Master trusts
The partial transfer of some members into a master trust

LGPS
How pooling is enabling LGPS to invest in private assets

Custodians
Custodians are developing stronger relationships with pension funds

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March 2019

PENSIONS Age

The leading pensions magazine

Brexit: *In some shape or form, Brexit is coming. What does it mean for the pensions sector?*

Fees: *How to create a more transparent fee-charging framework*

Finding a way through

Where next for controversial contingent charging on pension transfers?

Case study: How Saga saved its pension scheme from closure

Editorial Comment

Sixth floor, 3 London Wall Buildings, London, EC2M 5PD

Money. We're taught from childhood (well, unless you were raised by Gordon 'greed is good' Gekko) that it isn't everything. But, to quote that well-known philosopher Del Boy in *Only Fools and Horses*: "It sure takes the sting out of being poor."

There are many pensioners who can certainly attest to that. According to Age UK, as of April 2018, 1.9 million pensioners are living in relative poverty in the UK.

Nearly two million people struggling to financially survive at retirement is too hard and abstract a figure to contemplate. To make it 'real' we have to think about it from one person's viewpoint, to really be able to empathise/sympathise with how financial difficulty affects their life.

Mentally reducing 1.9 million people down to one is not to diminish their ordeal. Instead it can actually increase that number's impact.

For instance, I still vividly remember as a child my grandad's anger and dismay at discovering his state pension had increased by the less-than-staggering sum of 75p. To the best of my knowledge he would not have been one of the 1.9 million counted as a pensioner in poverty, but now, as an adult, understanding how important the state pension was to him, makes it not too far a jump to imagine how his final years could have been different if he was struggling and desperate for a pension increase of more than 75p to financially survive. The thought of a loved one suffering generates a strong emotional response. Trying to visualise millions more in that same way only increases that sense of injustice and desire for change.

Those working in financial services are advantageously positioned to help make that change. For instance, p59 provides examples of times when relatively small efforts from those in the sector generated a big difference to savers' pension pots – one described it as akin to the member 'winning the lottery'.

That is why I was very pleased to hear Pensions Minister Guy Opperman recently reaffirming his commitment to reducing pensioner poverty. Also that The People's Pension is changing its charging structure, so that members pay less fees as their pension pot size increases. The odd percentage point here or there may not sound like much but it can make all the difference come retirement for the member.

But these are not just individual, or company, crusades. The industry generally is aware of the significant effect fees can have on a pension pot, and so is making efforts to increase fee transparency *[see our feature on p64]* and, as our cover story on p60 explores, to tackle the controversial issue of contingent charging for transfer advice. Hopefully these efforts will be of great benefit to the member.

However, even 'big' industry successes can also be considered small in the grand scheme of things. For instance, 10 million now saving for retirement through auto-enrolment (AE) is great news. But this celebration is dampened by the knowledge that contribution levels being paid into AE are currently too low to secure a comfortable retirement for most. We may have lots to celebrate now, making workplace pension saving the norm in the UK again, but there will be little to cheer about if the end result still doesn't significantly reduce the number of pensioners in poverty. *[See p25 for Pensions Age deputy editor Natalie Tuck's views on what can be done to address this concern]*.

So it is no wonder that the pensions industry currently focuses the member to think small, such as through gradual contribution increases and focusing on an 'adequate' retirement income. People are still so unengaged with pension saving, we hope that with small, soft steps we can lead members into a sufficient retirement with them barely noticing the journey.

But we know that people are increasingly required to be engaged with their retirement savings, and indeed efforts are being made with this, such as through the government's recently-launched 'mid-life MOT' website and the upcoming pensions dashboard, which should have been due this month.

Once financial engagement beds in with society, it would be nice to see the industry help savers take the next step, to move beyond an 'adequate' pension and instead enable the hopefully-by-then financially literate population to aim higher. To have them, as they approach retirement, be able to dream big and say: "This time next year, we'll be millionaires."

Laura Blows, Editor

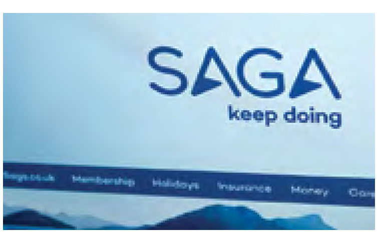
COVER FEATURE

Theme: Money matters

60

Finding a way through

As the Work and Pensions Committee prepares to send its findings from its inquiry into advisers' contingent charging for transfers to the FCA, Theo Andrew takes a look at the responses, possible solutions and why finding a way out of this challenge continues to be a maze for the regulator



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Pensions Age now has its new circulation - figure from the Audit Bureau of Circulations (ABC). 15,000 (July –June 2018) print distribution this is 100% requested and/or copies sent as a member benefit (PLSA, PMI, SPC, AMNT). Pensions Age is also sent as a Tablet Edition to our 25,000+ online subscribers (source: Publishers Statement Sept 18). Our print circulation is nearly 300% higher than other titles in the market.

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Dateline - February 2019

Rounding up the major pensions-related news from the past month

1 February The vast majority (92 per cent) of **Pension Wise** appointment customers were satisfied with their overall experience in 2017/18, a survey from the Department for Work and Pensions (DWP) reveals. According to the survey, 69 per said they were very satisfied, while only 3 per cent responded that they were dissatisfied. However, the report explains how "operational changes" led to a slight decrease in how satisfied customers were.

4 February Thames Water confirms it is in talks with employees and trade unions about the "long-term future" of its defined benefit schemes. The water supplier, which currently operates two DB schemes and one DC scheme, says the DB schemes are "unsustainable". "We are in discussions with employees and trade unions about the long-term future of these defined benefit schemes, which are unsustainable, but no final decisions have been taken," a spokesperson says. "We have a recovery plan in place to cut our pension deficit to zero by 2027 — we currently pay in an extra £22m every year."

5 February Government delays to pension reforms could result in low earners being thousands of pounds worse off, according to analysis from **Trades Union Congress** (TUC). The government had pledged to remove the Lower Earnings Limit (LEL), but the TUC says that ministers are "dithering" and have only given a "vague commitment" to lower the threshold in the mid-2020s.

6 February The **Pension Protection Fund** (PPF) is still unclear of the amount it will receive from the liquidation of Carillion, despite realisations totalling £413m at the end of 2018, the Insolvency Service (IS) says. IS official receiver David Chapman says in a letter to the BEIS and pensions committees' chairs Frank Field and Rachel Reeves that it is "too early" to tell how much will be paid to the PPF as it depends on the outcome of future recoveries, expected to be around £50m, as well as the level of creditor claims that are received from other entities.

7 February A complaint against a "misleading" advert by **Smart Pension** has not been upheld, the Advertising Standards Association (ASA) rules. The ruling did not uphold the previous decision after it concluded that the advert "was unlikely to cause distress to recipients without justifiable reason", following a complaint that the tone of the advert was threatening. The complaint related to the letterhead, which stated 'Failing to set up your workplace pension now could blow a serious hole in your company finances'.

Editorial credit: chrisdorney / Shutterstock.com

8 February Nine senior directors opted out of the **NHS pension scheme** in the past financial year (2017-18), adding to the exodus of workers leaving the scheme. The health service's annual accounts show that six NHS England board members left the scheme, along with three senior directors at NHS Improvement. The opt-outs could be a concern for NHS workers, as NHS Employers had previously warned that high earners leaving the pension scheme could destabilise it.

11 February The **Secretary of State for Work and Pensions Amber Rudd** outlines plans to introduce a seven-year jail term for the "wilful or reckless behaviour" of company directors who play "fast and loose" with their pension scheme. The new proposals, For more information on these stories, and daily breaking news from the pensions industry, visit **pensionsage.com**

Editorial credit: Twocoms / Shutterstock.com

outlined in the *Government Response to the Consultation on Protecting Defined Benefit Pension Schemes – A Stronger Pensions Regulator*, will target "reckless" company bosses who have "got away scot free" through "acts of astonishing arrogance … punished only with fines that barely dent bosses' bank balances".

12 February The government will begin setting out detailed proposals on the introduction of collective defined contribution (CDC) pension schemes in "the coming weeks", **Pensions Minister Guy Opperman** confirms. Opperman's comments follow the end of the government consultation on CDC schemes and he says the government will aim to formally respond to the consultation in the coming weeks.

13 February Pensioners defaulting into decumulation pathways at-retirement without financial guidance risk losing out on retirement income, according to **Wealth at Work**. Its recent survey finds that 86 per cent of respondents believe that employees with a DC scheme should not be defaulted into a decumulation pathway without financial advice when they retire "to protect individuals from making poor decumulation choices".

14 February STM Group completes the acquisition of Carey UK's pension business for £400,000, following approval from the Financial Conduct Authority (FCA). In October, the group agreed a deal to purchase 100 per cent Carey Administration Holdings Limited (CAHL), adding that it was planning a move into the auto-enrolment market via the business.

15 February The Pensions Regulator issued almost 22,000 compliance notices in the final quarter of 2018, it reveals. In its latest compliance and enforcement bulletin, the regulator says that it used its special procedure, where there is an immediate risk to members, three times over the quarter, and made a further 149 trustee appointments to protect members' benefits. The watchdog says it continues to use new approaches to "disrupt, deter and punish dishonest activity", despite the number of notices issued decreasing.

18 February The quality of advisers, including unregulated introducers, advisers in different countries from the member and advisers who have previous transgressions, is the greatest area for pension scam concern, according to new research from the **Pension Scams Industry Group** (PSIG). PSIG's report, *The PSIG Scams Survey Pilot 2018*, finds that 52 per cent of the 'red flags' raised by due diligence during 2018 involved the quality of advisers, making it the biggest concern.

19 February The Single Financial Guidance Body (SFGB) CEO, John Govett, has written to the Work and Pensions Committee outlining how the body will be developing its corporate strategy for the coming years. In the letter to the committee chair, Frank Field, Govett outlines how SFGB will work with both The Pensions Regulator (TPR) and the Financial Conduct Authority (FCA) "in a coordinated way" to build on Caroline Rookes' report into communications to the British Steel Pension Scheme (BSPS).

20 February LifeSight becomes the first master trust to be granted authorisation by The Pensions Regulator. A total of eight master trusts have applied for authorisation so far, with the remaining schemes granted authorisation expected to be announced in batches. LifeSight was the first scheme to apply for authorisation in October 2018.

Editorial credit: chrisdorney / Shutterstock.com

21 February The **Barclay's Group** pension surplus across all of its schemes more than doubled during 2018 to £1.5bn, its final results report reveals. The surplus rose by £0.8bn between 30 December 2017 and 30 December 2018, from £0.7bn to £1.5bn.

News focus

DWP plans seven-year jail term for 'reckless' company directors

As well as the plans to introduce the custodial sentence, which the industry has some "serious doubts"about over how easy it will be to challenge directors, the DWP is also giving TPR a range of new powers

Editorial credit: Willy Barton / Shutterstock.com

The Secretary of State for Work and Pensions, Amber Rudd, has outlined plans to introduce a seven-year jail term for the "wilful or reckless behaviour" of company directors who play "fast and loose" with their pension scheme.

The new proposals, outlined in the *Government Response to the Consultation on Protecting Defined Benefit Pension Schemes – A Stronger Pensions Regulator,* will target "reckless" company bosses who have "got away scot free" through "acts of astonishing arrogance … punished only with fines that barely dent bosses' bank balances".

According to the government, the law will be aimed at company bosses who allow the pension deficit to reach unsustainable levels, "or who endanger their workers' savings through chronic mismanagement".

Rudd said: "The vast majority of bosses take their responsibilities seriously and look after their workers' retirement funds. However, for too long the reckless few playing fast and loose with people's futures have got away scot-free. Acts of astonishing arrogance and abandon punished only with fines, barely denting bosses' bank balances."

Furthermore, the government said it will also introduce an "unlimited fine" for those who fail to comply with a contribution notice, a notice issued by The Pensions Regulator (TPR) that requires a specific amount of money to be paid into a pension scheme, as well as a new civil penalty of up to £1m.

"The changes will build on the robust system that is already in place to protect defined benefit pension schemes, and will help to ensure that the system is equipped for the challenge of a continually evolving pension's landscape," Rudd added.

Many consultation responses supported streamlining the process around contribution notices.

Commenting on the announcement, Work and Pensions Committee chair, Frank Field, said: "The Secretary of State deserves huge credit for stepping in to sort this so early in her tenure, where others have so long failed to act.

"But most people would be aghast to hear that this law doesn't already exist. How could it ever have been legal for company bosses to recklessly or wilfully or risk their workers' pensions? Retrospection in the law is usually to be avoided, and for good reason. But the actions of greedy bosses like those at BHS and Carillion have torn apart thousands of people's plans for the future. In such exceptional circumstances shouldn't the long arm of the law be able to reach into the past, to gain justice for those who lost so much?"

Reacting to Rudd's proposal, industry commentators generally agreed in principle, but said there are "serious doubts" over how easy it will be to establish a framework that will successfully challenge directors' misdemeanours in a criminal case.

Barnett Waddingham senior consultant, Malcolm McLean, said: "There are also serious doubts as to how easy it will be to establish the new criminal offence of 'wilfully' or 'recklessly' mismanaging funds. These are ill-defined terms that a clever defence lawyer is more than likely to successfully challenge on the 'beyond reasonable doubt' test needing to be satisfied in a criminal case."

Ashurst pensions counsel, John Gordan, argued that the lack of clarity around criminal offences will cause anxiety in the industry.

Lincoln Pensions CEO, Darren Redmayne, agreed that the proposals will be "hard in practice", and reacted to Rudd's proposals with scepticism. "In principle, Amber Rudd's proposals are hard to argue with and probably good politics ... However, establishing a clear framework over what constitutes wilful or reckless behaviour in court will be very hard in practice."

As part of its response, the government has also outlined its plans to strengthen the regulatory framework of TPR, in a package of measures that will allow it to better protect scheme members. The plans include improving TPR's ability to monitor corporate events, updating its information gathering powers and improving its anti-avoidance powers.

Regarding the watchdog's new information gathering powers, TPR will receive a standalone interview and inspection power, which will allow an inspector appointed by the regulator to enter certain premises where members of the scheme are employed.

New fixed and escalating penalties will also be introduced for non-compliance with section 72 information requests. Commenting on the measures, TPR executive director for frontline regulation, Nicola Parish, said: "We welcome the proposed new powers which, as a package, would allow us to identify potential problems earlier and take more effective action.

"The vast majority of scheme sponsors and trustees already do the right thing and we will be helping them further by delivering clearer funding standards and a revised DB code of practice." Regarding TPR's ability to monitor events, the government outlined changes to the notifiable events framework, ensuring an early warning system is in place "so TPR can consider whether to intervene early".

"Our new powers will act as a powerful deterrent against the poor treatment of pension schemes and help us in protecting members," Parish added.

Commenting on the subject, Clyde and Co head of pensions, Mark Howard, said: "There is more than just the headline criminal offences in the consultation response. The financial support direction regime is being streamlined – might we see TPR taking more cases on as a result?

"The regulator's information gathering powers are also extended to include the right to require interviews – which would override client confidentiality – and is to be backed up with fixed or escalating (daily) penalties."

The Department for Work and Pensions said it will bring forward legislation "as soon as parliamentary time allows" and that it will continue to engage with stakeholders on the proposals.

Written by Theo Andrew

NEWS IN BRIEF

Phoenix has provided £50m of funding to A2Dominion Housing Group. The funding will be used to refinance A2Dominion's maturing secured debt and "progress with new opportunities", which will provide more social and affordable housing. The transaction will provide regular cash flows to match Phoenix's longer-dated pension liabilities.

XPS Pensions Group has been appointed as an investment adviser to the **Harrods Group Pension Plan**. It was appointed by the trustee of the pension plans to provide investment advice, following a competitive tender process. Harrods Pension Plan chair of trustee, David Fripp commented: "We selected XPS Pensions Group to provide investment advice to the plan because we felt they would be a great fit for us."

Ensign plans to improve pensions engagement by introducing drawdown and retirement advice services. As a result, it has chosen Punter Southall Aspire to provide retirement services for its master-trust members. It is launching the Ensign Drawdown Account, which "comes with a choice of at-retirement guidance or regulated advice from Punter Southall Aspire's Retirement Services team".

STM Group has completed the acquisition of Carey UK's pension business for £400,000, following approval from the Financial Conduct Authority. In October, the group agreed a deal to purchase 100 per cent of Carey Administration Holdings Limited (CAHL), with the hopes of entering the AE market through the business. The deal means CAHL owns 70 per cent of self-invested personal pension provider, Carey Pensions UK, and 80 per cent of AE provider Carey Corporate Pensions UK.

VIEW FROM THE TPR

Ten million people – equal to the population of Sweden – are now taking the right steps towards being comfortable in retirement.

Working with the government, we've changed the savings culture. Automatic enrolment is now business as usual for employers and staff can expect a pension as part of their jobs. As a result of automatic enrolment, well above 84 per cent of staff are now saving into a workplace pension.

More than 1.4 million employers have done the right thing for their staff and we're delighted so many now have the opportunity to save for later in life. However, we are not complacent and will continue to ensure employers and their advisers meet their responsibilities.

As our recent compliance and enforcement bulletin shows, we will take action where an employer fails to do what is required of them, whether deliberately or not, so that staff receive the pensions they are entitled to.

And, while business advisers have played an important role in the success of automatic enrolment, helping millions of employers to meet their pension responsibilities, we will be tough on those who enable employers to avoid their legal duties, for example by making false declarations of compliance.

As included in the bulletin, in November last year we successfully prosecuted an accountant for falsely claiming his client's staff had been enrolled into a pension – the first time we have prosecuted an employer's adviser for this offence.

TPR director of AE, Darren Ryder

The Pensions Regulator

GMP equalisation could leave over 100,000 savers with six-figure tax bills

A freedom of information request by Royal London revealed that those who secured 'fixed protection' from the LTA could be hit

Guaranteed minimum pension (GMP) equalisation could leave over 100,000 workers who secured 'fixed protection' schemes with unexpected six-figure tax bills, a freedom of information request by Royal London has revealed.

Following the cut of the lifetime allowance (LTA) from £1.8m to £1m over several stages, some workers with high levels of pension savings were allowed to 'lock in' at the higher limits in schemes known as 'individual protection' and 'fixed protection'.

One of the conditions of fixed protection schemes is that the taxpayer does not accrue any further benefits in the future. Royal London has found that the process of GMP equalisation would count as an accrual, which could invalidate the protection.

Someone with a fixed protection scheme could see their tax relief limit falling from £1.8m to £1.03m, leaving them with a 55 per cent tax charge on the difference, which would be a bill of £423,500.

Royal London director of policy, Steve Webb, believes that "urgent clarity is needed from HMRC" to ensure that savers are not caught out by the changes. However, Royal London suggested that the government could already know there is a potential issue, citing the Department for Work and Pensions (DWP) DB benefit simplification consultation paper, published in December 2018.

In the paper, the DWP said: "We continue to work with HMRC to investigate whether changes might be necessary to tax legislation for those potentially negatively affected by GMP conversion as a result of benefit changes and corresponding lifetime tax allowance and/or annual allowance requirements."

When asked by Webb whether fixed protection schemes could cause a tax problem, HMRC responded by saying: "While we are considering any potential implications of GMP equalisation, including on the LTA. It would not be appropriate at this point to confirm whether there is a potential issue. We will publish further information as soon as possible."

Commenting, Webb said: "This issue combines two of the more complex areas of pensions – GMPs and pension tax relief limits. But that combination could result in a catastrophic tax bill for someone who had acted entirely in good faith.

"It would be absurd and perverse if a small and unrequested pension boost in response to a court judgment meant that a scheme member suddenly faced a huge tax bill. It is not good enough for HMRC and DWP to be discussing this issue and thinking about issuing guidance.

"Taxpayers need to know where they stand as a matter of urgency."

Written by Jack Gray

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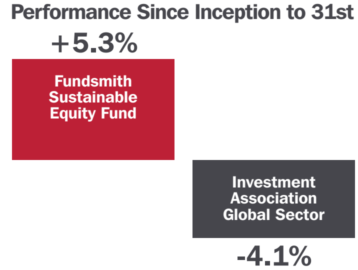

Performance % Total Return

	Year ending 31st Dec 2018	Since inception on 1st Nov 2017 to 31st Dec 2018
Fundsmith Sustainable Equity Fund[1]	+4.6	+5.3
Investment Assoc. Global Sector	-5.7	-4.1
Quartile Rank	1st	1st

[1] I class accumulation shares, priced at midday UK time.
Source: Financial Express Analytics.

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Standard Life
There's a lot to look forward to

VIEW FROM THE ABI

A false narrative has been created around the implementation options for the pensions dashboards.

The choice is not between single and multiple, but between regulated and unregulated or, safe and unsafe. Decreeing that there should only be one dashboard hosted by the SFGB will not make it so when 'unofficial' services are already starting to emerge via a combination of direct connections and use of unsafe screen scraping technology. Frustration over a lack of choice or functionality could lead to the emergence of an unsafe, unregulated market with little or no regulatory oversight and no common standards. This is why a wide variety of organisations have endorsed the model put forward in the DWP feasibility study.

The best way to empower and protect consumers is to build a system based on secure technology, based upon agreed standards with strong regulatory oversight. This is exactly what the ABI-led cross-industry project proposed and is the model that endorsed by *Which?*.

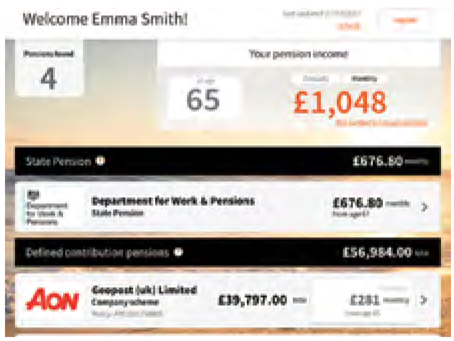
If properly implemented this model will ensure that only those who can prove both their technical expertise as well as their fitness and propriety will be able to offer dashboard-type services. This is the model that is being used to great effect by the Open Banking initiative. Pension savers are an ever-expanding and increasingly diverse population and the idea that one single central service could cater for all of their needs is misguided.

ABI policy adviser, long-term savings, Matt Burrell

ABI

Dashboard involvement to be mandatory for pension providers

Pensions Minister Guy Opperman also revealed that CDC proposals were imminent



The Pensions Minister, Guy Opperman, has confirmed that pension providers will be obligated to provide data for the upcoming pensions dashboard in a parliamentary debate.

However, Opperman admitted that the government was unsure of the timeline for all schemes to make their data available.

He stated that further details on the government's expectations will be revealed in the Department for Work and Pensions' response to its dashboard feasibility study, which is expected to be published mid-March.

In the debate, Opperman said: "There can be no doubt, however, that compulsion is coming, and that the only issue is the timeline. Certain providers could provide the data quite quickly.

"By and large, they know who they are, because they are the modern master trust providers that are already up to speed. Others will take longer. There is a legitimate debate to be had in this house, as we introduce the bill, about whether we put in place a specific time limit for data provision, or whether that is done in secondary legislation, and with merely indicative outlines."

The first dashboard service is expected to be launched this year and accommodated by the Single Financial Guidance Body.

In January, most pension industry members responded positively to the government's dashboard consultation, with Smart Pension head of policy, Darren Philp saying: "The dashboard has the potential to reconnect people with their pensions.

"By providing a one-stop shop for viewing pensions, dashboards can help people plan for their retirement, leading to better decision making and outcomes."

The Pensions Minister is also being kept busy with the development of legislation for collective defined contribution (CDC) pension schemes.

At the Trades Union Congress Pensions Conference, Opperman said that the government will begin to set out detailed proposals on the introduction of CDC pension schemes in "the coming weeks". He highlighted the government's view that CDC schemes have the potential to improve outcomes for employers and employees "when they work together".

Opperman said: "CDC has the potential to open up new avenues for employers and their workforces to develop the best pension arrangements for their individual circumstances. The positive and constructive way that the Communication Workers Union (CWU) and Royal Mail have worked *[on CDC schemes]* is an important lesson to us all about how the best can be achieved."

He also explained that the DWP, Royal Mail and the CWU have been working collaboratively behind the scenes to make CDC schemes a reality.

Written by Jack Gray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VIEW FROM THE PLSA

It has been an incredibly challenging decade for DB schemes and their sponsors. Yet despite this challenge, the majority of schemes and employers should successfully deliver member benefits in full.

But a significant minority of schemes and employers will face a harsher reality. Research and analysis by the PLSA's DB Taskforce identified approximately three million members in schemes with weaker employers carrying a 50/50 chance of getting their full benefits.

Both the DWP and the DB Taskforce concluded that new solutions are needed and consolidation vehicles or superfunds should be a major part of that. The key goal of them being to provide greater security for schemes with weaker employers, and establishing a challenging but achievable goal for employers to accelerate funding into their scheme in exchange for greater certainty over their obligations.

Finding the sweet spot between security and affordability remains hotly contested and superfunds will be one of the toughest areas to legislate. But, for me, the key issue is whether members be in a better position after transferring to a superfund than they were before. And if that's moving from a position where there's a 50 per cent probability of receiving full benefits to a 95 per cent chance, that will be a substantial and worthwhile improvement.

New things can often be scary, but it is clear that if new ideas and bold solutions aren't part of way forward for DB schemes and employers, we will see a repeat of many of same difficult challenges of the past decade.

PLSA head of DB, LGPS and standards, Joe Dabrowski

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

AE reaches 10m; focus turns to 'better member engagement'

The news comes as it was revealed that, globally, DC assets now exceed DB assets, with DC pension fund assets in the P7 having grown from 30 per cent to 50 per cent of pension assets between 1998-2018

The number of people that have been automatically enrolled into a workplace pension scheme reached 10 million in January, the latest figures from The Pensions Regulator have revealed.

Its monthly report on declarations of compliance revealed that the number of people auto-enrolled increased by 18,000 from January 2019, while the number of employers declaring their statistics increased by 17,000.

Commenting on the report, Secretary of State for Work and Pensions, Amber Rudd said: "Automatic enrolment is an extraordinary success story. Thanks to this revolutionary reform, 10 million people can look forward to a more secure future and a better retirement.

"That is a remarkable achievement. Workplace pensions had fallen out of fashion and were seen as the preserve of older, wealthier people. Now saving is the norm across the UK, wherever you work."

However, the number of workers not auto-enrolled in a scheme also rose during January, up by 27,000 to 9.29 million.

Since auto-enrolment was introduced in October 2012, the number of workers auto-enrolled into a pension scheme has been steadily increasing. The government hopes that this will continue, with Rudd concluding: "As we reflect on this milestone, we will of course be considering how we can reach even more people – with our ambition to bring in younger workers and enable everyone, particularly part-time and lower earners and the self-employed, to save more."

The news comes as it was revealed that the number of defined contribution assets worldwide, now exceeds defined benefit assets. Willis Towers Watson's Thinking Ahead Institute's *Global Pension Assets Study* revealed that DC pension fund assets in the P7 – UK, the Netherlands, Switzerland, Australia, Canada, Japan and the US – have grown from 30 per cent of total pension assets in 1998 to 50 per cent in 2018.

This continues the trend of DC growing at a faster pace over the past 10 years, WTW said, with DC assets growing by 8.9 per cent, while DB assets grew by 4.6 per cent during this time. The Thinking Ahead Institute's global head of investment content, Roger Urwin, commented that pension funds will continue to face a range of issues over the coming years, including the shift to a DC model, the growing impact of evolved regulations and further integration of ESG, stewardship and long-horizon investing.

"Despite its long history, DC is still weakly designed, untidily executed and poorly appreciated," Urwin said. He also noted that funds have benefited from private market diversification.

"2018 was the third-worst year for pension asset growth in the past 20, but it would have been quite a lot worse without the contribution from private markets that produced important risk diversification," he stated.

Written by Jack Gray and Sunniva Kolostyak

Unison in dispute with Thames Water over DB pension scheme

In other news, Cardano has revealed it has purchased Now Pensions and nine NHS executives left its pension scheme in 2017/18

The public service union, Unison, has said it is "disturbing" that Thames Water has revealed it is in talks with unions over the future of its defined benefit pension schemes, which Unison claims were "strictly confidential".

In February, *Pensions Age* reported that Thames Water was in talks with unions over the future of its DB schemes, as it plans to close the schemes by March 2020. The water supplier claimed that the schemes are "unsustainable".

Thames Water currently has a plan to cut its pension deficit to zero by 2027, with it currently paying £22m a year in contributions. In its most recent annual report, for 2017/18, it revealed its DB schemes as at 31 March 2016 had a combined deficit of £364.9m (actuarial valuation), compared to £288.3m in 2013. However, under IAS 19, its more recent deficit was £300.8m at 31 March 2018.

Unison national officer for water, environment and transport, Andrew Dobbie, told *Pensions Age* that "its pension schemes are not unsustainable for the company".

"The firm has had average operating profits of more than £600m a year over the past five years, but its pension contributions for its defined benefit schemes were less than one fiftieth of this figure last year."

He also said that the talks between the unions and Thames Water were meant to be confidential. "It is disturbing that Thames Water would comment publicly on discussions with unions on future pension provision. We were told by the company that these talks were strictly confidential and while we respected this, the company did not."

Dobbie has accused executives at the company of wanting to save on the cost of providing existing pensions.

In other news, the Cardano Group has agreed to acquire 100 per cent of the workplace pension provider Now Pensions from the Danish pension fund Arbejdsmarkedets Tillaegspension. The acquisition will result in group assets under its management exceeding £25bn and is expected to be completed later in 2019, once Now Pensions has gained authorisation from The Pensions Regulator as part of its master trust authorisation process.

The group expects its investment management mandate to be transferred from Now Pensions Investments to Cardano's UK-based fund management team, subject to the completion of due diligence by the trustee.

And finally, nine senior directors opted out of the NHS pension scheme in the last financial year (2017-18), adding to the exodus of workers leaving the scheme. The health service's annual accounts showed that six NHS England board members left the scheme, along with three senior directors at NHS Improvement.

The opt-outs could be a concern for NHS workers, as NHS Employers had previously warned that high earners leaving the pension scheme could destabilise it. The departures come after it was revealed that nearly a quarter of a million NHS workers left the pension scheme over the past three years, significantly more than in other public-service schemes.

Written by Natalie Tuck and Jack Gray

VIEW FROM THE PPI

With only a matter of weeks until the next phasing of auto-enrolment contributions begins, we are now seeing reporting in the national press of the potential impact of higher contribution levels. Unfortunately, headlines of *Pension contribution hike to see pay fall* are – at best – telling only part of the story.

It is undoubtedly true that for some people the amount that they get in their take home pay in April will be lower than the amount that they got in March (although for some the changes in tax and NI thresholds more than offset the increase in the minimum employee contribution, even before any annual pay rises are factored in). And in the current climate of uncertainty many people will be budgeting very carefully.

But if individuals, faced with such headlines, decide to stop making pension contributions they are likely to end up losing rather than gaining.

Tucked away in the very final line of the article, there is a very important caveat; 'employers' minimum contributions are also due to increase in April from 2-3 per cent'. So far from pay falling, the total amount a worker is paid will increase from March to April. Anyone stopping contributions will be giving up a contribution of at least 3 per cent from their employer.

A pension contribution is not lost income – it is money paid now into an employee's own account that they use to fund their future. So perhaps a better headline would be *Millions to benefit from pension-related pay rise?*

PPI director Chris Curry

PENSIONS POLICY INSTITUTE
PPI

Appointments

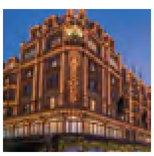

Robert Evans

XPS Pensions Group has announced the appointment of Robert Evans as a principal.

Evans has joined from Mercer, where he was providing strategic advice to trustees. Evans has over 20 years of experience as an actuary, advising trustees and sponsors on a wide range of matters including integrated risk management, funding negotiations, journey plans and member options. He joined XPS on 4 February 2019 and will be based in its London office. Commenting on the appointment, XPS CEO Paul Ruff said: "We are pleased to have Robert join the team at XPS. He is a very experienced pensions professional and will further strengthen our actuarial consulting team and demonstrates our commitment to growing the business. Pension schemes are going through a huge volume of change and need the right support, expertise and advice." Evans added: "XPS is at the forefront of the market, with the latest technology and thought leadership, making steps to change the industry."


James Double

Punter Southall Governance Services (PSGS) has promoted James Double to director. Double has headed up the trusteeship and technical for the firm since February 2017. Kevin Kenneally has also been promoted to PSGS client director, while James Duggan and Curtis Mitchell have both become scheme managers. Double is also an associate of the Pensions Management Institute.


Editorial credit: BBA Photography / Shutterstock.com

The **Harrods Group Pension Plan** trustee has appointed XPS Pensions Group to provide investment advice to the scheme, following a competitive tender process. The £700m pension scheme states that strong sponsor support in recent years means that it is now in a funding position where significant de-risking is possible, and so sought an adviser to partner with them in that journey. Harrods Group can trace its roots back 170 years. It is best known for its Knightsbridge department store.


David Fox

Dentons Pension Management has announced the appointment of David Fox to the board in recognition of his contribution to the business. This appointment is with immediate effect. Fox joined Dentons in 2011 and has over 20 years' experience in the pensions and advice sector. His career history includes Standard Life, Winterthur Life, Suffolk Life, Dominion Fiduciary and Dentons.


Mike Weston

LGPS Central has appointed Mike Weston as CEO. Weston stepped down as CEO of the Pensions Infrastructure Platform in January 2019. He was previously CIO of the Daily Mail and General Trust pension funds and a director at Hermes Investment Management. He is also a trustee of the Institute of Cancer Research pension scheme. John Burns has been promoted to deputy CEO and will continue as chief operations and financial officer.


Dan Mikulskis

LCP appointed Dan Mikulskis as a partner in its investment team. Mikulskis joins LCP from Redington, where he had been head of DB pensions since June 2012. Prior to that, Mikulskis worked in derivatives-focused roles at Macquarie and Deutsche Bank in Sydney. He is part of the Institute of Actuaries working party on self-sufficiency, buyout and consolidation, and The Pensions Regulator's Funding and Investment Working Group.


David Pharo

The Pensions Administration Standards Association (Pasa) has named David Pharo as its board director.

Pharo has 30 years of experience in the pensions industry and takes over the new role from Margaret Snowdon, who moved to the newly created non-executive role of president in January. He previously worked as client relationship manager at Aon, where he has been for 22 years.

Following the announcement of Pharo's appointment, Pasa chair Kim Gubler commented: "We are so pleased to be welcoming David to the board. It was clear from the outset that his wide-ranging experience in pensions administration and commitment to excellent service meant he could add real value to the work we do. David's insight on what is required to deliver high-quality administration – and the potential challenges – from both the trustee and administrator perspective will go a long way in helping us further support our members and develop new resources."

VIEW FROM THE AMNT

"No taxation without representation"

The American colonists coined this phrase in the 1780s to articulate their increasing fears that decisions were being made about their future by a British parliament without the colonists having any direct say.

This cry has echoed through the years when a minority with legislative powers make decisions affecting a majority who feel themselves powerless. Over time this situation has changed so that we now live in a representative democracy.

However in other aspects of life and work this situation still persists and the idea that 'we know best' is a maxim often displayed particularly when there are so-called 'technical' issues to discuss.

In the government's recent consultation papers on collective defined contribution schemes and superfunds, there is a clear bias towards experts who have the necessary technical skills being in charge of the governance of such schemes without the need for any membership representation in the form of member or employee-nominated trustees.

This bias is often disguised in the form of difficulties in developing such representative governance or in that the schemes are too complex.

This is a false premise. Members need to have a vested interest in their pension schemes, which is provided by those representatives who share that interest. Denying or subverting that right will not end well, as the British government found when denying American colonists their rights.

AMNT member Stephen Fallowell

AMNT Association of Member Nominated Trustees

Market commentary: Stability amongst uncertainty

Brexit is dominating the news and the entire country seems to be panicking about the economic consequences of the UK severing its ties with the nations of the European Union. However, amongst all the chaos, both the FTSE 100 and FTSE 350 monthly pension funding indexes for January 2019 remained relatively stable.

JLT Employee Benefits reveals that, during January, the combined deficit of FTSE 100 defined benefit pension schemes increased by just £1bn to £21bn, the smallest change since May 2018. The combined deficit of defined benefit schemes in the FTSE 350 over the same period, according to Mercer, remained unchanged at £41bn.

This seems bizarre, considering the turmoil surrounding Brexit and the economic doomsday scenarios being forecast by many financial experts. However, JLT chief actuary, Charles Cowling, explains that this could be due to markets "holding their breath" in this time of confusion: "A number of pension schemes have successfully navigated the turbulent markets by taking out investment risk at every opportunity."

Despite the stable January, it could be a case of 'the calm before the storm' as trustees and employers attempt to reduce their exposure to risk before prophecies of economic downturn come to fruition.

The extent of the impact that Brexit will have could depend on the way in which the UK exits the EU. In late January, XPS Investment stated that in a no-deal Brexit scenario, the overall funding level of pension schemes could be hit by around 5 per cent, estimating that a 'typical' scheme's liabilities could increase by 15 per cent, while assets could rise by 7.4 per cent.

However, in the event of a 'good deal', XPS predicts that the funding level could increase by 5 per cent, with a 12.5 per cent reduction in liabilities and a 7 per cent fall in assets. Commenting at the time, XPS Investment chief investment officer, Simeon Willis said: "Where we find ourselves now is that markets are pricing in the possibility of a no-deal Brexit."

Whatever happens, it is difficult to say whether pension funding levels will continue to be stable in the build-up to Brexit. The provisional date of the UK's exit from the EU, 29 March, is fast approaching and, at the time of writing, the whole process is still up in the air. Schemes could continue to be cautious in uncertain market in order to minimise risk wherever possible, or the more adventurous could view Brexit as a chance to capitalise on investment opportunities.

Cowling warns that operating a high-risk investment strategy could be foolhardy, saying: "This, though, may be a vain hope, and companies and pension trustees have to decide whether they can continue to afford to run with high-risk positions."

It's important to note that DB pension schemes in the FTSE 100 and 350 indexes are in deficit, meaning that a negative impact from Brexit could hit the market harder than if the funding levels were in a healthier position.

Written by Jack Gray

VIEW FROM THE SPP

Alongside many sensible ideas, the recent *Government Response to the Consultation on Protecting Defined Benefit Pension Schemes – A Stronger Pensions Regulator* naively proposes jail terms of up to seven years for directors who engage in 'wilful or reckless behaviour' that endangers their company's pension scheme.

The required legislation is likely to be some time away and there are obvious difficulties in defining such behaviour, especially when it will be judged retrospectively with the benefit of hindsight.

The high-profile cases we have seen over the past few years have unsurprisingly resulted in a knee-jerk reaction and a populist proposal from a government that misses the point entirely.

Defined benefit pension schemes have provided fantastic benefits for millions of people but they are naturally dependent on the continued survival of the sponsoring employer to pay the promised pensions in full, as there is no realistic prospect of all such schemes being fully funded on a solvency basis in the foreseeable future.

Big corporate failures have crystallised solvency deficits that would have remained hypothetical if the companies had been able to struggle through. None were caused by the pension scheme and none look like they would have been prevented by this proposed legislation.

Meanwhile, the pensions paid even after corporate failures are still far higher than the levels supported by auto-enrolment contribution rates, let alone those expected by the self-employed and workers in the gig economy.

Something must indeed be done but let's try to do the right something.

SPP council member, Hugh Nolan

THE SOCIETY OF PENSION PROFESSIONALS
leading pension thinking

In my opinion

On auto-enrolment reaching 10 million members
"Automatic enrolment is an extraordinary success story. Thanks to this revolutionary reform, 10 million people can look forward to a more secure future and a better retirement. That is a remarkable achievement. Workplace pensions had fallen out of fashion and were seen as the preserve of older, wealthier people. Now saving is the norm across the UK, wherever you work."
Secretary of State for Work and Pensions, Amber Rudd

On the proposal to introduce a seven-year jail term for directors who fail their pension schemes
"Most people would be aghast to hear that this law doesn't already exist. How could it ever have been legal for company bosses to recklessly or wilfully risk their workers' pensions? Retrospection in the law is usually to be avoided, and for good reason. But the actions of greedy bosses like those at BHS and Carillion have torn apart thousands of people's plans for the future."
Work and Pensions Committee chair, Frank Field

On Cardano's acquisition of Now Pensions
"Bringing Cardano and Now Pensions together is transformational for our group. It is an investment in the future of UK pensions, enabling us to grow and diversify our client base. We believe our combination of pensions risk management and investment skills, together with Now Pensions' enormous potential creates a 'new force' across the UK pensions landscape."
Cardano co-CEOs, Theo Kocken and Michaël De Lathauwer

On Just Group's £158 million buy-in with Pfizer pension scheme
"This is a well-funded scheme with a trustee board that was fully engaged in the details of every aspect of the process and was very well-prepared in terms of data cleansing and benefit specification. To ensure they had found the right home for the members' benefits, the trustees were very thorough and even undertook a site visit to review our administration capabilities."
Just Group head of DB business development, Martin Lines

On the obligation to provide data to the pensions dashboard
"There can be no doubt, however, that compulsion is coming, and that the only issue is the timeline. Certain providers could provide the data quite quickly. By and large, they know who they are, because they are the modern master-trust providers that are already up to speed. There is a legitimate debate to be had in this house, as we introduce the bill, about whether we put in place a specific time limit for data provision, or whether that is done in secondary legislation, and with merely indicative outlines."
Pensions Minister, Guy Opperman

Soapbox: AE is years away from true success

Last month brought with it a good news story for the pensions industry; the number of people that have been automatically enrolled into a workplace pension has reached 10 million.

Work and Pensions Secretary Amber Rudd, who having only been recently appointed to the job, will have had very little to do with the role out of the policy, declared it an "extraordinary success".

"Thanks to this revolutionary reform, 10 million people can look forward to a more secure future and a better retirement," she said. "That is a remarkable achievement. Workplace pensions had fallen out of fashion and were seen as the preserve of older, wealthier people. Now saving is the norm across the UK, wherever you work."

She's right of course. Auto-enrolment has been a fantastic government policy, which let's not forget was legislated for by a Labour government, and began implementation under the watchful eye of a Liberal Democrat Pensions Minister, with the Conservatives now claiming it to be one of its own success stories.

But in actual fact, how can we really know yet if the policy is a success? Yes, 10 million people saving into a pension is a good thing, but what if they're not saving enough? With minimum contributions currently only scheduled to increase to 8 per cent in April 2019, made up of a 5 per cent employee contribution and 3 per cent employer, one could argue that auto-enrolment is far from success.

Countless times, industry experts have warned that contributions need to rise to at least 12 per cent of a person's salary to broadly give them enough money for an adequate retirement. Others believe that as a percentage, contributions should be half a person's age at the start of saving.

But, over a year from the government's auto-enrolment review, no plans are in place to increase contributions further than the April 2019 rise.

I think the biggest mistake with auto-enrolment was launching the policy with such a low contribution rate, and making the employee contribute more than the employer from April 2018. For comparison, in Australia, which granted, is many years ahead of the UK with this, there is a compulsory employer contribution of 9.5 per cent, with the employee part being voluntary.

There's a consensus building within the industry that contributions from both the employer and employee should be equal. Recent research by the Association of British Insurers found that employers support a small increase to their contributions.

However, the research also found that many employers believe a total of 8 or 10 per cent of earnings is acceptable. There is clearly more work to be done in educating employers on the levels their employees need to contribute for adequate income in retirement, let alone the employees themselves.

If it was me steering the ship, then from next year contributions for the employer would rise to 4 per cent, and then 5 per cent the year after, bringing the total to 10 per cent. Following that, I would increase both to 6 per cent.

This is because I firmly believe that before any further increases are made to employee contributions, the employers' share should be brought in line with their employees. If that were to happen, then I would be more confident that auto-enrolment is set to be a real success.

Written by Natalie Tuck

VIEW FROM THE PMI

Back in 2012 when the percentage of the private-sector membership fell to a low of 42 per cent, who would have thought that by 2019, this figure would have increased to over 80 per cent, with over 10 million now saving for retirement in a pension scheme.

This is a fantastic achievement and one that should be applauded but it's only half a job done. We now need to ensure those saving for retirement have enough to retire on – it is recognised that 8 per cent just isn't enough. We have to look at ways to encourage people and employers to increase contributions.

Other successes that have come from auto-enrolment (AE), include the rise of the master trust and the focus that has brought on good DC governance. Whilst The Pensions Regulator has dragged DC governance standards upwards, the knock-on effect has been the acknowledgement that they should also be raised in single trusts, which can only be positive.

What AE has also achieved is scale – we can see economies of scale being brought in, allowing for investment in innovative and improving the member experience. A number of master trusts are leading the way in developing technologies that will mean our industry will match those of other sectors for the customer experience.

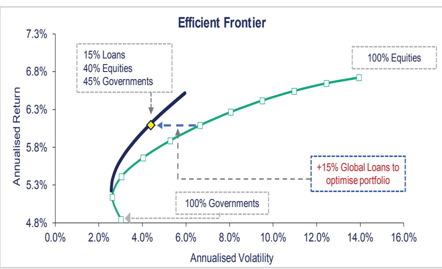
In turn, these technologies will be used to encourage members to consider their financial future, plan for that retirement earlier, and even contribute more. So yes, I think we can say it has very much been a success so far but there is still more to be done.

PMI president Lesley Carline

Taking a global view

Jim Fitzpatrick reveals how an active, global approach is key to investing in loans market

Senior secured loans continue to offer a relatively defensive combination of features (floating rate, well diversified, senior and secured), which make them, in our assessment, well suited to meet the needs of many institutional investors. With so many idiosyncratic features, it is perhaps no surprise that they can bring a welcome degree of diversification to fixed income portfolios.



At the same time, the investment environment has changed. Central banks have gradually moved away from quantitative easing, and the economic environment has the potential to introduce volatility for certain industries and individual borrowers.

We believe this presents an opportunity for active managers to capitalise on the increased dispersion of returns across geographies and between sectors, to generate alpha from asset allocation and security selection.

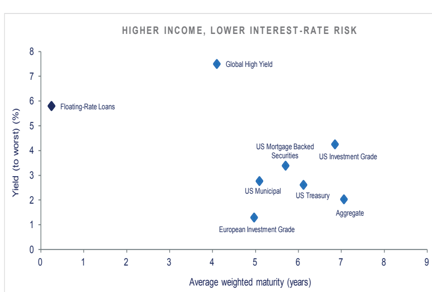
We believe it also reinforces the importance of an active, global approach underpinned by disciplined fundamental research if managers are to be able to navigate this new environment successfully.

Senior secured loans

Senior secured loans (loans), or bank loans as they are sometimes called, are private loans made to companies whose credit rating is sub-investment grade. They will typically be syndicated or shared across ten or more institutional lenders, and proceeds used for a variety of purposes, from consolidating debt and re-capitalising the company to funding acquisitions and leveraged buy-outs.

As the name suggests, a senior secured loan will be senior in a borrower's capital structure and secured on assets. Holders will typically have the first claim on the assets and cashflows of a company, with the loans themselves secured on assets which can be sold in the event of problems. The rights of lenders to protect their capital and the obligations on the borrower are set out in each loan credit agreement in the form of a series of covenants or requirements. Recovery rates in the event of default for loans have historically been significantly higher than for other creditors at 80 per cent in the US and 70 per cent in Europe.

Loans pay interest at rates that change periodically on the basis of a floating-rate lending rate, typically based on LIBOR or EURIBOR plus a fixed spread or risk premium reflecting the credit risk of the borrower. This floating-rate structure also means that loans tend to have a lower interest-rate duration, or sensitivity to interest-rate changes, than other fixed income securities with similar maturities.



With an estimated market size of $1.1 trillion in the US and €190 billion in Europe, well diversified by geography and sector, we believe the asset class makes it a good fit for the needs of many pension funds. If the projected benefits of the asset class are to be realised, however, we believe investors should be cognisant of the changing investment environment, and particularly the likelihood that we will see further volatility and increased dispersion of returns in the future.

Opportunity

This can be seen as an opportunity to generate alpha from asset allocation and security selection. However, if this is to be successful we believe it requires an ability to invest globally, in both Europe and the US. This gives managers the flexibility to protect investors on the downside and to capture upside opportunities during periods of market volatility. By taking a global approach to investing in the loans market, an investor increases the opportunity set and has the flexibility to allocate between geographies to take advantage of relative value differences across markets.

Perhaps even more importantly, we believe it requires disciplined fundamental research. Being highly selective, maintaining credit discipline and not 'buying the market' is critical if alpha opportunities are to be identified and challenging markets navigated safely. Assessing the business model, capital structure and whether an investor is being paid an appropriate risk premium to compensate both for the probability of default and loss given default are at the heart of making good lending decisions and delivering satisfactory returns to investors.

Written by Jim Fitzpatrick, head of global loans, CQS

VIEW FROM THE ACA

In our response to the DWP consultation on the pensions dashboards, we expressed strong support for the initiative, whilst warning about the care needed in managing user expectations and not rushing its implementation.

Our response notes that the data and security issues will require material upfront investment and there is little detail in the DWP consultation on these vital matters. We also note that for members to fully understand the benefits provided by their multiple DB schemes it is important that schemes have the opportunity to simplify their benefits alongside GMP equalisation, ahead of them being required to place benefit details on the dashboards.

For many DB schemes there will be costs associated with data cleansing and electronic storage. The consultation document barely discusses this issue and consequently schemes may not be aware of the likely additional costs.

And we do have concerns about security of the ecosystem. If it is breached by hackers they will presumably be able to access extensive personal and financial information about millions of people and potentially go on to try to hack their way into individual pension schemes where certain malicious actions, such as changing investment choices in DC schemes and changing death benefit nominations in any scheme, might be open to them. We feel it essential that there are protections for trustees and sponsors from prosecution should members' personal data be illegally obtained from dashboards.

ACA chair Jenny Condron

ASSOCIATION OF CONSULTING ACTUARIES

Diary: March 2019 and beyond

PLSA Investment Conference
6-8 March 2019
Edinburgh International Conference Centre, The Exchange, Edinburgh,

The PLSA's Investment Conference 2019: *Investing on the brink,* explores a number of high-level topics, including Brexit and climate change, with a top-level roster of speakers covering the current and future investment environment. The programme features high-level ideas, as well as practical direction on more than just how to steer through the difficult investment environment, but how to flourish in it and provide savers with the best possible outcomes.

For more information, visit:
www.plsa.co.uk/Events-Investment-Conference

Sustainability Summit 2019
12 March 2019
The Waldorf Hilton, London

The Sustainability Summit offers pension funds, insurance companies, charities and corporates the opportunity to both learn and network alongside their peers at such a key time for the sustainable investment industry. This one-day conference, now in its second year after its huge success in 2018, is open to all those concerned with the investment of assets into this asset class.

For more information, visit:
http://pensionsage.com/sustainability/

Pensions, Data and Technology Seminar with ITM
15 March 2019
Hilton Tower Bridge, London

The pension industry is changing. Regulation, technology and disruptors are all influencing the challenging yet opportunistic environment we find ourselves in. But where is the industry heading and what can we learn from the past? The 5th annual Data and Technology Seminar will combine the pragmatic and strategic with the futuristic and visionary. Bringing together pensions professionals from across the industry for what promises to be lively, informative and thought-provoking discussions.

For more information, visit:
http://www.pensionsage.com/itmseminar/

Pensions Age Spring Conference
28 March 2019
The Waldorf Hilton, London

The Pensions Age Spring Conference offers pension funds and those working in the pensions space the opportunity to both learn and network alongside their peers at one of the most dynamic times in the history of UK pensions. This is a one-day conference, open to pension scheme managers, trustees, FDs, advisers, pension and HR professionals.

For more information, visit:
www.pensionsage.com/springconference/

Visit www.pensionsage.com for more diary listings

Month in numbers

10 million
The number of people who have been automatically enrolled into a workplace pension scheme reached 10 million in January, the latest figures from The Pensions Regulator have revealed. In its January declarations of compliance 2019 report, the number of people auto-enrolled increased by 18,000 from January 2019, while the number of employers declaring their statistics increased by 17,000. Secretary of State for Work and Pensions, Amber Rudd said: "Automatic enrolment is an extraordinary success story."

£60 billion
Assets in occupational DC schemes have almost tripled to £60bn since the start of 2011. The government is urging smaller DC pension schemes to merge in order for them to take advantage of a broader range of illiquid investment opportunities.

Seven years
Plans have been outlined by the government to introduce a seven-year jail term for the "wilful or reckless behaviour" of company directors who play "fast and loose" with their pension scheme.

Developments on the horizon

Matthew Swynnerton looks at some of the legislative and regulatory developments that are on the horizon for trustees of occupational pension schemes

This year has got off to a busy start for pensions, with developments including a DWP consultation on DC investment and consolidation, as well as the response to its consultation on the regulator's powers, and there are a number of further developments on the horizon. In this article we look at some of the future developments that may require action by trustees.

Areas where legislation has already been made

Trustees will need to ensure that they are ready to comply when some legislation made in 2018 comes into force later this year.

• On 6 April legislation comes into force that introduces a new requirement for trustees of schemes providing money purchase benefits (subject to some exceptions) to provide members with a statement, on request, about the pooled funds in which their pension pot is invested.

• By 1 October trustees need to update their Statement of Investment Principles (SIP) so that it reflects new requirements in relation to reporting their policies on financially material considerations, the extent (if at all) to which non-financial matters are taken into account, and stewardship. Trustees of schemes providing money purchase benefits (subject to some exceptions) will also have to make their SIP publicly available on a website.

Other developments

A key issue for trustees of schemes that were contracted-out between 17 May 1990 and 5 April 1997 will be addressing GMP equalisation. Guidance is awaited from the DWP, building on its November 2016 consultation that looked at a method that involves using the GMP conversion legislation. HMRC has stated that it is considering the pensions tax issues arising and will give more information through its pension schemes newsletters in the coming months.

In August 2017 the DWP and Treasury published the response to their 2016 consultation setting out proposals to tackle pension scams. Some of those steps, such as a ban on cold calling in relation to pensions, have already been taken. However, further action is still awaited on the proposal to limit the statutory right to transfer. The response stated that this change would be co-ordinated with the roll out of the master trust authorisation regime. With the 31 March 2019 deadline for applications for authorisation approaching, it may be that there will be further progress this year on limiting the statutory right to transfer and, if so, trustees may need to review and update their transfer processes.

Regulations came into force on 13 January 2019 to implement the IORP II Directive. The regulations include provision that trustees must establish and operate an effective system of governance, including internal controls, which is proportionate to the size, nature, scale and complexity of the activities of the scheme. The detail of this requirement will be set out in a code of practice from the regulator. Whilst it is not known exactly when this code will be published, trustees should be aware that this is on the horizon and, following its publication, they will need to review whether any changes are needed to their governance arrangements.

Another issue on the horizon but in respect of which the timing is not yet known relates to applications from members with a right or entitlement to flexible benefits to transfer or start receiving their benefits. The Financial Guidance and Claims Act 2018 provides that regulations must be made requiring trustees to refer such members to appropriate guidance as part of the application process and, before proceeding with their application, ensure that they have either received appropriate guidance or opted out of doing so.

The remedies being introduced following the Competition and Markets Authority's investment consultants market investigation (which include some requirements for trustees such as setting strategic objectives for their investment consultant) are expected to come into force later this year.

It is also of note for future valuations that, following the DWP's March 2018 DB white paper, the regulator is expected to issue a consultation later this year in relation to updates to its DB funding code.

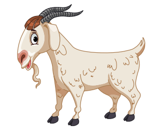
Conclusion

It looks to be a busy time ahead for pensions, and trustees may find it useful to consider whether any of these issues should be added to their work plans.

Written by Matthew Swynnerton, pensions partner at DLA Piper

In association with DLA PIPER

Instrumental to admin



With guaranteed minimum pensions (GMP) equalisation hitting the headlines, Theo Andrew talks to Pasa Industry Policy Committee and GMP working group chair, Geraldine Brassett, on her greatest achievements and why she would make a good goatherd

What is your pensions career CV?
I have been very fortunate to have had the opportunity to undertake a variety of roles in my career. My first job was as an administrator, progressing to managing administration operations and then moving into working with trustees and employers in a client-facing role. Alongside my 'day job' I have also worked on industry initiatives and, at present, this is primarily in my capacity as chair of the Pasa Industry Policy Committee and a number of its working groups.

What other areas have you worked in and what roles have you held prior to joining the pensions industry?
Apart from a paper round and a Saturday job working in a traditional hardware store then my whole working life has been in pensions.

What is your greatest work achievement so far?
For me, any occasion when I believe I have added value or earned respect feels like an achievement, but I hope my greatest achievement has been to help raise the profile of administration and highlight how important it is that everyone works together to deliver a quality service to members.

What do you still wish to achieve?
I pretty much started my career with GMPs so I would like to be instrumental in helping to deliver the good industry practice, which Pasa's cross-industry GMP Equalisation Working Group was put in place to make happen.

What is your biggest regret within your career?
I try not to be someone who looks back as you can't unpick the past but, from experience, when I talk to our trainees I stress to them the importance of asking for help and keeping the work/life balance in perspective.

Excluding your current role, what would be your dream job (in or out of pensions)?
I have always wanted to keep pygmy goats so maybe when I stop working in pension administration I could become a goatherd!

What was your dream job as a child?
When I was younger I wanted to be a vet but I now realise that I would not have been very good at it as I am far too squeamish.

What do you like to do in your spare time?
I have developed a bit of a passion for baking, which is not great for the diet but makes me popular at home. I also enjoy seeing friends, the cinema and theatre and I do some voluntary work, including acting as deputy chair on the board of governors at a local school, so I keep pretty busy.

Any particular skills or party tricks?
My only party trick is being able to sing some songs backwards. Why I ever did this for the first time I have no idea but occasionally I have been known to perform this on request… but not recently.

Who would be your ideal dinner party guests?
Winston Churchill, as he would be fascinating to talk to about so many different subjects. He had a reputation for being an excellent dinner guest and for loving good food. The late Alan Rickman; he could talk about anything and I would just enjoy listening to his voice for an evening. Mr Fitzwilliam Darcy but, on the basis that he is (sadly) a character in a book, his creator Jane Austen. Her novels have been so enduring and, in many ways have remained relevant. Lastly, Mary Berry so she could give me some tips on improving my baking skills.

Do you have a particular phrase or quote that inspires you?
Actually I have two.

The first one being 'if you do not measure what you value you only value what you measure.' This is really important in pension administration as the quality of the service we deliver is often judged primarily by the speed of delivery. At Pasa we are committed to ensuring quality administration is measured by the impact on member outcomes.

The second one is 'to not worry about things you cannot change and put all your energy in to those things where you can make a difference.' It sounds so obvious but it is something that I remind myself of on a daily basis.

Written by Theo Andrew

The value of good advice

Subsidising member advice might just be one of the shrewdest moves ever made by a trustee board or an employer, Ian Gutteridge reveals

Since pension freedoms came into force in 2015, members from all types of pension arrangements have expressed interest in the way they can retire.

A number of employers and trustee boards have launched member incentive exercises, aiming to reduce scheme costs and liabilities from their defined benefit schemes.

Hundreds of thousands of pounds are easily spent on such exercises and the return on investment can be significant. However, with IFA capacity reaching a ceiling, the option of introducing a 'business as usual' service, where the trustee board or employer provides a subsidised advisory service can be highly cost effective, albeit without the need to splash out the huge sums to cover the entire cost of advice.

Why 'business as usual'?

An option where pension scheme members, on reaching retirement, or considering a transfer of benefits, have access to a dedicated adviser can provide a range of benefits to all parties.

Having access to an adviser who understands fully, the existing pension scheme and who can explain member options, including the pros and cons of pension freedoms is appreciated by the member. Good member outcomes and excellent member appreciation are essential targets.

A happy and appreciative employee is great PR for the employer.

The HR director should be happy to deflect awkward member questions in the direction of the IFA. The finance director should appreciate that employees are making the right decisions with those who end up transferring their DB pension, over time, removing reasonable levels of unfunded liabilities.

However, it is trustee boards who have the hardest decisions to overcome. On the one side, the trustee wants to help their members, providing education and a service that ensures the right member outcome. On the other side sits the trustee who worries about endorsing an advisory service, which if it goes wrong, could result in reputation damage.

Selecting the right IFA

To overcome concerns, trustee boards should participate in any selection of an adviser.

Selecting an adviser who can demonstrate a robust advisory service and who avoids an industrialised service, which removes the personal touch, is essential. Removing the personal touch can lead to a loss of softer facts relating to a member, which can be decisive in determining the right course of action.

They need to avoid the cheap, low-cost adviser option as ultimately the service will lack the essential thoroughness that is required when undertaking one of the most complex transactions in financial planning.

But equally they should avoid the high fees that IFAs cannot justify. Striking a balance between a good quality service, but ensuring you don't pay through the nose is essential.

Paying for the service?

This is the dilemma for many trustee boards and employers. If you pay for nothing, you will get minimal take up rates and the service could end up being equally poor.

In contrast, if you pay for the entire service, the member will be happy, but you could find the expense incurred may become excessive.

From our experience, a small employer subsidy that meets part of the advisory cost is all that is required. An outlay that might be between £250 to £750 will be appreciated by the member and if used correctly, can assist the member in working out if pension freedoms are right for them. It can also be used by the adviser to design a service that ensures only the right individuals transfer.

If the overall service is transparent, robust with a capped cost, ensuring members avoid a contingency charging structure (i.e. avoiding the scenario whereby the adviser is only paid if the individual transfers) and the fees are broken down into various components, will add value to the proposition.

Our experience shows that trustee boards, employers and importantly, the scheme member/employee will all benefit.

Written by Premier Companies director Ian Gutteridge

In association with

premier see change

The event will be attended by European pension fund managers, trustees, CIOs, advisers and providers and is a must-attend forum for anyone involved in running pension funds in any country in Europe, as well as a great opportunity to learn from and network with some of the key representatives from across the European pensions space.

- **Peter Borgdorff**
  Director, Pensioenfonds Zorg en Welzijn
- **Francesco Briganti**
  Secretary General, CBBA-Europe (chair for the day)
- **Théodore Economou**, Chair,
  Investment Committee, Lombard Odier Pension Fund
- **Evalinde Eelens**
  Supervisory Board Member, Delta Lloyd corporate pension scheme;Executive Board Member, BPF Particuliere Beveiliging; Board Member, BPF Schilders
- **Jens van Egmond**
  CFA, Board Member (trustee) and Member of the Investment Committee, Stichting Sportfondsen Pensioenfonds
- **Snædís Ögn Flosadóttir**
  Managing Director, EFÍA and LSBÍ Pension Funds
- **George Graham**
  Fund Director, South Yorkshire Pensions Authority
- **Martin Hedensiö**
  Head of Communications and Sustainability, Alecta
- **Ruud Kleynen**
  Chairman of the Supervisory Board, Stichting Pensioenfonds Medisch Specialisten
- **Luigi Leo**
  Member of the Investment Committee, Stichting Pensioenfonds Vopak
- **Hillevi Mannonen**
  CRO, Chief Actuary, Ilmarinen
- **Peter Meier**
  Board and Investment Committee Member, SV Stiftungen (Pension Plan of SV Group); Investment Committee Member, Pensionskasse der Saurer-Unternehmungen
- **Piet Molenaar**
  Pension Fund Board Member and Advisor
- **Jerry Moriarty**
  CEO, Irish Association of Pension Funds (IAPF)
- **Kevin O'Boyle**
  Head of Pensions, BT Group
- **Christophe Schaer**
  Chief Investment Strategist, Compenswiss
- **Giovanni Vergani**
  BoD member, Cassa Pensione Città di Lugano

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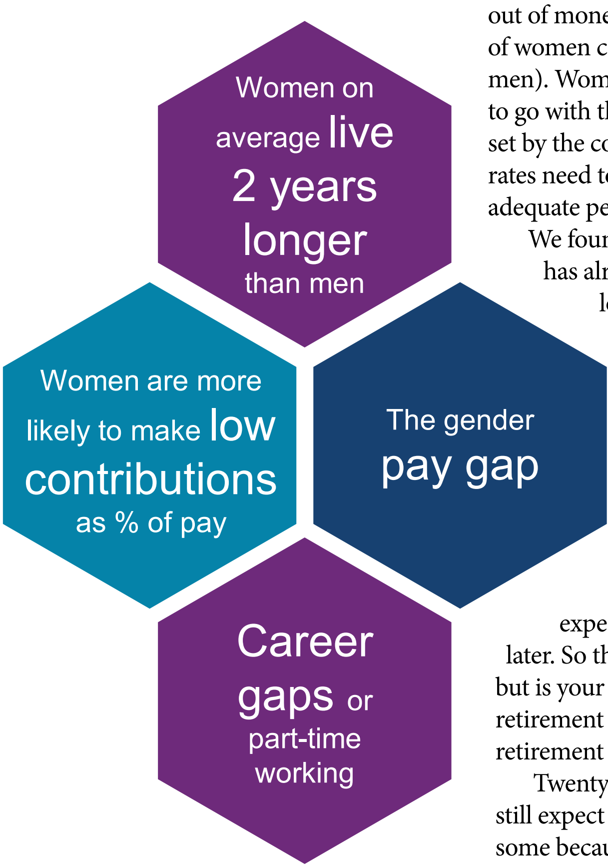
Mind the gap!

Aon's Sophia Singleton explores the differences between men's and women's retirement plans and in particular how DC schemes can ensure their support structures are appropriate for all

Companies are required to publish information on their pay gap between men and women and most are taking steps to address inequalities. But what about the gender pensions gap? Women on average live two years longer than men, so need a 10 per cent higher pot to get the same amount per year. Women tend to have more time away from work for families – leading to pension membership gaps or more part-time working during their career and in the run up to retirement.

Gender pensions gap - the problem



This means that women should be saving more than men to achieve comparable outcomes at retirement. But Aon's *2018 DC and Financial Wellbeing Member Survey* found the opposite, with four in 10 women saving less than 5 per cent of their earnings for retirement compared to three in 10 men.

Addressing the gender pensions gap

Our research showed that women are more likely to be worried about running out of money in retirement (64 per cent of women compared to 50 per cent of men). Women tell us they are more likely to go with the default contribution rate set by the company. Default contribution rates need to ensure they will deliver adequate pensions, especially for women.

We found that the gender gap has already disappeared when looking at retirement ages. In previous years, our member surveys found that women generally expected to retire at younger ages than men. However, in our 2018 results, this gap has gone, with around half of both men and women now expecting to retire at age 67 or later. So this message has got through, but is your scheme ready for these later retirement ages – what is your default retirement age?

Twenty-five per cent of people still expect to be working at age 70, some because they do not think they can afford to retire. Employers and trustees need to intervene earlier to help their employees plan for an adequate retirement, but also should expect to need to support those employees at these older ages who are not able to afford to retire.

More women expect to continue working part time before fully retiring, so drawing pension income is going to need to be flexible to accommodate those still receiving a wage, but potentially topping up with their retirement funds. Flexible drawdown or a series of cash withdrawals from uncrystallised funds could be more appropriate than traditional annuities. Individuals are likely to need to make a lot of difficult but important decisions, such as choosing a provider, setting an appropriate level of income to take and deciding how much investment risk they want. The best pension arrangements are reviewing what is offered by the scheme and whether the power of default options can be harnessed for pensions decumulation in the same way as it is in accumulation.

While there are some key differences in the pension saving habits and retirement expectations for men and women, there are also some stark differences when comparing lower and higher earners, or the needs of younger and older workers. To support all members in improving their pension outcomes it is key to understand the variety of your members, and their broad financial wellbeing, to develop effective solutions.

To request a full copy of our *DC Pensions and Financial Wellbeing* research email talktous@aon.com

Written by Sophia Singleton, partner and head of DC consulting, Aon

In association with Aon Empower Results®

An alternative approach

Laura Blows speaks to NEST's CIO Mark Fawcett to discuss its investment into alternative asset classes

NEST has recently begun venturing into alternative asset classes, but that is quite a broad term. Please could you explain exactly which alternative asset classes you have started to look at? And why the move now?
We have been investing in direct property for quite some time and now we're looking to invest in private credit. So that involves investing in loans issued by mid-market, medium-sized companies, real estate debt, and most excitingly, infrastructure debt. That will give us the opportunity in infrastructure to finance projects such as roads or tunnels, and in renewables such as wind farms and solar farms.

We are also considering investing in venture capital, and that's part of the patient capital initiative, which is run by the British Business Bank.

Hearing about a DC scheme looking to invest in alternatives is still quite unusual and noteworthy, as it is quite often a struggle for them to be able to do so. How is NEST managing to achieve this?
There are certain features about NEST. DC schemes in the UK tend to have positive cashflows and a high number of people in the default fund. That is certainly the case with NEST; we have 99 per cent of our members in our retirement date fund.

I think what is reasonably unique about NEST is that we control the platform for the funds in administration and when we put the money into the markets. So that means we can work with alternative asset managers who were investing in illiquid assets and make sure the money goes in when they need it. We are not forcing money on them every day for example.

Also, as members get to retirement and are starting to disinvest, we have a lot of younger members who are still buying and therefore we can transfer the illiquid assets from the older members to the younger members.

But a key barrier for many pension schemes looking to invest in some alternative investments is that of the high charges they may face. How

does NEST manage to overcome this, particularly with regards to the auto-enrolment charge cap?
In some sense this is the hardest part, and I have to negotiate very hard. But I think NEST is a very attractive pension fund to have a partnership with, from a fund manager's perspective. We have very strong cashflows, taking in £250 million a month at the moment and this time next year that will be over £400 million a month. So we are growing very rapidly and are becoming one of the largest pension schemes in the UK. Also, we are very careful about selecting managers as we view it as a long-term partnership. It is not just a transactional relationship. We have never fired a manager because we have chosen so carefully and we have high-quality managers. This also applies in the private credit space.

You've explained how you have managed to overcome what is a barrier for some other DC schemes, but I'm interested to hear why you have done so. What are the benefits for NEST and more importantly, for your members? And why now in particular?
We have a lot of very young members. Our youngest member is 16 years old, so our members will be investing for 20, 30, 40 years. So we know that we have the long-term capital to invest. And we can earn the illiquidity premium, the extra return for tying up that capital for the long term. So we think we should seize that opportunity for our members.

At the same time we have seen a lot of volatility in public markets. Illiquid assets with stable cashflows, such as infrastructure debt, tend to be less volatile, so there's a diversification benefit.

NEST's movement into alternative investments is a very interesting development and the pensions industry as a whole is always interested in hearing what strategies NEST is looking at and developing. With that in mind, could you talk me through any other changes you may have?
After private credit, we are looking to seek out a manager for global investment-grade credit. So that's a public-market asset. We are currently invested in UK, sterling investments-grade credit but the global market is clearly bigger and more diversified.

In the alternative space we will also be looking into infrastructure equities. So after this year we hope to be looking for an infrastructure equities manager. Beyond that we are thinking about factor investment in equities as well, particularly with an ESG tilt.

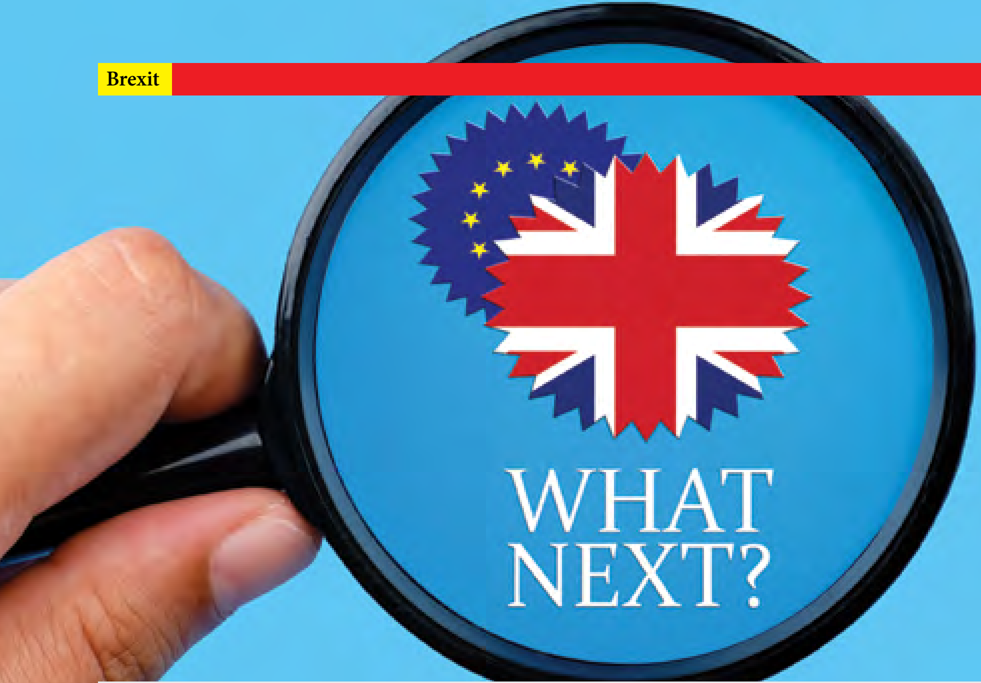
As NEST CIO, you need to keep a keen eye on developments occurring, both within the pensions industry and the broader economy. So to wrap up, would you like to give me your predictions for key trends for the upcoming year?
We have seen quite a lot of volatility in markets recently and we would expect that to continue. We have got things like the trade wars between the US and China and Brexit coming up, so there are a huge range of issues that are worrying markets and we will see markets rally and then decline in a more volatile way than we have seen in recent years.

Part of that is normal. There is always something to worry about. But QE around the world suppressed volatility, so I think we have been in a very unusual period of low volatility, and the volatility we are seeing in markets now is more normal of market cycles. I think that will be the key thing to keep people on their toes.

To view this video, please visit pensionsage.com

Written by Laura Blows

In association with nest



Summary
• Brexit threatens the covenants of many DB funds, particularly those sponsored by companies in the manufacturing sector.
• Funding levels could be significantly dented in the case of a no-deal exit, but many schemes are well diversified today.
• Buy-ins and buyouts could become cheaper post-Brexit.
• Employers and individuals will be likely to seek out extra advice once the UK leaves the EU.

The Brexit effect

Brexit means Brexit. Theresa May's mantra since she moved into 10 Downing Street has been a familiar one. But what does it mean for the pensions sector?

Nine days after MPs rejected Theresa May's Brexit deal by a historic majority of 230 votes, XPS Investment's chief investment officer Simeon Willis delivered a thinly-veiled admonition to the government. If the UK were to leave the EU on 29 March with no deal, he said, then DB scheme overall funding levels could be reduced by 5.3 per cent. At the same time, he warned that a soft Brexit also contained its own dangers. A sudden relief-driven boost in the pound, for example, would likely leave some trustees kicking themselves for not going the extra mile with their currency hedging.

His prognoses encapsulated the dilemma that Brexit poses for the pensions sector. No matter how or when the UK chooses to leave the EU, the event will signify a major geopolitical shift. And that can only mean one thing – an amplification of risk.

Project (covenant) fear

Of all the threats that Brexit poses to pensions, it is its impact on business prospects that appears to be the most immediate and direct, particularly if a no-deal departure becomes a reality. Should the worst happen and the UK suffers a prolonged recession, then DB covenants will be strained, as will the requirement on employers to increase DC contributions in line with the auto-enrolment regime.

The British Chambers of Commerce recently decried the absence of clarity and precision from the government over a no-deal scenario. It said that the absence of adequate no-deal planning in Whitehall had already stifled investment and growth, resulting in unnecessary costs and a loss of business.

According to J.P. Morgan Asset Management's head of pension solutions and advisory within EMEA, Sorca Kelly-Scholte, there is already a precedent that can be used to predict which covenants will be under the most stress. Since the referendum, it is companies with predominantly domestic customer bases that have languished. "In a no-deal scenario those heavily domestically exposed could potentially experience a good deal more pain," she says.

Another indicator lies in the health of funding and covenants within certain business sectors. As Kelly-Scholte explains, schemes sponsored by manufacturers tend to have weak funding. They are also more exposed to local conditions, and will likely be feeling very vulnerable if the UK leaves the EU without a deal.

Avoiding the much-feared no deal does not necessarily mean that DB schemes are out of the woods, however, as Quantum Advisory's principal investment consultant, Amanda Burdge, points out. Should the UK secure an extension to re-negotiate the Prime Minister's deal, swift closure to proceedings would be needed as a prolonged period of excruciating negotiation would hurt confidence in the economy.

"The longer uncertainty persists the worse it will be for UK companies, as investment is postponed, or cancelled, whilst international businesses consider taking their investment overseas," says Burdge.

"These are VUCA *[volatile, uncertain, complex and ambiguous]* times and the strength of the sponsor's covenant could change quickly. In these circumstances, trustees may need to act quickly to take investment risk off the table."

Crashing out

The market volatility that uncertainty will bring is also a clear concern, with its effect on DC pots and DB funding levels.

"From our research on geopolitical shocks, we know that the most immediate impact will be through exchange rates, with secondary effects on equities and bonds," says SSGA's official institutions group's head of research and insight, Elliot Hentov.

"A sudden depreciation or appreciation *[in currency]* typically becomes permanent, as seen with the pound post-June 2016. Knock-on effects on equities tend to be shorter lived."

Bonds, however, says Hentov, are harder to forecast, with each debt market having a particular type of supply and demand dynamic.

Agreeing with Willis, Kelly-Scholte views a transitional deal as the safest path to take if the UK wishes to avoid shocks to DB funding levels. "We do see something of a Brexit premium in markets at the moment," she says. "And if we do steer towards a soft deal, then we may see a bit of relief to funding levels and that will come through principally from a small rise in interest rates as people are relieved that we don't have a no-deal scenario. We estimate that there may be some funding level relief for pension funds of the order of 2 per cent."

Should the reverse happen, the good news, says the PLSA's policy lead engagement and EU, James Walsh, is that many schemes are well prepared for negative market sentiment as previous market downturns have been good teachers.

"Many of our members are now significantly hedged," he says. "Their assets are invested globally and very diversified. And actually, if the pound were to go down a little further, that would improve the look of some firms' balance sheets."

Even if schemes are not as prepared as they could be, time remains a healer. "Although Brexit is a macro event with very extreme possible outcomes, over the very long term, even the most extreme outcomes can be smoothed out," says Hentov.

Another long-term result of Brexit may be improved pricing for buy-ins and buyouts. K3 Advisory's managing director, Adam Davis, explains: "Currently bulk annuity insurers are hampered in their pricing by the risk margin they have to hold. The size and sensitivity to interest rates of the risk margin has been larger than originally intended and this makes the writing of some products, particularly annuities, less attractive to insurers and potentially more expensive to pension schemes.

"The Bank of England post-Brexit will have greater flexibility to change this which could lead to reduced costs for schemes doing buy-ins and buyouts."

Taking back (regulatory) control

When looking at more mundane matters, such as regulation, most of the potential hazards involved with leaving the EU lie in wait later down the road.

"We've just had IORP II come into effect on 13 January. So nobody expects that framework to suddenly change," says Walsh.

"But the interesting point will come when we get to IORP III. If that would include a solvency regime for pensions – the kind of thing that the PLSA and its allies in Europe have been successfully resisting in recent years – then that's the point at which you could see some significant divergence in the UK's and EU's pension regulatory regimes. That all depends on, what, if any deal the UK gets, of course."

If the UK finds itself in a transitional deal where it no longer has a voice with the EU but must still adhere to its rules, then that could mean that pension funds would simply have to adhere to damaging solvency requirements, says Kelly-Scholte. She views such a result as an outlier, however.

"The more important thing for pensions is as a buyer of investment services," she says. "Funds will still want to have access to providers outside the UK and will also want to see UK providers being strong and having passporting rights through Europe."

Walsh expects the issue to be tackled sensibly, no matter what exit the UK takes.

"Service providers such as investment managers, are international companies that are operating across Europe," he says. "So there are a whole set of issues such as will the City of London continue to play by the rules of MiFID II and regulation on derivative markets? And most people expect the answer to that is going to be yes."

Any disruption to service providers should be minimal, in Burdge's view. "Arguably, the financial services sector is one of the most well-prepared sectors for the UK leaving the EU in March 2019," she says.

"Most investment managers have been preparing for a potential hard Brexit in earnest for at least 12 months. In addition, the investment industry is used to working in multi-jurisdictions and has been able to seek new domiciles for funds where necessary to ensure services can be maintained post-March 2019."

New opportunities

And then there are the opportunities.

Analysis by the Centre for Organisational Intelligence (COI) has found that 86 per cent of companies believe that they will need to review their pension schemes after Brexit, with 70 per cent looking at their investment strategies and 70 per cent undertaking a rewards and benefits review. And in separate research, Aegon has said that Brexit scores highly as an opportunity for advisers to both employers and individuals.

Nobody know what Brexit will end up meaning, but it is certain to keep everyone in pensions busy.

Written by Marek Handzel, a freelance journalist

Time for a holiday?

In a recent article for *Pensions Age*, SPP president Paul McGlone contemplated the return of sponsor contribution holidays for schemes that are in surplus. But should sponsors be able to do this? Those in the industry argue the case for and against

SPP president, Paul McGlone
As DB scheme funding improves, more schemes are finding themselves fully funded or with a modest surplus. With that comes a question that most schemes haven't considered since the 1990s – can the sponsor have a contribution holiday?

The idea is enough to generate crossing of arms and sucking of teeth. Contribution holidays are widely, but often incorrectly, held responsible for the deficits we've lived with for so long. So why should trustees agree to something that previously caused so much harm or controversy?

The position today is quite different. For one thing, schemes are much better funded. A typical 1990s valuation assumed 9 per cent investment return for the lifetime of the scheme, with no reduction in risk or return as the scheme matured. Today almost all schemes are measured on a much lower, and often reducing, discount rate.

The potential impact is also normally lower. Most schemes have limited, if any, future accrual, so a holiday from those contributions may be quite modest. More commonly, a sponsor might ask for a break from just scheme expenses and/or PPF levies.

Contribution holidays may not sit well with trustee boards, but if the scheme has more assets than it prudently needs to pay benefits, why should trustees not agree?

Member communication will be a challenge. The regulator may be interested. And the media certainly will. But if the alternative is to keep putting money into a scheme that doesn't actually need it, surely that doesn't make sense?

The real answer is that full funding on technical provisions isn't the end. It's just a point on the journey. But that's a topic for another day.

First published in Pensions Age, November 2018

Yes

Yes to sponsor holidays! In my view once a scheme is fully funded on an appropriate technical provision basis then it should be for the sponsor to decide what approach it wants to take to manage the arrangement (subject to usual caveats about schemes with unusual rules etc). Clearly full technical provision funding is not the end but surely it is fair to allow the sponsor to decide what balance of cash, investment return and time period it decides is most appropriate for its circumstances.

Western Pension Solutions director Jon Sharp

Yes, trustees should absolutely be able to agree to a contribution holiday for their scheme's sponsor when the scheme is in surplus on a technical provisions basis! However, this comes with two caveats – are the trustees satisfied that the overall level of risk being run within the scheme can be supported by the employer covenant and is the scheme on track to meet its long-term funding objective? If the employer covenant has been fully leveraged such that contingent guarantees or improvements to the priority position of the scheme have been given and there is a healthy ongoing outlook for the sponsor then trustees should be satisfied that adequate protections are in place should any downside risks materialise. There is no need for trustees to be afraid of entering into such an agreement if the appropriate checks and balances are in place.

There may also be limited occasions when it may be appropriate for trustees to agree to a contribution holiday for a tightly defined period when the scheme is in deficit if it can be demonstrated that the sponsor's cash should be prioritised elsewhere i.e. to facilitate a turnaround of the sponsor in a distressed situation. In this case the trustees will need to carefully assess the upside potential for the business and the additional security this will provide for the scheme in the future versus the benefit of having the cash paid directly to the scheme now.

XPS Pension Group senior consultant Jacqui Woodward

No

I suspect that a large majority of finance directors (and pension scheme trustees) would view the idea of a surplus in their pension scheme as akin to sighting a woolly mammoth. Reports in the press may be but I've never seen one.

In some cases, with the widening gap between gilt yields and corporate bond yields, there has been an increase of the issue of company pension scheme accounting surpluses being revealed, whilst there is still a funding deficit and company deficit contributions must continue – a communications conundrum.

However, there will be some schemes that are fortunate enough (or said to be well managed enough!) or with a sufficiently benevolent employer to be enjoying funding surpluses. But would first thoughts turn to a funding holiday – I think not.

What finance director today, with the benefit of 30 years hindsight, would look back and say I am glad they had a pensions holiday in the 90s, let's do it again. In practice, they long for the day when this scheme is off their books. Furthermore, with focus these days on de-risking, your trustee board is going to want to reduce risk, save money for (another) rainy day and/or plan for the next stage of their exit strategy. As the saying goes, the (90s) past is no guide to the future.

Quantum Advisory partner Rhidian Williams

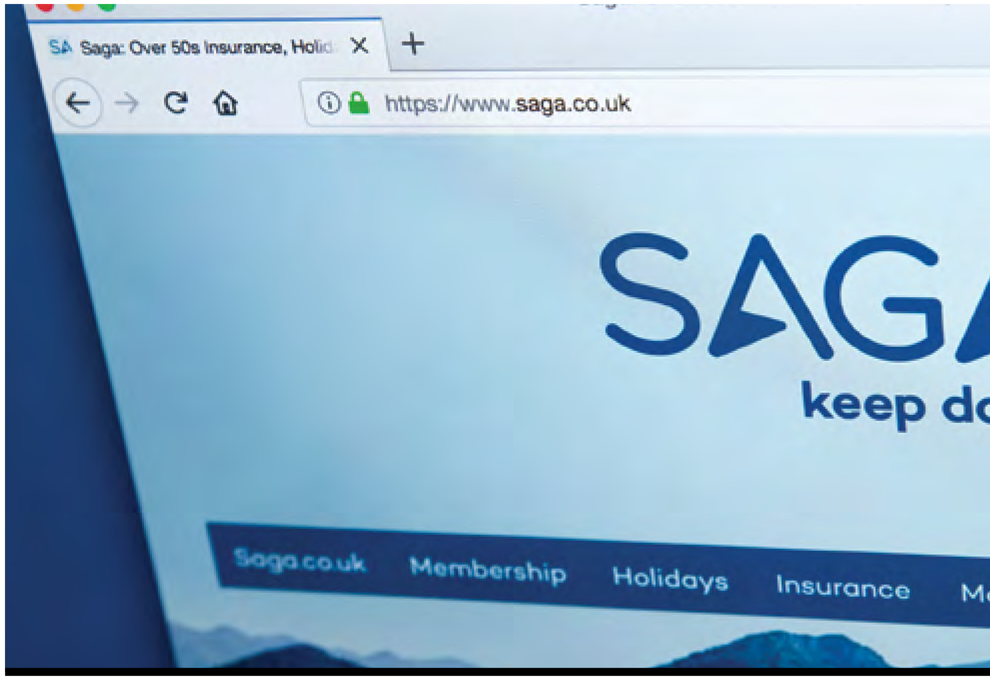
As with so many pension questions – it depends, is usually the heavily caveated answer one may give. It is quite easy to think of a scenario where a trustee and employer could agree to contribution holiday. The first big question is what will the trustees get in return? Improved security would be high on the list of requests. Employers may be able to create a positive story to have a break from contributions if they can demonstrate a strong covenant and the scheme is well funded on a best estimate basis and so stand a better than evens chance of having enough money to pay the pensions as they fall due. They would may also need a compelling reason why that money would be better used elsewhere.

One area of concern for me though would be the negative connotations that may come with having a contribution holiday. Members may need convincing this is the right decision. A clear rationale would also be needed to head off future criticism in the future.

In the short term, such conversations may be few and far between. However, as schemes mature, recovery plans develop and funding ratios improve, employers may become more mindful of a trapped surplus and broach the subject with the trustees. Of course the simplest way to ease a trapped surplus is to re-open the scheme. We may be a little way from that yet.

Broadstone technical director David Brooks

Written by Laura Blows



Averting a pensions Saga

Faced with the possibility of closing its pensions scheme, insurance provider Saga thought outside the box to keep its scheme open to members, boosting their financial wellbeing at the same time. Theo Andrew talks to Saga group HR director, Karen Caddick, about just how this was achieved

There is a lot to be said for being ahead of the curve when it comes to financial planning, particularly in the world of pensions, where the ability to affect change can often happen at a snail's pace.

Saga, while navigating itself through a headwind that many defined benefit schemes have been facing over the past decade, found itself in a position where something had to be done to mitigate the risks it, and its 4,000 employees, were facing.

Through careful communication, honesty and education, the group found innovative solutions to issues, which included a spiralling pensions deficit and employees who could not afford to save under the current scheme structure.

In the end however, Saga's solution allowed it to keep its scheme open, while also offering its employees financial wellbeing initiatives that could offer a blueprint for companies who are seeking to improve the future wellbeing of their employees.

Facing headwinds

The provider, which offers products and services exclusively for the over 50s, runs both its schemes with the day-to-day mantra of 'lead better lives in retirement'.

Its main scheme, the Saga Pension Scheme (SPS), open to all permanent employees, and the more expensive of the two, currently has 48 per cent of the workforce as its members. Alternatively, members could opt for the Group Personal Pension (GPP) scheme for slightly lower, more affordable contribution levels.

However, SPS found itself in a dire need for change. In the two years from January 2014 to January 2016, the actuarial valuation of the defined benefit scheme deficit increased from £15.6 million to a predicted £50 million.

This made a policy review of the scheme an urgent matter, explains Saga group HR director Karen Caddick.

"The reason we did it is because the scheme had become completely unaffordable. The deficit had trebled and the actual cost of contributions was going from about 12 per cent employer contributions up to 30 per cent. The cost had spiralled since we had done the last valuation."

"The question the board asked was to review the pension scheme. We didn't want to save money, we were happy for there to be an inflationary increase year on year, but we were concerned about the £20 million headwind coming towards us," she adds.

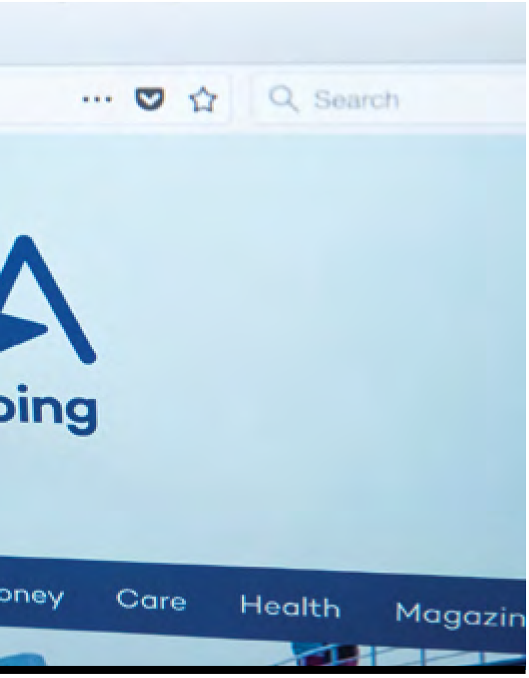
SPS total cost of future benefits had risen from 18.6 per cent to over 30 per cent of pensionable salaries, and without any respite in sight, how did the group choose to mitigate these risks?

Solutions

Just as many other large employers has done before them, Saga considered closing the scheme to future accrual, but felt for a number of reasons, it didn't want to bury its head in the sand.

With 48 per cent of its workforce enrolled in the SPS, and the remaining 52 per cent in the slightly less valuable GPP, the company wanted to find a way for all of its employees to be enrolled into a good pension.

The company conducted a review of its pension policy, obtaining 1,700 responses from employees on the existing scheme, and were not surprised to hear that for the longer-serving employees, the DB scheme was of tremendous value.



> **"Saga has managed to keep its pension scheme open, while also giving its employees a significant chance to save effectively alongside their retirement funds"**

"We thought we'd actually end up closing the scheme, either to new entrants and future accrual as well, but a lot of people said to us we'd be prepared to pay more to keep this scheme open. So we looked at how we can de-risk the scheme so that the amount of money we are putting in is capped," Caddick says.

Armed with strong employee incentive, and an understanding that closing the scheme to new members would fail to address the immediate cost issue, it decided to opt for a plan that would sustain it for the future.

In a collaboration with reward consultants, Only People, Saga devised a plan limiting the total combined cost of contributions to 20 per cent, at a time when members contributed 7 per cent to Saga's 18.6 per cent to accrue 1/60th of their pensionable salary.

As a result, SPS members would now contribute 8.7 per cent for an accrual rate of 1/75th, with the ability for employees to trade up or down their rate, according to how much they could contribute.

Caddick says: "We said we'd peg that for three years because what we didn't want to see is a whole load of people fall out the scheme, and we had 150 people who moved to 1/90th and that says to me those people probably would have opted out of the scheme if we hadn't put that level in."

As for the GPP scheme, after 12 months of service, an employee's minimum contributions will be based on their full basic annual salary, and will be matched one-to-one employer and employee contributions, up to a cap of 10 per cent.

On its journey to understanding its employees' needs, why some weren't in the SPS and how highly those that were valued being in the scheme, Caddick found that other financial commitments were often getting in the way.

Caddick says: "What we recognise with employees is that a pension is important but it depends where they are in their life stage. They might be paying off student debts or saving for a deposit for a house."

From this, Saga decided to offer a sidecar savings model, akin to, but not exactly the same as the recent sidecar trail that Nest launched in conjunction with Timpson.

"What we are saying to them is any saving is good saving, of course we want you to save as much into your pension as we can, but there might be certain points in your life where savings is as important," she adds.

Employees, except for those in the SPS, can divert pensions contributions, which will be matched by the company, which will allow them to save for life's milestones or simply save it for a rainy day.

Back on track

As a result of the changes, 20 employees dropped out of the scheme, a number Caddick thought was going to be much higher, while a similar number has taken up the savings scheme – something she believes tells you everything about what people can afford to save.

"About 20 to 30 people have taken up the savings scheme, but that shows you that we have an affordability issue in the business, even the amount of people who have put more into their GPP, even though we've said if you pay more we'll contribute more, there is not that may people who are taking advantage of it and people just can't afford it," she says.

For a business that looks to give people great benefits in retirement, it was important for Saga to give its employees great benefits at "costs we are prepared to pay for".

One of the key points of feedback it received after Saga made the changes was how much the members appreciated the transparency from the group throughout the process.

"We've had really great feedback, the message was that this has become unaffordable and we need to work together to find a solution that is great for the employees and great for the business, but frankly what is going to happen is you're going to get less benefit and it is going to cost you more money. The feedback we got is thank god you have been really honest with us," Caddick says.

Saga has managed to keep its pension scheme open, while also giving its employees a significant chance to save effectively alongside their retirement funds.

The group is now undertaking plans to communicate the changes as effectively as possible, highlighting, in particular, the need for education and communication to improve members' savings.

Written by Theo Andrew

Craig Scordellis, CQS

Francesca Fabrizi, Editor in Chief, Pensions Age

MAC strategies in focus

Francesca Fabrizi meets Craig Scordellis, head of long-only multi-asset credit at CQS, to discuss what MAC strategies can offer pension schemes today

Multi-asset credit (MAC) strategies have continued to gain popularity among institutional investors and most notably pension funds over the past 18 months or so. Why would you say that's the case?

2017 and 2018 were quite a test for the strategy for very contrasting reasons. 2017 was an incredible risk-on environment while, in contrast, in 2018, over 90 per cent of asset classes made negative returns for the year. In both that positive and negative environment, multi-asset credit was truly tested as a strategy. It was proven that, if well run, the strategy could capture the majority of the upside in 2017 but critically, going into 2018, mitigate that downside, because of course it relies on fundamental credit research and agile asset allocation.

How has the world changed over the past two years and what has that meant for your strategy?

Things are constantly changing. Then there's the environment of QE to QT in the background, which is exaggerating those changes. What's important for us is that we've seen fundamental risk pick up, dispersion of the performance of underlying businesses pick up, but at the same time we've seen technical challenges as well with the change of the investor base, for example the growth of daily liquidity funds, and that QE to QT.

What it all speaks to is a requirement for much more of an active management strategy within credit. Gone are the days where passive management and buy and hold strategies in certain cases make sense. The world is changing incredibly quickly, and we see increasing volatility and increasing dispersion of underlying credits.

Considering all those changes, how have you had to adapt your MAC strategy?
It's a constant learning environment for a portfolio manager, when we see this level of upside and potentially this level of downside as well. What is clear however is that, given the risk of dispersion and the performance of underlying businesses changing, you do need to augment consistently your fundamental process. Alongside that we're going to see, in our view, probably more V-shaped and U-shaped style troughs in mark-to-market volatility in credit.

So, you still very much rely on the investment processes, philosophies and principles that you originally built, but you always look to augment these. A great example of that would be from a technical perspective – if we do see this volatility pick up, it starts to make sense to have a higher tactical cash allocation to capture opportunities like we saw in the back end of 2018. Particularly in parts of the market like the US high-yield market.

Has this reflected well in your strategy performance?
Yes – I think with the tailwinds that we had behind us with QE in 2017 and that incredibly positive environment, we were able to substantially outperform our through-the-cycle return target. But critically in 2018, by getting defensive income into the portfolio, by doing our fundamental work and through our asset allocation, there was less sensitivity to that market volatility and we were still able to make investors money in what was an incredibly difficult year for everyone.

Looking ahead, what are you finding exciting about credit opportunities in today's market?
I see an exciting future for active management within credit. I've alluded to the fact that we've been in a QE to QT environment. We're actually, in all likelihood, going to be in a lower growth for longer environment as well, given that geopolitical backdrop and the challenges – whether it's tariffs in the US or whether it's the geopolitical risk that we experience within Europe.

All of this speaks to that higher level of volatility and higher level of dispersion. So, I'm excited because we can go back to those principles of capturing the opportunity when volatility and markets pick up. Mitigating of course upfront, but capturing that opportunity when volatility picks up. Then doing our fundamental credit research, lending to great businesses that we think are going to survive for longer periods of time for the maturity of that debt.

Given that backdrop, do you anticipate big changes to asset allocation?
What you've got to ask is: are you rewarded on a relative value basis by spread? But absolutely, geopolitical volatility in Europe is creating some very interesting opportunities at the moment, so we would have a slight European bias. That tactical cash balance I mentioned is designed to go in to markets at times of illiquidity and capture the volatility and the opportunity that volatility presents.

Looking ahead, what are the challenges?
Ironically, the challenges are very much the same as the opportunities. We are in a much more volatile environment. We have to get used to the fact that credit markets versus some of the historical mark-to-market moves are going to trade in a more volatile fashion. We have to position right, to capture those opportunities and mitigate those risks. But also, it's around the fundamentals. It's about identifying when there is that technical disruption that's occurring in certain industry groups, or for certain businesses. Monitoring of credit is becoming increasingly important.

Risk is always a big concern for pension funds. Which risks have stayed the same and which are changing or have changed?
Underlying investing in credit full stop will always be that risk of that probability of default; of lending to a business, the probability of default lending to a business. Or, in the event that you do have a default, what that potential loss given default is. That's very consistent. But what we've got to be very respectful of now is the changing geopolitical environment, which creates geopolitical and economic dispersion in a sense. We have to be very mindful of positioning a portfolio geographically for those opportunities and those risks. But also, from a bottom up fundamental perspective, where dispersion and disruption from a technology perspective might be very different in different geographies.

What does this all mean then for pension funds in the environment they find themselves in today?
Pension funds can look at that longer track record now of multi-asset credit, and hopefully see in the majority of cases that it's absolutely working. But multi-asset credit is very much a partnership solution. What it does allow managers to do on behalf of pension funds ultimately, is hopefully ease some of the burden from an asset allocation and fundamental selection, to target what makes sense for a pension fund from a return perspective, a risk perspective and liquidity perspective. It also provides, because of that level of income and defensive income that a multi-asset portfolio can generate, it does also provide a source of income in what are very volatile markets.

Written by Francesca Fabrizi

In association with CQS

Summary

- Investors are whittling down exposures to retail property, although niche sectors are still attractive.
- Logistics are the flavour of the month but opportunities are thin on the ground.
- Alternatives such as hotels, student and social housing and healthcare are creating a lot of buzz.
- The most important features are the quality and sustainability of the income.

Shopping around

Lynn Strongin Dodds considers whether investing in retail real estate is losing it edge

As the recent Postings transaction demonstrated, retail property is a hard sell. Shopping centres, retail parks and high streets have seen their value wane due to changing consumption patterns. Pockets of opportunities exist but there are more interesting prospects within the logistics sector that are booming thanks to both online and traditional shopping.

The Fife-based Postings sale created a stir because of the £1 reserve price. Built in 1981, the £4.25 million centre went on the auction block from Columbia Threadneedle with 14 of its 21 shops vacant. The hammer came down at £310,000 and the property will now be redeveloped.

However, the deal is only part of a long-running story that has seen several retailers, most notably Toys R Us, House of Fraser, Maplin and BHS, either file for administration or run into trouble. Patisserie Valerie was just saved from the brink by a management buyout and private equity firm. Overall, a white paper published by Fidelity International last year showed rising costs, faltering consumer confidence and the switch to internet shopping caused over 24,200 shops to close their doors in the first six months of this year – the highest level in at least five years.

A shrinking high street

While online shopping is a factor it is not the only reason, according to Savills Investment Management CIO and acting CEO Kiran Patel. "Around 85 per cent of shopping is still done from bricks and mortar stores. "The problem is that it is growing at a slower rate than e-commerce and retailers are realising that they do not need to be in the same number of stores than they were in the past. If you take the UK, this has led to the shrinking of the high street but it hasn't disappeared. Instead of being in 300 locations, retailers are looking at the top 120 locations and they are also using click-and-collect facilities."

Changing macro-economic trends have also taken their toll. "The headwinds have been evident for some time," says UBS Asset Management managing director head of real estate – UK Howard Meaney. "We cleared out the shopping centres from our portfolio around five years ago, taking our weighting to zero from 20 per cent. After the global financial crisis, occupancy rates were down and there were an increasing number who were highly leveraged and in the hands of private equity firms. With hindsight it looks like the right call."

Fidelity Investment director, real estate Adrian Benedict, agrees adding: "Over the past 10 years, people have less money in their pockets and how they spend their money has changed. The increased competition from internet shopping sits alongside these trends. The result is that the real estate investments trust (Reit) stocks repriced by the direct market did not. However, our white paper forecasts UK retail real estate capital values will fall 20 per cent to 70 per cent depending upon the nature and quality of the assets."

Drilling down in more detail, the report shows that the UK listed market for retailers slid 20 per cent to 40 per cent last year with shares of prime shopping centre landlords plummeting. For example, Land Securities, as well as retail specialists Hammerson and Intu, traded at 30-50 per cent below the book value. In addition, several retail-focused Reits

sat on 20-40 per cent discounts to net asset values, and the reduction for retail Reits was substantially larger than the average for all Reits, many of which hold non-retail assets.

By contrast, the report revealed that the direct retail real estate market only dipped by about 5 per cent. However, their days of reckoning have come as Fidelity predicts a 10-30 per cent de-rating as rents are adjusted downwards by 10-40 per cent to make them more affordable for retailers. Given the outlook it is no wonder that investors are increasingly wary although they will have a big gap to fill – retail assets comprise roughly 41 per cent of a UK non-listed property portfolio. In other major markets they equal about 20-25 per cent of total holdings.

A different fashion

Retail though will still have its place. "Investors do not have to avoid retail but look at the more resilient ends of the market," says Patel. "We take a barbell approach to retail, with one end of the value spectrum being luxury brands that are growing and not planning to sell their goods online. The other end is bargain retailers such as Primark, which are less reliant on an online presence, as well as designer outlets and convenience stores where there is still strong demand."

As to other sectors, there is no doubt that uncertainty over Brexit and slowing economic growth is hanging heavily over the broader UK property market. The latest consensus forecast published by the Investment Property Forum (IPF) shows most investors expect, on average, returns to slow and capital values to move into negative territory. Total returns are predicted to slide from 6.2 per cent this year to 3 per cent in 2019, while capital values will fall across all sectors.

One bright spot is industrials where capital values are forecast to rise by 2.7 per cent. This is particularly true of logistics, which continues to outshine other commercial areas. Figures from Cushman & Wakefield show distribution warehouse and standard industrial recorded respective total annualised returns of 17.7 per cent and 22.1 per cent in the second quarter. Demand is being driven by brand-name retailers, as well as Amazon, Ocado and other on-demand providers, which are looking to automate production and last mile delivery solutions – a product's journey from warehouse shelf to customer doorstep.

Space is at a premium, with total take up reaching 6.5 million sq ft in the third quarter 2018, up 43 per cent on the same period in 2017. The report also revealed that an increase in speculative development combined with pent-up demand for high-quality space has led to the highest amount of speculative space absorbed over a single quarter since 2012's 1.8 million sq ft.

However, as Meaney notes: "If you are buying now, it could be challenging. Our UK fund is overweight to the sector with a focus on London and south east. We are taking advantage of investor demand to sell poorer assets and replace these by forward funding new stock to improve the quality of the portfolio. The sector is dynamic with are new concepts being talked about such as multi-story logistics facilities being built for the likes of Amazon."

As for other prospects, the alternative sector of student and social housing, hotels, leisure, healthcare and private-rented sector is high on the agenda. Although they have different characteristics, they share the common threads of long leases, income generation and a hedge against inflation. "They offer liability matching cashflows with inflation indexation, which are important to a UK DB scheme," says UBS.

Some fund managers also see relative value in the often-neglected office, which has been hit by a slowdown in building. A survey by Deloitte revealed that office space currently under construction in popular central London locations stood at 11.8 million sq ft, a 13 per cent decline from six months ago, albeit still above the long-term average of 10.5 million sq ft.

"I would not write off the office markets because by and large corporations have done exceptionally well especially if they have sizeable overseas operations," says Benedict. "They have healthy cashflow balances and the ability to extract rental growth and or retain tenets. We have also looked at high-quality office buildings outside the main centres such as Solihull, which is near Birmingham. We have found a highly diversified range of tenets and been able to generate an additional yield of 1 to 1.5 per cent."

Whichever sector, "the most important thing is the quality and sustainability of the income," says Aberdeen Standard UK real estate Mike Hannigan. "The questions we ask is whether the property is in a good location, has good transportation links, who are the managers, tenants and what are the debt levels. We also adopt a more flexible approach and can for example, dial down or up in terms of occupational period."

Written by Lynn Strongin Dodds, a freelance journalist

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Turning up the volume on sustainable returns – *Raj Shant explains how two key Newton investment strategies, dividend income and sustainable investing, can be combined to help deliver sustainable, long-term returns* **p50**

ESG: An investment boom – *In recent years, there has been a boom in the popularity of ESG investing by UK pension funds. So, why exactly has it become more popular? Andrew Williams investigates* **p52**

Sustainability focus:

A growing force

Raj Shant, portfolio manager, Newton Investment Management

NEWTON Investment Management Sponsored by

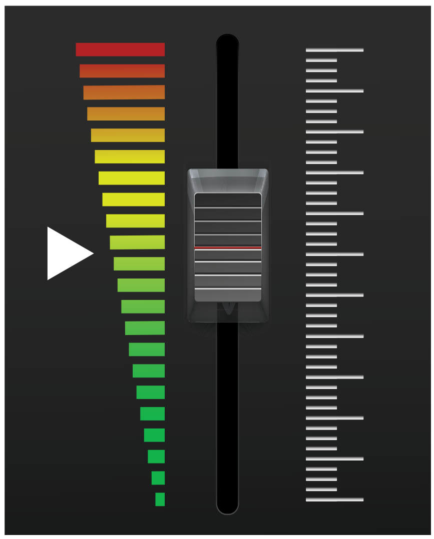
Turning up the volume on sustainable returns

Raj Shant explains how two key Newton investment strategies, dividend income and sustainable investing, can be combined to help deliver sustainable, long-term returns

Many schemes need the certainty of a regular and sustainable income as their income requirements change over time. They need to ensure that they have the 'cushion' of an assured and consistent income stream to avoid having to sell assets at the wrong time in the cycle to meet payout obligations to members. In this context, this article brings together two investment strategies that we employ at Newton to help us drive long-term returns for our clients: dividend income and sustainable investing.

Both these approaches share a number of traits, such as emphasising the sustainability of a business and its cash-generation capability. Our sustainable investment strategies allow us to take a view on both the sustainability of a company's business model and its future prospects, while our dividend-income approach has always been tilted towards seeking out companies that can demonstrate sustainability in terms of the recurring dividend stream they provide to their investors.

We take a three-dimensional view on what 'sustainability' looks like within our investment process. First, we look for companies displaying the economic durability in their business models that can support a sustainable level of income over the long term; secondly, we take account of material externalities, by which we mean the consequences of



commercial activity that affects other parties without being reflected in a company's own accounts, such as carbon emissions; and, thirdly, we harness our responsible investment analysts' research to evaluate the sustainability risks and opportunities of a company in an environmental, social and governance (ESG) context, alongside conventional financial criteria.

The benefits of compounding

One of the best known (and yet most forgotten) truths of equity investing is that the biggest determinant of returns is the dividend income and the growth of the dividend over time, creating a powerful compounding effect over the long term. Within our equity-income strategies, we implement a strict yield discipline in pursuit of a superior level of compounded income to the market. For us to buy a stock, it must offer a yield premium over the comparative index, and, if the yield on any stock that we own falls below that of the market, it must be sold.

Equities are often still primarily regarded as being in a portfolio purely to provide capital growth. However, thanks to the power of compounding, and with bottom-up fundamental analysis that seeks to unearth quality companies with strong business models at reasonable valuations, we believe that equities can also be more accurately regarded as a reliable and sustainable source of income. This is especially true if investors can look through the short-term volatility and view equities as a longer time-horizon asset in the way that alternatives such as infrastructure or private equity are regarded. While capital returns can be volatile, income returns are less so, and, as mentioned above, they are also the key determinant of an equity investor's long-term returns.

We have always viewed a healthy dividend in two ways; first, as a healthy cash reward for shareholders, and secondly, and more importantly, as a potential indicator of disciplined capital allocation. For healthy cash rewards to be sustainable and able to grow over the long term, capital allocation is crucial. For investors to exploit the power of compounding, a disciplined investment approach is equally crucial. The combination of the two can significantly improve the statistical likelihood of generating strong long-term investment returns.

Our responsible investment approach

We believe looking at ESG factors can help investors pinpoint risks beyond those identified in a company's financial statements – risks that can have a material impact on a company's performance and reputation. Analysing these non-financial issues can also provide a valuable window on a company's culture and emerging risks: in effect, how a company's managers behave when they believe no one is looking. This forms another layer of risk management alongside the more conventional financial analysis. It can also serve to highlight qualities and opportunities that could be missed in purely quantitative analysis. It is another perspective on how sustainable a company's cash generation is in the long term.

At Newton, we distil our responsible investment strategies into three broad categories. The first of these is exclusions and screening, which is an investment approach that we have run since 1988 for some of our faith-based and charity investors. The second is ESG integration, which is the way that we manage the vast majority of our clients' assets (and has developed as part of the evolution of our investment approach since our inception in 1978). In this approach, ESG analysis is a key input into the investment decision-making process. However, the ultimate decision about whether to include a security in a portfolio lies with the portfolio manager. This means that we may invest in companies that have a lower relative ESG score, if we believe that the valuation of the stock adequately compensates us for the risk posed by its weak ESG profile.

Finally, the newest element of our responsible investment approach is what we term 'sustainable' investing. In this category, we place added emphasis on positive ESG credentials, equal to the financial considerations. We omit companies with attractive financial characteristics, if those characteristics are accompanied by a poor or deteriorating ESG profile, unless we believe that through constructive engagement we can help bring about an improvement in ESG outcomes within a predefined timeframe. Our suite of sustainable investment strategies is increasingly gaining traction as investors demand greater levels of clarity and corporate accountability over ESG issues.

There is a growing belief within society that companies should be about more than simply financial profits, and that there should be evidence of a more sustainable approach to their business models. A cursory glance at the majority of regulatory and legislative changes taking place around the world can confirm the direction of travel. Around us on an almost daily basis, we observe companies affected negatively by consumer boycotts, union action, regulatory fines, huge clean-up costs, expensive lawsuits and damaging press and social media coverage.

All these actions show an increasing expectation of better execution of ESG considerations by companies. However, we believe responsible investing is about a lot more than simply aiming to avoid the potential pitfalls. To our minds, companies that are well aligned with this changing zeitgeist are likely to be in a better position to maintain and grow their dividend payouts over the long term.

Newton's 'red lines'

Our new sustainable strategies have principles-based 'red lines' that help to ensure the poorest-performing companies are not eligible for investment. We will not invest in companies that violate the UN Global Compact's 10 principles that promote responsible corporate citizenship (relating to areas such as corruption, labour standards, human rights and the environment). We also avoid companies with characteristics that make them incompatible with the aim of limiting global warming to 2 degrees celsius. Finally, we incorporate a tobacco exclusion as we do not view tobacco businesses as compatible with our commitment to sustainable investment.

In addition, the responsible investment team have a power of veto over investing in a particular security, if they believe a company or government is beyond redemption and cannot improve. We do not expect the veto to be needed, but it is a strong signal of what matters to our sustainable strategies both internally and externally.

By combining our pioneering equity-income and sustainable-investing approaches, we are merging two key strengths of Newton to create what we believe is a compelling investment proposition, which should resonate with investors. By harnessing the power of compounding and the insights of detailed ESG analysis, we believe we can produce attractive income streams in a truly sustainable fashion.

Written by Raj Shant, portfolio manager, Newton Investment Management

Your capital may be at risk. The value of investments and the income from them can fall as well as rise and investors may not get back the original amount invested.

ESG: An investment boom

In recent years, there has been a boom in the popularity of ESG investing by UK pension funds. So, why exactly has it become more popular? Andrew Williams investigates

Summary

• In recent years, ESG has become an increasing focus for UK pension funds. This is caused by a range of factors, including recognised financial benefits and responsible risk management, public policy and regulation.

• The largest single style and country combination is engagement and voting in the UK.

• A likely future trend will be the increasing availability of data, which should allow the sector to better understand financial materiality and facilitate better reporting.

Since around the late 1990s and early 2000s, there has been a growing desire in some quarters for a more responsible approach to investing, as well as a growing awareness of environmental issues and, in particular, concerns over the impact of climate change on the planet.

According to Newton Investment Management's portfolio manager, global equity team, Raj Shant, there has also been a growing awareness of social inequality, while 'greater prominence' has been given to companies' behaviour, in terms of accountability and transparency around corporate governance.

DWS's managing director and head of UK institutional, Gareth Davies, agrees that environmental, social and governance (ESG) issues have become an increasing focus for UK pension funds due to a combination of factors, including recognised financial benefits and responsible risk management, as well as public policy and regulation relating to areas such as climate change and financial responsibility.

Redington's head of responsible investment, Honor Fell, also identifies three drivers for investors to consider ESG investing: Financial materiality, regulation and stakeholder pressure, all of which "have strengthened over recent years".

"We're getting an ever-improving data set on the financial materiality of ESG issues; regulation in the UK and also at the EU level is asking pension trustees to provide increasing levels of transparency regarding their governance processes for managing ESG risk– and stakeholders including sponsors, beneficiaries and civil society are increasingly requesting transparency from pension funds about the investments held within the scheme," she says.

Elsewhere, AXA Investment Managers' head of UK client group, John Stainsby, believes there is "no doubt" that ESG investing has become a greater focus for UK pension funds in recent years, for several reasons. To begin with, he thinks that, as a society, we have "simply become more aware of environmental, social and governance issues". Secondly, as an industry, ESG has "become more of an investment issue, not just a box-ticking exercise" – and thirdly, pension funds have recognised they have an obligation to consider ESG factors given the size of assets and time horizons involved.

"Over six months ESG risks might be less of a concern, but over 30 years it becomes hard for schemes to justify why they're not considering them," he says.

Increasing conviction

When measured by assets under management (AUM), Davies reveals that the most dominant ESG investment styles in the UK are engagement and voting and exclusions. For example, €2.2 trillion of UK assets exclude harmful industries such as arms, alcohol and tobacco, second only to Switzerland (€2.3 trillion).

"The largest single style and country combination is engagement and voting in the UK, which is practised in respect of €2.84 trillion of assets," he says.

"Meanwhile integrating environmental, social and governance factors into investment decisions has grown by 76 per cent in the UK compared with 60 per cent in Europe overall in the two years ending 2017. One of the fastest-growing areas is impact investing, which grew by 230 per cent between 2015 and 2017 but in AUM terms is still small at €15.3 billion," he adds.

Stainsby points out that cashflow-driven investing (CDI) is another interesting example that has gained in popularity recently, particularly because pension funds, looking perhaps 30 years into the future, need the confidence to know that cashflow delivery is secure and predictable and reassurance that the money will be there after 20-plus years to continue to meet pension payments as they fall due.

"ESG is central to ensuring these cash flows are sustainable. While integration has become more mainstream across traditional asset classes, the challenge now is how to do this beyond these core areas. As an industry we need to think about how we can do this as there will be demand for managers to keep innovating and integrating across other investments such as alternatives," he says.

Elsewhere, Shant reports that Newton has witnessed increasing conviction among asset owners that careful consideration of sustainable criteria can lead to better long-term investment outcomes. For him, a sustainable approach means using ESG-focused analysis to differentiate between companies based on their actual fundamentals and strategies rather than their sector classification.

"We believe that a more engaged approach can help investors to avoid poorly performing companies and identify higher quality companies regardless of their sector. An interesting example is the United Reformed Church Minister's Pension Trust Limited, which moved from a traditional ethically constrained mandate to a sustainable investment mandate," he says.

Improved reporting

As far as the impact of responsible investment on returns is concerned, Insight Investment's senior ESG analyst, Josh Kendall, believes that considering ESG concerns helps pension funds to improve their understanding of risk.

"In our view, the more sensitive investors are to the risks that ESG factors can represent, the better equipped they will be to mitigate those risks," he says.

"We believe that ever-increasing numbers of pension funds will consider responsible investment a sensible investment solution. In our view, this sharpening focus will be driven in part by regulation, and also by greater reporting requirements for UK pension funds," he adds.

Looking ahead, Davies expects a further improvement in the quality of ESG data, which he believes is likely to enhance the materiality of ESG data from an investment perspective. He also expects an increasing focus among pension funds and the broader investor community on impact reporting of their investment holdings in both private and public markets.

"This means in addition to assessing financial returns, investors will attempt to measure more robustly the environmental and social impacts of their investments. We expect the United Nations' Sustainable Development Goals will form a useful framework for impact reporting," he says.

For Stainsby, the key question for funds moving forward is how to deliver the best possible investment return to their clients, which he argues can be achieved by minimising uncertainty, by understanding risks and by identifying long-term challenges.

"Risks will always be there but an ESG framework ensures these are taken into account when investment decisions are made. Essentially, you want to deliver the same return for less risk. Over the long term, taking less risk is going to matter," he says.

Shant also observes that there is a perception in some quarters that investing with a sustainable remit can mean giving up some investment return, but points to a growing body of academic research demonstrating that, by focusing on actively engaging with companies on responsible and sustainable investment factors, UK pension funds' returns have actually been enhanced.

"Newton has been a long-term supporter of the Centre for Endowment Asset Management at the University of Cambridge's Judge Business School, which has provided valuable data to back up this assertion. In 2015, the centre undertook an active ownership study, which examined 2,152 engagement sequences around ESG factors at 613 US companies between 1999 and 2009.

"The results of the study revealed that successful ESG engagements can have a positive impact on returns, with very limited risk if an engagement is unsuccessful, illustrating the value of active engagement not just for society, but for firms and shareholders too," he says.

Fell observes that another key trend in the next few years will be the increasing availability of data, which will allow the sector to better understand financial materiality and facilitate better reporting.

"Better reporting will enable pension schemes and asset managers to manage these risks better and will also enable beneficiaries to gain a better understanding of the ESG impact of their long-term savings. Standardisation of reporting and of terminology is required and I expect to see this happen over the next few years," she says.

Written by Andrew Williams, a freelance journalist

In association with NEWTON Investment Management

Summary
- LGPS pooling has enabled schemes to more actively invest in private equity, private debt and infrastructure.
- Investing in listed equity and fixed income was the first priority for the pools, but now attention is turning to private assets.
- LGPS is turning to private assets for for illiquidity premia, diversification and yields, especially as many are now facing a cashflow-negative situation.
- Illiquidity, fee structure and performance monitoring are some of the concerns when investing in private assets.

Going private

Pooling has given local authority pension schemes the scale to invest in private markets, but progress remains slow. Sara Benwell explores

When the Local Government Pension Schemes (LGPS) were compelled to pool their assets, the government suggested that there were several compelling reasons.

Of course, the main premise was to cut costs, improve funding and achieve economies of scale. But there was also an underlying political motivation to increase schemes' ability to invest in UK infrastructure, boosting the UK economy.

And several of the pools announced ambitious plans to cut costs in other private markets too.

A whitepaper from Northern Trust highlights that some pools have already outlined plans to build in-house investment teams for private equity, private debt and infrastructure.

It says that many have invested in building multi-billion private market portfolios, giving them more capital to access attractive deals.

All of this suggests that investment in private markets generally, and infrastructure in particular, is on the up.

This is borne out by some of the recently reported activity across the LGPS pools.

The Local Pensions Partnership (LPP), which manages funds for the LPFA, LCPF and Berkshire, says that its members are definitely shifting more capital towards private markets.

LPP deputy CIO Richard J Tomlinson explains: "LGPS is quite different to private-sector corporate DB. When I joined, I thought these are punchy assets. But corporate DB is all about risk management and meeting long-dated cash liabilities. Most of the schemes are closed to future accrual, but the LGPS is still open.

"*[Our clients]* have all gone down the route of private assets, allocating in the 40 to 50 per cent range. That's a significant amount… a material proportion, and certainly our clients aren't the only ones investing."

Slow and steady wins the race

Despite the widespread appetite for

pensions pools to invest in private markets, much of the activity thus far has been centred around getting listed equity and fixed income vehicles up and running.

A trawl of the websites for each of the LGPS pools shows that getting these asset classes off the ground is moving quickly.

But there is plenty of evidence that many pools are gearing up to start more private asset investments.

For instance, the Border to Coast Pensions Partnership is committed to alternatives in general and private market assets in particular.

When it hired its first permanent CIO in September last year, CEO Rachel Elwell said: "Daniel *[Booth]* brings a strong understanding of the investment world, and in particular in private markets, an area of focus for us."

She has confirmed that such investment strategies remain a priority; investment activity so far has been centred around opening sub-funds for both internally and externally managed equity funds with the launch of alternatives capabilities planned for Q2 2019.

Brunel Pensions Partnership manages the investments for the pension funds of Avon, Buckinghamshire, Cornwall, Devon, Dorset, Environment Agency, Gloucestershire, Oxfordshire, Somerset, and Wiltshire.

Its private market portfolios consist of property, infrastructure, secured income, private debt and private equity.

Since it was set up, the pool has invested in a dedicated private markets team of five investment professionals, working across those asset classes.

It is developing its real estate proposition to have the capability to provide capacity for 10 per cent infrastructure allocations. In its autumn report, it said that current allocations to infrastructure stand at £1,450 million, or circa 5 per cent of total assets, with £843 million invested and a further £210 million committed but undrawn.

It also reported that it had received new money commitments of £398 million to its infrastructure portfolio.

A Brunel spokesperson says: "Pooling has transformed Brunel's capacity and capability to invest in infrastructure. The scale of invested AUM in infrastructure and dry powder at the pool's discretion has attracted interest from international pension funds and investment managers alike."

Of course, while the pools can create opportunities for local authority schemes to invest in alternatives, the strategic decisions remain firmly in the hands of the schemes themselves, meaning total allocations will vary on a fund-by-fund basis.

The quest for yield

The case for private-asset investment is well documented, with many schemes turning to the class in the hunt for illiquidity premia, diversification and yields.

Tomlinson highlights that many LGPSs are heading into a cashflow-negative situation. This means that they are thinking about two main sets of challenges, the need to generate yield and the importance of protecting against inflation.

As such, investment in real estate and infrastructure makes sense, as schemes are trading liquidity for yield.

Northern Trust SVP business development pensions, fiduciary managers, sovereign entities EMEA, Ian Hamilton, explains: "Alternatives – particularly direct real estate and infrastructure – have desirable characteristics in terms of providing investment alpha but also in demonstrating liability-matching characteristics such as generating income and being inflation-linked.

"The introduction of pooling and the associated economies of scale generated has provided some funds with the opportunity to access these asset classes at a more attractive pricing point than in the past."

Getting the governance right

While there are obvious benefits to investing in private markets, the asset classes are not without their challenges.

Tomlinson argues that his biggest concerns are around what might happen if a scheme needs to access funds quickly. For instance, if high allocations to illiquid private assets meant that a scheme needs to sell off equities that are down 30 per cent.

He says: "Going back historically people were worried about leverage, but it's liquidity I worry about… In a few years we'll have a liquidity shock that will make people open their eyes."

Increased oversight and governance are the most important considerations for LGPS going down the alternatives route. Illiquidity concerns can be overcome with good planning, but schemes need to carefully consider the future strategies they may need to adopt.

Tomlinson adds: "The better your planning before the event the better. Schemes need to ask: "If we have to raise cash what are the options? Do you want a credit facility in place? What collateral can you pledge to the lending bank? If you go and talk to the high street when there's a crisis it's too late.

"If you have illiquid assets, you could move that to a derivative position and free up probably 80 per cent of the cash, but you need a framework and plan. You'll need infrastructure and people who are deeply experienced to manage these things in place and ready to take action."

Fee structure and transparency of reporting is another potential hurdle for schemes.

Hamilton argues that alternatives present monitoring challenges, because private market investment strategies do not usually offer the same level of transparent reporting that are seen in public markets.

This means schemes can struggle to get hold of the kind of information such as performance data, strategy and risk analytics.

Hamilton explains: "Obtaining clarity over fees can present challenges as even standard industry practices for alternative investment fees can lead to misunderstanding. The way the LGPS is addressing these challenges is influencing how they build out their alternative asset allocations.

"And schemes need to make sure that the pricing is right, to make sure that they are taking advantage of any illiquidity premium. If demand is too high, the pricing can get so expensive that this trade off between illiquidity and yield is lost."

Written by Sara Benwell, a freelance journalist

The shift towards ESG

One of the implications of pooling in the UK has been a shift towards more direct investment.

This is a trend that is already well established in the Netherlands and gaining traction in the Nordics.

According to Nothern Trust's UK institutional investor group head Mark Austin: "The Dutch market in particular is well evolved in in terms of having the size and scale to turn up to deals with enough firepower at the table and enough people with the skills to make it happen.

"In the Nordics, there is a lot of interest in increasing allocation to alternatives and making a difference with those investments, such as investment in infrastructure and environmentally-sustainable projects."

Earth Capital UK managing partner Jim Totty agrees that private assets, and in particular private equity, can help schemes to develop their sustainability plans.

He says: "Growth capital private equity is an attractive asset class to provide LGPS investors with exposure to the sustainable investment sector.

"Growth capital provides the patient, long-term capital needed to bring investee companies through to profitability and to deliver sustainable investment returns."

Summary
- No longer just safeguarding assets, custodians are finding new areas to help streamline pension operations.
- Regulatory requirements are piling pressure on pension reporting – custodians are creating ways to help.
- ESG – no longer just an investment manager issue. Custodians are measuring and monitoring who is doing what they say.

New ground

Custodians are gaining new ground within the pensions space, forming stronger partnerships with pension funds. Elizabeth Pfeuti reports

In the past 15 years, the generic UK pension fund has shifted massively.

Not only has its asset allocation changed from a simple balanced portfolio containing two types of listed securities to a spectrum of off-market products, but its requirements for reporting to regulators and stakeholders have increased remarkably, too.

Alongside shifts to assets that promise to diversify and bring income, regulators are demanding to see the inner workings of trading and reporting to ensure these pension funds are getting the best possible outcomes for members. All the while, a range of stakeholders want to make sure these retirement savings are not harming the planet or its people, but not at the expense of benefits paid in old age.

While fund managers have been first in line to promote the investment products these investors need to meet their new requirements, one sector has not often been in the limelight, despite its importance.

Custody and asset servicing underpins everything a pension fund, its asset management and other investment partners do and as the sector's needs are shifting quickly, the large banks operating in the space have had to scramble for solutions, too.

The first major change these institutions have had to tackle is the holdings in portfolios.

In 2003, the average UK pension held 68 per cent in equities, 31 per cent bonds and just 1 per cent in what was classed as 'other' by investment consultant Mercer in its annual *European Asset Allocation Survey*.

By 2018, this had changed markedly. Equity holdings had fallen to 25 per cent – split 7 per cent to UK equities and the rest held internationally – investors had 3 per cent in property, 1 per cent in cash and 50 per cent in bonds.

The explosion came in the shift to alternatives – now 21 per cent – which can span private markets, timber or even agriculture investments – quite a challenge for the institutions tasked with keeping it safe and accounted for.

J.P. Morgan global pensions executive, Benjie Fraser, says continued low interest rates had pushed pensions to look outside their traditional asset allocations.

"They have been searching for something that will give them decent returns without significant volatility – and the hunt goes on," Fraser says. "Investors are moving considerable parts of their portfolios into alternatives, including private equity, and implementing derivative strategies too."

A broadening remit

Rather than just keep the assets safe, as might have been the requirement back in 2003, custodians need to make sense of what is in the portfolios and report back, often in real time, too.

With publicly-listed equities and bonds, this can be as simple as plugging into a generic market reporting system – not so with private assets.

With many of them valued as infrequently as quarterly, being able to access relevant information is the challenge for pension investors, according to Northern Trust, chief strategy officer for corporate and institutional services, Penny Biggs.

"Our asset owner clients want to be able to make better decisions," Biggs says. "To do this, they need information on

assets that is up to date, accurate and plugs into the rest of their dashboard, which holds data from the rest of their portfolio."

Not only does collating and standardising these data make pension investors' lives easier, it lowers operational risk – or the likelihood of getting key decisions wrong. To this end, Northern Trust has launched a product that gathers, verifies and stacks all investors' data in a format that is accessible and tailored just for them.

They are not alone. Custodians, once seen as safe keepers of assets, have moved up the food chain to become investors' strategic partners, according to MJ Hudson Amaces managing director, Tom Robertson.

"Custodians used to look after pension fund assets in segregated funds and charge a fee," Robertson says. "These assets have mostly moved to pooled funds, the custody of which is the responsibility of the fund manager, and custodians have changed their relationship – and revenue models – with pension funds."

Meaningful reporting

Recent regulations, such as the update to the Markets in Financial Instruments Directive, require much more granular data on trading and other middle and back office functions than was expected even five years ago.

"Regulatory requirements need to be delivered and expectations are becoming more complex," Robertson notes. "Custodians need to support pension clients with reporting, very robust investment accounting and performance measurement – clients would struggle to do that on their own."

The span of data that needs to be collated, cleansed and analysed purely for regulatory requirements is no mean feat – pension funds typically have multiple fund managers, advisers, indexes and other service providers all feeding in their own flavour of data.

Kas Bank managing director, Pat Sharman says: "It is not about providing spreadsheets of data – it is about providing meaningful reporting and insights that can be actioned by clients." Kas Bank has developed an app that draws together the key information for pension funds, so they can make actionable and more informed decisions. And these decisions can have significant consequences.

"Ten years ago, pension funds used their consultants to challenge fund managers over their performance. Now the larger funds are doing it themselves and they need good, reliable data to do it – it is their custodian that supplies it," says Fraser.

Increasingly, it is not only regulators that are demanding reporting data or trustees questioning managers' actions – it is their members mobilising, too. Once on the fringes, environmental, social and governance (ESG) issues are concerning the general population like never before and pension funds are under pressure to respond.

A recent study from Create Research found that 61 per cent of 161 pension funds said their ESG allocation would increase over the next three years.

Sharman adds: "Trustees will need ESG data in order to monitor their managers. The challenge from a custodian's perspective will be trying to measure this development, as there are a wide range of tools currently available, but no one universal standard."

Fraser states that the first task for a custodian is to gather the various streams of data that a pension fund might use, a selection that is likely to be different for each, and pipe them into something manageable.

"For example, company filings provide information on what a company has done regarding its responsibilities towards sustainability," Fraser says. "An investor can also buy data feeds that are piped into one central repository. It is up to the custodian to sort through all this data and present it to the pension fund investor."

Then the custodian needs to take all this data and use it to calculate what it means to an investor and their investment principles.

Biggs says pension funds wanted close monitoring and tracking of ESG performance against their own set of requirements, both on their commitment to protecting the planet and society and their performance.

"Increasingly, investors want more sophistication in what is available and how it is put together and applied, so custodians are continuously working on improving these systems," Fraser notes.

J.P. Morgan is working on improving the front end of its system, making it easier for clients to use and ensuring what they need is where they want it and in the correct format. The way all this will be achieved is through technological advances and as some of the largest financial institutions in the world, these banks are not short on budget to develop them.

Apps, revolutionary front-end systems and blockchain solutions are all in development at these large banks as they look to lead the charge into a new age where they operate front and centre of the investor challenge.

All this, and asset security too, is piling the pressure on an industry known for its relatively low fees, compared with many in the investment sector.

However, Robertson says custodians and their clients were realising the value of long-term, strategic partnerships and few were letting the grass grow.

Written by Elizabeth Pfeuti, a freelance journalist

Making a difference

Ever-increasing workloads, growing regulatory pressure, horror pensions stories in the press; there are times when it can seem difficult to believe that the work is worthwhile and has a material value to members' lives. But it's always nice to remember the constructive ways the industry can help people make the most of their savings. *Pensions Age* asks: What work-based memories make you feel 'warm and fuzzy' for the difference it generated? We hear your 'good news' stories

A few jobs back, a chap survived a properly bad, life limiting, heart attack and wanted to early ill health retire and withdraw his DB pension to enjoy the rest of his time with his family. Me and the chair of trustees persuaded him (in full compliance of FCA) to at least consider CETV and an enhanced annuity. He did and got a massively increased pension. Good day all round, that one.

CooperVison head of reward, EMEA, Phil Rixon

Last year one of our advisers spotted one of our potential customers (wasn't actually a customer) hadn't been claiming state benefits and helped them backdate £40,000 of unclaimed benefits. It was like them winning the lottery.

Just group communications director Stephen Lowe

I took over an investment client from a top-three consultant in Gloucestershire in 2014. In 2015 I looked at their strategy and identified a low-risk approach that was not needed as it was a very healthy sponsor. After discussing with the US sponsor, risk was put back onto the table and the overly conservative strategy unwound. Three years later, there was a massive gain in finding due to changes in 2015 and a much better valuation result than expected. Trustees minuted how well my change in strategy had served them and thanked me in the meeting in front of the sponsor.

Capita Employee Solutions, senior investment consultant – trustee solutions Bobby Riddaway

Two years ago, I was carrying out an annual pension review for a client, who ran a successful recruitment business. As usual, it started off as a general conversation about the business, life and the universe and their auto-enrolment obligations but then her business partner appeared. "Don't forget to ask Stuart about that Allied Irish Bank correspondence," she commented. At that point, out came a letter from the bank outlining the funding position of the Allied Irish Pension Scheme. "I think I might still have a pension with them from when I worked there after leaving school but it will be only be small," she said. I suggested that given how long ago it was and the fact that it had never cropped up in conversation before, we ought to drop them a line and establish if she did indeed have some preserved benefits. "Okay, may as well find out," she said unenthusiastically. Six weeks later she has a deferred pension of just over £10,000 and a cash equivalent transfer value of £308,000. Not a bad return for a short, structured letter written on behalf of an ambivalent client!

Zippen head Stuart Feast

Summary

• The Financial Conduct Authority (FCA) consulted on banning advisers' contingent charging for transfers in early 2018, but found that it was not the main driver for poor customer outcomes.
• The Work and Pensions Committee's own inquiry closed on 31 January, and will present its findings to the FCA imminently.
• The issue splits opinion across the pensions industry, with some leading figures calling for an outright ban, while others are not so sure.
• The stakes have been raised after the FCA said almost 5,000 pension transfers were completed by firms who were later told to exit the market, following issues with their advice.

Finding a way through

As the Work and Pensions Committee prepares to send its findings from its inquiry into advisers' contingent charging for transfers to the FCA, Theo Andrew takes a look at the responses, possible solutions and why finding a way out of this challenge continues to be a maze for the regulator

Navigating through the complexities of the pensions industry is hard enough at the best of times. It can be easy to get lost, hit a dead end or drift off path, as one looks to understand the myriad issues facing the sector.

There isn't much that divides opinion more than that of cost and pricing models in the industry, except for perhaps tax issues, which why it is imperative that the regulators, who in the quest of making it a fair market for all, will do all they can to avoid running the risk of making a wrong turn.

For the Financial Conduct Authority (FCA), one of these meandering issues seems to be contingent charging, where advisers only receive their fee once the member goes through with a pensions transfer. There is a risk that this may encourage advisers to deliver bad advice, to suggest a transfer even when not in the member's best interest, in order to receive their fee. Therefore, there is a danger that without proper action, the regulator could find itself slightly lost on this problem.

Following a 2018 review, the FCA did strengthen the rules around advisers, introducing specific qualifications for providing advice on transfers from October 2020, while reiterating its stance that defined benefit transfers are an 'unsuitable' starting point for consumers.

At the same time, and following the events of the British Steel Pension Scheme (BSPS) scandal, in March 2018 the FCA launched its own consultation into this pricing model, but ultimately found that this was not the main driver of poor customer outcomes.

Data from the Financial Services Compensation Scheme (FSCS) revealed recently that Compensation payouts to members who have been wrongly advised to transfer out of DB schemes have doubled to £40m in two years.

Now, the Work and Pensions Committee, whose chair Frank Field is looking to tackle the "scourge of contingent changing", has picked up the buck, and along with the regulator, is looking to gather evidence on what can be done to navigate its complexities.

In early February, the committee said it will be sending a letter on its findings to the FCA "in the next few weeks", however, many in the industry have been very vocal on what they think the possible solution could be.

Possible solutions

One possible remedy, put forward by Royal London, which has perhaps received most attention, is that where the cost of advice is debited from the members rights under the defined benefit scheme.

For example, if a member received a cash equivalent transfer of £200,000, and where the cost of providing the advice was £4,000, if the transfer went ahead, the member would receive £196,000. If it did not, the member would receive 2 per cent less in DB rights when they retired, which is "unlikely to make a material difference", explains the firm.

Commenting on the proposal, Royal London director of policy, Steve Webb, says: "This could remove the need for clients to find cash up front to pay for advice and might enable more advisers to offer a viable fixed-fee option when charging for advice."

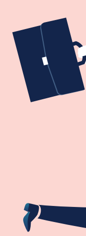
However, Hargreaves Lansdown senior pensions analyst, Nathan Long, believes there are a number of questions the system would raise.

"On the face of it looks quite good because you get rid of the bias of contingent, but what is not quite so clear is the cost of providing income is actually quite penal," he says.

"If you had the choice of whether paying from money you had in your bank account, or paying with money from your scheme, almost certainly you should be paying from your bank account."

There is however precedent for such a system through the 'scheme pays' mechanism, which DB schemes use for 'pension tax charges or in the case of pension sharing on divorce', according to Royal London.

In order for the change to be made, a small amendment would be required



in order to allow trustees to make the deductions, beyond what is already allowed for 'scheme pays'.

But Pinsent Masons partner, Stephen Scholefield, believes this too is not as simple as it may seem.

"Schemes in reality do something very similar for the scheme pays, where they pay the annual allowance charge from their benefits. While that is true, the big difference is it is not applied very often in practice," he says.

"It seems like an expensive way to solve the problem and it is not really a problem for pension schemes, it's more a problem around how financial advice is regulated and made affordable. Passing admin costs onto pension schemes seems a bit harsh."

Another potential solution, put forward by financial advice firm LEBC, is to make it compulsory for providers to offer £500 of tax-free allowance for advice.

This is a view echoed by the Pensions and Lifetime Savings Association (PLSA), who, while "broadly in favour of a ban", welcome the additional work being done to understand the causes of unsuitable advice.

"While we recognise concerns that a ban could make it harder for those with smaller transfer values to access advice, technological advancements may mean low-cost, automated advice might be possible in the future," says PLSA policy lead, Craig Rimmer.

"We also believe this risk could be mitigated through further guidance from the new Single Financial Guidance Body (SFGB) and by revisiting the pensions advice allowance to help create more affordable financial advice options."

The FCA introduced the allowance in 2017, however, many believe it is not communicated effectively enough for people to take advantage of it.

"We now want to see a re-visit to both the pensions advice allowance and the employer-arranged advice allowance, as they are currently not being made widely available and looking to properly re-introduce/launch them to give savers greater access to regulated financial advice," Rimmer adds.

Another solution brought forward in the inquiry was the more prominent use of triage services, which, the PLSA says, could be offered through the SFGB to "allow the consumers to work through whether they should be starting the transfer process or not", which could potentially save consumers money.

The Pensions Advisory Service (TPAS) is another big proponent of this solution, believing that it can explain "processes and contingencies to a degree an adviser is unable in an initial conversation".

Writing to the inquiry, TPAS argues: "Triage could address these points by providing a neutral, comprehensive and intuitive breakdown of the factors that one should consider with respect to a defined benefit transfer.

"It could

be structured such that it offers certain fundamental content as standard."

The complexities of the issue means that any slight amendments in the regulation around the charge could have both positive and adverse consequences for customers, as many have pointed out.

Unintended consequences

Following the launch of WPC inquiry, a number of industry commentators warned the MPs looking into the charge of the "unintended consequences" a ban could cause, such as exacerbating the advice gap, as well as the disruption it could cause advisers.

TPAS highlights the issue that an outright ban could restrict the public's access to financial advice, while the PLSA agrees – particularly for those with small to medium transfer values.

According to TPAS, a majority of firms charge between 2.5-4 per cent of the cash equivalent transfer value.

Personal Investment Management and Financial Advice Association (PIMFA) senior policy adviser, Simon Harrington, agrees: "Removing contingent charging without a viable way for individuals to access advice will ultimately turn people away from an absolutely indispensable part of the retirement planning process."

However, it is also argued that a ban could unfairly affect the advice market.

Hymans Robertson head of member option, Ryan Markham, says: "Banning contingent charging could be highly disruptive for advisers and is unlikely to be straightforward to implement given the broader link to charging structures for managing investments and providing ongoing financial advice."

Further to this, there is the distinct lack of proof that removing the charge, or that any possible alternative solutions to the charge will improve the quality of advice for consumers.

Show me the evidence

For many in the industry however, there is just simply not enough evidence to suggest that contingent charging leads to bad advice.

Data from the regulator, shared with the *Financial Times* in January, found that almost 5,000 pension transfers were completed by 19 companies who were later told to leave the market after issues were found with their advice. Here though, there was little evidence that the charge was the cause.

Long believes that more evidence is needed before any decisions are made.

"Until the FCA has finalised its opinion on whether contingent charges are doing detriment, then I think we are not quite there yet in terms of alternatives," he says.

"I suppose it comes down to what you think – I think the general view should be, you shouldn't transfer one of these pension schemes, unless there is a real strong reason your pension doesn't suit what you want it to do in retirement, and that is more important than any of the messages on contingent charging."

Rimmer agrees: "To help safeguard against poor practice, we also want to see the right data collected annually by the FCA and The Pensions Regulator to understand any detrimental impact affecting savers stemming from DB to DC transfers."

This is certainly the position of PIMFA, which concluded: "We are not necessarily against a ban on contingent charging. However, without a viable alternative to replace it, we cannot support a ban at this current time."

Whether or not the Work and Pensions Committee comes up with sufficient evidence to ban contingent charging altogether, or at the very least offer a viable solution, it is clearly an issue that continues to split the industry.

If an outright ban is not achieved, it could be an issue that continues to prove a puzzle for the regulator.

Written by Theo Andrew

The hidden costs of pension scams

Margaret Snowdon considers how, along with the immediate financial loss to the member, scams can also cost a great deal in terms of time and effort lost, plus potential legal and tax charges

Pension liberation is dead, but pension scams are changing shape. Expats and people who no longer feel any affinity with their former employers are ripe for unscrupulous intermediaries and advisers. Victims can lose their entire savings and it is hard for them to find help, but there are also other, less obvious costs of scams.

Information about scams is still hard to come by if you are a scheme administrator or trustee, but we all know enough to be concerned. At the Pension Scams Industry Group (PSIG), we undertook research during 2018 to help raise awareness of scams, but also to dig deeper on what was happening at administrators; the first line of defence against scammers – and we found some surprising things.

Firstly, the scale of scams is hard to uncover. Because administrators are too busy trying to spot scams, suspicious cases aren't being recorded in a centralised way – though we shouldn't be surprised, because they haven't been asked to do this. Many aren't actually paid to protect consumers against scams, but nevertheless thankfully they do. However, without records of suspicious activity, claims about the extent of scams will be seriously under reported.

Our research tells us that between 0.5 per cent and 12 per cent of all transfer requests investigated uncover suspicious traits. The more you look, the more you find, but the more you do, the more expensive the protection. We estimate 5 per cent of transfers involve scam activity and that alone justifies investigating transfers in line with our *Combating Pension Scams: A Code of Good Practice*.

However, this comes at a cost as, according to the research, the time spent investigating a transfer request to spot a scam ranges from 15 minutes for a straightforward case to over 10 hours for a complex one. With a sample of 27,000 transfers included, the cost to the three organisations involved was around 14,000 man hours in 2018, which could amount to around £1 million a year for just three providers. We should think on this when we ask what the industry does to protect against scams.

It is encouraging to note that all three organisations in the pilot research group use the code as a basis for due diligence, but we believe that only 50 per cent of schemes have appropriate processes. This is important because The Pensions Ombudsman (TPO) in at least two cases has pointed to the code as an example of what good looks like.

Failure to follow the code could be costly, especially as there is a new wheeze emerging – that of ambulance chasing after DB transfers since 2013, when The Pensions Regulator introduced its Scorpion anti-scams campaign. Some of these may prove to be scams themselves, because of evidence that scammers return to the scene of their crime to cheat the victim out of more money in a false attempt to help them recover the stolen assets. The chasers are currently advertising their services in the media, so beware. This issue, which has emerged because of the TPO's Mr N determination where the scheme concerned was told to reinstate the member, could ultimately prove very expensive to schemes that have not done 'enough' to spot dodgy transfers.

The third area of hidden cost, and arguably the cruellest, is the tax charge that follows scams. The unauthorised payments charge sees up to 55 per cent of monies taken from a scheme early or in excess of the permitted maximum is applied, regardless of whether or not the member actually received the unauthorised amount. A scheme sanction charge between 15-40 per cent may also be levied against the transferring scheme. The law here is out of date, as it intends to penalise those who evade tax and not the ordinary man in the street who can be forgiven for not understanding the complexities of pension regulation and who are duped by some very clever scammers. Work is underway to challenge this situation, but it is very costly to individuals and schemes.

The cost of scams is greater than we imagine, whether in actual monetary loss to the member, or the less obvious human cost, the investigative costs, the potential for reinstatement and legal costs – as well as the tax charges that can be levied against individuals and schemes.

Written by Pension Scams Industry Group chair Margaret Snowdon

A framework for success

With the long-running issues surrounding fee transparency still mostly unresolved, Jack Gray investigates the framework that could go a long way in creating a fairer environment for trustees and members

As the issue of cost transparency rumbles on into 2019, the cries for a solution to hidden fees continue to be heard, from consumers to industry experts. Trustees, employers and members of both defined benefit and defined contribution schemes are still sometimes subject to additional, unexpected costs that can have a direct and negative impact on member benefits in the long term.

However, it's not all doom and gloom, as the industry seems to be embracing

Summary

- Fee transparency has been an industry-wide issue for over a decade, but the end could be in sight.
- Organisations such as the IDWG and the CTI have been working towards a standardised framework to tackle the issue.
- More needs to be done to educate trustees about cost transparency and the new standardised template.

the new standards framework and data collection for fee transparency is becoming easier through technological advancements. It is currently a work in progress, and it will take time to educate trustees on the changes, but the industry appears to be moving in the right direction.

Group initiative

In 2017, the Financial Conduct Authority's (FCA) *Asset management market* study concluded that more needed to be done to tackle the lack of cost transparency across the financial sector. "Following the FCA's study, it was apparent that the full breadth of retail and institutional fund charges was not always visible to investors," begins Kas Bank UK managing director, Pat Sharman. "However, on the information that was readily available, costs and charges were often overlooked and generally misunderstood; this is especially the case with transaction costs."

Once the study had been completed, the FCA established the Institutional Disclosure Working Group (IDWG) to investigate the issue and attempt to reduce the impact of hidden costs by creating a simpler, all-encompassing and standardised framework of regulations and guidelines for schemes and their trustees to abide by.

The IDWG was provided with additional support when it recommended to the FCA that a successor group should be established to assist with the rollout of the IDWG's new cost transparency template. The FCA agreed and the Cost Transparency Initiative (CTI) was formed in November 2018.

Template

ClearGlass chairman and former IDWG chair, Chris Sier, explains that the standardised system is necessary to give schemes the ability to provide accurate data that is essential in improving fee transparency.

He says: "In the past, I ascribed cynical reasons to suppliers for their failure to give data. Things like unintegrated and complex operational infrastructure preventing the collection of data, or the fear of exposing themselves to criticism of the high costs of asset management and asset servicing, or just plain 'why should we'.

"My position on this has changed somewhat since I chaired the IDWG and built ClearGlass. I can say that the main reason seems to be a lack of a solid standard for collection. In the old world an asset manager might have been subject to data requests from a range of clients or benchmarking and data collection organisations, each of which demanded data in a different format – their format. And this just isn't acceptable."

As a result, the IDWG and the CTI have launched a pilot, to test how easy people find using the template to be, which is expected to conclude in March.

PLSA head of DB, LGPS and standards and CTI board member, Joe Dabrowski, defines the CTI's role in the framework initiative, saying: "The intention of the CTI is to have a board representation from across the stakeholder groups and to make sure that we roll out the template very quickly.

"We have set ourselves the aspiration to roll out the templates across the industry in the spring and promote as far and a deep a take up as possible."

A key aspect of the template is that it is adopted on a purely voluntary basis. The FCA hope that there is enough motivation within the industry to resolve the issues surrounding fee transparency that it will not have to create legislation that will force people to follow the framework.

Currently, the IDWG and the CTI have not had any issues in persuading schemes to adopt their templates, as there seems to be a consensus amongst industry members that they would prefer to have a clear, simple and time-efficient framework that will allow them to focus on other aspects of running a scheme.

"Asset managers have signed up willingly to it because it is that standard upon which they can hang their hat," continues Sier. "It means they only need to present data in one format, and they will all be compared using the same yardstick.

"Several managers have told me since July they have happily sent the aforementioned data collection agencies packing on the basis of 'we will only give data in one way, the IDWG way, and we will no longer fulfil you orthogonal data formats.'"

Dabrowski adds: "The IDWG made a recommendation that the template usage should be on a voluntary basis in the first instance. The FCA has taken that up, and the CTI intends on making a success of the voluntary approach. The FCA has committed to keeping an eye on how successful it has been, and if it isn't successful, to potentially write rules."

Sharman shares the IDWG's and

CTI's enthusiasm for the potential positive effect of the framework as "it would improve current reporting standards and further improve investor understanding on costs".

She says: "The creation and successful use of these templates will boost trust in the industry, increase awareness of costs and charges, and potentially address asset management pricing competition concerns. All of this will benefit the end users and pension members."

Foundations

The foundation for the IDWG's framework is new requirements in providing high-level data that went live in January 2018: the Markets in Financial Instruments Directive II (MiFID II) and the Packaged Retail and Insurance-based Investment Products (PRIIPS) regulations. These initiatives should make it easier for schemes and companies to comply with the new template, as they have already been collecting data on the costs and charges of certain investment products or services.

In the DC landscape, there are already some requirements in regard to cost disclosure and, according to Dabrowski, "there is talk of similar requirements *[for DB schemes]* coming through in the pensions bill".

He continues: "The post regulators are looking at how to they make the market engage with this, so I suspect there will be more noises coming from the regulators as well as to encouraging trustee take-up and encouraging provider usage. I think all of these things should hopefully work together to make the voluntary approach a success."

Further evidence that a cost transparency framework could be successful has been provided by Kas Bank, which, in August 2018, found that a standardised template could reduce the total ownership cost of a pension fund by 37 per cent. At the time, Sharman said that improved fee transparency as a result of the framework "delivers multiple benefits, including better decision making and ultimately an overall reduction in costs".

We may already be seeing the effects of cost reduction, as the Pensions Policy Institute head of policy research Daniela Silcock explains: "Consolidation and/or closures of small schemes, coupled with natural growth in schemes over the next few decades should start to reduce charging differences based on scale between UK DC schemes.

"However, it is important not to view charges in isolation. Some international schemes have higher charges but these may be coupled with more sophisticated investment strategies, higher and/or more secure returns, a better quality of administration or communications that produce more engagement from members and lead to higher contributions and/or more informed active decision making."

Implementation

Although the vast majority of industry members agree that the new framework is a positive change for the industry and its members, there is some disagreement on how it should be implemented.

In December 2018, PLSA director of policy, Nigel Peaple, stated that should the template not be adopted over the next two years, he would be "making the case to parliament that it should be mandatory".

He explained that he believes smaller schemes will be much slower in being able to put the initiative into action, saying: "The larger schemes, which are well resourced and where trustees are well supported in their decision making, are already doing something with this and I'm confident they will do it quickly.

"For the smaller schemes it will be slower, but I think through education and from the asset management and consultancy industry, fund managers are also very keen to demonstrate that they are being open with what they do, I am optimistic."

Dabrowski admits that it may take some time before people are used to the new structure and that the new template is not necessarily a miracle cure for such a wide reaching issue.

He explains: "People will need a while to get used to the combination of templates and understanding the results that come out of them. None of it is a silver bullet to any immediate issues. It's a process that we'll need to go through."

Optimism and education

Despite this, the collective feeling of most people in the industry is that the journey towards finding a cost transparency solution is heading in the right direction.

"I think the solutions are here," says Sier. "An accepted standard, operated by an organisation and not driven by profit motive on a 'utility/for all' basis."

Dabrowski adds: "We're really encouraged by the support that we've had from all corners. I think everybody is on the same page and wants to make this happen, and so I'm really optimistic."

However, it seems as if more needs to be done to educate trustees on cost transparency. A Kas Bank study in November 2018 found that eight in 10 scheme managers believe that more should be done to educate trustees. The same study also finds that 32 per cent of trustees either do not know or do not factor in transaction costs when evaluating asset managers, despite the fact that transaction costs can amount to 20 per cent of total cost of ownership.

Sharman concludes: "Beyond education, the next step for cost transparency will be the practical decision making involved in using this new cost data. Moving away from Excel, and onto intuitive and smart cost transparency platforms will be crucial to the modernisation of the sector and will improve the likelihood that effective cost reporting and value for money assessments persist."

Written by Jack Gray

Summary
- Partially transferring members into a master trust can occur for those own-trust DC schemes wanting to offer its members drawdown access at retirement through the master trust, those wanting to remove deferred or AVC members in order to focus on active members or the core pension offering, and as a result of company mergers driving efficiencies.
- Members with underpinned DC rights can prevent a full transfer into a master trust. The practicalities of the process may also put off schemes from doing so.
- Dividing members into different DC schemes is nothing new, but the level of awareness from trustees that different segments of the membership can be divided between the own-trust DC scheme and a master trust is subject to debate.

Best of both worlds

Laura Blows reveals how some employers and trustees are transferring specific portions of their membership into master trusts, while also retaining their own trust-based DC scheme

Master trusts have the world at their feet. After all, the future of pensions is DC, and the future of DC is master trusts. Once the strong have emerged from the master trust authorisation process, these victors will be champions of the (pensions) world.

Or will they? Are master trusts the only way forward for DC, to which all must completely submit?

Barnett Waddingham partner Paul Leandro thinks not. He states that with a single-employer, trust-based DC scheme, there tends to be a benevolent, paternalistic nature to the employer, as the scheme provides "a flexible framework where you can design the scheme to be as pertinent as possible to the membership profile".

"The boards of trustees are engaged, so the sponsor believes it is doing the right thing by its employees by continuing the scheme as it is," he explains.

However, when it comes to master trusts, a growing number of trustees are finding that it does not have to be all or nothing. The benefits of a master trust can still be utilised for those wanting to continue running their own DC scheme, or are unable to fully move their members into a master trust, through a partial transfer of some of their membership.

At-retirement

Just as master-trust popularity grew as a result of auto-enrolment, so have their partial use grown out of another reasonably recent legislation, that of pension freedoms.

"If you have an own-trust scheme, you are not going to offer pension freedoms because that would involve members staying in the scheme until they are 80, 90, until they die. That's not really why you run a DC scheme as an employer. You run it for the people that work for you," LGIM head of DC solutions Emma Douglas says.

Therefore, some trustees are offering their membership the choice to transfer into a master trust as they approach retirement, believing that will provide the members with improved drawdown access compared to what they would find in the retail market.

Willis Towers Watson's LifeSight director David Bird states that it has approximately five employers who

participate in its master trust just on the basis that members can transfer at retirement in order to obtain drawdown.

"The reason is that the occupational scheme doesn't want to run drawdown but they also feel that the individual market for drawdown isn't right for their members," he explains.

Global healthcare company GlaxoSmithKline has recently set up the option for a post-retirement transfer into LGIM's master trust, as did the trustees of Mitchell & Butlers Pension Scheme.

For some larger schemes, LGIM is able to set up a mirror fund range within the master trust, so that members that do transfer at retirement can just re-register the units into the master trust, without any buying or selling, and therefore saving on transaction costs.

Deferred members

Another growing area for partial transfers – which Bird expected to see become more common than it has been as master trusts grew in popularity – is that of only moving a DC scheme's deferred membership across into a master trust.

Capital Cranfield group chairman Anthony Filbin has heard conversations, but has yet to come across any such movement of deferred members. However, in contrast, it is bulk transfers of deferred members where Leandro is seeing the most partial transfers occur, while Bird says he is "starting to see this occur a bit more now".

Employers and trustees managing their own DC scheme may be confident that they are doing right by their current employees by continuing to run it, but may not wish to carry on shouldering the extra regulatory, governance and cost responsibility for their ex-employees.

This may particularly be the case as many DC schemes have seen a very rapid increase in deferred membership as a result of the abolition of short-service refunds in 2015, JLT Employee Benefits senior consultant Philip Moran adds.

"We have done a couple of exercises relatively recently where the trustees have sifted out the deferred members into a master trust so that they can focus their resources on active employees," Leandro says.

Mercer partner Roger Breeden has found the same, that a growing number of mature schemes with increasingly large deferred populations are deciding to undertake bulk non-consent transfers of either some or all of their deferred members to reduce their costs, "which either improves the employers bottom line or can be spent on improving benefits for existing employees".

The same challenges as deferreds can be found for DB schemes that have small DC sections, which is commonly just for additional voluntary contributions (AVCs). This is often just a small adjunct to the main DB scheme, Filbin says, but which requires additional regulatory burdens, such as a chair's statement. He highlights Punter Southall's master trust, Aspire, as actively targeting AVC schemes to move across to the master trust.

Section 32

The removal of deffereds used to, and can still occur, through an individual buyout, known as a section 32.

"The problem with a section 32 is that you are buying something at a fixed point in time, with no real mechanism for that policy to improve and change over time," Bird says.

Douglas agrees, highlighting how a section 32 does not have an independent governance committee looking after it. "Yes *[the members]* will go into a provider contract, but there's no real governance on top of that," she explains. "I think *[moving deferreds into a master trust]* gives trustees a lot more confidence that they are moving members into an environment where they are going to be looked after and where there is someone who has got the responsibility and fiduciary duty to look after their interests."

Mergers

Company mergers can also result in pension schemes' partial transfers into a master trust.

For instance, Bird states that LifeSight is currently onboarding a client with two single trusts that are being merged into one. Past members of both are being moved into the master trust, and the company is providing something else for future service.

Aon head of delegated DC solution Tony Britton notes that mergers very often drive benefits managers to try and 'tidy up' schemes by moving as many members as possible into a master trust.

When looking at efficiencies, schemes may wish they could simply transfer all their members into a master trust, but instead are hindered by certain restrictions. In that case, it would still be the majority of members that would move across.

Challenges

"One scheme we are working with has about 2,000 members and approx 150 of them have got underpins," Britton says. "So, the trustees have got two options. One is to try to buy out those underpins in some way, i.e. guarantee them. That's probably what they will do when the population decreases enough to be really small. But in the meantime, they're going ahead with their transfer to a master trust for the majority of members, and they're going to leave those members *[with guarantees]* in the trust-based scheme," Britton says.

Breeden has also found that where some of the membership has guaranteed minimum pensions (GMPs) underpinning their DC benefits, they are left in the legacy trust-based DC scheme, with the rest of the membership transferred into a master trust.

Another example Britton has come across is a scheme with members that have some complex with-profits, which cannot be accommodated into many master trusts. In these cases, sometimes the DC members with guarantees can only be moved into a master trust with their active consent.

In those instances, it is unlikely that all members will provide active member consent, so even though the trustees and sponsor may want to completely move the DC section across to a master trust, they may still be left with some people in the 'old' scheme.

There are also a number of other practicalities those wanting to implement a partial transfer need to address.

The People's Pension chair of the trustee Steve Delo stresses the importance of quality admin records. "Incomplete member records will make a process vastly more difficult and the transfer less attractive to the master-trust market. Trustees of single-trust DC schemes therefore need to pre-plan and get on top of their data," he advises.

Breeden states that a review of the scheme rules may be required, with legal or technical advice needing to be obtained.

The process itself can be onerous, as a master trust has to be selected, members signposted to it and records transferred. However, the master trust "would be very willing to pick up the majority of the work", Douglas adds.

On the investment side, the amount of investment choice, ongoing charges, out-of-market risk and transaction costs need to be considered when transferring members, Leandro says.

Ultimately, when transferring members into a different scheme, trustees have to ensure that the members will be as well off, if not doing better, as a result of the move.

However, removing the need to handle a small AVC scheme, or manage deferreds "tends not to be the number one priority for sponsors and HR departments", Filbin adds.

After all, as long as at least two members remain in the DC scheme, the sponsor and trustees still have to continue with their governance responsibilities. An upfront cost is also required for the partial transfer and regular exercises may have to occur, for instance to continually move deferreds out of the scheme, Breeden says. So some may decide not to bother.

"One of the things that stopped, and still stops, some businesses from doing partial transfers is the belief that it's a complex project and will be a lot of work," Britton says. "It's been quite interesting, some of the debates that I've had, that actually people have been surprised that a well-run project is not a huge amount of work and not a huge drain on people. So, I think that has also inspired people to think a bit more creatively about what could be done, and hence splitting out scheme."

Taking action

If employers and trustees are talking about splitting out the scheme, now could be the time to take action. Leandro notes that there is a "land grab" by master trusts at the moment. "If companies are considering transferring, whether it's a partial transfer or full, now's the time to do it because the terms and charges being offered are currently very competitive," he says.

Some master trusts are even offering to pay the transaction costs, which can be a significant amount, such as £200,000 for a transfer of £100 million of assets, Leandro adds.

So, if it is surprisingly easy, and now is a particularly good time to transfer into a master trust, won't those (that are not restricted to do so) simply implement a full transfer and wind up their own trust-based scheme?

Indeed, Breeden states that Mercer has a number of clients that have conducted a partial transfer before moving onto a full master-trust transfer.

Some may have a first visit before completely entering the world of master trusts, but according to Douglas, most schemes are happy to keep it as a partial transfer. "It tends to be larger schemes, with keen and eager trustees and a supportive employer, that are quite viable in their own right. *[So a partial transfer]* is just a way of focusing their attention on the active members and not having to worry about the set of the scheme population that no longer works for you," she explains.

Having a range of DC schemes for different members is after all, nothing new. Some companies used to put certain groups of employees into Nest, for example, and then offer a different trust-based scheme for the rest, although this division of staff is less likely to occur now, Douglas adds.

Smart Pension independent chair of trustees Andy Cheseldine also notes that it is possible that employers may even split employees into different master trusts for different needs, such as those on different earnings frequencies contribution rates. Two master trusts could also be used for firms with a portion of staff that are seasonal workers, for example, with fluctuating numbers, and those who are more static, longer-term employees. Alternatively this could also be a split by different investment requirements – for instance employees that demand more ethical investments such as a Sharia fund.

However, "in practice employers will typically look for a scheme or combination of schemes that offer the best overall value to members while being simple to administer", he says.

So how common is a partial transfer into a master trust?

Filbin says that awareness of partial transfers into master trusts is not mainstream yet. However, Breeden says the various examples in which a partial transfer can occur is "common practice", although he warns that it may have already plateaued, with more employers moving to a full transfer to a master trust, due to better regulations about bulk non-consent transfers introduced in 2018. In contrast, Douglas notes that partial transfers are "definitely increasing", especially for providing options at retirement.

The extent that partial transfers into master trusts occur may be subject to debate. But for those trustees that feel some of their members will be best served within a master trust and others within their own single-trust DC scheme, awareness of a partial transfer option is growing, and needs to continue to grow, so they can enjoy the best of both worlds.

Written by Laura Blows

An authorised life is now in sight

Jack Gray speaks to the Willis Towers Watson master trust LifeSight's director, David Bird, about being the first master trust to apply for, and receive, authorisation from The Pensions Regulator (TPR), what could be improved about the authorisation process and whether the master trust model is the future of DC pensions

LifeSight was the first master trust to apply for and receive TPR authorisation. Why did you decide to be the first to take the plunge? Did you find it difficult getting into a position that you felt you were ready to apply?

We made the decision to apply for TPR authorisation following our readiness review. We knew that we would be able to have everything in place to apply by the end of October, and that we didn't need to re-write policies and procedures to do so. Our existing governance and oversight structures were robust enough that it was only a matter of a small amount of tailoring work to fit the new requirements.

There was no reason for us to wait, so we moved forward as soon as we were ready. We were pleased to be able to be the first to make the application. A big advantage was that we had always set up LifeSight with the governance being led by the trustee, independent of Willis Towers Watson. In that structure, the role of the trustee as the master trust commissioning service gives the clarity of roles and responsibility that the regulator was looking for.

What is your opinion on the amount of master trusts that have applied for authorisation (8) and the number that have triggered their exit or exited the market (38)? Is this more or less than you expected?

I am somewhat surprised that more schemes are not further along the process than they appear to be. It's likely a cause of concern for the regulator, who seemed to be initially concerned that too many would apply for authorisation, but now potentially face a last-minute rush of applications to review. We're not surprised by the number who will not be proceeding with an application. This is a stated aim of the policy.

Do you expect the number applying to increase significantly before the deadline at the end of March?

I expect we may not see more than 20-25 applicants by the end of the application window, as clearly many are taking this opportunity to drop out of the market. The final number will depend on the number of 'accidental' master trusts that find themselves caught by the regulations who were not expecting to be.

What is an 'accidental' master trust and how can a scheme sleepwalk into becoming a master trust?

It's an employer with a single-employer trust that happens to have participating employers that do not qualify for the exemption.

The Universities Superannuation Scheme is a master trust, for example, and there are other examples of employers whose structure means they are a multi-employer scheme. Hopefully any legal due diligence of a corporate action or purchase would identify this, but it could be missed.

How closely are you working with TPR and what are the key things that they expect from you to meet their standards?

We had been working closely with TPR and have had a lot of dialogue with them throughout the whole process. They had specific questions for us and we have been through a series of meetings and discussions so both sides could make all the necessary arrangements, as the criteria for what was required developed. They have always been constructive, professional, and perceptive of the needs of our members. Within the restrictions that both sides have to work in, they have been as helpful as they possibly could be.

There are aspects in the authorisation and subsequent supervision regime that we as an industry need to review and will need to evolve to fit the needs of the members and the industry over time.

What aspects of the authorisation and supervision regime do you believe need to be reviewed?
The current requirement for reserves is based on a future projection of the number of members and a maximum of 25 per cent of revenue that is in the past. So you need reserves that anticipate growth based on revenue not anticipating that growth and you can only use a quarter of that revenue. This means that schemes will not become self-financing and will need ever-increasing amounts of reserves, which will not properly reflect the financial health of the master trust. Additional reserves don't come for free and to the extent that there is too much prudence required for reserves, the cost of this will be met by members and that is potentially not commensurate with the additional security achieved.

The supervisory regime has only been sketched in a very high level way to date and so, we are expecting to be authorised any day now but don't know what the regime requires of us hereon in. So, we have submitted documents to support our application, which are produced to a timetable in relation to our scheme year. Will the supervisory regime dovetail with our current annual calendar or will we have some overlap and duplication, leading us to have to shift our reporting timelines?

Last year you announced that half of your default fund has adopted a strategy focused on environmental, social and governance (ESG). Could you provide some more information on the exact nature of this strategy? Also, why did you decide to adopt it and what has the performance been like so far?
To put it simply, the result has been better risk-adjusted returns for members. The LifeSight trustee has put sustainability at the heart of its investment beliefs as a key future driver of performance. Given the overall volatility of equity markets recently, the decision to adopt the strategy has been protective of the overall portfolio, adding to our outperformance in this period.

What do you think the key factors are in running a successful master trust and what are the main challenges you are facing?
One of the most important things about running a master trust is putting the member at the centre of everything you do. This is vital to ensure they have the best experience, the best outcomes, and therefore the best retirement benefits. The member is our long-term client, but we also need to properly consider the needs of our short-term client, the employer.

Balancing the needs of the employers and trustees who are leading the selection exercise that results in the appointment of a particular master trust and the needs of the members of the master trust, both existing and future, is a critical thing for the trustee and the service providers to manage successfully.

Are master trusts the future for DC schemes? Which schemes should consider joining a master trust?
Master trusts are the future for many employers using DC but it is not necessarily the only option they should consider. Master trusts are a great option for many large employers, as they reduce their benefits workload, and are held to extremely high standards across governance, investment and delivering clear and effective service for members.

Having said that, there are employers with the will and the resources to run their own tailored pension scheme, and for those companies, the ability to have complete control will be valuable to them.

We see master trusts as the third element of the pension provision market, alongside single occupational trusts and group personal pensions, but it is the fastest growing.

Written by Jack Gray

Summary
• Equity release is becoming more popular due to inadequate pension savings and innovation within the market.
• However, savers should not rely up on equity release alone to fund their retirement as usually it will not be enough.
• Experts agree that the two products, pensions and equity release, in the right circumstances, can complement each other to fund later life.

Good neighbours?

Equity release is on the rise, but what does this mean for the pensions industry? Natalie Tuck investigates

If you've ever spent some time on the sofa watching daytime television then you've most likely seen an all-singing, all-dancing advertisement for equity release.

The colourful adverts, often aired in the interval of the Aussie soap, *Neighbours*, offer viewers musical renditions on the benefits of equity release. Figures would suggest that the jolly tunes are hitting the right note; the Equity Release Council reveals that £3.94 billion of housing wealth was released in 2018, up 29 per cent year-on-year.

There are two main types of equity release products, a lifetime mortgage and a home reversion mortgage. With a lifetime mortgage the consumer takes out a mortgage on their house that they don't have to repay until they die, with the debt building up until that time. There is also a drawdown lifetime mortgage, which allows consumers to take money when they need it, offering more flexibility as consumers can usually pay some of the debt off while they are still alive.

The other type of equity-release product is a home reversion mortgage. In simple terms, this is when the company buys a proportion of the house from the consumer at an undercut price. For example, if a consumer had a house worth £100,000, and they sold a 40 per cent share to the provider, they might get £20,000 for that share; then when they die, the provider gets its 40 per cent stake back.

Gaining popularity

Key CEO, Will Hale, notes that a lack of pension savings and significant house price growth means that for many their house is their largest asset. The Equity Release Council's CEO Jim Boyd states that the Office for National Statistics' House Price Index (December 2018), shows the average house in the UK is worth £231,000, while the average pension pot is worth £105,496, according to Aegon (June 2018).

Therefore, Hale notes that as people contemplate longer retirements than previous generations "they are increasingly looking to equity release to fill the pension savings gap". The traditional way of freeing up cash in retirement may have been downsizing, but Hale says that many of the customers that Key speaks to want to remain in their current homes.

Alongside this, LEBC director of public policy, Kay Ingham, adds that wage growth has been muted for the past 10 years and this impacts on the pensions that people can expect to receive. This, she says, affects employer pension plans that are linked to earnings, either as a baseline for the percentage of contributions paid into a DC scheme or the percentage of final salary paid out from a DB scheme.

Equity release has also been boosted by significant investment and innovation within the market, More 2 Life CEO, Dave Harris, says. "Now customers can choose to make ongoing repayments, remortgage existing plans and include inheritance protection," he says. "This flexibility means that there are now more equity release products on the market than ever before, enabling advisers to find a product to meet each client's specific needs.

Risks

Despite its popularity, there is caution around equity release being the saviour of inadequate pension savings. Barnett Waddingham senior consultant, Malcolm McLean, notes that the commercials we see on television emphasise the positives and play down the negatives, including "high interest rate charges (normally between 6-7.5 per cent) and the way debt rolls up and can rapidly increase over time".

Recently on his ITV show, financial expert Martin Lewis warned consumers that it only takes around 14 years for what you owe to double (based on an interest rate of 5.1 per cent) due to the super compounding of interest.

Those who are looking for equity release to fill a gap in their pension savings may also be disappointed. A report last year by Royal London titled, *Will housing wealth solve the pensions crisis?,* found that wealth tied up in people's homes is no 'safety valve' for inadequate pension savings.

Using data from the W*ealth and Assets Survey* of around 7,000 pensioners across Britain, it found that the average amount of equity for poorer pensioners that do have property is around £150,000, compared to just over £400,000 for the richest fifth. For those that do have housing equity, equity-release providers will often only allow a pensioner to borrow around a third of the value of their property.

Most policies come with a 'no negative equity guarantee', and because of the impact of compound interest on equity-release loans through retirement, lenders want to make sure that the borrower retains significant equity at the

start of the policy. Therefore, at current annuity rates (August 2018), a pot of £50,000 (a third of a £150,000 property) could produce a weekly income of approximately £50 per week.

Therefore, Royal London director of policy, Steve Webb, says that equity release might be "more attractive as a way of topping up income (or paying for care) in later retirement, but you would need a lot of housing equity to fund a retirement if you can only access a third of it in retirement".

Boyd also notes that equity release should be seen as a supplement to pension income, as opposed to a substitute: "The government is right to focus considerable effort on encouraging consumers to save into pensions over the long term through initiatives such as auto-enrolment, alongside pensions tax relief."

Another risk, McLean notes, is that equity-release products could change in the future. "There is no absolute guarantee that equity release schemes will continue in the future exactly as they are now. Funding to support them may become less available, with the criteria for access much tighter, or they may become significantly more expensive."

Good neighbours become good friends?

With £136 of property wealth unlocked each second in the final quarter of 2018, it appears that equity release, for now, is here to stay. But if more consumers are choosing to fund their retirement with their home, will this hinder pension saving, or can good neighbours become good friends?

The idea that equity release can sit alongside pension savings as a way to fund later life is certainly gaining ground. Most recently, the government signalled its approval, backing the Housing, Communities and Local Government Select Committee's proposal that the Single Financial Guidance Body should signpost older people towards equity release as a home finance option.

This was in relation to older people freeing up cash to, for example, make modifications to their homes in readiness for later life. The Equity Release Council's chairman, David Burrowes, sees it as a "growing consensus that consumers will benefit by taking a more rounded approach to their retirement planning".

The Equity Release Council has also called for housing wealth to be included on the pensions dashboard, so people are better able to see how it can support them in retirement. However, that wasn't so well received by everyone, with Personal Investment Management and Financial Advice Association senior public policy adviser, Simon Harrington, tweeting that it is a "terrible idea".

There is no doubt though that experts from both industries agree that the two options of funding retirement can complement each other. McLean believes there is "room for both pensions and equity release". Webb notes that the two products could work together, "though the balance between the two may depend on individual circumstances".

On the equity release side, Harris says that from a customer perspective, equity release and pensions work well together, as people can use equity release to fill the gap left by pension under-saving. There are also benefits from a provider perspective, he says.

"Equity release books are often backed by annuities, as both of these products are long-term products and their customers have similar age profiles. As pension funds increasingly look for assets that match their liabilities, we anticipate that we will have more interest from investors with this types of capital."

Perhaps because of the overlap that Harris highlights, there are some providers that offer both pension and equity release products, with Just Group being one of them. Its communications director, Stephen Lowe, also notes that when a pension customer wants to use some or all of their pension pot to secure a guaranteed income for life, an insurance company has to invest their pension savings into a secure long-term investment.

"Insurance companies use some of that money to invest in lifetime mortgages; or put another way, they lend money to equity release customers. Both are long-term commitments."

Boyd states that there is a "natural synergy" between the products, for both providers and consumers. So perhaps, the two really are the perfect blend.

Written by Natalie Tuck

The next step

Over 10 million people are now auto-enrolled into a workplace pension. But there is the acknowledgment that even April's upcoming contribution increase to 8 per cent still isn't enough for members to secure an 'adequate' retirement. What should the next step be to increase saving?

Realistically there is a limit to what auto-enrolment (AE) can do in its own right, as there's a balance between the contributions being large enough without significant numbers of people opting out. Individuals can often pay additional contributions and benefit from tax relief; sadly not enough people understand and take advantage of this option. We need to get the message out that AE contributions is a great start, but that individuals need to be saving higher amounts if they want to be comfortable in retirement.

Redington vice-president of DC and wellbeing Natalie Flood

Auto-enrolment has been great in nudging people to start saving for retirement, but for many it will not go far enough. Increasing the contribution rate to 8 per cent in April is a good start – but based on people's expectations of their retirement, in most cases, contribution rates will need to be higher to ensure a comfortable quality of life once they retire. We, therefore, need to start thinking of 15 per cent as the 'rule of thumb' for contribution rates.

We also need to be braver in how we are encouraging employees to save more for retirement, including educating them on techniques like auto-escalation. These techniques could allow everyone to achieve this 15 per cent in a more manageable way.

BlackRock UK institutional business head Andrew Stephens

The PLSA has previously called for lifetime average contributions on all earnings of 12 per cent a year and we would support that. We would also like to see some form of auto-escalation, so when a member gets a pay rise they automatically increase the percentage they are paying until they reach a level that is likely to produce an adequate income.

Financial education in the workplace can ensure employees realise how valuable workplace pensions are and how to make the most of these and any other benefits available.

Wealth at Work director Jonathan Watts-Lay

We think the government's next focus should be on increasing coverage of auto-enrolment to those who don't currently benefit from it but could do. These people are some of the most 'under pensioned' in the country, including lower-paid workers, younger workers and the self-employed. Changes could include helping the self-employed, saving from the first pound of the pay packet, reducing the £10,000 threshold for auto-enrolment, and lowering the qualifying age from 22 to 18. The last two changes will positively impact women who are disproportionally affected by the way the current rules work.

The People's Pension director of policy Gregg McClymont

The next step is to focus on the communications and drive engagement further. For some employers another increase could cripple their cashflow, which would be no good for anyone. Whereas helping people to better understand the importance of saving for the future and the benefit of the pension scheme could well positively impact personal contribution levels.

Mazars partner and head of financial planning Sarah Lord

As a first step the government needs to crack on with some of the changes that came out of its auto-enrolment review; for example, it would be a missed opportunity to wait until mid-2020 to get rid of band earnings or reduce the age threshold.

On the question of adequacy, default contributions will need to rise, but given the politics and economics behind this we need to make it easier for people to voluntarily save more and encourage them to do so. Progress will rely on a number of different solutions that encourage and make it easier for people to save.

Smart Pension head of policy Darren Philp

The next step to increasing saving has already been mapped out by the 2017 review of automatic enrolment, in the form of the proposed scrapping of the lower earnings threshold (£6,032 for the 2018/19 tax year). Scrapping this threshold will have a greater impact for lower earners than higher earners as it represents a higher proportion of lower earners' earnings. Employers and employees will both make increased monetary contributions, albeit with employees continuing to contribute 33 per cent more than employers.

Any further changes should, ideally, follow from detailed consideration (perhaps in the form of a successor to the Turner Commission) of how later life is financed by the combination of the state and private savings.

Auto-enrolment has very successfully tackled the issue of retirement saving, albeit not the adequacy thereof, without needing (or achieving) much engagement. This behaviour-based design feature is a fundamental part of auto-enrolment. If it isn't broken, why try to 'fix' it?

Cardano head of defined contribution Ralph Frank

It's great to think that over 80 per cent of the working population are now saving for their retirement compared to 42 per cent of the private sector in 2012. But we know that 8 per cent is not sufficient, particularly if DC is the only source of retirement income. Indeed, we need higher contributions from the member, employer or both, but we must also promote a positive message about saving into pensions so that opt-out rates do not increase.

PMI president Lesley Carline

While employer-matching contributions have been shown to strongly influence employee contribution rates, the solution to almost doubling long-term savings rates, without dramatically increasing opt-out rates, comes down to overcoming behavioural impediments to saving with behavioural interventions.

Aside from auto-escalation, using avatars to help people visualise and relate to their future self has been shown to overcome the preference for spending today over saving for tomorrow and double long-term contribution rates. Similarly, issuing a lottery ticket for every, say, £100 saved makes the benefit of saving, i.e. the possibility of winning a large sum of money, more immediate. Then there's projecting the individual's pension income at current contribution levels on their monthly payslip as a means of comparing current with future income, and reframing employer contributions as 'free money' and tax relief as 'a saver's bonus'. Combined, these can dramatically increase savings rates.

Columbia Threadneedle Investments head of pensions and investment education Chris Wagstaff

Clearly – as a pension provider we have a vested interest, and we would welcome increases in contributions paid to pension schemes.

It is no secret that the UK has largely copied Australia's model for our auto-enrolment legislation, and in Australia employers are now obliged to pay 9.5 per cent of employee's earnings.

As the public in the UK becomes more at ease with the idea of pension increases, we would love to see this continue to hit a combined contribution rate of 15 per cent in the next three to four years.

We think that this is a reasonable target level for combined employer/employee contributions and should provide a level of retirement income that will be sufficient for the majority of people.

It is still vital that any increases are backed up with appropriate levels of information/education that will help people to understand the value of the investment in their future that they are making.

But this is a simplification of a complex issue. Would it help if the employer paid the same level of contribution as the member? Should contributions be based on 100 per cent of earnings rather than just a 'qualifying' portion? These questions need to be answered.

Salvus Master Trust national head of sales Bill Finch

Pensions history

Investing for pension funds

March 1966 found George Ross Goobey making his first visit to South Africa to address the annual conference of the Association of Pension and Provident Funds of South Africa on investing for pension funds.

Before joining Imperial Tobacco he had been employed in the London office of the Southern Life Association, a South African insurance company. It was intended that he should join the head office in Cape Town but this was frustrated by the outbreak of the Second World War. If the war had not intervened UK pension funds might not have received the benefits of Ross Goobey's investment philosophy.

In his presentation he covered the recent investment trends adopted by pension funds in the UK of moving more into equities and how he had been able to convince his trustees that this was the right approach when having to deal with the continuing effects of inflation. He emphasised that to be certain of making a success of equity investment you must have a wide spread. An investment in an individual company may do better or worse than the average. "We cannot be infallible in picking out those companies which will do better or as well as the average" he said.

He went on to explain the merits of investing in lesser-known companies that command a higher immediate return than any of the national favourites and yet have equal prospects of future growth. He felt that one of the benefits he derived from going to work in Bristol, after having had all his previous investment experience in London, was the discovery of so many really excellent local companies.

The full text of George Ross Goobey's presentation can be found in the Pensions Archive website; www.pensionsarchive.org.uk under "Collections" – "The George Ross Goobey Collection" reference LMA_4481_C_04_001

Written by The Pensions Archive Trust chairman, Alan Herbert

Fun and games

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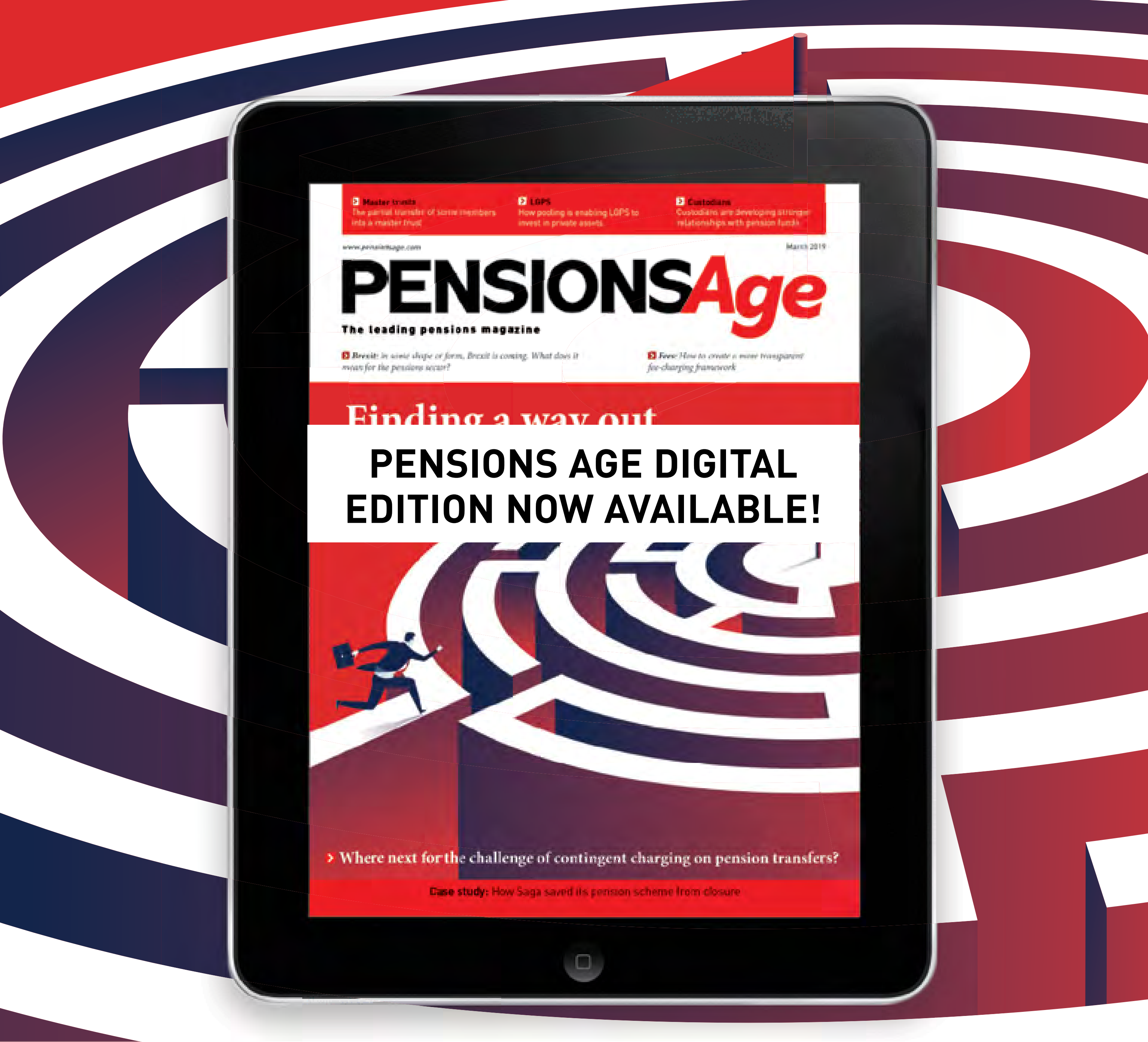
I know that face... Answer: Star Steering Group chair Tom McPhail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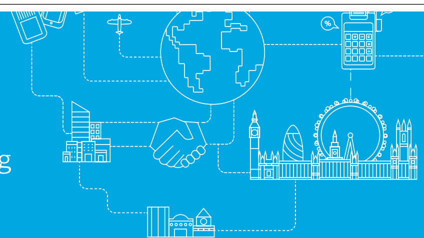

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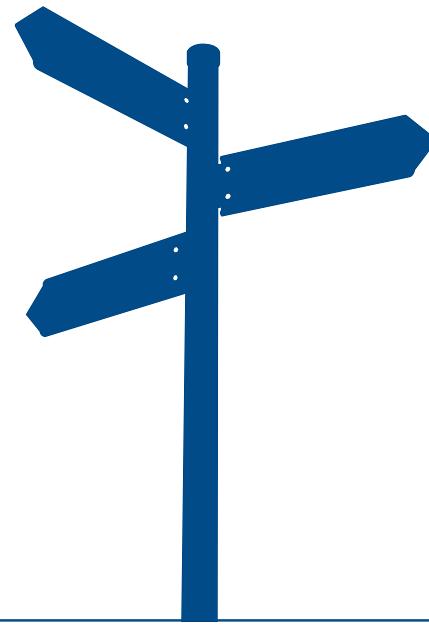

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