

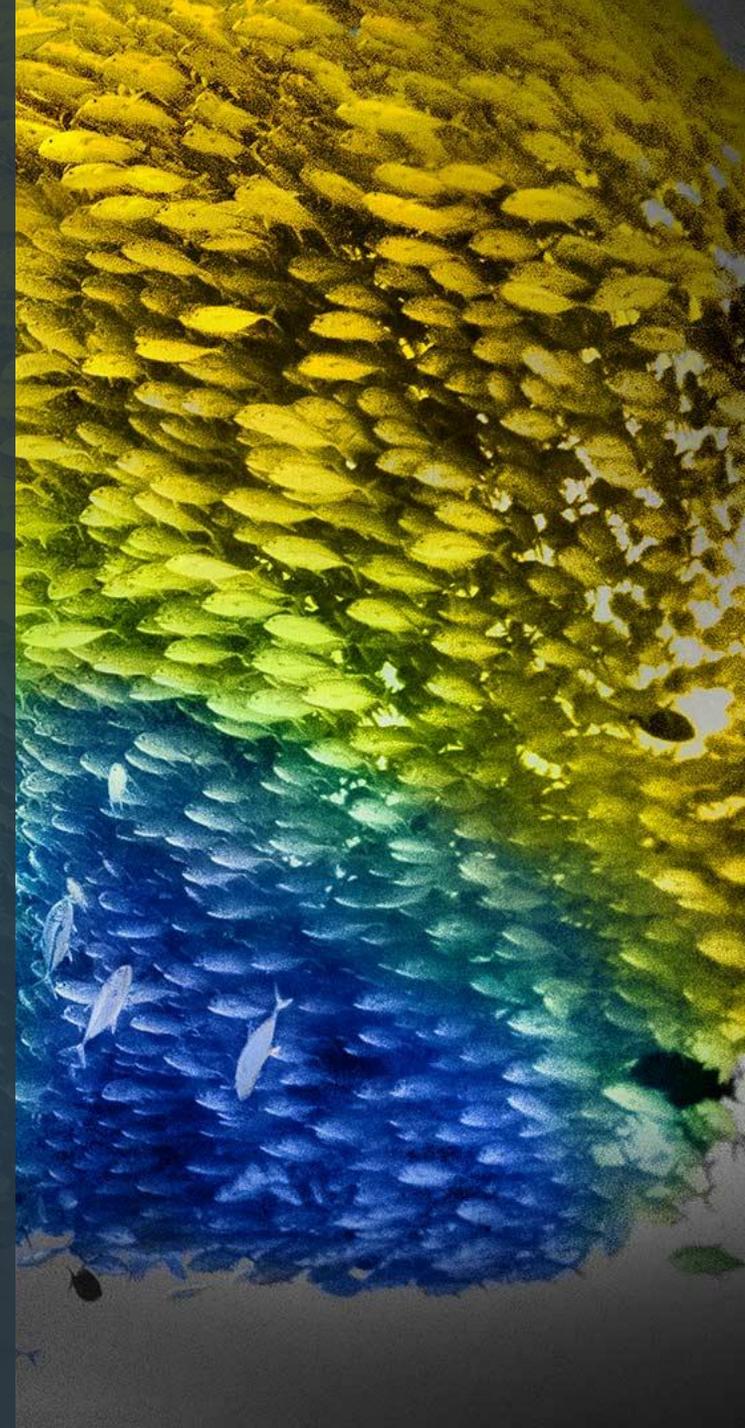
# Intensifying inflationary pressures

How real assets can help pension schemes  
manage the risk of rising inflation

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DB Strategic Investment Forum

15<sup>th</sup> September 2021



# Agenda

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1

An uncertain inflation outlook



2

Pensions hedging challenge



3

Adding real assets to your inflation toolkit



# Inflation – temporary or here to stay?

**NEWS**  
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## Inflation rise will be temporary, says Bank governor

5 days ago | Comments

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## Bank of England warns inflation will hit 4% this year but holds interest rates

Monetary policy committee resists pressure to increase the cost of borrowing, but hints at rise next year

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JUL 14, 07:18

## UK inflation rate climbs to 2.5% in June

Chris Giles



Second-hand car prices were singled out by the ONS as a driver of inflation this year © Bloomberg

Britain's inflation rate rose sharply in June, exceeding expectations and adding to pressure on the Bank of England to take the rise in prices more seriously.

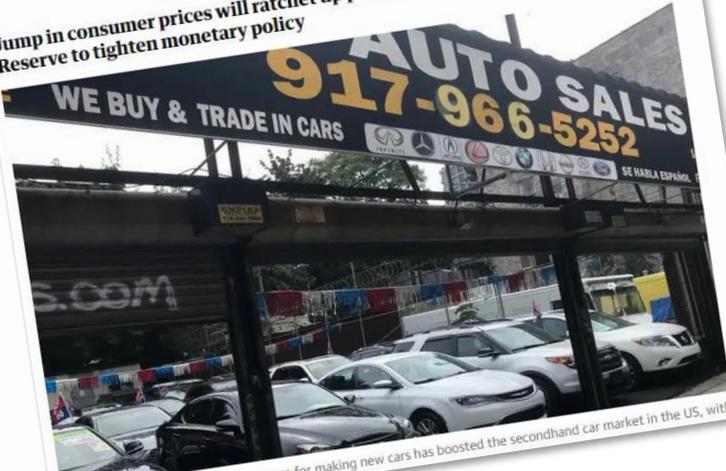
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## US inflation hits 13-year high in June

Jump in consumer prices will ratchet up pressure on Federal Reserve to tighten monetary policy

**Ed Helmore**  
Tue 13 Jul 2021 18.07 BST



▲ A supply shortage in semiconductors for making new cars has boosted the secondhand car market in the US, with

# The pensions hedging challenge

## 20yr RPI swap rate



# Adding real assets to your inflation toolkit

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**Real Estate Long Lease**



**Subsidised Renewables**

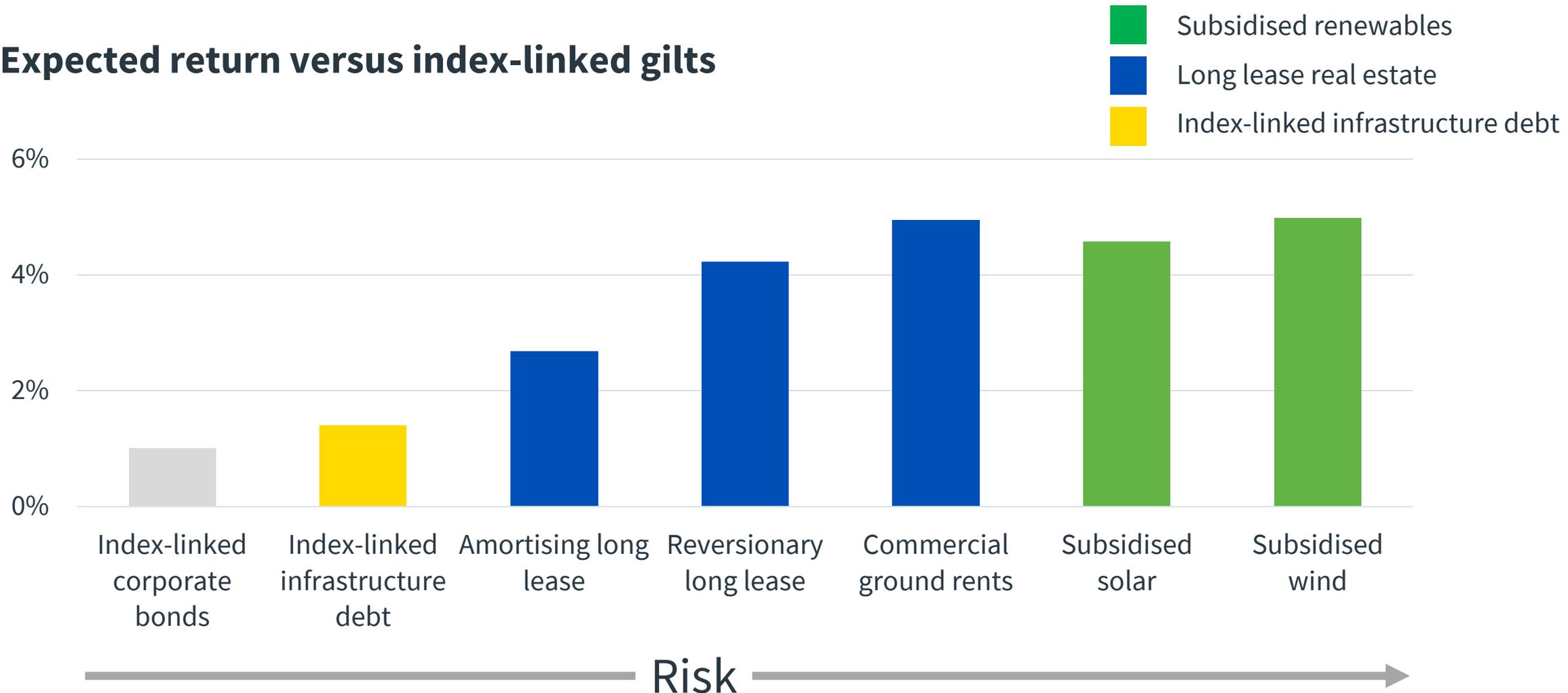


**Index-Linked Infrastructure Debt**



# Adding real assets to your inflation toolkit

## Expected return versus index-linked gilts



Source: Bloomberg / Aviva Investors as at August 2021. Chart shows the current spread over an equivalent duration basket of index linked gilts on a hold to maturity basis. **Projections or past performance is not a guide to future performance**

# Adding real assets to your inflation toolkit

	Return Enhancing	Income Yield	Inflation Protection	Investability
Subsidised Renewables	✓ ✓ ✓	✓ ✓ ✓	✓	✓ ✓
Commercial Ground Rents	✓ ✓ ✓	✓ ✓	✓ ✓	✓
Reversionary Long Lease	✓ ✓	✓ ✓ ✓	✓	✓ ✓ ✓
Amortising Long Lease	✓ ✓	✓ ✓	✓ ✓	✓ ✓ ✓
Index-Linked Infrastructure Debt	✓	✓	✓ ✓ ✓	✓

For illustrative purposes only based on Aviva Investors view of the market. Return enhancing column relates to the potential return versus equivalent duration index linked gilts. Income yield relates to the level of income versus equivalent duration index linked gilts. Inflation protection relates to the level of inflation protection provided, Investability relates to the potential speed of deployment. The number of ticks represents the perceived strength in the particular area.

**Projections or past performance is not a guide to future performance**

# Summary

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1

An uncertain inflation outlook



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# Risks

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The value of an investment and any income from it can go down as well as up. Investors may not get back the original amount invested.

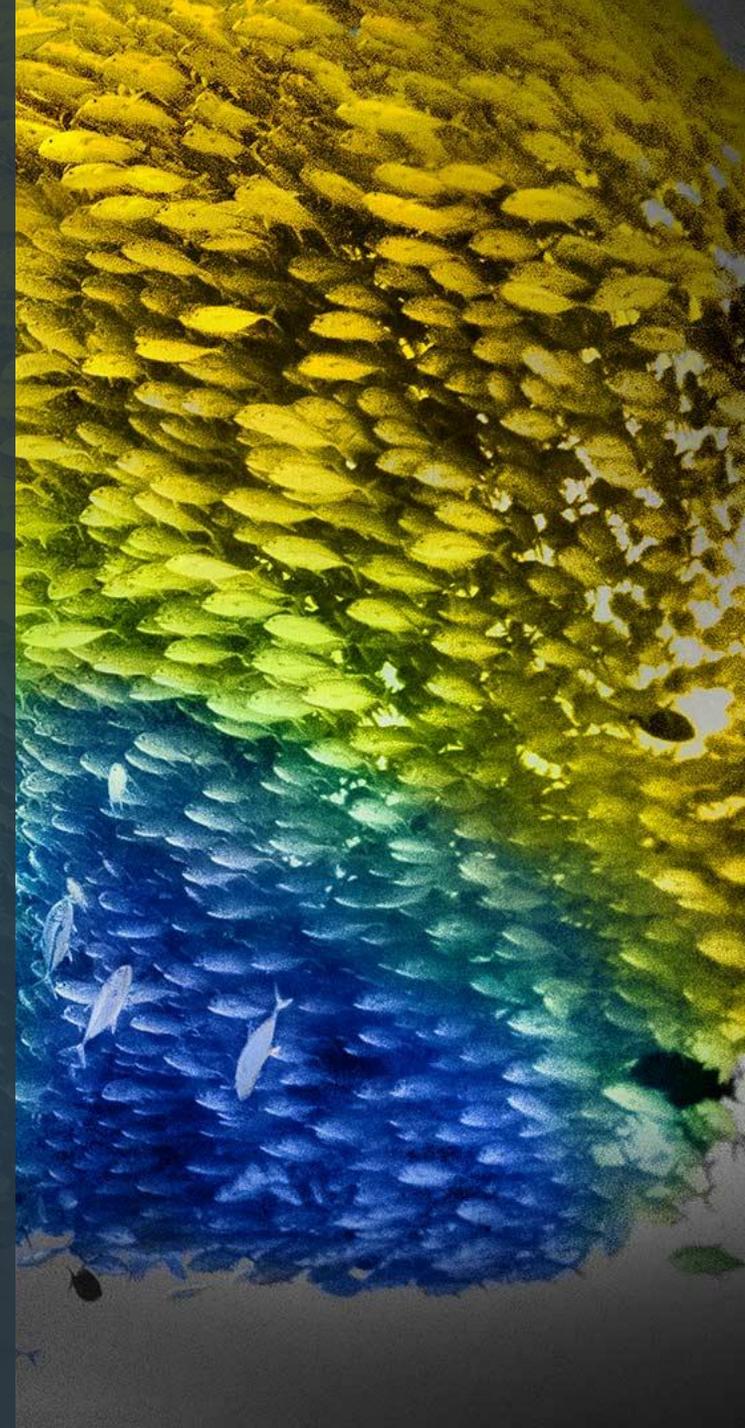
Investments in real estate, infrastructure and illiquid assets: Investors may not be able to switch or cash in an investment when they want because real estate may not always be readily saleable. If this is the case we may defer a request to switch or cash in shares or units.

Investors should bear in mind that the valuation of real estate / infrastructure is generally a matter of valuers' opinion.

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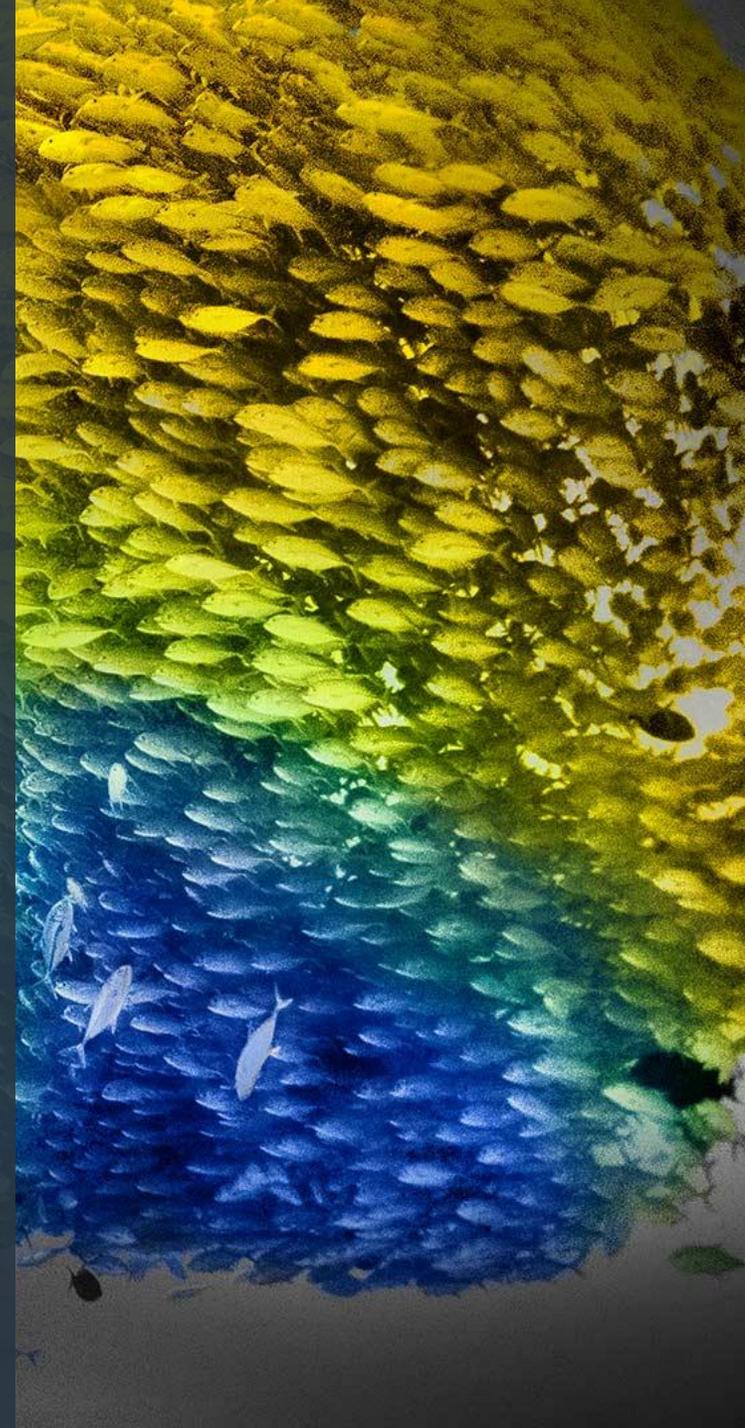
# Thank you

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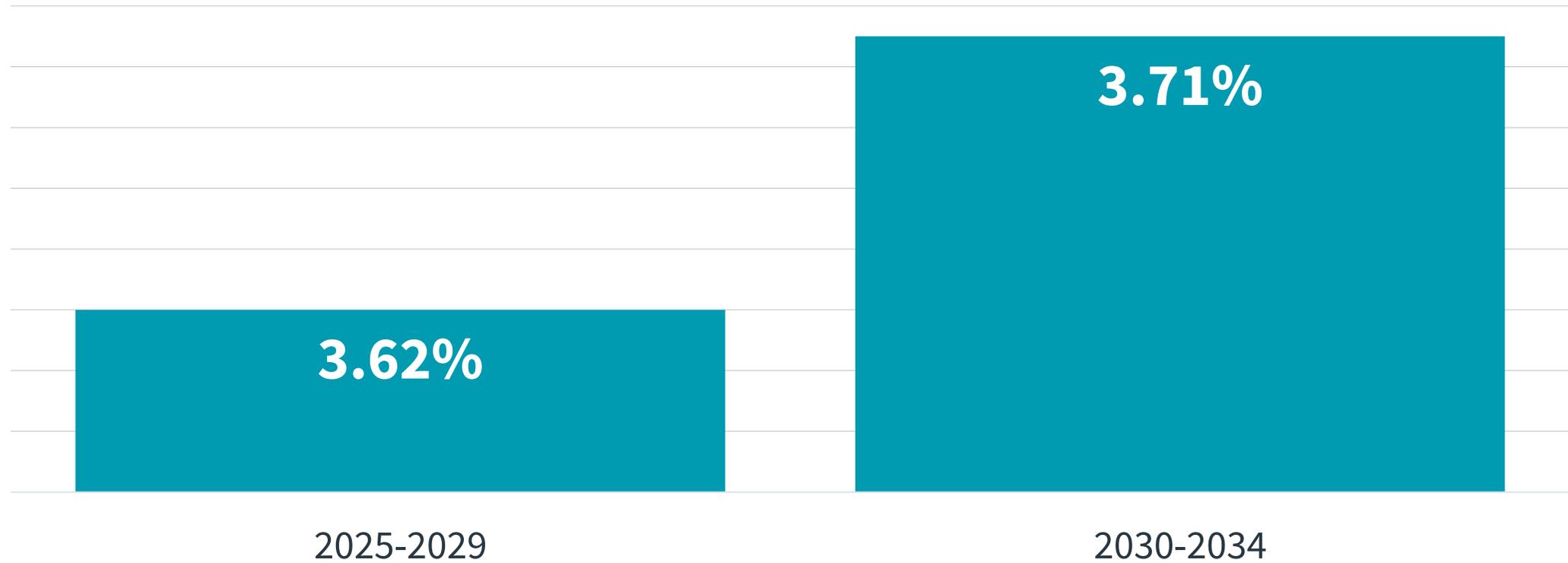
# Appendices

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# RPI review

## Market implied RPI



Source: Bloomberg as at August 2021.

# Important information

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