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Insights from Our Experts

The Risk Transfer Asset Manager

A Key Partner in Group Annuity Purchases

As the financial position of defined benefit pension plans improves, group annuity purchases play a key role in risk management strategies, both for plans that are still active and those at the end of their lifespan. These transactions, often planned several years in advance, involve critical steps with respect to asset management where execution is key.

Since annuity pricing is strongly linked to bond rates, an annuity purchase requires, in most cases, the partial or total transfer or liquidation of a bond portfolio. Inadequate preparation or execution can result in unwanted costs and market risks.

In this context, the asset manager's role must extend beyond traditional bond management, and risk transfer expertise becomes essential.

A Clear Trend

We are currently seeing a trend where several plan sponsors are choosing to switch bond mandates a few years or even a few months before an annuity purchase. The goal is clear: to make sure to work with a manager with the expertise, processes and flexibility needed to complete these complex transactions.

Why Use a Risk Transfer Manager?

1 Mitigate Risks During the Purchase Process

When considering an annuity purchase, it is crucial that the affected assets be invested with a sensitivity to changes in interest rates that is similar to that of the liabilities which will be transferred through the annuity purchase.

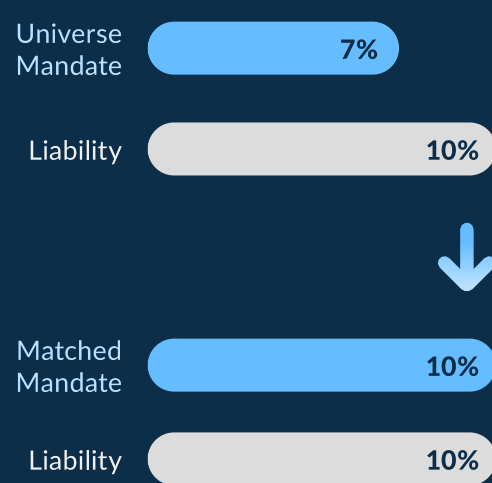
In this context, moving from a “universe” or even a “long-term” mandate to a more personalized mandate ensures a better match between assets and liabilities, thus contributing to maintaining the pension plan’s financial position.

2 Maintain Good Visibility on the Financial Situation

A portfolio manager specializing in risk transfer has the necessary tools to monitor the plan’s financial situation on a daily basis.

This approach provides clients with an additional perspective on market conditions specific to annuity purchases and their impact on the plan’s financial situation. It also ensures that the assets still in the portfolio following the annuity purchase remain invested at all times and in a manner consistent with the intended objectives.

Sensitivity to a 1% Change in Interest Rates



Source: Fiera Capital, as of December 31, 2025

3 Prepare the Portfolio for Liquidation

When a large volume of bonds is to be sold in the same day, it is important to have liquid securities in the portfolio. A gradual transition allows market opportunities to be seized, and thus minimizes transaction costs.

4 Ensure Smooth Execution at Transaction Time

The final annuity purchase price is usually determined in mid-afternoon, when interest rates are set by the insurer. When there is no premium adjustment mechanism, the bond liquidation should be carried out as soon as possible after confirmation of the final price to limit exposure to unfavourable market movements. It is also essential to have a clearly defined plan for selling pooled funds, if applicable, since they usually require a trade confirmation in the morning.

This step is critical, as a sudden rate increase following confirmation of the premium may result in portfolio losses since they would not be offset by a change in premium. It is therefore essential to work with a flexible portfolio manager with whom there are open lines of communication.

Planning = Savings

The Canadian bond market is an over-the-counter market with a bid-ask spread. This spread is smaller for more liquid bonds.

The difference between the executed price and the average of the bid and ask prices represents frictional transaction costs.

An orderly transition can save tens or even hundreds of thousands of dollars in transaction fees, depending on the transaction volume.

Liquidity by Bond Sector

Federal	Provincial	Corporate
Best Liquidity		Low Liquidity

Importance of Near-Simultaneous Execution

If the premium is set at $100M in mid-afternoon and interest rates increase by 0.1% between the time the premium is fixed and the execution of the bond sale, the plan will incur a $1M loss.

These losses are avoidable with rigorous preparation of transaction programs and a direct communication channel between the client and the portfolio manager.

Source: Fiera Capital, as of December 31, 2025

5

Avoid Unexpected Costs

Some clients are unpleasantly surprised when they request pooled funds to be liquidated and are charged bond selling transaction costs or an exit fee.

These fees are generally avoidable, for example by transferring securities from the pooled fund to the risk transfer manager, but this requires advance planning.

Over the **past three years**, Fiera Capital has worked with several clients on annuity purchase transactions of different sizes:

>30 transactions

>$3B in bonds sold/transferred

Source: Fiera Capital, as of December 31, 2025

Advantages of Working with Fiera Capital

Fiera Capital is a leader in bond management with more than $60 billion* in bonds under management as at December 31, 2025. We offer:

- **Recognized expertise** in pension plans, liability-driven investment and insurance-related investment
- **Proximity** to clients and advisors, **and availability** of portfolio managers
- **Experience** that has allowed our clients to realize notable savings in such transactions and **sound risk management** throughout the process
- **Detailed reports** and oversight mechanisms
- **Operational flexibility** to perform effectively at critical times

In a context where group annuity purchases are becoming more frequent and complex, the choice of an asset manager specialized in risk transfer can be a decisive factor and may help pension plans make these transactions more predictable. Rigorous oversight, efficient execution and an in-depth understanding of actuarial and liquidity issues are essential to a successful transaction.

* Source: Fiera Capital

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Canada

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