



# Trustee diversity: From the associations' perspective

✓ **Natalie Tuck speaks to three different trustee associations to find out if trustee boards really are stereotypically old, white males and what diversity really means**

In recent years, there has been a focus on the need for pension funds to diversify, mostly in terms of its investments in order to protect itself from market volatility. However, perhaps more importantly, is the need for a diverse trustee board, to bring different perspectives to the fund's management.

There is a perception that trustee boards are made up of old, white professional males, but is there still truth in this stereotype? Survey results from the Association of Member Nominated Trustees (AMNT) do point towards this. Its annual survey found that 81 per cent of members who completed the survey were male, two-thirds were over 55 and almost a third were between 40 and 54. Just 3 per cent were under 40.

Going by this it seems clear that trustee boards need to diversify. But this is not just simply about bringing more women and younger people onto the boards, diversity covers everything, from gender to ethnicity and education/socio-economic background, to whether you are a parent or not. As a result, *Pensions Age* spoke to the AMNT, along with The Association of Corporate Trustees (TACT) and Association of Professional Pension Trustees (APPT) about the issue of diversity.

## Association of Member Nominated Trustees

It is clear that there is a very long way to go, not merely in gender diversity but also ethnic diversity. The balance on a board ideally ought to reflect the diversity of those in the pension scheme. It would also be good to bring the average age down substantially: the younger people are when they start to take pensions seriously the better their retirement is likely to be.

Why is diversity important? First, in order that the perspectives and life experience of the scheme members are better reflected in the place where decisions are being made that affect them. Also, people will often go to people they can identify with when needing to ask questions about their pensions – particularly when they are shy about asking or believe they 'ought' to know the answer. And study after study has recognised that diversity on boards leads to better decision making due to the wider range of knowledge and greater likelihood that the board has avoided groupthink.

AMNT is working on a new section on its website aimed at people considering becoming a trustee and at trustees and sponsors who are looking to recruit new trustees. Here we will be setting out some advice on how to improve the diversity of scheme boards. The key point we will be emphasising

is that it is simply not enough to merely state that women and minority ethnic scheme members are encouraged, and then assume that somehow the equality fairy will wave her magic wand and a diverse group of candidates will materialise. In the real world positive action is required. There are many reasons why under-represented groups do not come forward. Often it is linked to perceptions of their chances of success.

A trustee board or scheme sponsor determined to improve board diversity needs first to look at the diversity of the scheme membership. Then look at where the under-represented groups are based. And then to actively encourage members of these groups to consider the possibility of coming forward. Would-be candidates who would appreciate confidence building could be encouraged to work on The Pensions Regulator's online Trustee Toolkit, which is free and available to anyone. They could be considered for 'shadowing' – paired up with a trustee and allowed to sit in on board meetings to see what trusteeship entails.

Many trustees have only put themselves forward as a candidate after someone has tapped them on the shoulder and told them they'd be great at it. That's fine – but we need to make sure it isn't just white, male shoulders that get tapped.

*AMNT founding co-chair Janice Turner*

### The Association of Corporate Trustees

The word diversity can have a number of meanings but when we think of pension scheme boards it relates to the range of different attributes that the various individuals offer to (hopefully) make up a good balance across a trustee board.

These attributes can be defined by a number of different factors; sex, age, relationship to the scheme and/or employer, and, professional and personal background. The traditional model has been for an employer to appoint suitable senior individuals with sound professional backgrounds, typically including finance and HR, supported by the member-nominated trustees (MNTs), required since PA95. The successful boards have managed to create and maintain a good balance of the right attributes, providing a good representation of members and the employers as key stakeholders.

Against this backdrop, a consequence has been that a large number of boards have been dominated by men. Times are changing however, not necessarily as a result of employers appointing more women but as a result of the evolutionary change that is taking place with many schemes now closing. A problem has arisen in that, as schemes close, employers are finding it increasingly difficult to find suitable senior people who are willing and able to step into the increasingly complex world of trusteeship, equally these individuals are often less engaged and tend to see the role as managing a legacy issue. At the same time there is a reducing pool of eligible members from which MNTs can be found, and schemes are increasingly seeing them come from pensioner members, leading to an increase in the average age of the board.

For some time now employers have been looking to resolve these issues by engaging professional independent trustees, who are a pretty diverse bunch. So it is from this source that boards are achieving greater diversity in sexes

and also in ages, as many younger professionals are seeing trusteeship as an attractive career option. As mentioned it is not about ensuring boards having equal numbers of men and women or a range of ages, but more in getting the right blend of individuals, and for this reason the appointment of both member-nominated and independent trustees are typically happening at the end of a selection process to ensure the right mix is achieved.

Our members are professional trustees so this may seem like 'special pleading': nevertheless all TACT members are required to abide by our Code of Conduct in addition to the statutory requirements that all trustees are required to meet to protect the interests of the beneficiaries.

*TACT deputy vice president Steve Jones*

### Association of Professional Pension Trustees

There is no doubt that diversity is an idea whose time has come. I have seen increasingly, employers, master trust founders and those that appoint to IGCs seeking diversity on trustee boards. Whether this stems from a genuine belief in its benefits or to pay lip service to it, research shows that it works.

McKinsey (2015) has proved that companies in the top quartile for gender or racial and ethnic diversity are more likely to have financial returns above their national industry medians. Companies in the bottom quartile in these dimensions are statistically less likely to achieve above-average returns. Kelli A. Green and University of Florida colleagues offer additional insight. Where thinking is not homogenous, there is a greater number of good ideas, skills and a greater chance of finding workable solutions when challenges arise.

The challenge though for those appointing to trustee boards is not just to find people who look and sound different to each other, but also think differently -

leading the cynical among us to wonder why appointing the best person for the job is not enough. The answer is simple: unconscious bias. Processes need to be put in place to overcome it.

But even without further legislation imposing additional processes, pension scheme boards are already pre-disposed to diversity.

Interestingly, market forces have been a player. Defined benefit is now often 'legacy', a debt to be managed rather than a key element of the ongoing remuneration package. Employers therefore want professional management, as do master trust providers and those appointing to IGCs. Professional trustees fit the bill - we are a pretty diverse group and chosen for a specific skillset. Although professional trusteeship has had a reputation of being an end of career role, this is far from a true reflection of the modern professional trustee, as reflected in APPT's membership.

MNTs chosen by the membership distinguish them at the outset from other trustees appointed by the employer. Diversity can be built into the alternative selection process and other traditionally 'diverse' characteristics can add up to dedicated MNTs who provide an invaluable and different perspective.

But where next? To many, the world has moved on. Included in TPR's response to the 21st century trustee consultation was a statement that "many... stressed the importance of diversity on trustee boards - and that any solutions to governance challenges should not create barriers or discourage, exclude or deter good trustees". The issue has become how to harness the diversity already prevalent on trustee boards as legislators increasingly seek to regulate the business of trusteeship.

*APPT council member and Capital Cranfield Pension Trustees client director Claire Altman*

**Written by Natalie Tuck**