autumn Budget outlines how the government will "consider options to amend the scope so that the cap can better accommodate well-designed performance fees" to ensure savers benefit from higher returns, while unlocking institutional investment in innovative firms.

Ministers will also continue wider policy work "to understand and remove various barriers to illiquid investment". The Department for Work and Pensions opened a separate consultation earlier this year on whether the charge cap prevents pension schemes from investing in a range of alternatives. And in letter to investors in August, Prime Minister Boris Johnson urged institutional investors to "seize the moment" and create an investment "big bang" by funnelling a greater proportion of their capital towards long-term UK assets – from pioneering firms to infrastructure.

He argued that UK institutional investors are under-represented in owning British assets; with over 80% of DC pension funds' investments in mostly listed securities, which represent just 20% of the UK's assets. However, the Pensions and Lifetime Savings Association's director of policy and advocacy, Nigel Peaple, said today that most schemes operate well within the 0.75% cap, averaging at 0.48%. He continued: "The government has already introduced some changes to the charge cap which came into force earlier this month. We would rather the government allowed some time to see what effect these recent changes have before consulting on further amendments. "The pensions industry is very open to investing in illiquid assets, such as infrastructure, provided they match the needs of pension scheme members and have the right investment characteristics, but this is a complex area, and we do not think the current charge cap is blocking such investments." The consultation is expected to take place before the end of the year.

**The Actuary | 27 October 2021**

## Pension fund CDPQ plans to pour $12bn into European and UK assets

Canadian group to target private investments in areas including fintech and infrastructure

One of Canada's largest pension fund managers has unveiled plans for a C$15bn ($12bn) spending spree on private assets in the UK and Europe in a significant expansion of its efforts to drive up returns offshore. Caisse de Dépôt et Placement du Québec (CDPQ), the C$400bn global investment group, told the Financial Times that it plans to deploy around those funds to the region over the next four years, with the UK standing out because of its "pro business" stance. The investment manager's allocation to Europe stands at roughly 14 per cent of its international portfolio and is "concentrated in the UK and France," Charles Emond, president and chief executive of CDPQ, told the Financial Times in an interview.

"We anticipate growing this figure in the coming years mainly due to opportunities we see across Europe for private investments in our sectors of expertise and interest, including financial services, financial technology, private credit, infrastructure, real estate, healthcare and the energy transition," Emond said. CDPQ, which invests on behalf of pension and insurance plans with millions of members and policyholders, said it will continue to invest in the UK and France, but was also "looking closely" at other European countries such as Germany, Spain and those in the Nordic region. Over six months to the end of June this year CDPQ posted a return of 5.6 per cent, above its benchmark index's 4.4 per cent return.

As part of its plans to bolster its European portfolio, the group expects to boost the size of its London team from 40 to up to 70 over the next year and a half. "Europe generally provides opportunities but the UK (with C$22bn of investments) is at the centre of all of that," added Emond. CDPQ revealed its European ambitions as cash-strapped governments around the world court foreign capital in an effort to tap finance for infrastructure programmes and fund their switch to low carbon economies. Emond was one of dozens of global asset management leaders who attended a UK government investment summit in London last week hosted by Boris Johnson, prime minister. "I must say I was impressed with the sales pitch," said Emond. "They really stand out as pro-business." He added: "I think the UK is positioning itself as a leader in sustainability and sustainable investment." CDPQ is also one of the biggest investors in the world in renewables, such as wind farms and solar power — areas the UK and other governments see as prime targets for private investment.

In September, CDPQ announced plans to accelerate its climate strategy by taking measures including offloading oil producers from its portfolio by the end of 2022 and holding C$54bn of green assets by 2025. Emond said it was getting harder to find green assets at a good price: "ESG inflows is record on record, so buying existing renewable assets you are paying through the nose," he said. Similarly, he said infrastructure was "a crowded space" with supersized institutional investors, including Australian and Dutch pension funds, vying for the same deals. Around C$150bn of the C$400bn portfolio is in assets that do not trade on public exchanges including private equity, real estate and infrastructure.

As part of its global investment ambitions, CDPQ also plans to increase its exposure to China from around 4 per cent of its overall portfolio at present to 5 to 10 per cent in the years to come. Around three-quarters of that slice is in public equities, with smaller allocations to private equity and real estate. China is under increasing focus over its human rights record, but Emond said the investment could square with the fund's ESG principles.

"I understand and acknowledge the broader social issues but the reality is there's [a] way to make responsible investing in China in some companies but you have to be selective," he said. A decade ago the fund was two-thirds invested in Canada and a third the rest of the world, with that proportion now flipped and "we are continuing on that trend because you have to be diversified". "There is much capital chasing the same assets. You got to be smart about what you buy where you buy."

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