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The unique retirement saving challenges of those aged 50-59

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October 2020

PENSIONS Age

The leading pensions magazine

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Covid-19: *People's Covid-related financial pressures and its implications for their pensions saving*

The future is now

Digital member verification services becoming mainstream amid the pandemic

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Editorial Comment

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

If this was a 'normal' year, many of us would be attending the PLSA's annual conference this month to hear the industry's thoughts on the latest trends and developments affecting the sector.

Thankfully, we don't have to completely miss out (even if the usual 'networking' involving booze at the stands and surrounding bars is a bit more of a challenge, sadly) as, like so many gatherings – our own included, see *pensionsage.com* to view our previous virtual conferences or to sign up to our next one on 1 December – the PLSA is instead hosting the event online over the course of a week, from 12-16 October.

Virtual conferences were possible pre-Covid, but, I would argue, were largely not considered by the pensions industry. Our theme this issue is looking ahead, but due to the limitations on everyday life caused by the pandemic, future developments that were on the horizon, such as virtual conferences, have now rushed to the foreground.

Take our cover story this month *[see page 75]*, looking at the acceleration of digital member verification as a consequence of Covid-19. The feature highlights how lockdown 'forced' administrators to adopt more 'modern' ways of working, using digital ID verification to help continue paying pensions effectively.

Also high on the agenda at industry events and beyond is that of sustainability within a pension investment portfolio – see our Sustainability Guide on page 59 for more details.

I've been in the industry long enough to remember when 'environmental concerns' were very much a side issue for the pensions industry when investing, when it was often seen as all well and good to have these nice ideals, but were considered a distraction to trustees' fiduciary duty to protect members' pension money.

It's good to see in recent years these two elements no longer considered diametrically opposite; that a sustainable environment over the long term, must, in turn, be for the long-term benefit of pension fund savers.

Helping any trustees that may still need convincing are the new requirements from this month regarding the Statement of Investment Principles (SIP).

Trustees must now provide an annual statement explaining how they have implemented the policies they set out in their SIP and this information must be made publicly available on a website, as the Pensions Climate Risk Industry Group explains in more detail in its guest comment on page 39.

Of course, these plans were already in place prior to the Covid-19 outbreak, but they are certainly timely, considering the intense focus on environmental, social and governance matters when it comes to the future of investing post-Covid-19.

There may be little to cheer about during a worldwide killer disease outbreak, but if we are to look for a bright side, one must be the desire – and actions taken – to emerge from the pandemic not into a dystopian nightmare, but into a society where the power behind investment can create a sustainable, brighter future.

Pension funds, with their multi-trillion-pound clout behind them, are, and should be, expected to lead the way. Any reluctant trustees will have no choice but to get swept along with the groundswell. When it comes to sustainable investing, there is no time to wait. The future is now.

Laura Blows, Editor

COVER FEATURE

Theme: Looking ahead

75

The future is now

Forced to become the mainstream option amid the pandemic, Sophie Smith looks at how digital member verification services have advanced and the limitations still present

Highlighted features

PENSIONS AND LIFETIME SAVINGS ASSOCIATION — By agreement, Pensions Age is distributed free to all PLSA members as part of its package of member benefits

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NEW circulation figures

Pensions Age now has its new circulation figure from the Audit Bureau of Circulations (ABC). 14,481 (July 2019–June 2020) print distribution. This is 100% requested and/or copies sent as a member benefit (PLSA, PMI, SPP, AMNT). Pensions Age is also sent as a Tablet Edition to our 30,000+ online subscribers (source: Publishers Statement Sept 20). Our print circulation is around 300% higher than the next nearest title, and 500% higher than the third title.

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Dateline - September 2020

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

7 September Contributions to the **Universities Superannuation Scheme** could potentially double in an effort to repair the scheme's defined benefit (DB) pension deficit, with estimations for future contributions ranging from 40.8 per cent to 67.9 per cent of payroll. Based on the proposals put forward for the scheme's 2020 valuation consultation, the scheme's deficit could range from £9.8bn to £17.9bn, depending on the extent to which employers are "able and committed" to support the scheme.

9 September Over half (51 per cent) of pension transfers covered by the XPS scam protection service since lockdown, representing £25m in savings, have been flagged as at risk of a scam, according to **XPS Pensions Group**. The analysis, which was prepared in response to the Work and Pensions Select Committee's call for evidence, states that there had been a "steep rise" in red flag cases in July and August 2020, with just one in eight between 2015 and 2018 triggering scam warnings.

10 September One in 10 workers have paused their pension contributions since the start of lockdown, with a further 13 per cent also considering halting contributions, according to research by **Canada Life**. The analysis reveals that amongst those who have halted contributions, over a third (37 per cent) did so in order to use the money for essential spending, while a further 30 per cent paused contributions as a result of redundancy or furlough.

11 September The **government** publishes a defined contribution (DC) pension scheme consolidation consultation that proposes for smaller schemes to be expected to initiate wind up and consolidate if they do not offer sufficient value to members. Under the proposals, trustees of DC schemes with assets below £100m would be required to assess and report on how their scheme presents value for members, taking into account costs and charges, investment returns and various elements of governance and administration. Smaller schemes that do not present value for members will also be required to report this outcome in their scheme return. The proposals would require all relevant schemes to report on the return on investments of default and member selected funds, as well as reporting to the regulator the total amount of assets held in the scheme in the annual scheme return.

14 September The government has been urged to include financial harms within the Online Harms Bill after a freedom of information (FOI) request reveals that just 6.6 per cent of pension scam reports were passed to the police for investigation in 2019. The FOI request from **Quilter** finds that 26 cases of pension fraud were passed to the police for investigation in 2019, despite 394 reports to Action Fraud.

15 September Pensions Minister, Guy Opperman, says he would be "very confident" that the Pension Schemes Bill will become law by the end of the year. Speaking at a Society of Pension Professionals webinar, Opperman states that he expects it to "move at pace" when it returns to the House of Commons. "There are certain bills, such as the Fire Safety Bill, that have got ahead of the queue of us," Opperman explains. "I cannot define exactly when the bill will be returning to the Commons. I hope it will still be before the end of the month, that is getting more difficult. I would be very confident that this would be in law by the end of the year." It has since been revealed that the bill will return to the Commons for its second reading on 7 October.

The Pensions Regulator
Making workplace pensions work

16 September The Pensions Regulator (TPR) extends its easements for trustees and providers to report sponsoring employers' late pension contribution payments in its updated Covid-19 guidance. From 1 January 2021, DC schemes and providers will be expected to resume reporting on delayed contribution payments no later than 90 days after the due date. TPR had expanded the reporting window to 150 days in March 2020 in response to the Covid-19 pandemic, which will continue until the end of the year.

16 September Bulk annuity sales reached a "substantial" £12.7bn in the first half of 2020, with 'repeat buyers' predominantly driving market volume, analysis by **Aon** finds. Aon's latest *Risk Settlement*

For more information on these stories, and daily breaking news from the pensions industry, visit **pensionsage.com**

UK Market Update reveals a "strong trend" of repeat buyers driving market volumes during the "challenging market conditions" stemming from the Covid-19 pandemic, with this subset representing over half of the disclosed 2020 market. The firm adds that this trend is continuing in deals being considered for this autumn.

16 September Regulators in the UK have been accused of ignoring warnings of potential pension scams by **Transparency Task Force (TTF)** founder, Andy Agathangelou. Speaking at a Work and Pensions Committee (WPC) oral evidence session, as part of its inquiry into pension scams, Agathangelou says the TTF believes it has "hard evidence" that regulators were warned "many years previously" of organisations that scammed savers.

Editorial credit: cornfield / Shutterstock.com

17 September John Lewis's DB pension deficit increases by £567.6m year-on-year to £623.8m, as at 25 July 2020, its half year financial results report reveals. Over the half year from 25 January 2020, the deficit rose by £206.4m from £417.4m. Movements in the net DB liability over the six months include £206.3m in losses recognised in equity, £64.1m in interest on pension liabilities and £23m in operating costs.

22 September The DWP launches a cross-sector working group with the industry to assess and make recommendations on ways to address the number of deferred, small pension pots. Concerns have been growing that combination charges, alongside high numbers of small deferred pension pots, could lead to individuals having their savings eroded by charges. Speaking at a DWP virtual event, supported by the Pensions Policy Institute and Now Pensions, Pensions Minister, Guy Opperman, announces the working group and outlines its vision. The DWP says the working group will complement the work on pensions dashboards to help tackle the growth of deferred, small pension pots.

22 September The Department for Work and Pensions (DWP) launches a call for evidence on the alternative quality requirement tests for DB and hybrid schemes used for auto-enrolment, running until 21 October. The consultation aims to ascertain whether or not the government's policy intentions in this area are continuing to be being achieved. It seeks views on how the simplifications and flexibilities introduced under the test work in practice and who is carrying out the tests.

25 September The new Job Support Scheme will not cover pension contributions, the **government** confirms. Pension contributions will remain the responsibility of the employer and will not be supported by the government's scheme. The Job Support Scheme is designed to support workers and employers following the closure of the Coronavirus Job Retention Scheme, which covered furloughed workers' minimum pension contributions on the proportion of wages covered by the government.

29 September The second reading for the Pension Schemes Bill in the **House of Commons** is scheduled for 7 October 2020. It had its first reading on 16 July 2020 after completing its passage through the House of Lords the previous day. Additionally, Baroness Deborah Stedman-Scott confirms that a clause will be introduced that allows legislation to set conditions on members' statutory right to transfer. Once debated, MPs will vote on whether to move the bill to the committee stage.

29 September The **Pension Protection Fund (PPF)** publishes a consultation on levy rules for 2021/22, including a proposal to halve the levy for schemes with less than £20m in liabilities. It also proposes cutting the cap on the amount of levy paid by any individual scheme from 0.5 per cent of liabilities to 0.25 per cent. The PPF estimates that it will collect £520m in levy payments in 2021/22, down by £100m in comparison to the £620m estimated for 2020/21. Although the PPF expects Covid-19 to have a "limited impact" on levy bills in 2021/22, it warns that the effect on 2022/23 invoices "could be substantial – with many employers seeing a worsening in their levy score".

News focus

Govt publishes small DC scheme consolidation consultation

The government has opened a consultation seeking industry opinions on its proposals to expect smaller DC schemes to consolidate if they are found to not offer value to members. It also announces the formation of a working group to address the growing number of deferred, small pension pots that are under threat of being eroded by charges

The government has published a defined contribution (DC) pension scheme consolidation consultation that proposes for smaller schemes to be expected to initiate wind up and consolidate if they do not offer sufficient value to members.

Under the proposals, trustees of DC schemes with assets below £100m would be required to assess and report on how their scheme presents value for members, taking into account costs and charges, investment returns and various elements of governance and administration.

Smaller schemes that do not present value for members will also be required to report this outcome in their scheme return.

The proposals would require all relevant schemes to report on the return on investments of default and member selected funds, as well as reporting to the regulator the total amount of assets held in the scheme in the annual scheme return.

The changes outlined in the consultation are designed to improve DC pension scheme governance, promote the diversification of investment portfolios and signal the Department for Work and Pensions' (DWP) commitment to transparent disclosure to scheme members, the document states.

Commenting on the proposals, Pensions Minister, Guy Opperman, said: "The UK has a world-class occupational pension system and the market is continuing to consolidate and to innovate in the interests of scheme members.

"But there remain large numbers of smaller DC schemes, many of which are poorly governed, have on average higher charges and do not have the scale to bring the benefits of investing across a broad range of asset classes.

"I am determined to do more to ensure the trustees of smaller schemes act in the best interests of their members.

"I am therefore bringing forward measures that will ensure that we tackle persistent underperformance and poor governance by accelerating the pace with which the market is consolidating.

"This will bring the benefits of scale to all scheme members including a greater capacity to take advantage of illiquid and other alternative investment classes."

Announced as part of the government's response to the February 2019 consultation *Investment Innovation and Future Consolidation,* the consultation also seeks views on changes to legislation and new statutory guidance to extend access to a more diverse range of asset classes.

The government response has highlighted feedback from the February 2019 consultation on the role the measurement of performance fees and the charge cap might play in limiting the ability of schemes used for automatic enrolment default funds to access less liquid investment classes, such as venture capital.

Considering this, the government is now consulting on a proposed amendment to the 0.75 per cent charge cap to better enable schemes to pay performance fees and exclude the costs of holding 'physical assets'.

It proposed legislative changes to the way compliance with the charge cap is measured for performance fees to give trustees greater flexibility in investment decisions and is seeking views on plans to further extend this flexibility with an alternative approach to measurement.

In particular, it suggested an update to the charge cap guidance to clarify treatment of underlying costs in investment trusts.

Other key proposals outlined within the consultation included an amendment to The Occupational Pension Schemes (Investment) Regulations 2005 to extend the requirement to produce a default Statement of Investment Principles (SIPs) to 'with profits' schemes, and an amendment to the Investment Regulations 2005 to exclude wholly insured schemes from some requirements of the SIPs.

It has also proposed amendments to the statutory guidance to provide additional clarity on how costs and charges information should be set out.

The government proposed all the amendments within the consultation to be brought into force on 5 October 2021.

The DWP has also launched a cross-sector working group with the industry to assess and make recommendations on ways to address the number of deferred, small pension pots.

Concerns have been growing that combination charges and high numbers of small deferred pension pots could lead to individuals having their savings eroded by charges.

Speaking at a DWP virtual event, supported by the Pensions Policy Institute and Now Pensions, Opperman announced the working group and outlined its vision.

It will report later this autumn with an initial assessment, recommendations and an indicative 'roadmap' of actions for the industry, delivery partner and the government.

"Automatic enrolment has transformed the way people save for retirement, meaning millions more can look forward to a more secure future," commented Opperman.

"With the launch of the cross-sector working group and our ongoing efforts to make pensions dashboards a reality, we are focused on ensuring that consumers can stay on top of their pension savings, make more informed choices about their financial futures and have real returns from their savings."

The DWP said that the new working group will complement the work on pensions dashboards to identify the priority option or combination of options to help tackle the growth of deferred, small pension pots.

Additionally, the DWP published a call for evidence on the alternative quality requirement tests for defined benefit (DB) and hybrid schemes used for auto-enrolment (AE), running until 21 October.

The consultation aims to ascertain whether or not the government's policy intentions in this area are continuing to be achieved.

In particular, it will seek views on how the simplifications and flexibilities introduced under the test work in practice and who is carrying out the tests.

The department is required to undertake a triennial review of the regulations made under the powers in Section 23A(1), which set out the alternative quality requirement for DB schemes that are used for AE, with the last having taken place in 2017.

The DWP stated that the overarching aim of the review is to test to what extent the regulations are operating as intended, including any unintended consequences, and to what degree the provisions are continuing to deliver "simplification and efficiencies" for employers and pension schemes.

Written by Jack Gray and Sophie Smith

NEWS IN BRIEF

The accounting deficit of defined benefit (DB) pension schemes for FTSE 350 companies decreased from £103bn at the end of July to £82bn on 28 August, according to **Mercer**. Using data from its *Pensions Risk Survey*, Mercer said the reduction in deficit was driven by liability values falling from £970bn to £940bn in the same period, although the effect of this was slightly offset by asset values declining by £9bn to £858bn.

Convicted pension fraudster, Patrick McLarry, has been ordered to repay £286,852 of stolen savings to the **Yateley Industries for the Disabled Limited Pension and Assurance Scheme**. At Salisbury Crown Court, judge Recorder James Waddington QC ordered McLarry to compensate members for the money he had taken, including inflation. He was also ordered to repay legal costs of £71,477 to The Pensions Regulator.

A successful class action against a US pharmaceuticals company that saw the UK's **Norfolk Pension Fund** serve as the lead plaintiff has recovered in excess of £42.5m (US $55m) for investors. The original ruling saw the jury in the United States District Court for the Central District of California in Santa Ana find Puma Biotechnology Inc and the company's CEO, Alan Auerbach, liable for securities fraud.

CPS Advisory has been issued with a £130,000 fine by the **Information Commissioner's Office (ICO)** for making more than 100,000 unauthorised pension cold calls. The ICO found that between 11 January 2019 and 30 April 2019, the Swansea-based company had made 106,987 calls to people without lawful authority, and decided that this had been "a significant intrusion".

VIEW FROM THE TPR

Pressure on pension schemes to give environmental, social and governance factors (ESG) more attention continues to build from government, regulators and savers.

The Pension Schemes Bill will require trustees to consider, in-depth, how climate change will affect their pension scheme and investments and to publish information relating to the effects of climate change on the scheme.

Trustees need to act now so they're prepared. Already, they must publish a statement of investment principles (SIP) setting out their policies on financially material ESG considerations (including climate change) and their policies on stewardship. This should include when and how they plan to engage with investment issuers or managers on matters including risks and social and environmental impact. Trustees must also publish their SIP online. Trustees will also need to publish an implementation statement describing whether certain policies in the scheme's SIP have been followed, and the trustees' voting behaviour.

There's no stepping away from the questions raised by climate change. They're integral to good scheme governance and cannot be ducked.

So, my advice to trustees? Read the PLSA implementation statement guidance and build capacity in this area if you haven't already. You will be better placed to understand what climate-related issues mean for your scheme – and better able to make decisions that contribute towards good savers outcomes.

TPR executive director for regulatory policy, analysis and advice, David Fairs

The Pensions Regulator
Making workplace pensions work

Less than 7% of pension scam reports passed to police in 2019

An FOI request from Quilter found that 6.6 per cent of pension scam reports to Action Fraud were passed on to the police for investigation in 2019. Meanwhile, TTF have called on the government for greater leadership on tackling pension scams after a meeting with the Prime Minister

The government has been urged to include financial harms within the Online Harms Bill after a freedom of information (FOI) request revealed that just 6.6 per cent of pension scam reports were passed to the police for investigation in 2019.

The FOI request from Quilter revealed that 26 cases of pension fraud were passed to the police for investigation in 2019, despite 394 reports to Action Fraud.

Quilter explained that pension scams are "extremely complex" and require considerable police resources, meaning that Action Fraud and the investigatory agencies are forced to prioritise cases they believe can lead to a successful criminal justice outcome.

It stated that for "the vast majority" of pension scam cases, the chances of reaching this stage are "slim".

The same figures for 2020 so far showed that whilst 161 pension fraud reports have been received by Action Fraud, only 24 have been disseminated to the relevant police force for investigation following a review by National Fraud Reporting Intelligence Bureau (NFIB). Forming part of the provider's response to the Work and Pensions Select Committee's ongoing inquiry on protecting pension savers, Quilter has now called for new measures to be introduced to tackle some of the ways in which scammers target their victims online.

The provider urged the government to include scam adverts, fake websites and other financial harms within the scope of the Online Harms Bill, which is due to be introduced to parliament next year.

Meanwhile, the Transparency Task Force (TTF) published an open letter to Prime Minister, Boris Johnson, calling for greater leadership from the government on pension scam problems.

The open letter, written by TTF founder, Andy Agathangelou, followed a meeting with the Prime Minister on 25 September, and described pension scams as "a major public interest issue".

Whilst it praised the leadership already shown by APPG Pension Scams chair, Bob Blackman, Work and Pensions Select Committee chair, Stephen Timms, and Pensions Minister, Guy Opperman, the TTF also called for similar support from Chancellor, Rishi Sunak.

In particular, the group has urged Sunak to support the proposal drafted by TTF advisory group member and Pension Scams Industry Group chair, Margaret Snowdon, for a tax amnesty for pension scam victims who are able to show they are a victim of crime.

The proposal for the amendment to the Finance Act 2004 has been shared with the Treasury and HMRC, and, according to Agathangelou, would allow HMRC to treat scam victims "more fairly" and in a manner that is in keeping with its charter.

Written by Sophie Smith


TIME IS THE
most VALUABLE THING
a person can SPEND
— Theophrastus

VIEW FROM THE PLSA

The Pension Schemes Bill is still winding its way through the parliamentary process albeit getting close to its conclusion. Yet the champagne is on ice and there is still work to be done.

One of the most contentious items outstanding is Section 107. The White Paper rhetoric was all about being able to fine, criminalise or otherwise sanction employers motivated by greed or a misaligned incentive. Then the bill arrived. And there seemed to have been an alarmingly scary amount of mission creep.

The clause as drafted didn't just sanction a defined cohort who behaved in a specific way. It potentially sanctions a whole universe of people who behave in an entirely normal business manner.

The test is this: if you 'materially' affect a scheme's ability to provide benefits, for example agree a funding settlement or if you act (or fail to act) with the result that an employer debt is avoided, you ought reasonably to have known this.

In the absence of a 'reasonable excuse' you could go to prison. It also potentially criminalises entirely normal operations, for example, bank lending. The impact of s107 extends well beyond the operation of pension schemes into the operations of business. At its worst extreme – it effectively stops business.

The drinking of that champagne could be a wild celebration for the delivery of a new act, but it could equally be a muted sip at the wake of a number of businesses.

PLSA chair, Richard Butcher

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

PPF proposes halving levy for smaller schemes in consultation

The PPF has proposed halving the levy payable by schemes with less than £20m in liabilities for 2021/22. It noted that although the impact of Covid-19 was limited in 2021/22, its effect on 2022/23 levy bills could be substantial

The Pension Protection Fund (PPF) has published a consultation on levy rules for 2021/22, including a proposal to halve the levy for schemes with less than £20m in liabilities.

The proposed reduction will be tapered so that only schemes with £50m or more in liabilities will be charged in full, which the PPF hopes will benefit the schemes with SME employers.

It has also proposed cutting the cap on the amount of levy paid by any individual scheme from 0.5 per cent of liabilities to 0.25 per cent.

The PPF estimated that it will collect £520m in levy payments in 2021/22, down by £100m in comparison to the £620m estimated for 2020/21.

It attributed the decrease to the PPF being in a "strong financial position" at the start of the pandemic, an update in the way scheme underfunding is calculated and the proposals being put forward to support schemes in the coming year.

Although the PPF expected Covid-19 to have a "limited impact" on levy bills in 2021/22, it warned that the effect on 2022/23 invoices "could be substantial – with many employers seeing a worsening in their levy score".

Furthermore, it decided that the normal process of having a three-year plan would be put on hold until 2023/24 due to the unpredictability of the Covid-19 pandemic.

"The current environment makes setting an appropriate level for the levy particularly challenging," commented PPF executive director and general counsel, David Taylor.

Pension Protection Fund

"There is significant uncertainty about how claims and risks will develop so we've moved away from a multi-year approach to setting the rules. This means we can respond dynamically when setting the amount of levy we collect each year.

"In time, we'll need to consider what further steps to take to ensure an appropriate levy in 2022/23 and beyond, alongside our review next year of the PPF's funding strategy. But for now, we believe the changes we're proposing for 2021/22 will provide valuable support to the schemes and employers."

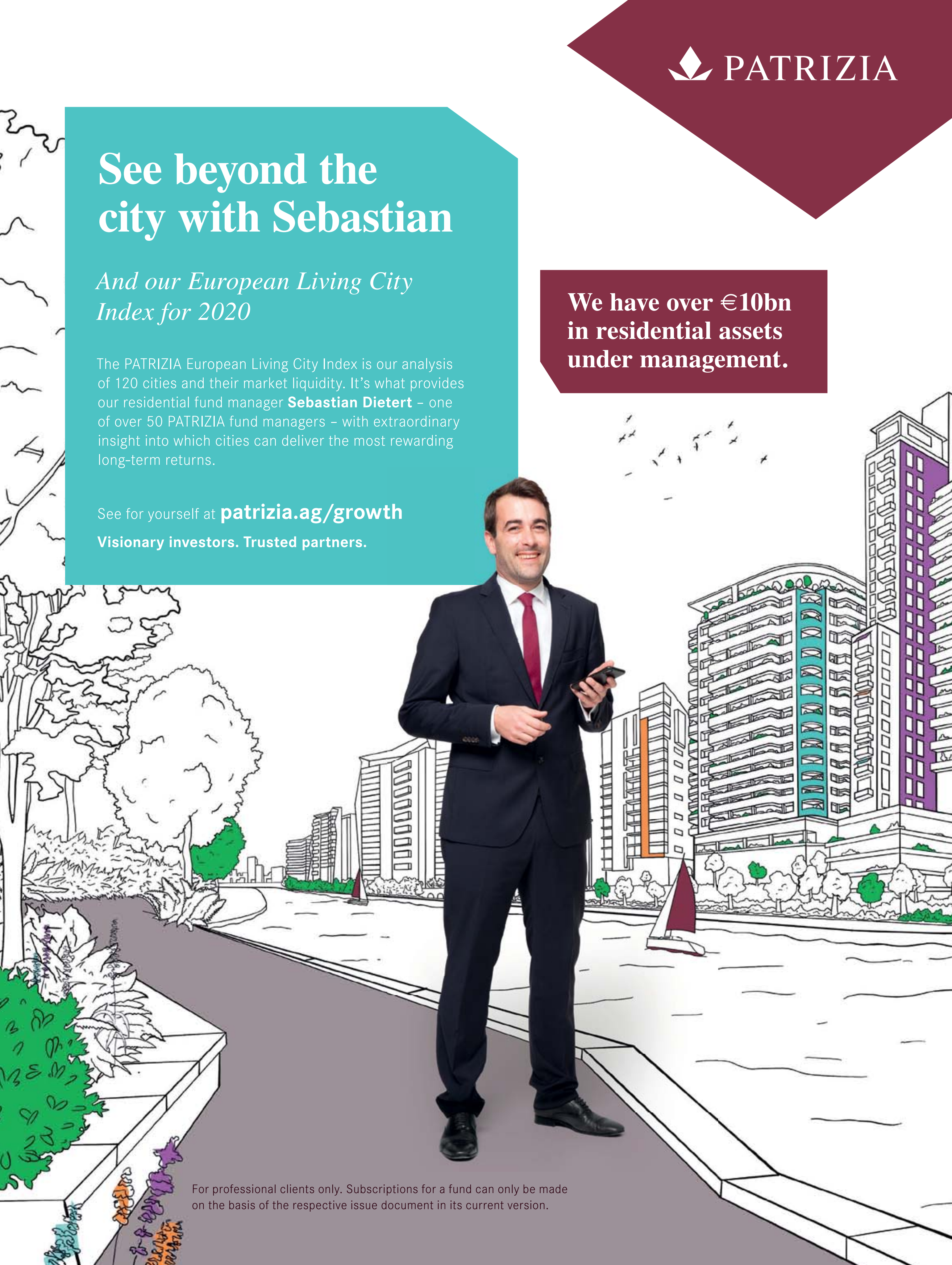
LCP partner and former Pensions Minister, Steve Webb, warned that the proposed reduction for 2021/22 was likely to be "only a temporary respite".

He continued: "The impact of the current crisis on insolvencies has yet to be fully seen, not least because of temporary government support measures.

"As these unwind, we are likely to see more insolvencies and more claims on the PPF, especially in 2022/23 and beyond."

The levy consultation is open from 29 September to 24 November.

Written by Jack Gray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And our European Living City Index for 2020
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VIEW FROM AMNT

In these troubled times there appears very little to cheer about or celebrate but, perhaps more than ever, we need something to cherish and commemorate. The Association of Member Nominated Trustees (AMNT) is celebrating its 10th anniversary this year.

The requirement for member nominated trustees (MNTs) on pension boards was brought into statute in the 1995 Pensions Act following the Maxwell pension scandal.

The need to have trustees on the pension board who directly represented the members was self-evident ensuring their interests were protected and secured.

The AMNT was established to support member nominees who expressed a desire to be able to liaise with other member nominees, share experiences and build a community designed specifically to cater for their unique perspective within the pensions industry.

Since then the role of the trustee has become more complex and diverse with changes in legislation, regulation and investments.

Such changes have led to a belief that MNTs are an historic anomaly with the word 'non-professional' used as a pejorative description to undermine their true worth.

Diminishing or even losing MNTs raises the spectre of Maxwell in new forms and guises. There has never been a greater need for MNTs. So let us celebrate and cheer MNTs and the association that supports and cherishes them.

AMNT member, Stephen Fallowell

AMNT Association of Member Nominated Trustees

Govt's Job Support Scheme will not cover pension contributions

The government's replacement for the Coronavirus Job Retention Scheme, the Job Support Scheme, will not cover minimum pension contributions. Employers will be responsible for the contributions of employees using the scheme

The new Job Support Scheme, announced by Chancellor, Rishi Sunak, on 24 September, will not cover pension contributions, the government has confirmed.

Pension contributions will be the responsibility of the employer and will not be supported by the government's scheme.

The Job Support Scheme is designed to support workers and employers following the closure of the Coronavirus Job Retention Scheme, which covered furloughed workers' minimum pension contributions on the proportion of wages covered by the government.

Under the new scheme, employees must work at least a third of their hours, with employers covering the hours worked, then the government and the employer paying a third of wages each for the hours they do not work.

This would result in employees working a third of their hours receiving 77 per cent of their pay, with the government grant capped at £697.92 per month.

Employers would be responsible for 55 per cent of their wages, while the government would be responsible for 22 per cent.

The scheme will run for six months from November, with small- and medium-sized businesses eligible, as well as large businesses whose turnover has fallen during the pandemic.

National Insurance (NI) contributions will also not be covered under the scheme and will be payable by the employer.

In other news, the second reading for the Pension Schemes Bill in the House of Commons has been scheduled for 7 October 2020.

It had its first reading on 16 July 2020 after completing its passage through the House of Lords the previous day.

Debate on the Pension Schemes Bill is almost certain to take place, with amendment proposals, including from Work and Pension Committee chair, Stephen Timms, on pension scams, having been revealed prior to the second reading.

Additionally, Baroness Deborah Stedman-Scott confirmed that a clause will be introduced that allows legislation to set conditions on members' statutory right to transfer.

In response to a parliamentary written question, Stedman-Scott said the legislation would require members to confirm they have obtained information or guidance of the associated risks of scams, and confirm they still want the transfer to go ahead.

These conditions will be applied to statutory transfers unless requests are to a firm regulated by the Financial Conduct Authority or an authorised master trust.

Written by Jack Gray

VIEW FROM THE ACA

We have published our response to the government's *Review of the Default Fund Charge Cap and Standardised Cost Disclosure: Call for Evidence* and the FCA's *Consultation on Driving Value for Money in Pensions.*

The ACA wholly supports pension savers receiving good value. But the charge cap is a blunt tool that doesn't deliver value for members in isolation. Instead, DC governance standards must continue improving, focusing on value rather than just cost.

The two consultations covered overlapping issues across different types of DC pension scheme, reflecting the differing regulatory regimes in place. However, trust-based and contract-based plans must be equally capable of delivering value for members. Greater consistency is needed in the approach to value for members assessments across the board, in order that all members benefit, regardless of their scheme design.

At this stage, we do not see sufficient evidence to support better member outcomes being achieved through a charge cap on transaction costs. Focusing governance time and energy on improving the quality of DC arrangements more broadly must be prioritised. Linked to this point, whilst investment returns are one aspect of performance and can contribute to delivering the 'quality' elements required for good value schemes, it is important to consider risk-adjusted outcomes and other performance factors.

Consolidation too can be a very positive step to drive value, provided it is underpinned by strong governance and a 'member first' philosophy.

Association of Consulting Actuaries (ACA) chair, Patrick Bloomfield

ACA
ASSOCIATION OF CONSULTING ACTUARIES

TPR extends late pension contribution reporting easements

TPR extended late pension contribution reporting easements until 2021 in its latest Covid-19 guidance for pension trustees and providers. The update also detailed the ending of other easements that were introduced to support pension schemes during the height of the pandemic

The Pensions Regulator (TPR) has extended its easements for trustees and providers to report sponsoring employers' late pension contribution payments in its updated Covid-19 guidance.

From 1 January 2021, defined contribution (DC) schemes and providers will be expected to resume reporting on delayed contribution payments no later than 90 days after the due date.

TPR had expanded the reporting window to 150 days in March 2020 in response to the Covid-19 pandemic, which will continue until the end of the year.

It stated that the extension of the easement was decided upon to ensure that schemes have sufficient time to adjust systems and processes, and ensure that employers impacted by Covid-19 have additional time to work with their provider to bring any outstanding contributions up to date.

Reporting late contribution payments within 90 days will become mandatory by 1 April 2021.

Commenting on the guidance update, Aegon head of pensions, Kate Smith, said: "Three months' notice as well as the three-month window allows providers to deal with late payments already in the system as well as reinstate their original processes by reporting via the portal at 90 days late.

"It's important to stress that, as before, there has been no change to employers' responsibilities to deduct and pass on the correct contributions to providers in line with their schedule of payments, unless they have made specific arrangements with their providers.

"As we are likely to see an uptick in the number of savers being made redundant, providers will play an important role in making sure that savers receive the full pension contributions they are entitled to."

Additionally, TPR announced that it will resume enforcing the requirement for schemes to submit audited accounts and investment statement reviews from 1 October 2020.

It will also revert to reviewing chairs' statements submitted on and after 1 October. Any chairs' statements TPR receives prior to this will be returned unread, although the regulator warned that this should not be taken as an indication that the statement complies with requirements.

Meanwhile, at the Pensions Age Annual Conference 2020, TPR announced it was expecting to share its consolidated modular code to clarify industry standards by November.

TPR head of policy, Fiona Frobisher, stated that the regulator was "hopeful" that the code would be consulted on later this year, with trustee standards "much more clearly defined".

Written by Jack Gray and Sophie Smith

Never one-size-fits-all

Sasha Mandich explores the importance of a good scheme/fiduciary manager relationship

Is your fiduciary manager still getting to know you?
In today's environment, an increased number of schemes are seeking a fiduciary management (FM) partner to help navigate volatile markets and achieve their key investment objectives – to manage liability valuation risk, synchronise cashflows, and achieve required returns. As the fiduciary management landscape continues to develop, it is important to work with the right partner in order to achieve your goals. At Russell Investments, we always put clients' needs first – by recognising that each of our partnerships are unique. This is why we firmly believe in Russell Investments iFM - fiduciary management that is precisely tailored to your scheme's individual circumstances.

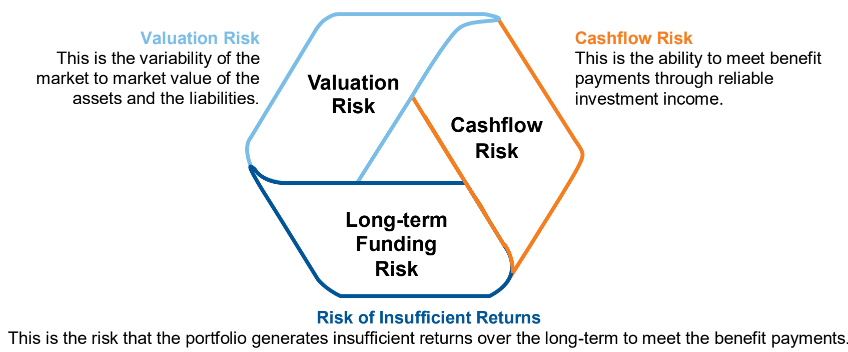
Do they understand your unique needs? Do they listen first? It's time to look closer.
The relationship between the client and provider is what we often call the 'human element'. Although sometimes hard to quantify, it is easy to qualify. The FM provider that you partner with should deeply understand your goals, your journey plan and your trustee board culture, in order to decode your scheme's individual fingerprint.

We believe that the most important initial step to building a solid partnership is the provider's ability to listen first. This enables the FM provider to truly understand your unique cashflow and liability fingerprint, and design a strategy fully tailored to you and your scheme's end goals.

Translating your objectives into an investment strategy
We often observe that many schemes tend to be invested in products that fit the provider's standard model – rather than representing a customised solution.

The Russell Investments iFM approach means that we seek the feedback of every individual trustee, the company and the actuary. Then we work together to solve the key challenges.

For most schemes, the primary objective is to pay members' pensions as they fall due. This can be achieved by either running off the scheme's assets or completing a buyout. We translate these overarching goals into a strategy by helping schemes manage three key risks, described below.



The above three risks are interlinked. A strategy that targets a higher return reduces the risk of insufficient returns but may expose the trustee to excessive valuation and cashflow risk. We design your strategy by optimising the portfolio for these risks, taking into account the role that different assets can play.

We believe that considering a total portfolio holistically will enable your scheme to more efficiently meet all your objectives.

Customised governance – one size never fits all
If you wish to retain your current adviser, the fiduciary manager should be flexible enough to accommodate that preference. Your adviser would continue to help you set the high-level strategy, with the fiduciary manager then taking full accountability for implementing that strategy.

Furthermore, your fiduciary manager should also fully understand the trustee requirements and beliefs around environmental, social and governance (ESG) factors. All trustees are on an ESG journey, as risks and opportunities emerge whilst regulatory and societal obligations change.

Fiduciary management should never be a one-size-fits-all product. Done correctly, FM is individualised. Your plan is unique, isn't it? Then it is time to demand an FM solution that is customised to your needs.

Written by Russell Investments director, UK institutional, Sasha Mandich

VIEW FROM THE PMI

Administration rarely receives the profile it deserves, administrators are not treated as professionals in the same way that pensions lawyers or actuaries experience. Despite this, it is the shop window of a pension scheme, as administrators communicate on the ground to members – not lawyers, auditors or actuaries.

As Covid-19 struck, administrators scrambled to provide continuity of service. The majority coped admirably, and while there were some teething problems, overall they performed well. Deaths, payments of benefits and pensioner payroll were prioritised, while administrators experienced peaks, troughs and an eventual return to normal levels of activity.

It was therefore disappointing to hear of a cyber attack on this sector. While no harm was done, member records were safe and appropriate processes kicked in, it does serve as a timely reminder of the importance of cyber security and ensuring that your scheme's data is safe and secure.

Perhaps those responsible for schemes should remember it is not just cyber threats you need to be aware of, as various breaches can often slip through the net. Trustees need to assess the risk, have an action plan in place and continually monitor security controls and measures. They must also work with employers at each end of the supply chain to ensure safeguarding of valuable data.

It is not a case of 'if' but rather 'when' the next attack will take place. As hackers becoming increasingly more sophisticated, the pensions industry has a duty to be fully prepared.

Outgoing PMI president, Lesley Carline

USS contributions could increase to nearly 70% of payroll

Contributions to the USS are likely to increase significantly after the scheme's 2020 valuation revealed that its deficit could range from £9.8bn to £17.9bn, depending on what level employers are willing to increase contributions to

Contributions to the Universities Superannuation Scheme (USS) could potentially double in an effort to repair the scheme's defined benefit (DB) pension deficit, with estimations for future contributions ranging from 40.8 per cent to 67.9 per cent of payroll.

Based on the proposals put forward for the scheme's 2020 valuation consultation, the scheme's deficit could range from £9.8bn to £17.9bn, depending on the extent to which employers are "able and committed" to support the scheme.

The USS proposed that employers could keep the increase in contributions to the lower level of around 40 per cent and the deficit at approximately £10bn if they agreed to measures to help support the scheme.

The USS also provided an illustrative cost of continuing to offer the current benefits without plugging the deficit, which ranged from 29.4 per cent to 37.6 per cent of payroll.

It explained that the range in illustrated contributions, whilst "very wide", was necessary to show, as there are a number of covenant-related factors outside their control that could change and would be critical to the overall valuation outcomes, including the sector's resilience to Covid-19.

The sector has been heavily affected by the ongoing pandemic, with the consultation itself delayed by a fortnight in light of the "urgent and difficult matters" relating to A-level results and admissions.

Editorial credit: Christine Bird / Shutterstock.com

The consultation is seeking views on the proposed methodology and assumptions to be used in setting the scheme's technical provisions, which will in turn determine the contributions required to fund the benefits.

Currently, contributions to the scheme are set at 9.6 per cent for members and 21.1 per cent for employers, a total of 30.7 per cent, although this was due to increase to 34.7 per cent on 1 October 2021.

The USS acknowledged that both Universities UK (UUK) and University and College Union (UCU) consider the current contributions to be at "the limits of acceptability", and that the potential outcomes illustrated are "therefore unlikely to be considered affordable or sustainable by employers and members".

UCU head of high education, Paul Bridge, said the union had "no confidence" in the "needlessly cautious" methodology applied by the USS.

"We are also disappointed USS has cherry-picked from the recommendations made by the Joint Expert Panel," he continued. "UCU members are well informed and expect to see better evidence behind the judgements USS has made."

Written by Sophie Smith

Appointments

The Pension Superfund (PSF) has appointed James Pearce as its chief financial officer.

Pearce is a chartered accountant and financial executive with a focus on capital markets. He joins The PSF from Just Group, where he was director of group finance and was responsible for financial reporting, tax, corporate finance, investor relations and strategy. Pearce was also previously head of European insurance research and managing director at both J.P. Morgan Cazenove and UBS.

PSF co-founder and chief executive, Luke Webster, said: "We are delighted to welcome James to the PSF as CFO. His track record speaks for itself, and this appointment further builds out our senior management structure, with a focus on ensuring efficiency and value for money."

Pearce commented: "Joining the PSF team is a hugely exciting opportunity. I expect to help the team play a leading role in a market which is hungry for the benefits of defined benefit (DB) pension scheme consolidation."


Dev Jadeja

Local Pensions Partnership (LPP) Investments has installed Dev Jadeja as head of investment due diligence. The newly-created role will see Jadeja lead LPP Investments' selection and monitoring of external fund managers. Jadeja will work across all asset classes in conjunction with specialist portfolio management teams and be the functional lead for all external manager investment due diligence.


Martin Hunter

Martin Hunter has been named as a new pension policy actuary at **RPMI Railpen**. He has joined Railpen from XPS Pensions Group, where he worked for 16 years, serving as partner and building up a client base that included around 25 employers with sections in the Railways Pension Scheme. At Railpen, Hunter will be responsible for ensuring the trustee board and its committees can agree with employers' integrated funding solutions.


Natalie Winterfrost

Law Debenture has announced the appointment of Natalie Winterfrost as the newest director in its pension trustee team. An experienced actuary, Winterfrost has more than 20 years of experience in the industry. She joins from Aberdeen Standard Investments, where she worked as a client director for 13 years, having previously served as an investment consultant at both PwC and Aon Consulting.


Louisa Harrold

PTL has added its fourth new client director of 2020 with the appointment of Louisa Harrold. Harrold has joined the trustee services provider from Atkins, where her responsibilities included overseeing a multi-billion-pound scheme. She has also worked at Mercer, where she spent a 16-year period and held various roles including scheme actuary appointments and pensions consultancy for both DB and DC scheme trustees.


Ian Brown

LGPS Central Limited has hired Ian Brown as head of private markets, putting him in place to lead both the company's private equity and infrastructure and property teams. Brown has spent more than three decades working in the finance industry and joins the company from Lloyds Bank, having previously served as head of the leveraged finance execution team at UBS and held various roles in investment and commercial banking.


Stuart Heatley

Capita has installed Stuart Heatley as the new managing director of its pensions business.

Heatley, who has been with Capita for five years and has more than three decades of experience in the pensions industry, was most recently working as managing director of Capita's pensions consulting business, where the company said he had delivered transformation and developed new propositions. Prior to joining Capita, he had stints at Aon and Scottish Life.

Heatley commented: "I am really excited to be taking the role of managing director of Capita Pensions. For the rest of the year and into 2021, we will be focusing on continuing to develop our service resilience and ensuring we are supporting our clients and their evolving pensions needs."

Heatley succeeds Nigel Purveur, who has helped to navigate the business during the Covid-19 pandemic and will begin his retirement after a one-year transition period.

A sensible choice

Glenn Dobson explains why default funds are the simple and sensible choice for most

Default fund is an unfortunate label. A word with negative connotations, the dictionary definition of 'default' describes something that exists or happens if you don't change it intentionally by performing an action.

In fact, I'd argue that default funds are the next success story after auto-enrolment – a well-governed default is the simplest path to achieving good returns. They address challenges of human behaviour – that people lead busy lives, get overwhelmed by too much choice and complexity, and if left to their own devices may make poor decisions.

The beauty of the well-governed default is that it's simple for members. They don't need to actively do anything to benefit from the default but, behind the scenes, there's a huge amount of activity by experts in the complex world of investments.

And with 99.7 per cent of savers remaining in the default (according to the Pensions Policy Institute), it's a part of the system I believe we should celebrate as an industry.

For most people, taking matters into their own hands poses risks. We already have useful lessons from the Australian Productivity Commission which looked at the efficiency of the Australian defined contribution pensions system. It found that – taken as a whole – 'choice options', where individuals self-selected funds, produced lower returns and had higher charges than simple, single investment option default funds.

A recent report by The People's Pension and State Street Global Advisors found that DIY investors risk losing out on thousands of pounds by taking their own investment decisions rather than staying in the default. Workplace Defaults: Better Member Outcomes explains that we're all influenced by behavioural biases that affect our decisions. We use mental short-cuts to simplify decisions and we're influenced by the way things are presented or framed – neither of which may lead to the best outcomes.

The research also shows we can be guided towards choices that are in our best interests – auto-enrolment is a great example of this as it's easy to stay in, whereas you actually have to do something to opt out.

The report models potential outcomes from the most common mistakes DIY investors make with their pension savings and compares them with a typical default fund. Over 40 years the default investor amasses a pot of nearly £430,000. The DIY investors risk missing out on as much as £247,000 by switching out of the default.

Mistake 1 is chasing past performance – 'Performance chasing Patricia' buys high into a strong performing fund expecting it to continue to do well but sells when it falls, and she loses faith.

Mistake 2 is putting all your eggs in one basket – 'Eggs in one basket Elliot' fails to diversify his portfolio and invests in only UK funds.

Mistake 3 is not taking enough risk – 'Cautious Connor' doesn't like taking risk so invests in a cash fund.

And finally mistake 4 is forgetting to take account of changing circumstances – 'Forgetful Fiona' is initially an active investor but as time goes by, she forgets to review her investments.

These examples highlight the fact that investment decisions are complex, and most pension savers can't give them the time and attention they deserve. In contrast, investing in the default strategy is a sensible choice for the majority and means putting their future finances into a well-governed and efficiently scaled fund managed by experienced professionals.

I've spent my working life trying to demystify pensions, and I know that savers and employers alike crave things to be as simple as possible. It's true there may still be a lot of complicated technical detail within the inner workings of pension schemes, investment funds and regulatory input. But that's the point with a default fund. Dedicated experts whose job day in day out is to be specialists in this stuff take the necessary action to ensure a scheme is well run and investments are managed with great scrutiny, so that members don't have to. A default isn't a last resort. In well-governed master trusts, they represent a solution which is in the best interests of the vast majority.

Add to that the tight regulation and governance assigned to master trust defaults, in particular, and it's clear they are far more than just a back-up position for those who don't engage with investment decisions.

We should celebrate a system which offers better outcomes for most members in a simple way without them having to make any difficult decisions. In a world where we're so often faced with an overwhelming array of choices, it's hugely reassuring.

Read the report, Workplace Defaults: Better Member Outcomes www.thepeoplespension.co.uk/member-outcomes-PA2 or to speak to us, call 0333 230 1310

Written by The People's Pension national business development manager, Glenn Dobson

In association with the people's pension

VIEW FROM THE PPI

Environmental, social and governance (ESG) risk factors are becoming an increasingly important consideration in pension schemes' investment decisions.

There are increasing risks faced by pension schemes who do not adequately take these issues into account, particularly those who fail to comply with growing levels of regulation in this area. While there are plenty of approaches available to DC schemes, the reality is that this is a complex undertaking, compounded by the fact that there is still a lack of consensus regarding how to define and implement ESG considerations.

There are a number of key factors that must be considered when designing an ESG strategy, including the level of financial risk-mitigation offered by the approach, as well as the cost and governance requirements of implementing it.

Developing an appropriate strategy is particularly challenging for trustees who still have low levels of knowledge and understanding of ESG issues. Trustees may therefore need more support to identify the practical steps they can take in order to comply with regulation and protect members appropriately from the long-term risks these considerations represent.

PPI is currently undertaking a research series on ESG issues that will identify where there may be gaps in method and approach, as well as possible avenues for greater engagement and the support that schemes may need to achieve this.

PPI senior policy researcher, Lauren Wilkinson

PENSIONS POLICY INSTITUTE
PPI

Market commentary: Support in a time of crisis

The Covid-19 pandemic has continued over the past month, with a steady increase in the number of UK cases quickly souring any optimism as the country took a turn towards a second lockdown. Prime Minister, Boris Johnson, has warned about the potentially "disastrous" financial consequences of a second national lockdown on the country, underscoring this in the new national slogan, urging the country to save lives, protect the NHS, and shelter the economy from the "far sterner and more costly measures that would inevitably become necessary later".

Indeed, Barings Investment Institute head and chief global strategist, Christopher Smart, emphasises that no finance minister has expressed regret that their government spent too much money coming out of a crisis.

"And yet," he warns, "with the world's other major economies committed to significant government spending next year, the United States Congress has balked, posing perhaps the single greatest risk to the global recovery."

Smart says that whilst future markets suggest rising concern about a hotly contested US election, investors might focus more of their attention to America's fiscal policy amid partisan tensions that will not abate, stating that "the longer it takes and the smaller the package, the more painful the path to normal".

Echoing these concerns, Interactive Investor head of markets, Richard Hunter, notes that the ongoing lack of further fiscal stimulus in the US remains a disappointment for investors keen to see a continuation of economic recovery.

However, he clarifies that there remain "any number of factors" that could put further pressure on investor sentiment, such as the ongoing presidential election in the USA.

Indeed, Hunter warns that whilst the UK market has begun to be on a positive footing given largely strong performances from global indices, volatility remains a key factor after a "generally bruising few weeks".

"One swallow does not a summer make," he stresses, stating that the effects of the pandemic "continue to rattle investors in various ways", with further lockdown measures potentially threatening to "choke" a tentative recovery.

Quilter Investors portfolio manager, Paul Craig, agrees, stating that there is "obviously" a long way to go in the crisis, with much more to be accounted and borrowed for.

"With negative rates remaining an option on the table for the Bank of England the government should remain comfortable about where the level of debt is at," he says, warning however, that the borrowing figures remain a "stark reminder of exactly what we face when it comes to recovering from this pandemic".

Hunter adds that whilst governments seem "extremely reluctant" to return to the full lockdown measures seen earlier in the year, there is "nonetheless an effect that compounds the economic damage which many companies have suffered over the course of this year".

He explains that this "vicious economic circle", which is still likely to be confirmed by a spike in unemployment later in the year, could in turn affect both consumer spending and sentiment, while at the same time putting further pressure on sectors that are already in "dire straits" such as tourism and travel.

"The initial spike for the FTSE 100 cannot mask the fact that the index remains down 21.5 per cent in the year to date, and while any rally will be welcomed by beleaguered UK investors, there remain a raft of issues to be resolved before it can become an investment destination of choice for institutional and international investors alike," he concludes.

Written by Sophie Smith

New era for equities

The time has come for equities to play a bigger role in investment portfolios

The tide is turning. The world is entering a new economic cycle – one which is characterised by massive intervention, both from central banks and governments. It will also usher in a new era for asset allocation.

At the core of it, we think that the wall of stimulus is suppressing the potential returns in fixed income. Today, to get positive real returns, investors need to be able to allocate more flexibly to risk assets.

That necessitates a big shift in their mindsets. Since 2009 global equities rallied some 180 per cent. But cumulative inflows into stock funds have been flat, according to EPFR data, with money piling into bonds instead. We think that balance of flows will change as investors realise that the equity market is a convenient way to hold a real asset and it gives them the best chance of growing the real value of their savings.

The most nimble are already making that shift. Norway's sovereign wealth fund, for example, now invests 70 per cent of its portfolio in global equities, having raised the cap from 60 per cent in 2009 and 40 per cent in 1998. We expect that others will follow.

Some are, of course, restricted by rules and regulation – be that imposed by their own statutes or by governments and watchdogs. Over the coming years and decades those rules may need to be reviewed and reconsidered if pension funds and insurers are to meet their liabilities.

Of course, given that investors have not been tempted into equities by record-setting rallies of recent years, you may wonder – why are we so sure that they will make the shift now? Because negative real rates are now pervasive across the globe. Up until recently, you could still get positive real rates in the US, which has the biggest pool of capital in the world. Now, that is no longer the case, that capital may have no choice but to move elsewhere.

Golden opportunity

However, choosing the right equities is crucial, as we have seen all too clearly this year. Eight months into 2020, the UK equity market is down 22 per cent, while the S&P 500 index is up 11 per cent – that is a massive divergence of returns just based on country choice. The same is true for sectors: financials have underperformed technology by around 40 per cent.

We still see the benefits of investing in secular growth – those companies that are the driving force of human advancement, be that in technology, healthcare, or in sub-sectors such as mobile payments and transactions. Pricing may appear stretched after the recent rally, but their strong business models and dominate positions still make them attractive, especially when you can acquire them cheaply. Their balance sheet quality is crucial at this point in the cycle.

There are also potentially attractive opportunities in industries that are making the leap from the old economy to the new. Autos are one example, with strong investment in electric cars and the progress towards automated vehicles. Others include telecommunication infrastructure, which is the bedrock for 5G, and the technologies that aim to tackle the challenges of climate change through greater resource efficiency.

Given the thirst for owning real assets, gold miners stand out because they have a strong margin relative to the price of gold. The gold in their mines is valued on their books at circa $1,000 per ounce, while the current market value is double that. If bullion goes higher – which may well happen given the downward pressure on the dollar, the medium-term inflation risk and the wide-ranging scope for geopolitical wobbles from the US presidential election to Brexit – that disconnect becomes even more interesting.

Of course, there are still pockets of attractive opportunities in the fixed income market. One of those is Chinese government bonds, where positive real yields still prevail. Trading at a yield of just above 3 per cent, renminbi bonds offer investors a record 230 basis point pick-up over US Treasuries.

More broadly, whether the objective is to meet pension liabilities or build up savings for retirement, the scale of government intervention is likely to damage fiat currencies' role as a store of value. Focusing on real assets – including equities – can help mitigate those effects.

Written by Shaniel Ramjee, senior investment manager, multi asset, Pictet Asset Management

VIEW FROM THE SPP

It was fascinating to hear the Pensions Minister, Guy Opperman, lay out his legislative priorities at the SPP's conference session recently. His focus areas are the Pensions Schemes Bill and ESG issues. Medium- and longer-term priorities are the dashboard, superfunds and removing the barriers to investing in illiquid assets.

The Pensions Minister was clear that what to be included in the Pensions Schemes Bill had not been an easy task, saying it was like 'picking his favourite children'. When asked about the recent consultation on DC consolidation, with some exceptions he was direct – 'bigger is best'. And this applied to DB too.

All these are excellent actions but they unfortunately do not include those not in pension schemes. Nor do they address sufficiency of contributions.

Auto-enrolment is the answer and here the news was disappointing. We are unlikely to see implementation of the recommendations of the auto-enrolment review until the mid-2020s. At the SPP we believe simple changes can be made sooner. For example, removing the age criteria and extending auto-enrolment to cover all employees.

On sufficiency, the pensions industry agrees an 8 per cent total contribution is too low. Now is not an easy time to be increasing employment costs but we need to start the debate soon if we are to achieve sufficiency of contributions by 2030.

SPP president, James Riley

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In my opinion

On designing dashboards

"Engaging pension savers is a challenge and dashboards offer an exciting new avenue to explore. But we need to be clear about what we're trying to get savers to think, feel and do when we design the dashboard. Otherwise we risk triggering actions that might actually damage savers' outcomes, like stopping saving or transferring their money away from well-governed, low-cost schemes."

Nest director of strategy, Zoe Alexander

On the government's plans to increase the minimum pension age

"This is, as expected, a sensible approach and, as long as the changes are well communicated, will give people adequate time to plan accordingly. We would encourage the government to legislate as quickly as possible to implement this so the industry can communicate the change with confidence. It is important that we give people as much notice of changes to the pension rules as possible, allowing them to plan."

Smart Pension director of policy, Darren Philp

On the gender pay and pension gap

"The increased age at which women are leaving work appears slight, from 61 years old a decade ago to 64 years old in 2020 but it is a clear reminder of our ageing workforce. Women continue to live and therefore work for longer, but the data shows some concerning employment trends that could spell a more challenging retirement for women. There's still a lot of work to be done to fix the gender pay and pension gap."

Fidelity International associate director, Emma-Lou Montgomery

On the retirement income shortfall

"Countries across the globe are facing the challenge of a retirement shortfall and the US and UK are no exceptions. Even before the pandemic, the over-55s were faced with a pensions shortfall of almost £18,000, and it's likely that gap in income has only worsened as a result of the economic impacts of Covid-19. Part of the problem is that many retirees are either not thinking about retirement until it's too late, or not planning ahead at all. Retirement providers and financial advisers worldwide face a real challenge of engaging their customers at the right time to help them plan and prepare for a successful retirement."

Abaka founder and chief executive, Fahd Rachidy

On savers' lack of pension knowledge

"How can we expect people to check, monitor and engage with their pensions when so many don't even know it can be checked and monitored? Unfortunately, this low awareness is widespread across all age groups, which means that we need to adopt more creative communication tactics to grab the attention of different audiences. A letter or email that lands in a pension holder's inbox is only part of the solution. Communication and even general pension education needs to be promoted on various channels. This means more content on social channels, more video, more games, more animation, more influencers. And dare I say it, it needs to be more entertaining."

Teamspirit managing director, Adam Smith

Covid and pensions decisions

Emily McGuire looks at five ways in which Covid-19 is reshaping pensions decision-making

As the immediate effects of the Covid-19 lockdown give way to uncertainty over working patterns and market performance, we can start to analyse some of the wider pension scheme trends driven by the pandemic.

New research from Aon, 'Covid-19, climate and compliance', explores key investment themes and their effect on pension schemes. In June 2020, we carried out a series of 20 in-depth interviews with member-nominated and professional trustees, third-party evaluators and scheme leaders to find out their views on topics such as responsible investment, costs and transparency, governance, endgame planning and the effects of the new DB funding code.

Given the timing of our research, the pandemic was a common thread that ran through all our discussions. While it is still too early to understand its longer-term effect on schemes and markets, the crisis has already started to reshape investment strategy decisions – and the way these are made.

Trustee governance – like many other aspects of business life, quarterly face-to-face trustee meetings have been replaced by video conferencing and phone calls.

But respondents told us, that it is difficult to conduct a full-day board meeting over a video link. Most said they have opted for frequent, shorter meetings with carefully-focused agendas. They have also been able to discuss scheme issues – including investment – at much shorter notice, helping them to address concerns more quickly and effectively.

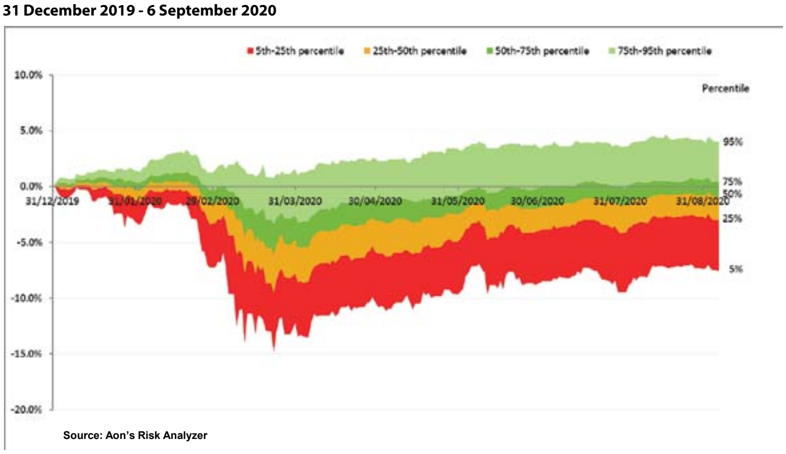
Market performance – March 2020 was a torrid month for equity investments and although markets have bounced back, respondents were still cautious. Several pointed out that the longer-term effect on equities and corporate credit is yet to be seen, with businesses preparing for a difficult 2021.

Making sure the scheme can cover its liabilities – the events of March and April brought home the importance of ensuring that there are liquid assets in a DB scheme to cover immediate pension payments. "I got worried that we might not even be able to sell gilts," said one respondent. "We took the precaution of increasing the cash allocation, just to make sure we could meet the monthly pension payroll."

The 'S' and 'G' of ESG – there were positive stories during lockdown of employers acting responsibly towards their staff and changing business models to cope with the pandemic. At the other end of the scale, we have seen furlough fraud and executive pay awards that are out of kilter with business performance. "In our ESG questions for asset managers, we want to ask businesses how they've used the furlough scheme," said one DC scheme chair. "I think some organisations have used it to protect the salaries of senior people."

Long-term strategy – respondents have not turned their backs on long-term plans to de-risk or to change investment strategies. However, the pandemic has affected sponsor covenants and deficit repair contributions. These factors, along with ongoing market uncertainty, mean that now is an important time for all schemes to review their journey plans. The graph here shows Aon's clients' funding levels between January and September 2020. Although around 30 per cent have made progress compared to the start of the year, the majority are still lagging behind their 2019 position. For those schemes, taking a step back and re-evaluating progress towards longer-term goals is crucially important.

The range of funding level experience on the Technical Provisions Bases of Aon's clients 31 December 2019 - 6 September 2020



Source: Aon's Risk Analyzer

Source

This chart shows the range of funding level experience on the Technical Provisions bases of Aon's clients since 31 December 2019, taken from Aon's online funding monitoring tool, Risk Analyzer

Written by Aon partner, Emily McGuire

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Income assets and Covid-19 – *Stuart Hitchcock, Calum Macphail and Amie Stow explore the role of secure income assets post-Covid-19* **p30**

Securing income in a new world – *Laura Blows considers where pension funds can turn to for secure income investments in the wake of Covid-19* **p32**

Income assets focus:

Their post Covid-19 role

Stuart Hitchcock, head of portfolio management, private credit, Amie Stow, senior investment specialist, private credit, and Calum Macphail, head of private credit, Europe, Legal & General Investment Management

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Income assets and Covid-19

Stuart Hitchcock, Calum Macphail and Amie Stow explore the role of secure income assets post-Covid-19

The impact of the global pandemic is expected to continue to influence the world around us, long after its eradication. We have previously commented on the potential changes to industry precipitated by the crisis. Obvious primary effects could include the way in which we shop, travel, socialise and work. There may also be secondary and tertiary effects that will become clearer over time. A trend that we see accelerating is the disintermediation of banks and companies seeking access to broader sources of funding as a result. In our view, this is where secure income assets[1] can play a crucial role.

A brief history of private markets

Traditionally, banks have been one of the primary sources of funding for all manner of borrowers. In the early to mid-90s, a relatively small number of European borrowers began to take advantage of private institutional investment markets. By utilising the availability of longer-term capital from the likes of US insurance companies, they were able to better match their liabilities with income. In effect, this 'private placement' market, which had been providing capital to US borrowers for half a century, was now expanding internationally.

Over the course of the next decade, these private markets expanded significantly. However, a real step change in borrowing behaviour followed the financial crisis, when the willingness and ability of banks to lend, particularly to small- and medium-sized entities, declined. We observed a sizeable increase in issuance across sectors that had only sporadically accessed institutional money in the past – for example, housing associations and universities – and an increase in financings undertaken with more modestly-sized companies that would not be able to access the public bond markets. We have also seen an increase in pension fund money stepping in to bolster available capital across sectors.

To place the markets in context, as of today, estimated direct GBP investment volumes across private markets are as follows:

Asset Class	Approximate average GBP issuance (p.a.)
Real Estate Debt	£40bn
Infrastructure Debt	£40bn
Corporate and Alternative Debt	£35bn
Total	£115bn

[1] 'Secure income assets' ("SIA") identify cashflow outcomes from illiquid private asset classes, where the income stream often benefits from a range of contractual protections that enhance asset owners rights to maintain expected cashflows (for example, covenant protections, specific security or ring-fenced collateral). The contractual protections of a particular asset will depend on these terms and the financial strength of the counterparty. SIAs are held with the aim of producing a predictable income stream - this income stream is not guaranteed and there is no underwriting of income.

Source: LGIM internal data, August 2020

Private capital to play a more meaningful role

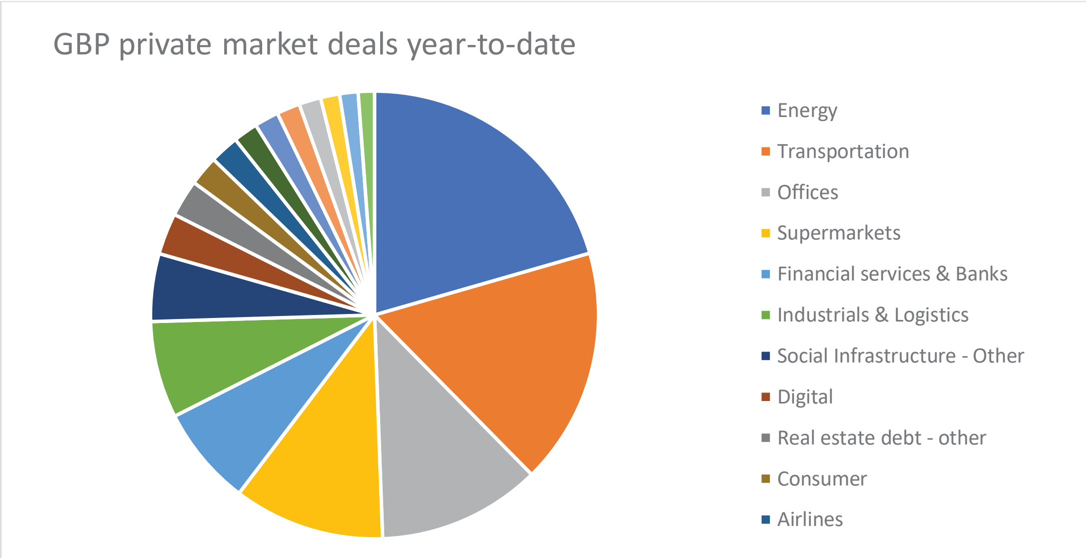
In our view, Covid-19 may provide the catalyst for a further step change in private funding.

With various parts of the economy grinding to an abrupt halt, the ability of companies to manage their liquidity – to pay workers and suppliers, for example – has been stretched. This is different to the bank-led global financial crisis and is causing borrowers to review their sources of funding to ensure they have access to more diversified sources of liquidity. Going forward, using banks to provide short-term liquidity facilities and institutional investors for longer-term debt may strike a better balance for borrowers to manage economic cycles and bouts of market instability.

Indeed, as a large institutional lender, we believe part of our role is to help navigate through periods of uncertainty by providing core, more permanent debt. This implicitly helps companies steer through tougher periods while using more traditional sources of funding, such as banks, for shorter-term liquidity. In our view, it also helps support the growth and development of sustainable businesses.

We believe defined benefit (DB) pension schemes also have an increasing role to play here. These patient pools of capital marry well with companies seeking long-term funding, many of whom are engaged in revitalising the UK economy by investing in new infrastructure projects, helping to refinance upcoming debt maturities or providing additional debt funding where needed. Pension capital could ultimately drive a return to growth through investing in these secure income type assets, whilst also offering the potential benefit of helping schemes achieve

Figure 1: Sector breakdown of all deals seen across sterling secure income assets year-to-date



Source: LGIM Real Assets, 28th August 2020. Chart represents all private credit deals seen by LGIM's private credit investment team year-to-date. It does not reflect assets transacted on by LGIM during the period.

required funding levels without taking excess risk.

There is a wide range of borrowers who are now looking to the private market for capital. We believe the majority of these require between £100 million and £300 million of debt finance, which is generally regarded as too small for public markets. We also see opportunities in more nascent sectors such as digital infrastructure and those in the crossover space, where access to other capital sources has become more challenged. Figure 1 gives an overview of the diversity in sectors we have witnessed in the private markets so far this year, demonstrating the increasing breadth of secure income assets.

Conclusion

Over the past three decades we have witnessed a necessary and positive escalation of funding source diversification in the UK, enhancing the opportunity for borrowers and lenders. We believe this will continue to accelerate. For the private credit markets, this fundamental evolution can offer investors the opportunity not only to access a much greater range of investment opportunities, but also to help shape the world around us, particularly in the context of ESG-focused investment.

In our view, providing financing for high quality assets across the UK such as social housing developments, renewable projects, logistic centres, offices in core locations and manufacturing businesses, among many others, is likely to align with many DB pension schemes' objectives. It has the potential to increase certainty of a scheme's returns, to generate cash flows to pay pensions, and to reduce overall funding level volatility while also supporting the broader market recovery.

Written by Stuart Hitchcock, head of portfolio management, private credit, Amie Stow, senior investment specialist, private credit, and Calum Macphail, head of private credit, Europe, Legal & General Investment Management

Important information

Past performance is not a guide to future performance. The value of an investment and any income taken from it is not guaranteed and can go down as well as up; you may not get back the amount you originally invested.

Views expressed are of Legal & General Investment Management Limited as at September 2020.

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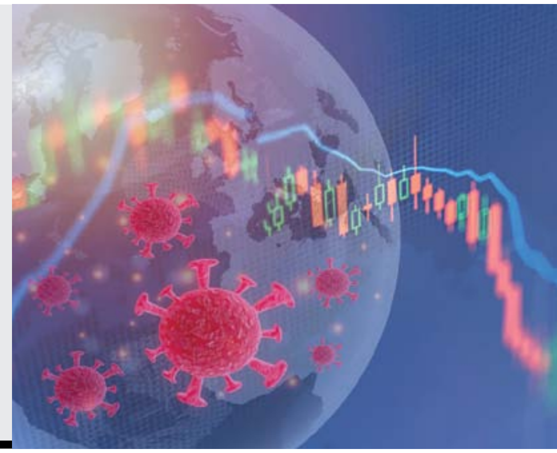
Summary

• Many traditional areas of pension fund investment income, such as toll roads, office space and airports, have been negatively affected by the Covid-19 pandemic, although some areas, such as supermarkets, have fared well.
• The Covid-19 pandemic has increased the importance of pension funds allocating to income assets, due to inflation likely becoming more of an issue. Cashflow-driven investing is also likely to increase.
• Government bonds and well-diversified investment grade corporate bonds are recommended to provide steady income, along with asset classes such as infrastructure debt, real estate debt and private credit.
•Defined benefit pension schemes may have an increasing role to play in rebuilding society post-Covid, through their patient pools of capital marrying well with companies seeking long-term funding.



Securing income in a new world

Laura Blows considers where pension funds can turn to for secure income investments in the wake of Covid-19

The Covid-19 pandemic has turned many societal norms, such as going on holiday or even into the office, on their head. It has also changed investment sector 'standards', with pension funds having to focus on new opportunities to receive a steady income.

Many assets that were previously expected to be low risk, secure and stable are perhaps now in question following the pandemic, Dalriada Trustees professional trustee, David Fogarty, warns.

Covid-19 impact

Fogarty gives the examples of investments in airports or tolled motorways – "will user numbers return at the level required to make the commitments or will some of these businesses need to be restructured"?

He notes that the pandemic has been particularly punishing to travel and leisure sector, as well as related sectors such as automobiles and airplanes, "with re-rating of these businesses higher defaults are likely", Fogarty adds.

Investment in long-lease property may also be affected, as the amount of office space required may change materially as a result of changing working patterns, he warns.

Across real assets there has been significant dispersion in performance, Redington investment consulting practice director, Mette Hansen, finds. She agrees that demand-based infrastructure assets such as airports and roads have performed the worst, "whereas assets with contracted cashflows such as renewables have remained online and maintained cashflows".

"Sectors that rely on physical footfall or operational assets, such as hotels and leisure are also struggling to pay rents, and there remains a big question mark about when things will get back to some sort of normality," Hansen says. In contrast, there are sectors that have thrived, she notes, "such as supermarkets and industrial/logistics, which are likely to have maintained their value".

Legal & General Investment Management senior investment specialist, private credit, Amie Stow, also finds that, from a credit perspective, the effect of Covid has been sector and borrower specific. "Within real estate debt, for example, we have seen continued performance of logistics and distribution, healthcare and residential together with the resilience of primary office space, which are underpinned by high-quality tenants. At the other end of the spectrum, temporary office spaces, hotels and shopping centres have fared less well," she explains.

These regular sources of income always been an important feature for defined benefit (DB) pension schemes, because they have pensions to pay," BlackRock head of EMEA pensions, multi-asset strategies and solutions team, Sarju Mehta, says. "It is also probably safe to say that the more mature plans get, the more income will feature as an important aspect of the way a strategic asset allocation is designed."

Changes

The Covid-19 pandemic has increased this importance of pension funds allocating to income assets, due to inflation being more likely to become 'centre stage' and "on average, between 50-70 per cent of a pension scheme liabilities are linked to inflation", Mehta says.

This growing attention on inflation will occur due to expected higher global production costs, he explains, as deglobalisation and the remapping of supply chains will be accelerated by the post Covid-19 desire to achieve greater resilience against a range of potential shocks.

Major central banks are evolving their policy frameworks and explicitly intend to let inflation overshoot their targets, Mehta adds. "We see a risk to the nominal anchor – major central banks losing grip of inflation expectations relative to their target levels – without proper policy guardrails and a clear exit strategy from current stimulus measures," he warns.

This higher inflation regime, combined with a maturing pension membership base, means income assets that provide either explicit or implicit inflation-linkage will become much more important for pension scheme investors, Mehta says. "The obvious choice is inflation-linked government bonds, which we advocate in portfolios. In addition, private markets offer opportunities to structure investments with explicit inflation-linkage, such as through rent payments on property."

According to Hansen, Covid-19 is most likely to have affected the importance of income for schemes that are mature with meaningful pensioner payments, but still under-funded so they receive high sponsor contributions.

"Schemes in this situation will need to weigh up the temporary cashflow requirements against the need to continue to generate a high enough return to close the funding gap," she says.

"One solution could be to tilt into higher-yield credit, whether public or private, which will allow income generation under a higher returning asset strategy. Although it is worth noting that attempts to 'cashflow match' for less well-funded schemes is often less efficient, given that such schemes are likely to run highly leveraged LDI portfolios where collateral calls will easily overshadow any income-generated cashflows."

Future

Overall, Hansen suggests that the safest place to find predictable income continues to be a portfolio of government bonds and well-diversified investment grade corporate bonds.

"These assets have historically constituted the core of UK DB pension scheme income portfolios, and we expect this to continue to be the case. If schemes specifically need longer-dated higher yield income then the residential sector, particularly social housing or shared ownership, might be of interest given the resilience of income and the severe shortage of affordable housing," she adds.

Mehta recommends pension funds look to private market assets, classes such as infrastructure debt, real-estate debt and private credit, to find new sources of sure, predictable income. According to Mehta, these asset classes offer a number of benefits to pension funds looking for income, including higher yields than public assets with equivalent credit risk, genuine diversification of income sources, through access to new parts of the economy, such as new infrastructure projects, and flexibility to structure the terms of the investment to suit the pension fund's needs.

However, "with interest rates being so low, finding assets that deliver income to the level needed by pension funds is no easy task", Stow warns. Schemes are now increasingly supplementing a core credit building block with real assets such as private debt, property and infrastructure, she finds. "In our view, rates will remain 'lower for longer' over the medium term as the global economy recovers from Covid-19, which should cause pension investors to continue to favour a cashflow-driven investment strategy," Stow adds.

"Income is important to pension funds but the quality of the income is more important than the timing - the Covid-19 crisis is likely to refocus pension funds on this point," Fogarty says.

"More generally, Covid-19 has arguably awakened more urgency around ESG-driven investing and that will naturally lead to a re-rating of those assets deemed less committed to such principles."

Looking further ahead, Stow warns that it is impossible to know at this stage the long-term effects of Covid-19 and to what extent people's work and leisure habits will have permanently changed.

Therefore, "we advocate that pension funds are adequately diversified across asset classes which offer reliable income streams such as infrastructure debt, private corporate debt and real estate debt", she says.

"These 'secure income assets' can be particularly valuable during times of uncertainty as they can deliver better downside protection, attractive valuations and a depth of universe that is not available in the public market. However, careful credit selection is required, to ensure portfolios can deliver stable cashflows that ultimately help pay pensions."

Ultimately, pension schemes as investors may have a vital part of funding the world in the aftermath of Covid-19.

"We believe defined benefit pension schemes have an increasing role to play in rebuilding society post-Covid," Stow says.

"These patient pools of capital marry well with companies seeking long-term funding, many of whom are engaged in revitalising the UK economy by investing in new infrastructure projects, helping to refinance upcoming debt maturities or providing additional debt funding where needed.

"Pension capital could ultimately drive a return to growth through investing in these secure income type assets, whilst also offering the potential benefit of helping schemes achieve required funding levels without taking excess risk."

Written by Laura Blows

In association with Legal & General Investment Management

VIEW FROM THE ABI

Recently the DWP announced the creation of a small pots working group, which the ABI was happy to be asked to participate in.

Small pots are not just an efficiency and costs issue for the pensions industry but also for savers, many of whom struggle to keep connected with smaller pots and lose out on their own savings in retirement.

The ABI believes a range of measures are needed to fully address the problem of small pots – while default options such as automatic transfers or a default consolidator may be needed there should also be a strong element of personal choice by customers. Imperative for any solution though is for government to prioritise delivery of commercial and non-commercial pensions dashboards to spur pension scheme members to consolidate their pots.

As the DWP's recent charge cap consultation said, there are issues with all types of charging structures when it comes to small pots. While they can be low, annual management charges have an inherent cross subsidy, while flat-fee charging has the potential to erode pot sizes.

The ABI will continue to work towards a future where all pension schemes provide value for members and good outcomes. We will continue to urge the government and the FCA to have a joined-up approach when developing future policy and regulation on small pots in automatic enrolment pensions to ensure good outcomes for consumers.

ABI policy adviser, long-term savings policy, Reuben Overmark

Soapbox: Hung out to dry?

Covid-19 is once again rearing its ugly head. Daily growth in cases is now well into the thousands in the UK and it seems inevitable that casualties will soon begin to rise sharply as the virus spreads. While Westminster appears intent on avoiding a rerun of full-blown lockdown, new curbs have been introduced this month that could hit the hospitality industry and others besides.

All of this came as the government faced increasing pressure to protect jobs and incomes by extending its furlough scheme or launching an alternative. Finally, Chancellor Rishi Sunak announced the Job Support Scheme.

The new scheme will come into effect for employees who work for at least a third of their hours, with employers covering the hours worked and the government and the employer paying a third of wages each for the hours they do not work.

However, Institute for Public Policy Research executive director, Carys Roberts, says the scheme "does not support businesses enough to prevent layoffs", adding that it will serve as "cold comfort to firms that are fundamentally viable but can't operate at all due to local or sector restrictions".

Quilter Investors portfolio manager, Hitesh Patel, was also critical, as he states Sunak had "made it clear that only viable jobs will be supported as the priorities have shifted as the pandemic does", noting that this was "ultimately the correct approach in the long term" but still amounted to a "lacklustre" update.

Furthermore, the scheme does not cover pension contributions, with the responsibility for payments to workers' retirement savings and National Insurance contributions resting squarely on the shoulders of employers. Companies will need to calculate these contributions based on their employees' total pay packets, comprised of hours worked and unworked hours that they have received pay for under the scheme.

While this is obviously better than leaving millions hanging out to dry, it does mean that there will be a great impact on scores of savers' pension savings. The fact that overall pay packets are likely to be reduced simply adds to the problem, as it leaves many workers more likely to abandon topping up their retirement pots in favour of being able to pay for essentials in the here and now.

The possibility of such an exodus has led some in the pensions industry to seek a way of helping savers to continue growing their pots.

Quilter head of retirement policy, Jon Greer, says: "We'd like the government to consider a partial opt-in to the auto-enrolment system for low earners. This would allow someone on low earnings to retain their employer contribution, but suspend their individual contribution for a period of time due to affordability.

"At the moment if some employees cease contributions they will lose the employer pension contribution too. Whilst we appreciate the importance of the employer contribution being contingent on an employee paying in, for the lower paid where affordability is more acute, a partial opt-in would offer some flexibility and minimise the risk that they give up on pension saving altogether."

Without actions like Greer's suggestion, the industry could find itself seeking to coax masses of former savers back into making contributions in a post-Covid world, or workers will risk sleepwalking their way into old age poverty decades down the line.

Written by Duncan Ferris

Climate investing: A not-so-passive role

Adam Matthews, Director of Ethics and Engagement, Church of England Pensions Board

Aled Jones, Head of Sustainable Investing for Europe, FTSE Russell

Laura Blows speaks to Aled Jones, head of sustainable investing for Europe at FTSE Russell, and Adam Matthews, director of ethics and engagement for the Church of England Pensions Board, about the role of climate investing within a pension fund portfolio

Climate change concerns continues to climb up the agenda of pension fund investors. Yet it can be hard to know where to start. Help is available though, with the Transition Pathway Initiative (TPI) and the FTSE TPI Climate Transition Index, ensuring that both passive and active investors can engage in the cause.

"We have seen a huge growth in interest across sustainable investment, in particular around climate," FTSE Russell head of sustainable investing for Europe, Aled Jones, says in our latest *Pensions Age* podcast, *Climate Investing*. "There's a much wider recognition amongst investors that action should be taken."

He notes a "real growth in sophistication of investor needs", moving on from how carbon intensive an equity portfolio is to questions about carbon reserve, green economy exposure and the extent to which company strategy and commitment is linked to addressing climate change.

Helping investors with these questions is the TPI, set up in 2017 as a joint initiative between the Church of England National Investing Bodies (Church of England Pensions Board, the Church Commissioners and CBF Funds) and the Environment Agency Pension Fund.

It enables assessment of how companies are managing climate change and the risk it poses to their business. In turn, this enables better-informed investment processes and decisions, and can shape engagement activities and proxy voting decisions.

With the TPI tool, pension funds are able to differentiate within high-carbon sectors which companies are well placed to manage the transition and which ones are not, Church of England Pensions Board director of ethics and engagement, Adam Matthews, says.

"For us as an investor, that is an invaluable insight into the risks we've got, understanding the opportunities and enabling us to have very deep conversations with our managers about their approaches to these issues and to focus our attention through our stewardship and engagement with those companies that need to change and change faster," he adds.

FTSE Russell has been a data partner to the TPI since it launched and from this the "next logical step", Jones says, was to see how we could incorporate this information into an ESG index.

For this, FTSE Russell worked with the Church of England Pensions Board to come up with the "next generation of climate index", which moved on from only considering the risk perspective, such as carbon emissions and fossil fuel reserves, and instead really capturing the opportunity piece, such as exposure to the green economy, Jones says.

This was achieved by putting the TPI framework at the heart of the index, incorporating its two company-level assessments – the extent companies are managing climate as an issue, and how they are actively committing and putting into practice reducing their carbon emissions over time.

The index also provides an engagement tool through which asset owners can signal to companies in their portfolio where they are in the climate transition flightpath, he adds.

Working with Church of England Pensions Board in its creation also ensured that the index is tailored to pension funds' climate concerns.

"For us as a fund, we have a large asset allocation and we have always felt very uncomfortable with the fact that there seems to be a perception that being passively invested means that you're passive in your stewardship responsibilities," Matthews says.

"We wanted to find a way where you could translate the understanding, insights, analysis, of TPI into our passive investments."

The index embeds forward-looking data about which companies are positioned to manage the transition and encourages good behaviour. It double weights companies that are demonstrating through their public disclosures that they are positioning themselves, with strategies and targets, to the goals of the Paris agreement, Matthews explains, which is "a hugely powerful signal to send to companies, to the wider market".

According to Matthews, with the help of this index, "passive investing no longer means that you are passive in your approach to stewardship".

To find out more about this subject, and to listen to the podcast, please visit www.pensionsage.com

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The Pensions Age Autumn Conference 2020

Guidance through tough times

The Pensions Age Autumn Conference has become a must-attend event for trustees from across the UK to meet with their peers, exchange ideas and learn from pensions experts in a central London location. It also provides the *Pensions Age* team with a great opportunity to catch up with all our industry friends.

Sadly, due to government restrictions, this year's event had to take place online, with all presentations and live Q&A sessions broadcast via Zoom to over 400 registered delegates who will have been watching from the comfort of their own homes.

This didn't, however, deter *Pensions Age* from bringing together some of the leading names and thought-leaders in the pensions space in order educate, guide and inform those involved in running pension schemes at a time when they need it more than ever. Keynote speakers this year included representatives from The Pensions Regulator (TPR), the Pension Protection Fund (PPF), the Institute for Fiscal Studies (IFS) and the Pensions Climate Risk Industry Group (PCRIG), as well as experts in the fields of pensions technology, finance, fiduciary management, governance, de-risking, trusteeship and more. All speakers also took part in live Q&A sessions with our editor, Laura Blows, who was also our chair for the day.

Kicking off the day were our opening keynote speakers, PPF's chief finance officer, Lisa McCrory and PPF's chief risk officer, Stephen Wilcox, who offered an update on the state of the defined benefit (DB) pensions universe, based on the results of the PPF's renowned *Purple Book*.

The Purple Book, the 2020 version of which is due to be published imminently, provides comprehensive data on the UK universe of DB pension schemes in the private sector. Wilcox and McCrory analysed how this landscape had changed over time and showed that while the risk profile of DB schemes has reduced, underfunding has persisted. They also looked at how schemes present risk to the PPF and how the PPF goes about managing those risks.

McCrory explained: "Understanding how risk has changed in the past is a really important part of our risk management framework. By understanding the changes that have happened, it helps evolve our thinking about how the universe might evolve in the future, and this then is a key input into our funding strategy."

Wilcox went on to look at the PPF's claims risk and the distribution of the funding ratio by size of the membership of the scheme and how this has changed over the years. He also looked at some of the de-risking that schemes have done over the past 15 years, risks on the horizon to include Covid-19, and what this all means for the PPF and how it is planning for the future.

The role that fiduciary management (FM) has played and continues to play in the UK pensions space was next under the spotlight. SEI regional director, Kris Shergold, reflected on how he has seen the FM space change over the past 10 years – including how the provider landscape and the procurement process have both evolved, and where innovation has been rife. He discussed how environmental, social and governance

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(ESG) issues, the Competition and Markets Authority (CMA) review and the recent pandemic are significantly influencing the FM industry; and looked at future potential influencers, such as the consolidators and the increasing role of the independent trustee. All in all, he reported the FM market as one with "a healthy looking future".

The role technology and software can play in helping schemes meet their reporting requirements was the focus of the next session, with RiskFirst's head of product management, Simon Robinson, homing in on three main areas: ESG, covenant and climate. Reporting in relation to these three topics, he argued, were likely to be key going forward. "Unsurprisingly, it feels like reporting requirements for pension plans are only going to increase, and are only going to get more complicated," he warned.

He added that, while everyone listening will know that pension plans are complex – it's not just about the assets, but the liabilities, the covenant, the contributions and the aim of providing members with benefit security – these areas don't stand on their own and they aren't static. He explained: "For example, it's not about how strong my sponsor is now, but how my sponsor might fare in future scenarios. Technology is not always the answer but has a lot to offer to help meet these challenges," he added.

DB consolidation was the focus of the next session with a Q&A session between CMS partner, Emma Frost, and TPT business development director, Paul Murphy. Chairing the session, Frost invited Murphy to share TPT's experience and views on the DB consolidation market, exploring the options available to sponsors and trustees of schemes, big and small, when considering a DB consolidation vehicle.

Murphy talked about TPT as well as the newer players in the consolidation space, highlighting that any innovation is to be welcomed but with a caveat that all operators must be well regulated. He considered the impact of long-standing risks, as well as newer risks including Covid-19, on the consolidation space and what this all means for trustees going forward. Finally, while recognising that many trustees love what they do, have done a great job and might not want to give up their roles, his message would be: "Many DB schemes are now closed to future accrual and new members, regulation is getting tougher, and TPR is tightening things up too, so now could be a good time to pass the baton; and any finance directors worried about losing control needn't be – this is all about working together to get the best outcome for members – that's what we are here for; that's what we exist for."

Technology was revisited next as Target Professional Services managing director, Lisa Lyon, demonstrated Target's experience of member identification and verification and shared the developments they have made to ensure the process is robust and digital. She also highlighted the further enhancements they are making to ensure scheme data can be up-to-date in the most cost-effective way and schemes can be ready for when the new pensions dashboards come into play. Something has to change to enable schemes to easily keep their data accurate, up-to-date and dashboard ready, she argued, explaining how Target's technology can offer schemes that much-needed change. She concluded: "There is an opportunity for the industry to come together and solve this decade old problem and solve the problems of the future."

Measuring and ensuring value for (members') money was the next topic to be tackled, led by Capital Cranfield professional trustee, Andy Cheseldine. Value for (member's) money is the crucial criterion for trustees, explained Cheseldine, as he went on to look in detail at what trustees need to consider to ensure they are continually doing the best they can.

"You need to think about what you are trying to achieve; what should be measured and how you are going to measure it; what your benchmark criteria are; and how you are going to articulate the results to members, regulators, employers, service providers and, where relevant, advisers/intermediaries. Finally, you need to ask: will anyone read it, will anyone understand it? There is no right or wrong answer here so, whatever you do this year, I plead with you: test, assess, adapt, improve and repeat the process – make sure you get it as good as you can do."

The next keynote speaker of the day was IFS associate director, Rowena Crawford, who presented on recent trends in retirement expectations, with a further look to what lies ahead.

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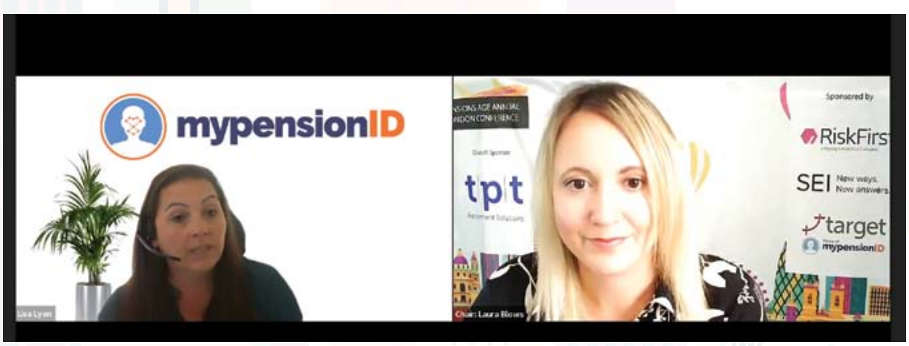
The past decade has been one of substantial reform to the UK retirement savings environment, explained Crawford, who then went on to discuss how attitudes towards savings and expectations about retirement incomes have changed over this period, as evidenced by extensive IFS research. She also considered what effect the current pandemic might have on retirement plans and outcomes going forwards. "There is an awful lot going on and it will be important to monitor how people respond to the current crisis, in terms of their savings behaviour, retirement timing and drawdown behaviour." Older workers are particularly at risk of the crisis permanently reducing their retirement living standards, she warned.

Climate risk was back on the agenda later that afternoon, with PCRIG chair, Stuart O'Brien, focusing on the recent Climate Risk Disclosure Requirements and what they mean for schemes. Changes in the Pension Schemes Bill, he explained, will likely bring mandatory disclosures on climate-related risks in the next few years. These follow on from recent changes to the Statement of Investment Principles and new requirements from October 2020 on trustees to disclose aspects of their investment decision-making on an annual basis in the newly required Implementation Statements. O'Brien considered how trustees should approach the issues and the new world of investment disclosure, stating that "the trustee role is to look after their pension scheme and ensure their pension benefits can be paid; and trustees have to look at climate-related issues as a financial risk and what they might do to DB funding levels, DB investment performance, and for DC schemes what they might do to member pots".

The final keynote speaker of the day was TPR's head of policy, Fiona Frobisher, who shared details of how the regulator is addressing risks to savers in the current economic climate and talked about TPR's regulatory priorities for ensuring trustees and employers look after the scheme members' valuable savings now and into the future.

Frobisher also reflected on upcoming developments that are being put in place to help maintain financial resilience and confidence in pensions going forward; highlighted the key priorities for TPR; and commented on how well the industry has coped with the recent pandemic. She explained what TPR has done and continues to do to help pension schemes that might be worried about the strength of their sponsor covenant and how they are working with other associations/bodies within the pensions space to ensure they remain relevant and in touch with what the market needs. She commented: "We will continue to monitor the current situation and be as nimble as we can. We will be flexible both with what we are doing and how we are delivering it; and we will be flexible with schemes if they explain to us any difficulties or issues they are having. We believe the best way we can get through this as an industry or as regulators is to work together. Working together will give us the best outcomes."

Many thanks to all our sponsors, speakers and delegates who came together to help ensure our autumn conference was as informative, insightful and enjoyable as ever, although sadly without the opportunity to enjoy a glass of wine together at the end of the day.



To view the conference in its entirety to include the live Q&A sessions, visit www.pensionsage.com/autumnconference

Written by Francesca Fabrizi

Responsible investment – a new era of disclosures

Stuart O'Brien outlines what trustees will need to do in the coming years in order to keep on top of their ESG responsibilities

Time plays tricks on you during lockdown but it now seems quite surprising that just over 12 months ago the only thing trustees had to disclose in relation to their responsible investment policies was a brief note in their statement of investment principles (SIP) on the extent (if at all) to which they took account of 'social, environmental or ethical considerations' and their policy (if any) in relation to the exercise of voting rights attaching to their investments. In other words, trustees could remain entirely compliant by stating that they had no policy on ESG or stewardship at all; and there was no need to make the SIP publicly available.

Roll forward to October 2020 and we have had two sets of revisions to the SIP (which must now be made publicly available on a website) and a new requirement to report annually on the implementation of the trustees' policies (also to be made publicly available on a website). Most recently, we have seen a consultation by the DWP on mandatory climate risk governance and reporting by trustees. The pensions world has moved fast when it comes to ESG and particularly when it comes to what trustees are expected to disclose about it.

Trustees will already be familiar with the SIP requirements that they will have had to get to grips with in their trustee meetings over the summer last year (to include details on their ESG and stewardship policies) and again this year (to set out detail on how the trustees ensure alignment between their policies and the strategies employed by their appointed investment managers).

Harder to grapple with will be the new requirement for scheme reports and accounts published after 1 October 2020, to include an annual statement on precisely how the trustees have implemented these policies they set out in their SIP. For pure DB schemes, this can be limited to a commentary on voting and engagement activities but for schemes providing DC benefits the statement must go wider, providing a commentary on implementation of the trustees' policies more generally. And all of this must be made publicly available online. It is probably a safe prediction that the first year will be somewhat challenging as trustees get to grips with the slightly complicated timing requirements and what is likely to be a not insignificant challenge of ensuring that all managers are providing the necessary voting data and engagement commentary in a form which the trustees can use. On this the PLSA must be commended for providing timely guidance[1] and a voting report template[2] for managers and trustees to use. But whether the new implementation statements go beyond tick-box to provide a meaningful way for trustees to engage with scheme members on issues that matter to them remains to be seen.

The SIP and implementation statement requirements, however, pale into insignificance when set against the DWP's latest consultation on climate risk governance and reporting[3]. There isn't space in this article to cover the detail of the 100-page consultation but, assuming the consultation carries through to regulations under the Pension Schemes Bill as anticipated, schemes with £5 billion or more in assets, authorised master trusts and authorised collective money purchase schemes would need to have arrangements in place on climate change governance, strategy, risk management, metrics and targets from October 2021 (including the use of scenario analysis to assess the scheme's resilience to climate-related risks at least annually), and to publish an annual report on these, following the Taskforce on Climate-related Financial Disclosure (TCFD) recommendations, by the end of 2022 at the latest. This requirement would then be rolled out to schemes with £1 billion or more of assets the following year. Application to smaller schemes will be reviewed in 2024.

The DWP also puts down a marker that the government is minded to require that trustees report publicly on their alignment with the Paris Agreement or the "implied temperature rise" of scheme portfolios, signposting a consultation on this "in the near future".

Things have moved on when it comes to pensions and ESG but the new era of public disclosures may yet be the real game changer. No doubt organisations such as Share Action, Client Earth and the newly-launched Make My Money Matter campaign will be watching what trustees do. As too will the Pensions Minister who has already written to the trustees of larger schemes on several occasions to enquire as to how they are going about meeting their ESG responsibilities. As we head towards 2021 and to mangle a quote from Lord Chief Justice Hewart, not only must responsible investment be done; it must also be seen to be done.

Written by Pensions Climate Risk Industry Group chair, Stuart O'Brien

[1] https://www.plsa.co.uk/Policy-and-Research-Document-library-Implementation-Statement-guidance-for-trustees
[2] Anticipated imminently at time of writing.
[3] https://www.gov.uk/government/consultations/taking-action-on-climate-risk-improving-governance-and-reporting-by-occupational-pension-schemes

Time for a risk review?

Judith Hetherington explores whether 2020 is the time to review governance and fraud risks

From the sudden need to reassess the strength of the employers covenant and funding levels of schemes, to the adjustments made to the controls and procedures at administrators to ensure that business as usual activities were not impacted by remote working, and the increase in fraud and cybercrime, the governance of pension schemes has not been a simple task since lockdown began in March 2020.

We ran a series of articles earlier in the year covering scheme governance and the issues which trustees should consider since the start of lockdown. The series covered trustee effectiveness, administration, covenant and funding, investment and fraud.

Now that restrictions are being lifted and there seems to be some sort of normality returning (although this may change any day), it will be interesting to identify changes to administration and the journey plan of pension schemes. This is especially relevant seeing as no one knows what impact there will be on the economy in the medium term and there is yet to be a vaccine discovered for Covid-19.

It has been widely recognised in the industry that the majority of administrators reacted swiftly to the lockdown. This helped to ensure that business as usual activities remained unaffected as much as possible through careful planning and prioritising of activities, between the critical and non-critical parts of their service to schemes.

By now, trustees will have either received one or two quarterly administration reports and would have reviewed these to identify what trends there have been in service levels at administrators. Where service levels have fallen, do trustees know how these are being addressed going forward, and whether the administrators have the resources available to do this?

Another key question for trustees to consider: Do they know what changes have been made to the controls and procedures at their administrator and how has this affected services to members?

Fraud and cybercrime has always been a risk in pension schemes due to the large sums of money being held for beneficiaries, and the amounts of personal data held in pension schemes. Crowe, in association with Institute of Criminal Justice Studies at the University of Portsmouth, issued The Nature and Extent of Pension Fraud earlier this year. The report estimated that fraud in the pension sector could be costing the UK at least £6.2 billion as detailed in the table below.

As reported by the Office for National Statistics, gross domestic product fell in the second quarter by 20.4 per cent compared to the previous three months, and the UK economy is officially in the deepest recession since records began, following a decrease in GDP in the first quarter of the year. As in all recessions there has been an increase fraud and cybercrime. Pension schemes have already been affected,

Estimated fraud rate		£m	Fraud rate	Fraud £m
State pension	Payments	96,700[39]	0.00%	0[40]
State pension credit	Payments	5,059[41]	2.31%	120[42]
Government and public sector pension	Payments	38,000[43]	3.02%	1,148[44]
Private pension – investment and payment fraud	Investment	2,885,000[45]	0.10%	2,885[46]
	Payments	55,867	3.02%	1,687[47]
Private pension – fraud affecting administration costs	Payroll	2,404	1.70%	41[48]
	Purchasing	6,086	4.76%	290[49]
Total				**6,171**

as reported recently in *Pensions Age*, with an administrator falling victim to cybercrime.

Pension schemes' third-party suppliers include those who undertake member administration, pensions payroll, banking and asset management, payment processing, insurance including buy-ins, accounting, actuarial, legal and other support services. Many will hold or have access to sensitive personal data, commercial data and have payment/asset transfer capabilities and many would have had to set up remote working in a short space of time after the lockdown where security and controls may not be as stringent. Therefore what assurances have the trustees received over fraud and cybercrime and are existing 'controls' effective against such a rapidly evolving threat as fraud and cybercrime?

Our *Governance and Risk Management* survey looks to take a temperature check of how UK pension schemes are prepared for today's risks and your response can help us map out the pensions risk landscape.

Written by Crowe UK partner, Judith Hetherington

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Summary

- Trustees should be aware that reporting deadlines for late DC scheme employer contributions will be reverting in the new year.
- TPR and some providers claim delays to employer contributions have not been widespread.
- But the picture is muddied by some sources who see evidence of a spike in employer contribution delays, with TPO preparing itself for a rise in complaints.

Employer contributions: Should we be sweating?

The coronavirus pandemic has been a rollercoaster ride for many businesses. Duncan Ferris investigates whether employers have been having problems keeping up with their contributions into employee pension schemes amid Covid-19, why this might be a problem and what the consequences for savers might be

Football clubs, airlines and bars have something in common. They are among the businesses having perhaps the toughest time in adapting to pandemic life. Macclesfield Town FC has gone belly up, Flybe has caved, and Corsica Studios has had to launch fundraising efforts.

With so many companies facing uncertainty or worse, it is prudent to examine whether desperate businesses have been seeking to save cash by avoiding their auto-enrolment duties by failing to pay into workplace pension schemes.

It is an issue that will particularly concern the trustees among our readership, as they have the responsibility of reporting any discrepancies to the authorities. But this is a process that has seen some changes in recent months, so it is probably wise to start with an overview of where we currently stand.

Background

The Pensions Regulator (TPR) had initially expanded the reporting window for defined contribution (DC) schemes to report on delayed employer contributions to 150 days in March as a response to the Covid-19 pandemic.

In September, the regulator opted to extend its easements on reporting on employers' late contributions until the end of the calendar year. In the new year, DC schemes and providers will be expected to resume reporting on delayed contribution payments no later than the usual 90 days after the due date.

Aegon head of pensions, Kate Smith, says: "This was designed to give pension providers and trustees breathing space to allow them to focus on other priorities during the early days of the pandemic. It was not designed to allow employers to delay paying pension contributions across to pension providers or pension schemes.

"There has been no change to employers' responsibilities to deduct and pass on the correct contributions to providers in line with their schedule of payments, unless they have made specific arrangements with their providers."

In March, when initially announcing the extension, TPR indicated that it would not seek to take action against trustees who were late in reporting missed payments in the following three-month period.

While it acknowledged the flexibility of TPR's approach, the parliamentary Work and Pensions Committee in June raised concerns that "unscrupulous employers" might be "taking advantage" of easements.

Much ado about nothing?

Now that we understand TPR's approach to reporting on employer contribution delays, it is important to examine how widespread an issue this has been since the emergence of the Covid-19 pandemic. First of all, how would failing to contribute on time affect members of DC pension schemes?

Smith comments: "Delaying to paying employer and employee contributions and passing them on to pension providers for investment will adversely affect members' pension pots as they could lose out on investment timing and growth. Failure to pay will have even more serious consequences on the size of employees' pension pots."

But are there any indications that this is actually happening and harming savers' pension pots?

On the face of it, it appears not. Speaking when late contribution reporting deadlines were extended, TPR director of automatic enrolment, Mel Charles, said: "Our indications are the majority of employers are paying their contributions in full and on time and we have not seen any unusual increase in reports of late payments by pension schemes."

This is reflected by data published by the regulator in August, which shows that enforcement actions for automatic enrolment breaches were down by 55 per cent in the second quarter, having fallen from 35,174 between January and March to 15,733 between April and June.

Furthermore, the number of fixed penalty notices issued came to 1,555, which is six times fewer than in the previous quarter, while the number of escalating penalty notices issued was five times lower than in the first quarter, coming in at 625.

However, this does not necessarily guarantee that there is not a problem as this could merely be a reflection of TPR's easements and its decision not to take action against trustees who were late in reporting missed contributions, as referenced earlier.

Speaking from the perspective of a provider, Smith echoes the regulator's sentiment as she comments: "We have seen very little change and employers are continuing to pay pension contributions on time and correctly. Providers will continue to monitor pension payments to ensure they are paid correctly and on time."

A twist in the tale

However, this still does not appear to be a cut and dry issue, as survey data from the *Financial Times* showed that 7.54 per cent of employers on Royal London's books missed payment deadlines by the end of May, compared to just 1.57 per cent before the beginning of lockdown.

When asked about a potential rise in delays, a Royal London spokesperson says: "In the early days of the pandemic we saw an increase in queries about delaying or reducing contributions from employers. There was also an initial increase in the number of employers delaying pension contributions.

"This was largely due to a lot of uncertainty in the market around the Job Retention Scheme and there were also rumours about a potential pause in auto-enrolment. We worked closely with government and regulators to ensure there were clear messages on the JRS and what this meant for pensions and about the continuation of auto-enrolment duties.

"This has meant that since that initial period we have seen a decrease in delayed pension contributions to more normal levels. In addition, the initial questions about reducing contribution level does not seem to have turned into action on the part of employers. This is good news for the future savings outcomes of members."

Some other providers also appeared to have noticed an increase in missed contribution deadlines, while watchdogs appear to be readying themselves to deal with fallout from the issue.

The Pensions Ombudsman (TPO), Antony Arter, comments: "We are expecting to see an increase in the number of auto-enrolment complaints where businesses struggling financially as a result of the pandemic, either persuade their employees to opt out of auto-enrolment, or continue to deduct contributions from their staff's salary but do not pay them into the particular pension arrangement as required.

"Although, we are beginning to see a gradual increase in such cases it is too early to tell the extent of this problem as it always takes some time before people realise what has happened and complain to us."

As such, it could be that the industry ends up feeling the shockwaves of this issue well into the next few years.

Summing up

This all creates a rather cloudy picture, with a great deal of conflicting information. TPR and some providers appear unconcerned about the issue, but it seems clear that there have been some spikes in delayed employer contributions to DC schemes. The picture is surely destined to get clearer as the nation dips back into a period of Covid-19-related restrictions.

Many industries that have already been suffering, such as hospitality and aviation, are at risk of facing further difficulties as pub closing times are pushed earlier and travel restrictions increase. Furthermore, the government's furlough scheme is coming to an end, set to be replaced by the less generous Job Support Scheme.

This means more businesses, beyond even the likes of football clubs, airlines and bars, are likely to falter and avoid making contributions in a desperate bid to hold on to cash.

With the reporting window set to be cut back to 90 days, trustees will need to be on their game to spot any discrepancies as the process reverts to its pre-pandemic norm in the new year. As for employers who fail to pay contributions, TPO is clear on the consequences.

Arter explains: "If we find that either an employee has not been enrolled when they should have been, or contributions have not been paid, then the employer will be liable to pay the unpaid contributions and any lost investment returns. We will also consider, depending upon the circumstances, an award in respect of the distress and inconvenience suffered."

Written by Duncan Ferris

A path to a clearer future?

Transparency Task Force (TTF) founder, Andy Agathangelou, talks to Sophie Smith about how the pensions industry can work to protect members against the threat of pension scams, and regain their trust and confidence going forward

Can you tell me about the TTF's key goals in the pension space?
Having spent some 30 years in or connected to the pensions industry, the pensions market is of huge interest to me. I am absolutely convinced that the industry is not yet realising its full potential as a force for good in providing financial wellbeing and security for people at retirement. There are many reasons for that, including poor communication with the marketplace, a lack of transparency around costs and charges, and also a lack of transparency around the investment holdings in pension funds. So, from my point of view, there's a great deal of important work to be done in the pensions space, all of which is ultimately about helping to ensure that pension savers experience good outcomes.

I am particularly concerned that the pensions industry has not really grasped the harsh reality that we have not yet won the 'hearts and minds' of the millions of people that have been automatically enrolled, and it is prudent, I believe, to assume that under adverse circumstances, many of the people that have become pension savers through auto-enrolment could quite easily opt out; that's a huge concern to me.

What are the TTF's concerns around pension scams, particularly in the current environment?
We at the TTF are very worried that as people are affected by the economic and emotional consequences of Covid-19 many members of the public are becoming financially distressed. We are very aware indeed that this makes them even better targets for the unprofessional and the criminally minded.

Our big worry is that Covid-19 has created the very worst-case scenario that could have been imagined at the introduction of pension freedoms, when many individuals could see that the combination of access to large capital sums, poor regulatory oversight and a poorly advised public might lead to a haemorrhaging of pension fund values accumulated over time. I cannot begin to express the frustration that concerns expressed when pension freedoms were introduced have been largely ignored, and I hope that the reputational damage that the pensions industry is currently suffering as a consequence of pension scams is somehow remedied.

With scams presenting such a pressing concern, how can the industry work to tackle these issues in the future?
There were several ideas floated at the recent Work and Pensions Select Committee evidence session that was part of their inquiry into pension scams. I think several of them have huge merit, for example the idea of a properly scrutinised white list, whereby pension transfers could only be allowed when pension funds are being transferred into arrangements that have been able to evidence to regulators that they are legitimate and represent good value for money with an appropriate level of risk. Another example, which we are very keen on indeed, is the idea of a joint taskforce. The joint taskforce would put right the fundamental flaw in the current regulatory and enforcement framework around pension scams. The problem we have is this: there are many moving parts all interlinked, but with a complete lack of transparency, accountability and responsibility. If you are to ask today, who and which department within the authorities is responsible for managing the pension scams problem you can only get vague and woolly answers. That's not good enough.

We need accountability. Accountability cures. Only once there is a high level of acceptance that there are particular individuals and a particular department responsible for fixing the problem can we have confidence that all is being done to make this ghastly problem go away.

Ghastly is a strong word, I know, but let me put it to you like this. I see the pension scam problem as a festering sore on the face of the industry. It is a festering sore that is ugly, that is putting people off becoming pension savers, and is taking away the trust and confidence of existing pension savers too. Frankly this whole topic is becoming a major public interest issue, and if tough action is not taken quickly, it will go from being a major public interest issue to a national scandal.

Considering the reputational damage that the industry has suffered in the past, how can increased transparency help it to combat these issues in the future?

It won't surprise anybody to know that I'm a fan of transparency. However, I am also a realist, and I know that whilst transparency is necessary, on its own it is simply not sufficient. Transparency is an important ingredient in a cocktail of measures that are needed to drag the financial services sector to where it needs to be.

In general terms, we believe the financial services sector as a whole, and the pensions sector in particular, has a great deal of work to do to regain trust and confidence of the consumer, and I'd like to think that we are doing our little bit to raise awareness of some of the key issues.

Of course, whether we ever make a difference or not is a matter of opinion, but I'm pretty sure that anybody wishing to become part of our collaborative campaigning community will find themselves very much at home with like-minded people that are working hard on a voluntary basis to drive the positive, progressive and purposeful reform that we believe is so desperately needed.

Following the recent shift in guidance from the Financial Conduct Authority, what impact do you think increased transparency around costs and charges could have on the industry?

Increased transparency around costs and charges in the industry will nudge the sector towards what it needs to be, a free and open competitive market where consumers or their representatives, such as trustee boards, can make informed decisions about where and how pension monies should be invested. I am a big believer in free and open markets being the best paradigm for creating good outcomes for consumers, and to put it very simply, the more transparency we have the less of a regulatory burden we need.

How would you see increased transparency evolving around environmental, social and governance (ESG) considerations?

We in the UK should proactively explore what is being done well in other countries. To not do so, would be both naive and unduly near-sighted. I make this point because enlightened leadership on the other side of the world in New Zealand has very recently led to a hugely significant step, becoming the first country to properly mandate for climate risk disclosure.

I wholeheartedly advocate that all other countries should follow New Zealand's lead and that the pensions industry around the world must not make the mistake of underestimating the immensely privileged and powerful opportunity it has to become a planet saving force for good.

Written by Sophie Smith

Emerging markets equities focus:

Green growth

Lara Kesterton, mtx Sustainable Leaders, ESG Research, Vontobel Asset Management

EM equities: ESG as risk management

Lara Kesterton reveals why ESG is a valuable risk management tool in emerging-market equity investing

Environmental, social and governance (ESG) analysis has the potential to add more value in emerging markets (EM) than in developed markets (DM) since it helps to avoid companies with significant and unmanaged ESG risks, which could harm performance in the mid to long term. However, simply maximising ESG scores is unlikely to deliver the expected performance results.

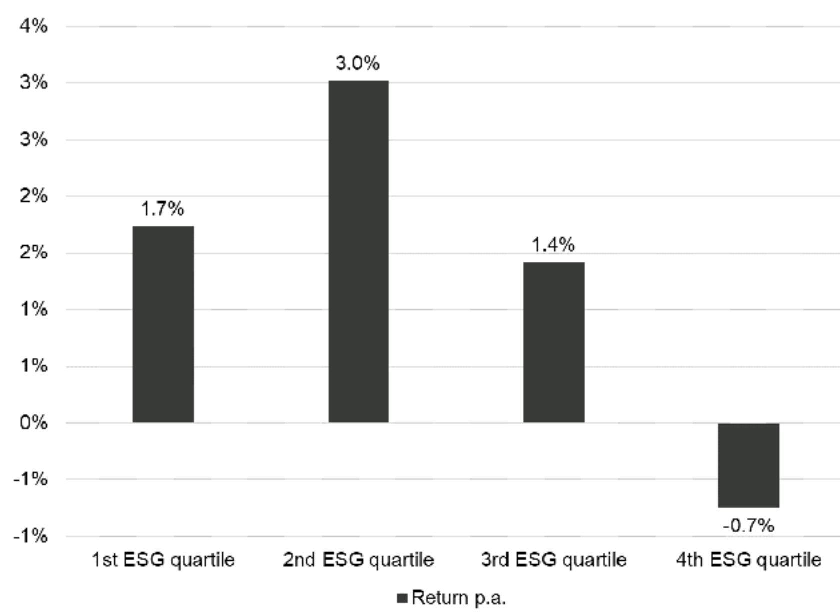
Many studies have proven that there is a higher dispersion in ESG performance in EM than in DM companies, which lays the foundation for the value-add of ESG analysis by identifying and excluding ESG laggards to the benefit of portfolio performance. This is because EM companies tend to be more exposed to both systematic and stock-specific risks from ESG factors.

EM: Lower ESG data quality but higher risks

The problems with quality, quantity and reliability of ESG data seem to translate into less reliable ESG scores in EM. This means that headline ESG scores in EM do not work as effectively as signals of risk or future performance as they do in DM. This is because there is a weaker culture of ESG reporting in EM. This information blind spot is exacerbated by weaker interrogation of corporate performance by the press and civil society. EM companies typically face less scrutiny than their DM counterparts through for example employee surveys, NGO reports, customer reviews and investigative journalism. However, change is under way with the emergence of ESG reports and new information gathering tools. Therefore, data quality is improving leaving fewer companies under the radar but there is still a long way to go to be similar to the DM playing field. We can assume that over time this will correct but for now it means the active ESG manager needs to do more homework themselves to form a more accurate picture of risk management. Our quantitative analysis showed that while in DM, one might take a best in class or top 50 per cent approach to ESG selection, in EM this could hurt performance. In EM, we found that among top performing companies excluding the worst ESG performers adds most alpha (see chart).

Furthermore, ESG risks in EM can be more acute and closer to home. Employee protections, health and safety regulations, environmental audits, product quality standards are often weaker or just less enforced. Against this regulatory weakness, companies must do much more than just comply with the law to protect against their material environmental and social risks. Similarly, bribery and corruption is more commonly endemic, as flagged by indices such as Transparency International's Corruption Perception Index. Therefore, companies need more robust practices to achieve zero corruption. In short, there is a lottery of birth – companies based in countries with weak sovereign ESG performance based on factors such as education, institutional governance, human capital productivity and natural resource management can suffer a market drag. Fragile ecosystems, prevalence of natural disasters, water scarcity, above

Chart: Excluding ESG laggards from a high-quality EM stocks pays off



Past performance is not a reliable indicator of current or future performance. The chart shows the net performance in USD of the most profitable companies within the MSCI Emerging Market Index divided by ESG categories. First, we defined the most profitable companies as those with the top 25% ROIC for the previous fiscal year within each sector (GICS Level 1 sector neutral). Next, we built quartiles based on ESG ratings within these top 25% most profitable companies. Companies contained in the 1st ESG quartile are ESG leaders. Only companies that have an ESG rating and that are within the top ROIC quartile were included. A sector-neutral approach was used. Time period: 31.01.2013 – 31.08.2020
Source: MSCI, CS HOLT, Factset, Vontobel Asset Management

average and more severe workplace safety and labour incidents are all heightened considerations in EM and may affect some companies more than others, depending on where they are located.

The 'G' in ESG separates the wheat from the chaff in EM

In this regard, governance is a particularly important pillar in EM and is commonly raised as the major differentiator between EM and DM companies. We regularly observe that how a company is governed sets the baseline of corporate culture and therefore how the company behaves towards environmental (E) and social (S) issues. Corporate governance is often the area which needs the closest scrutiny in EM for the following reasons:

• Board independence is typically significantly lower than in DM high. Therefore, special attention is needed on the quality and skill set of the board – will they be 'yes men' to the executives or rather provide good checks on management in the interests of minority shareholders and other stakeholders? A key area of concern is the rights and protections for minority shareholders, in particular where governance structures further minimises their voice. Deeper analysis of the board's track record vis-à-vis the long-term interests of minority shareholders is therefore needed. To overcome the information gaps, it is important to undertake more proprietary research and engage directly with companies.

• State-owned enterprises and family-controlled firms are more prevalent than in DM. These ownership structures are often associated with market underperformance as there is greater risk of prioritising political, social or private ends over shareholder value. Related Party Transactions are prevalent and need to be examined to see if they are on market terms in the best interests of the company and are all fully disclosed.

• And also let's not speak of EM as one uniform whole – the investor needs an appreciation of the norms and corporate governance codes of different countries. Applying strict Western thinking on what governance structures are required can blinker the investor to some attractive companies that conform to home, but not Western, governance norms.

ESG ratings must be complemented by fundamental research

Since there are considerably more weaknesses and disagreements with ESG ratings in EM than in DM, it is particularly important that investors do their own ESG research to form a robust view built up from many sources.

There are a few key elements that enable ESG to add meaningful investment value. The approach to evaluating the key ESG risks a company faces should focus on the most material issues and tailor the assessment based on deep sector knowledge. ESG should complement fundamental company analysis by a thorough investigation of real world issues that can have a significant impact on company performance. The greatest value-add is the ability to go in-depth and investigate critical issues – from allegations of forced labour in the supply chain, accounting irregularities, SOE interventions to compliance breakdowns. This often involves speaking with the company directly as well as canvassing outside opinions from accounting specialists or brokers who know the company well. Such an approach helps to fully integrate ESG in the investment case rather than being siloed thinking or simplistic adoption of external ratings.

Within the area of risk management the challenge is to learn what signal level constitutes a red flag triggering an exit of portfolio positions or barring an investment in the first place. As the reporting and regulatory landscape as well as the data evaluation tools are constantly changing, as an active ESG manager, it is important to remain committed to constant improvement and evolution while maintaining a rigorous research discipline when investing in EM companies based on ESG criteria.

Written by Lara Kesterton, mtx Sustainable Leaders, ESG Research, Vontobel Asset Management

In association with Vontobel

Emerging from the deep

As the global economy looks to recover from the impact of the coronavirus pandemic, emerging markets may present attractive options for equity investors. Jack Gray investigates the potential for increased diversification, better returns, and ESG-friendly investments

Summary
• Emerging markets' economies are fast-growing, presenting opportunities of better returns for equity investors.
• Covid-19 may have made emerging markets a more attractive investment option as some have seen their stock markets recover quicker than some developed markets.
• Institutional investors are looking to equity investments in emerging markets to increase their portfolio diversification.
• As ESG-friendly investing becomes more mainstream, investors may need to assess emerging market investments to ensure they are ethical and sustainable.

Selecting the right investments may have become more challenging due to the Covid-19 pandemic, but equities in emerging markets could present an attractive option for those looking to improve their returns. In some cases, their economic recovery from the pandemic has been quicker than some developed markets and provide an opportunity for investors to increase portfolio diversification. Although there are environmental, social and governance (ESG) related risks, assessments can be made to ensure that these risks are mitigated.

An attractive option

"Emerging markets collectively provide the growth engine for the global economy – according to the OECD the seven largest emerging market economies were half the size of the G7 developed economies in 1995, matched them by 2015 and are expected to be double their size by 2040," explains Vontobel Asset Management head of UK and Ireland, Sheridan Bowers.

"Our research suggests that over the long term, pension schemes plan to significantly increase their exposure to emerging markets over the next five years, with some UK schemes considering equal-weighting their equity investments between developed and emerging markets over the next five years."

Indeed, a Vontobel survey of 300 institutional investors across 18 countries finds that 65 per cent are planning to increase their investment in emerging markets, which Vontobel suggests is driven by a desire for new sources of returns, better returns and increased portfolio diversification.

"Emerging markets offer unique opportunities to investors to tap into regions undergoing fast economic growth and the companies that are likely to benefit from that growth," adds Interactive Investor personal finance campaigner, Myron Jobson.

Jobson notes that although investors tend to have a home bias and invest in what is familiar, there is a "world of potential opportunity" if they cast their nets further. However, he notes that growth in emerging markets can come with volatility, and investors need to be careful in selecting the right emerging market at the right time.

Willis Towers Watson director, head of emerging markets equity and sustainable investment manager research, Amandeep Shihn, says emerging markets can offer investors a different return and risk dimension to their portfolios.

"Investors should think about diversification of their portfolios in aggregate, and the recent global coronavirus outbreak has showcased how important diversification is in an investor's portfolio," Shihn continues. "The epidemiology of the coronavirus outbreak varies across countries, as has the political, business and consumer response to the outbreak, leading to differences in economic recoveries across nations. Some emerging markets have seen their stock markets recover faster and economies deal with the outbreak quicker than others, including developed markets."

Shihn notes that emerging markets offer up a swathe of opportunities for skilled investors to benefit from, and investors that did not have exposure to emerging markets during pandemic would have seen an impact to their investment performance.

An Investment Association spokesperson explains that, given the typical long-term investment horizon for pension schemes, they need to take risk.

"Where the members are far from retirement, most schemes will have a high allocation to equities initially as this represents an acceptable risk-return trade off," they continue. "An emerging markets allocation within a broader equity allocation may bring diversification benefits to the scheme, as well as a return uplift relative to developed world equities, but this would naturally come with more risk.

"Pension scheme asset allocators will assess the needs and risk tolerance of their schemes and members and invest accordingly."

Emerging ethically and sustainably

As ESG-friendly investing becomes more commonplace and low-risk, investors are likely to want to bring this approach to equity investing in emerging markets. Although some emerging markets may not have as strict regulations in place to ensure that companies are ethical and sustainable, assessments can be made to make sure that equity investments meet investors' criteria.

"It depends how investors define ESG-friendly," says Bowers. "For us at Vontobel, it means reducing financial risks. According to our research, ESG is positively correlated with safety – meaning lower volatility, higher stability, and lower earnings risk. Moreover, good sustainability credentials act as a proxy for quality, as such companies tend to be better ESG performers.

"For us, the real purpose of ESG is to form a robust view of a company's ability to manage and withstand real-world risks over one, three, or five years."

Bowers explains that Vontobel focuses on leading companies with high growth potential due to reinvestments made possible by high returns on invested capital and strong competitive positions. The asset management firm uses a proprietary ESG scoring model to investigate each company in depth and understand the risks associated with their business model.

Jobson adds that what constitutes as ESG-friendly is subjective and investors must cherry-pick investments themselves if they want to ensure that they align with their core beliefs.

"That means you would have to do your own research to identify the different ESG solutions on market and look under the bonnet of each to ensure it's right for you," he says.

Although ESG risks and opportunities should be assessed when investing in emerging market equities, Shihn does not believe that these assessments should differ from the ones used for developed markets. He notes it is important to assess issues with consistent principles, while also understanding that the application of those principles may vary due to different market structures and norms.

"When looking at governance structures, for example, investment managers want to ensure that as minority stakeholders their rights will be protected," Shihn continues. "Within developed markets investors will typically look for broad shareholder structures and professional management, while in emerging markets it is more prevalent to see family-owned and operated businesses where investors may prefer to be aligned with the outcomes of the controlling entity."

Shihn urges assets owners assessing the effectiveness of an investment manager's approach to look for leadership of sustainable investment initiatives from senior company leadership and key decision makers within a strategy; integration of ESG risks and opportunities within an investment approach; exercising of stewardship responsibilities; evidence of actions consistent with the investment approach; transparency around integration of sustainable investment policies and activities.

Recent progress

Over the past few years, ESG-friendly investing has stepped out of the shadows and become a core concept of many investors' strategies. This also applies to investments in emerging markets.

"ESG is now largely seen as a required part of mainstream investing. In the past investors thought that inclusion of ESG factors in investment decisions would mean giving up performance," says Bowers. "But this thinking is outdated as there is evidence that ESG investments can enhance returns, partly by selecting companies which are better run, and partly by avoiding event-related risks.

"We believe that both the perception and the way investors approach ESG has changed. Investors face a wide range of options including impact investing, thematic, best-in-class, integration, engagement, and exclusion, to name some.

"For our industry it is crucial to understand investors' needs and help them to make decisions. We recognise there is no single correct approach to ESG. Every investor has their own beliefs and values – and, of course, highly individual and personal financial objectives."

Written by Jack Gray

In association with Vontobel

Summary
- Financial hardship has caused some savers to consider dipping into their pensions or pausing contributions to cover costs.
- Factors such as unemployment and the ending of government support schemes may further exacerbate the issue.
- Halting pension saving can have serious long-term consequences on retirement income and comfort.
- Changing working patterns and unemployment could also have long-lasting implications on the gender pensions gap and young people's savings.

Short-term gain for long-term loss

The financial impact of the coronavirus is resulting in some savers looking to their pensions to address their short-term money pressures. Jack Gray analyses the potential long-term implications on their retirement

The coronavirus pandemic has had an impact on nearly all aspects of people's lives, and their finances are no different. As the country locked down, swathes of people were furloughed under the government's Coronavirus Job Retention Scheme and sectors such as hospitality and travel all but ground to a halt.

As lockdown begins to ease, the government support schemes have become less generous or have been wound up completely, resulting in further financial hardship for many already struggling to cover costs. Some savers looking to plug the short-term shortfall have looked to their long-term savings to stay above water. However, even a short pause in pension saving can have serious long-term consequences.

The situation has been exacerbated by unemployment and a lack of job opportunities, meaning that some do not have the option of saving for retirement.

Pension holiday

Recent research from Canada Life reveals that one in 10 workers have paused their pension contributions since the start of lockdown and a further 13 per cent are considering doing so. Over a third (37 per cent) have done so to use the money for essential spending, while 30 per cent paused contributions due to redundancy or furlough.

The analysis shows that even a short pause in pension contributions could have serious financial implications, with a 30-year old earning £30,000 a year losing as much as £45,000 from the value of their pension if they halt contributions for three years.

"The pandemic has reinforced the need for short-term financial resilience and taking a balanced approach to saving is important," says Buck head of DC and wealth, Mark Pemberthy. "But rash decisions about pension saving will increase the long-term risk of not building up sufficient retirement savings, with the knock-on effect of a disappointing retirement lifestyle or the possibility of their income running out."

Canada Life technical director, Andrew Tully, adds: "Any choices made now could have real significance to the quality of life in retirement so it is vital that the impact of this is understood properly from the outset.

"However, there are some ways to mitigate the potential impact. Our analysis shows that losses can be recovered at each stage of a working life as long as there is a plan in place to resume contributions as soon as practicable."

Youth of today

The group whose pensions will be most affected by the pandemic may be younger people. Royal London research finds that savers aged 18-34 were the most likely to stop or reduce contributions due to the pandemic, with two in five (40 per cent) in this age cohort doing so, compared to 16 per cent of those aged 35-54.

"Unsurprisingly, younger workers have been the most likely demographic to stop contributions, as many believe they have time to build their pension pot in later life," explains Pemberthy.

However, Arlo International managing director, Jonathan Hives, warns that although younger workers have more time to make up for losses, the earlier individuals save for their retirement, the more they will "reap the rewards" later down the line.

"Compound interest is an important factor, with the value of the money saved earlier likely to increase as time passes," Hives continues. "Additionally, those who didn't save enough earlier in their working life may feel compelled to take on more risk in their pension investments to make up for lost time, which could increase their likelihood of suffering a significant loss in the future."

Pemberthy adds that pension savers "may be more tempted" to take on more risk with their investments to try and make up for any funds that were lost out on due to their Covid-driven pension changes, but warns that it can be "a dangerous game to play".

Unemployment

Hives notes that younger people being the most likely to cut or halt pension contributions is "understandable" as they have been "hardest hit" by job losses and are struggling to afford contributing.

Covid-19 has caused the job market to shrink, with companies in financial hardship less likely to be looking for new staff. Younger people may be the most affected by this, as they are more likely to be the ones seeking jobs as they leave school and university. Furthermore, sectors such as hospitality that have been badly affected hire more young people than sectors that may not have been hit so hard.

Hargreaves Lansdown senior analyst, Nathan Long, warns that any break in saving, whether through unemployment of paused contributions, can have "a big impact of someone by the time they get to retirement".

"Broadly, if you have a three-year gap in your saving history over 50 years, it increases the amount you have to pay in by 1 per cent," he continues. "If you have a gap in your 30s, once your earnings have ramped up a bit, that can be equally harmful.

"Who gets the employment and who does not? Is it young people coming out of university and school that cannot get the jobs? We could potentially have a change in which industries and sectors are viable. You might have sectors that massively shrink, and if those sectors usually employ people straight out of school that could be an issue."

Gender pensions gap

Another long-term implication of Covid-19 could be on the gender pensions gap. Recent analysis by Aegon reveals that 15 per cent of women are likely to decrease their pension contributions over the next five months, compared to 10 per cent of men, leading Aegon to state that the pandemic may further widen the gender pensions gap. The research also finds that men were more likely to take advantage of possible future economic recovery by investing more into their pensions.

"The main cause of the growing gender pensions gap is that many women have to work fewer hours and for less money after they have had children," explains The People's Pension director of policy, Phil Brown. "As pensions are tied to pay, they end up with a smaller pension as a result."

However, although Brown notes that it is "too early" to assess the full impact of the pandemic on retirement saving and the gap, the change in working patterns may help in closing the gap between men and women's pension savings.

"One potential positive is that the current situation has brought a major change in home working, policy makers and employers should also consider how new, flexible working patterns might better enable parents to combine work and childcare, leading to better pensions for many women as a result," he says.

Long agrees that that an increase in flexible working could begin to balance the gender pay gap, which "should potentially feed into the pension gap".

However, Long cites Hargreaves Lansdown analysis showing that more women remained on furlough than men, despite more men being furloughed initially. "You've got potentially more women at risk of losing jobs and is that going to be more of an issue short term", adds Long.

Brown concludes: "Expanding automatic enrolment coverage in the future to ensure lower-paid women have access to a workplace pension and better access to childcare to enable women to return to full time work are key to tackling this issue."

Written by Jack Gray

Between two places

Laura Blows explores the unique retirement saving challenges of those aged 50-59, particularly in the wake of Covid-19

Summary
• Those aged 50-59 may have a mix of DB and DC pension provision but will probably retire with less than previous generations.
• Covid-19 has affected over-50s retirement plans and pension savings levels.
• The pensions industry needs to help 50-somethings understand their retirement options.

To be aged 50-something today is be continually caught in the middle. The last of the baby boomers or the first of the Generation Xers; no longer a spring chicken, but certainly not yet old. Sandwiched between adult children and elderly parents to support. Decades since started work but possibly still many years to go until retirement. The last to potentially have defined benefit (DB) pension savings (outside of public sector work) while also being part of the first cohort to save under auto-enrolment.

Pension provision

"At the top end there will be those who have benefitted from generous DB provision and perhaps saved into a personal pension alongside this," AJ Bell senior analyst, Tom Selby, says.

"However, there will also be lots of people who missed out on DB pensions and never saved in a pension for themselves prior to automatic enrolment being introduced. For this group, auto-enrolment will have arrived too late to deliver a decent retirement income."

Prior to auto-enrolment, only around 60 per cent of people were saving into a workplace pension, Money and Pensions Service (Maps) head of pensions policy and strategy, Carolyn Jones, points out, and PLSA director of policy and research, Nigel Peaple, says that while 50-somethings may be more likely to have DB provision than younger generations, about 30 per cent actually do, according to the Office for National Statistics.

According to PPI senior policy researcher, Lauren Wilkinson, this age group is likely to have a lower retirement savings than previous generations.

'People who are expected to retire in the next 10-15 years, and specifically those who are currently in their 50s, are likely to have lower levels of private pension savings and entitlements than previous generations of retirees," she says.

"PPI analysis carried out in 2018 found that a quarter of individuals then aged 50 to 65 had low levels of DC savings (below £9,500) combined with either no DB entitlement or entitlement to an income of less than £7,000 a year. This means that even when income from the state pension is taken into account, many in this cohort are unlikely to achieve income adequacy targets that would enable them to replicate working life living standards."

A SunLife survey in May found 90 per cent of over-50s expected the state pension to pay for their retirement, 66 per cent said a private pension would do so, 50 per cent named savings and investments, 27 per cent said a partner's private/workplace pension and 12 per cent planned to use income from work.

A further 11 per cent expected their retirement income to be bolstered by inheritance, with 14 per cent saying they planned to downsize their property and 6 per cent to access equity release.

More than a third (36 per cent) of the women surveyed did not have a private pension, compared to just 20 per cent of male respondents. The same percentage of women were doubtful they had enough money to fund their retirement, and just 13 per cent of female respondents confident they had enough for a comfortable retirement.

This age group must now shoulder the challenge of achieving a comfortable retirement themselves. With freedom and choice reforms just five years old, 50-somethings are part of the first wave of people that have to navigate the increased options available when accessing their retirement savings.

This year also features the milestone of the highest number of people in nearly two decades reaching pension freedom age, with some 940,000 people turning 55, Maps research states, yet it finds only 7 per cent of over-50s it surveyed feel fully prepared.

This complements Fidelity's findings, as its research in February revealed that 24 per cent of people in their 50s have not made any changes to their retirement plans since freedom and choice came in, while only 26 per cent say they understand the options available to them from age 55 under the reforms.

Covid challenges

However, the biggest challenge this year has been Covid-19, and the additional, difficult, financial pressures it has placed on many approaching or post-55, the age at which people can first access their pension savings without penalty.

The economic fallout from Covid-19

has resulted in 41 per cent of working people aged over 50 concerned about job security, Legal & General Retail Retirement research finds, with 31 per cent concerned about finding new employment if they lost their job.

This concern is not unfounded, as The Centre for Ageing Better also finds that just a third of over-50s return to work after losing their job, compared with 54 per cent of 35 to 49-year-olds. Even if they find a new job, it may be with lower pension contributions than previously, Peaple warns.

Already, 13 per cent of over-50s have changed their retirement plans as a result of Covid-19, Institute for Fiscal Studies (IFS) statistics reveal, with 8 per cent retiring later and 5 per cent retiring earlier. "Those with more wealth are also more likely than those with less wealth to be planning to retire earlier as a result of the pandemic," it states, while those DC scheme members who reported a fall in their pension wealth were 6 percentage points more likely to be planning to retire later than those with no DC savings.

Co-op Insurance's recent research places these figures slightly higher, finding that 18 per cent have already had their retirement plans affected by Covid, with 25 per cent of this subset not being able to retire. Ten per cent retired earlier than planned after being made redundant during the pandemic, it finds.

Jones mentions that not all later retirements may be negative; instead some may be happily postponing retirement, enjoying the flexible working rise brought on by Covid-19.

Working or retired, many over-50s have seen a Covid-related impact on their retirement savings, with Legal & General finding 58 per cent of those it surveyed worried about how the pandemic will impact their savings in the long term.

According to Wealth at Work director, Jonathan Watts-Lay, those mainly with DC provision are seeing a dip in their pot value, so may need to work longer as their pension is now worth less. "They will be in for a rough ride over next few years with volatile markets," he adds.

While losses in pension pot value as a result of stock market volatility are likely to be proportionally smaller for those nearing retirement due to de-risking, "they have a shorter period in which to recover than those of younger workers", Wilkinson warns.

Another group, Watts-Lay says, are those that are being made redundant after 55 and so retired earlier than planned, "meaning their pension savings have to last for longer, so them understanding how that pension is invested is very important".

Lastly, some over-55s may dip into their pension savings if their household income generally drops, through themselves or a spouse being furloughed, for example, he adds. "Those who have been furloughed may have seen a small drop in the amount going into their workplace pension," Selby says, "although given the relatively short timescale the impact on their retirement outcome should be negligible."

By April, 11 per cent of over-55s had already accessed or plan to access their retirement pot early due to Covid-19, AJ Bell research states.

The number of people aged 55 to 59 making lump sum withdrawals from their pensions increased by 8 per cent year-on-year to 288,600 in 2019/20, according to Salisbury House Wealth research in September. Around 22,100 more people in this age cohort withdrew lump sums in comparison to 2018/19, when 266,500 accessed their pension.

However, Selby highlights data from Q2 2020 – "right in the teeth of the pandemic" – that revealed flexible withdrawals were down 17 per cent versus Q2 2019, "suggesting many savers responded sensibly to plummeting stockmarkets to ensure their plans remained sensible over the long term".

Another option available to working 50-somethings financially struggling is to drop out of their pension scheme.

However, Canada Life warns that, for example, a 50 year-old earning £100,000 with an existing pension valued at £100,000 could lose out on £71,513 as a result of a three-year pension holiday, equivalent to a 11.2 per cent fall in the value of their pension at retirement.

Where possible, it is still worth paying into a pension while in your 50s, Peaple says, due to the employer contributions and tax relief received. Plus, "with over 55s there is not the downside risk of locking away their money for a long time into a pension as they can access it whenever they want", he adds, as well as over-50s not having the saving obstacles such as saving for a mortgage or children that younger people face, Jones adds.

By still paying into a pension "you might not be able to catch up on 20 or 30 years of missed contributions, but you can still improve your retirement situation", Selby says.

The government is (understandably) currently focused more on the short-term financial pressures facing people, so the pensions industry has a role to play in helping over-50s understand their options, Peaple says.

Jones recommends directing people to other options, such as debt advice or accessing benefits, before 'defaulting' into accessing their pension savings to cover short-term financial strain.

Trustees are increasingly aware of the important role they have in helping members gain guidance or advice to make 'good' decisions at retirement, "but still too few trustees are doing this", Watts-Lay says.

The industry needs to help members take stock of what retirement savings they have and how this compares to the retirement they expect to have, he adds.

Understanding this difference in individual circumstances is vital. As Peaple says: "There is a world of difference between a 50 year-old with 18 years until retirement, and a 53 year-old with two years to go before retiring."

Once again, 50-somethings are caught in the middle.

Written by Laura Blows

A cleaner footprint

Hertfordshire County Council cabinet member for resources and performance, and chairman of the Pension Committee, Councillor Ralph Sangster, chats with Duncan Ferris about responsible investment (RI) and divestment from fossil fuels

Hertfordshire County Council is the administering authority for the Hertfordshire Local Government Pension Scheme (LGPS). Over 300 employer bodies and 100,000 members contribute to the fund and it has assets of more than £5 billion. The scheme has almost halved the size of its investments in fossil fuels, from £94 million in December 2019 to £48 million in June 2020.

What are some of the current top priorities for the Hertfordshire LGPS?
One of the principal priorities for any pension fund is to ensure that it has enough assets to pay current and future pensions. In its role as administrator of the Hertfordshire LGPS, the fiduciary role of the Pension Committee, that has oversight of the LGPS, is to put in place an investment strategy that achieves this objective.

The fund is exposed to various risks such as asset performance and protecting its funding level. The protection of the funding level is a key priority for this fund and over the past 12 months officers and the committee have worked together with external advisers to put in place an equity option strategy to mitigate losses from volatile equity markets.

Another priority for the fund is to review its approach to RI and put in place an action plan to develop its RI policy. The Pension Committee is evolving its approach to RI and will use evidence to inform any changes to its investment strategy. This has included commissioning a review of its carbon footprint and a frequent review of this footprint either annually or following asset allocation decisions.

Understanding the fund's investment managers' approach to RI is also important as they manage the assets of the membership and comparisons to peers will inform how engaged these managers are on ESG-related issues.

How has the fund weathered the difficulties presented by pandemic-related market volatility?
The Hertfordshire LGPS is a long-term investor and will experience on occasion market volatility; the current pandemic has caused some significant asset price volatility, which did impact this fund, as it did others. The fund has a diversified portfolio of growth and defensive assets and has also put in place an equity option strategy to mitigate potential losses from equity markets. Additional monitoring and engagement with the fund's third-party providers have been key to ensuring that minimal disruption has been experienced by the various stakeholders in the fund.

Why did you decide to so drastically reduce the size of the fund's investments in fossil fuels?
The Hertfordshire fund invests in equity markets both passively and actively. The fund gives discretion to its active investment managers on making the decisions on the companies the fund's money is invested in.

The fund has not, at the moment, put in any restrictions on sector disinvestment and the fund believes that the investment managers through their research and investment process have an informed insight into the companies the fund is invested in and exercise those decisions on the fund's behalf.

Through the investment managers' direct engagement with companies, the fund can have more influence on the behaviours of companies and make decisions whether to continue to invest in those companies.

A recent example of one of the fund's investment managers acting was the decision by our UK equity manager to disinvest from Shell. The manager's long-term growth focus had already heavily skewed the fund's portfolio away from the oil and gas companies, and the sale of Shell is consistent with their long-term outlook for the industry.

Did pressure groups, such as the Divest Herts group, contribute at all to the decision, or the way in which divestment was executed?
The reduction in the fund's holding in fossil fuels has been driven by investment manager decisions and at no time were the fund's investment managers fettered

in their ability to make investment and disinvestment decisions.

However, it's important to recognise that engagement and dialogue with third-party pressure groups is important so that the fund can explain its investment strategy, the evolution of its approach to RI and increase its understanding of these groups' concerns.

How have you been working to create a RI policy?

The Pension Committee has established a cross-party working group of members to look at the fund's approach to ESG and stewardship policies and an action plan has been agreed by this working group.

The plan will look at understanding the fund's current position and how well the fund's current roster of investment managers integrate ESG factors into their investment process. A report will also be commissioned to understand the fund's carbon footprint and use this as a baseline to understand the impact of future investment decisions on the fund portfolio's exposure to carbon.

The working group will also seek to agree how to communicate the fund's policy to its managers and stakeholders, as well as a programme of regular review and engagement with the fund's manager on RI issues.

Finally, the team will review the managers' positions against the 2020 Stewardship Code and whether the fund should become a signatory, and consider whether portfolio changes are appropriate.

Have these efforts involved collaboration or consultation with any external parties, such as campaign groups, ESG specialists, or others?

The fund recognised at an early stage that it would require external support to understand and develop its approach to RI and also that any decisions that were made to change investment asset allocations and potential screening out of certain types of investment would need to be supported by evidence and be informed by a rigorous process of challenge.

To evolve this work, the fund's officers and the cross-party group of members has worked with its investment consultants and one of their ESG specialists to review its approach to RI.

The working group has and will continue to meet to develop its RI approach and recognises that this will take time and cannot be done overnight. As a fund managing over £5 billion of assets, fund officers and the Pension Committee recognise their responsibility to its various stakeholders and it's important that the fund manage and effectively mitigate risks that the fund is exposed to, whether these are climate redundant assets or cyber risks, while ensuring enough liquidity to pay our pensioners.

How have you communicated any changes or new objectives with scheme members?

It is important for the fund to be more transparent with its scheme membership and external groups.

The need for good, clear communications explaining how and why certain decisions have been made is fundamental in enabling the fund to engage with scheme members, and how the Pension Committee administer the fund on their behalf.

The fund needs to improve its interaction with stakeholders and external parties and will look to develop its communication approach, underpinned by sound reporting and policies that benefit members, while helping the fund partner with its investment managers and detail its position on sensitive topics for pressure groups.

Do you think that LGPS funds have a responsibility to take the lead on RI, or is this trumped by their responsibility to consider the wellbeing of their members' retirement savings?

The role of LGPS funds as a collective can have a significant bearing and influence on approaches to RI. As responsible investors we can have significant influence on the stewardship of investments that are managed on our behalf through common voting policies, and how funds are invested. Asset pools such as Access, which the Hertfordshire Fund is a member of, will develop their respective approaches to RI, taking into consideration local fund requirements and this will lead no doubt to the pools becoming more influential as responsible investors within the pension sector.

It's important that funds manage member and employer contributions responsibly to ensure that there are enough assets to meet current and future pensioners' pensions. That is the fiduciary responsibility of the fund. However, that is not to say that one should ignore RI matters such as poor governance; the impact of investments socially and environmentally can have significant financial implications on financial returns and this fund's funding position.

Written by Duncan Ferris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Sustainability Guide 2020:

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- Global environmental opportunities
- ESG and emerging market debt
- Investing today to build a better tomorrow
- Whether 'sustainable' and 'investment' go together
- Focusing on the 'social'

Summary
• Sustainability has been a hot topic in recent years, but industry feedback suggests too much discussion could be overwhelming trustees.
• Regulation is also growing in relation to sustainability, particularly around climate change, meaning trustees may be feeling the pressure.
• Help is at hand from industry bodies and the wider market to assist schemes in knowing what they need to do right now.

Tuning out the background noise

Francesca Fabrizi asks whether trustees are feeling overwhelmed with all the noise around the topic of sustainability and asks what help is at hand to guide them in the right direction

The topic of sustainability has been climbing up the trustee agenda for several years now and the recent pandemic has further highlighted the need for trustees to take any potential future risks to their pension portfolios very seriously.

Additionally, increasing regulation has been put in place to help ensure trustees don't ignore their duties in relation to environmental, social and governance (ESG) issues while, in the background, providers have come to the market with an influx of products, services and funds to help meet pension schemes' sustainability needs.

But while trustees do need to take the issue of sustainability seriously, is there a danger that we are overwhelming trustees with all this noise around the topic?

Absolutely yes, says PTL managing director, Richard Butcher. "Trustees are absolutely feeling overwhelmed by the amount of noise there is around sustainability.

"Over the course of this year, I've met directly with 60 of the biggest funds and indirectly with hundreds of others. They want to invest in a sustainable way but are struggling to keep up with the plethora of different initiatives and requirements.

"I'm hoping this will all settle down in due course, relieving trustees of the 'compliance' burden and allowing them time to think strategically about how best to invest sustainably."

Butcher is not alone in his thinking. BESTrustees trustee executive, Rachel Brougham, agrees that it can all feel a bit too much for trustees, particularly in relation to the amount of regulatory updates that are hitting their inboxes: "It feels like new regulations are coming at us thick and fast. Given the climate emergency, this isn't unexpected perhaps. However, what might be overwhelming trustees is wondering what it all means for them."

Many trustees, she continues, consider that their job is to maximise returns for the benefit of members with little regard for anything else and, in any event, many are invested in pooled index funds, so what's to be done about it?

It is important, however, for trustees to move away from this mindset, she stresses: "Maximising returns for the benefit of members is, of course, a great aim, but trustees don't do this without regard for the risk that they are running in their investment strategy. What is helpful is to understand that sustainability presents a series of risks and opportunities like any others that will impact on investee companies financially.

"When trustees understand this, they can see that the assessment of risk and opportunity due to ESG considerations is another element in the overall assessment of the quality of a company that an investment manager carries out," she says.

That said, even when trustees do understand why this all matters, getting the right information can be challenging, argues Butcher.

"There is no common language, objective or metrics. As a consequence, consultants and managers are being pulled in several directions simultaneously meaning they either can't or can't quickly provide everything trustees need," he explains.

And, says Brougham, as there is no universally accepted means of measuring/scoring ESG factors, this can mean one fund manager's ESG score for, say, M&S might be very different to another's depending on which factors are being prioritised and what data they are each using.

Finally, while investment advisers are best placed to help trustees through the regulatory requirements, trustees need to accept that this is not solely a box-ticking exercise, says Brougham.

"The regulations are pointing towards taking more positive action, particularly around climate change," she says.

Climate change

As Brougham highlights, much of the recent regulation in relation to sustainability has been around the topic of climate change, in recognition of the fact that "climate change has the potential to have a big effect on scheme investments and sponsor covenants", says The Pensions Regulator (TPR) executive director of regulatory policy, analysis and advice, David Fairs.

In a recent blog, entitled *A changing climate for pension trustees,* Fairs warns that, if trustees don't consider climate change risks and opportunities or exercise effective stewardship, investment performance may suffer. "This could mean savers missing out on better outcomes," he says.

Fairs goes on to look at how the Pension Schemes Bill will enable regulations to be made requiring trustees to consider, in-depth, how climate change will affect their pension scheme and its investments and to publish information relating to the effects of climate change on the scheme.

"The bill is making its way through parliament. But trustees need to act now so they're prepared for it coming into law. Already trustees must produce a statement of investment principles (SIP) setting out their policies on financially material ESG considerations (including climate change) and their policies on stewardship – including when and how they plan to engage with investment issuers or managers on matters including risks and social and environmental impact."

From this year, he adds, trustees will have to make further changes which include publishing an implementation statement describing whether certain policies in the scheme's SIP have been followed, and the trustees' voting behaviour.

To sum up, Fairs' advice to trustees is to "build capacity" in this area if they haven't already. "You'll be better placed to understand what climate-related issues mean for your scheme – and better able to make decisions that contribute towards good savers outcomes," he concludes.

Building capacity

In response to Fairs' advice of 'building capacity', what can trustees do in the here and now to ensure they are doing enough around sustainability overall?

First of all, says Brougham, trustees should engage with their investment advisers. "Trustees should be helped to understand the financial risks posed by ESG factors, including climate change. These risks and opportunities extend beyond equity portfolios. With the help of their advisers they should establish their own beliefs around ESG and how proactive they wish to be in addressing the issues and satisfying the regulations."

Even when using pooled index funds, Brougham stresses, trustees should begin to understand the approaches taken by their fund managers to ESG factors and hold them to account. "In particular, what is their voting and engagement policy, and more importantly, what is their voting and engagement record and outcome. Some index managers are far better at this than others. Trustees can consider whether their manager is doing enough; ultimately, they could move their business elsewhere."

The importance of understanding what your fund manager is doing in this area cannot be emphasised enough, argues Law Debenture trustee director, Natalie Winterfrost: "Grill your fund manager. Really understand what they are doing or say they are doing, and ask if they can evidence that, because there is a substantive data requirement that is going to be needed going forward to evidence what you are doing in this area, and if you are delegating that, you need to make sure that your fund manager is set up to report everything you will need to know in the timeframe that you will need it."

If an investment manager's policy is aspirational, trustees are going to struggle to get the information out of them when it comes to showing how they have implemented those policies, she adds.

Ongoing monitoring of a manager's activity (regardless of whether market cap index funds, ESG tilted funds etc) will also be important going forward, Brougham concludes: "This isn't a one and done exercise – the universe of solutions keeps shifting, as does the availability of quality data on these factors. Trustees will need to keep their knowledge up-to-date and revisit their beliefs periodically."

Practical help is also available from the PLSA, which has worked hard to assist trustees in this area in recognition of the fact that help is needed not just in relation to existing but ongoing consultation and upcoming regulations.

PLSA head of DB, LGPS and standards, Joe Dabrowski, comments: "There are a number of existing, recently introduced and in-coming duties that trustees need to fulfil", he explains, the most immediate of which are the changes proposed in the Pensions Schemes Bill, the open consultation on TCFD reporting and last year's extensions to the Occupational Pension Schemes (Investment) Regulations 2005.

"There is quite a lot to understand", acknowledges Dabrowski, "but the PLSA has produced detailed guidance and templates for scheme trustees, available on the PLSA website".

In addition to the guidance from TPR and PLSA, help is out there from a plethora of other associations, providers, law firms and of course advisers. Winterfrost concludes: "The PLSA has put out very useful guidance and there is a lot of other guidance out there and, of course, trustees always have their advisors to help them understand their obligations and how they should apply their policies. So, if they look in the right places, trustees should have the support they need."

Written by Francesca Fabrizi

Global environmental opportunities: Transforming sustainable investment

Thanks to the emergence of a thriving environmental products industry, investing to safeguard the planet no longer means sacrificing returns

Danica May Camacho was born on 30 October 2011, to the sort of fanfare rarely seen in Manila's crowded public hospitals. That's because she represented a global milestone – her birth brought the world's population to seven billion. It was at once a joyful occasion and a reminder of the challenges posed by ever more people competing for finite resources.

In less than 30 years' time, the planet will be home to nine billion human beings, a larger proportion of which are likely to be part of the urban middle class. This is certain to put even more pressure on the environment, testing it to breaking point. Investors are increasingly alert to these challenges. Many now recognise that, as stewards of capital, they have a crucial role to play in placing the economy on a more sustainable footing. But for them to become part of the solution, investors need to resolve a paradox. How can they become responsible guardians of the environment and simultaneously secure an attractive return on their investments?

We believe the solution to that conundrum has already begun to take shape. With governments and businesses responding to growing public pressure to reverse ecological degradation, a distinct and attractive group of environmental equity investments has emerged.

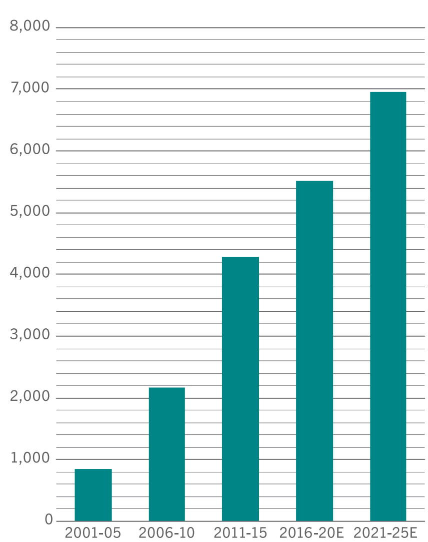
These are companies that combine strong environmental credentials with innovative products and services designed to safeguard the world's natural resources. Such firms form the core of our Global Environmental Opportunities (GEO) portfolio.

Public shaping the agenda

Once a niche activity, environmental investing is now moving firmly into the mainstream. There are several reasons for that. To begin with, society's attitudes towards protecting the planet have changed considerably in recent years. That's partly because a growing proportion of the population has personal experience of the damage ecological degradation can cause. In 2015, pollution killed nine million people – three times more than AIDS, tuberculosis and malaria combined.[1] Floods and droughts have brought untold misery to millions more.

Social media has also helped shape world opinion. Thanks to platforms such as Twitter and Facebook, people can now voice and share their concerns about pollution and sustainability in a way they couldn't before. People power has, in turn, brought about a change in government priorities. China is a striking example of this trend.

Growth in China's environmental spending (in RMB bln)



Source: National Bureau of Statistics of China, Pictet Asset Management

In the run-up to the 2008 Olympics, the US embassy in Beijing started tweeting hourly air quality data from its roof-top monitor. This was the first time the public had access to live data on airborne particles known as PM2.5, which kill more than 4 million people worldwide a year.

As a result, local residents began voicing their concerns about air quality, eventually taking to the streets to stage large public demonstrations.[2] In response to growing social discontent, China's leadership unveiled a ground-breaking action plan in 2013 to tackle 'Airpocalypse' with investments worth hundreds of billions of dollars and a slew of regulations. China's Premier Xi Jinping has named environmental degradation as one of the three main battles the country has to fight along with political and financial risks and poverty alleviation, adding that: "We will never again seek economic growth at the cost of the environment."

But this is unlikely to be the end of its spending boom. Beijing has promised to invest even more heavily in advanced environmental science and technology.

Also giving sustainable investing a shot in the arm is a sharp drop in the cost of technologies such as renewable energy, water recycling and agri-tech.

Stars aligned for environmental industry

The combination of people power, government policies and economics has given rise to a thriving – and eminently investable – industry for environmental products and services.

Critical mass

Environmental industry in numbers

The size of the environmental industry today

USD **2.5** TRILLION

Expected annual growth

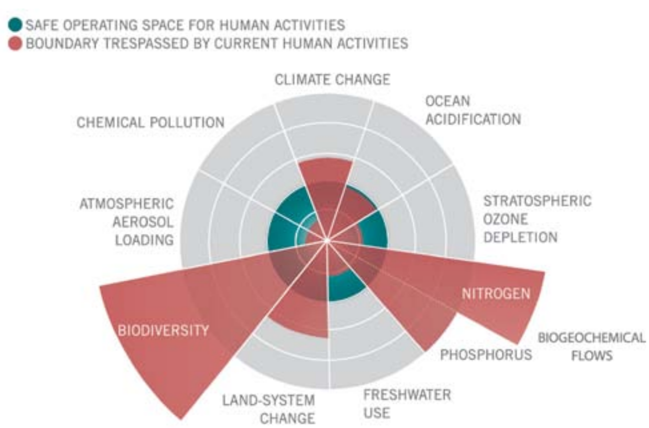
6-7%

Source: Pictet Asset Management

China's generously-funded anti-pollution drive, for example, is likely to boost the prospects of firms that develop environmental technologies such as filters for engines and industrial applications for pollution control.

More broadly, as corporations worldwide embrace sustainable business practices, publicly-listed firms specialising in the development of a broad range of environmental technologies have mushroomed.

Overall, we estimate that the environmental products industry is already worth some $2.5 trillion, and can grow by about 6-7 per cent per year.



Source: "The trajectory of the Anthropocene; the great acceleration". Steffan et al. Stockholm Resilience Centre, September 2009

That should matter to investors: sales growth of companies operating in this sector should outpace that of firms in the MSCI All-Country World equity index.

A process to unlock the potential of environmental investments

When it comes to investing in rapidly-evolving industries such as environmental technology, identifying the most promising opportunities isn't straightforward.

That is why investment managers of our Global Environmental Opportunities strategy have developed a process that deploys both a scientific, rule-based framework and traditional company-by-company research to build their portfolio. Central to the investment process is a ground-breaking scientific model called Planetary Boundaries (PB).

This is a model developed in 2009 by a team of leading scientists at the Stockholm Resilience Centre (SRC) and other leading environmental organisations.

The PB framework identifies the nine most critical environmental dimensions – including carbon emissions (climate change), fresh water, land use and biodiversity – that are essential to maintaining a stable biosphere. What makes it particularly useful for investors is that it quantifies the safe operating space within which human activities should take place.

The model states, for example, that for global water use to remain at sustainable levels, humans must not draw on more than six million cubic metres a year. Breach that, or any of the other eight thresholds, the model says, and the risk of triggering abrupt or irreversible damage to the Earth's biophysical systems increases significantly.

As the figure below shows, several of the nine boundaries have been transgressed.

Making a demonstrable impact

The Global Environmental Opportunities portfolio achieves a significantly more positive environmental impact than that of a typical global equity strategy across all nine dimensions, particularly in climate change.

Investors can make many positive impacts with this strategy to protect the planet. As stewards of global capital, investors matter. And in two ways. On one hand, investors can provide vital funding to the companies developing products and services that can reverse ecological damage. On the other, they alone have the power to withhold or withdraw capital from businesses that fail to take their environmental responsibilities seriously.

For investors, the opportunity to bring about change has never been greater. Many investors have long appreciated the need to protect the planet. But they have not always been convinced sustainable investment was financially viable. Thanks to the emergence of thriving environmental products industry, the calculus is now changing. Investing to safeguard the natural world does not mean sacrificing returns. It can enhance them.

Written by Luciano Diana, senior investment manager, Pictet-Global Environmental Opportunities strategy

In association with

PICTET Asset Management

[1] The Lancet Commission on pollution and health, 19.10.2017

[2] According to the Chinese Academy of Social Sciences/South China Morning Post, as many as half of public protests in China involving at least 10,000 participants in 2000-2013 stemmed from concerns about pollution

ESG and EMD: Doing the right thing

Carl Shepherd and Trevor Holder highlight the importance of integrating environmental, social and governance analysis when selecting emerging-market government bonds

Summary
• In our view, emerging-market governments that are engaging, transparent, and trying to do the 'right thing', are more likely to be treated favourably if they do require assistance from multilateral lenders.
• This hypothesis has proved to be valid, and through our own research we have been able to find a link between sovereign governance scores and credit spreads.
• Those countries that are trying to do the 'right thing' are also being afforded greater flexibility as they seek emergency funding in response to the pandemic.

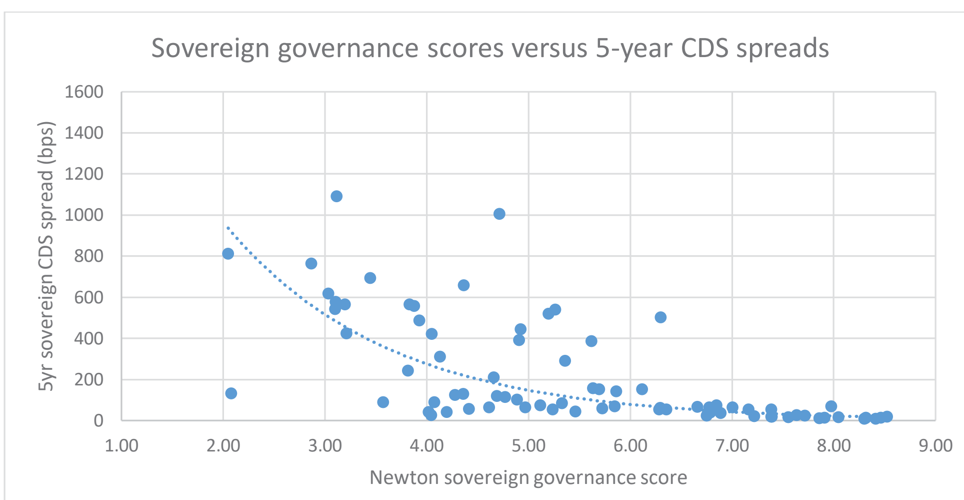
As bond investors at Newton, we have been integrating environmental, social and governance (ESG) analysis alongside conventional financial considerations when selecting fixed-income investments since 2010, across all areas of the credit markets in which we invest. In this capacity, we have long held the view that ESG considerations are crucial to the selection of bonds across all areas of the fixed-income universe, but nowhere is it more important than when used to help select emerging-market government bonds.

Our premise begins with the view that improvements in the governance or 'G' component of the ESG triumvirate will have a knock-on effect, first bringing social benefits and, ultimately, environmental improvements too. We base this view on our strongly held belief that improved governance strengthens the social contract between a government and its citizens, thus helping to reduce policy volatility, while environmental prospects should also be enhanced as initiatives such as sanitation and energy efficiency improve over time. In short, we believe that improvements beget further improvements and thus, a virtuous circle is created.

Emerging markets for a reason
We believe it makes sense to begin with the premise that emerging markets are emerging markets for a reason, in that they face a number of challenges over and above those faced by more established nations, as they seek to develop their economies. For this reason, we place our ESG expectations for emerging-market sovereign bonds firmly in the 'reform' and 'ability to move forward' categories when making investment decisions, rather than simply excluding those with current poor ESG standards.

As emerging-market governments seek to develop, grow and broaden their economies over time, multilateral assistance can often offer a crucial backstop for them in that process. It is often the case that many nations (and in particular the lower-credit-rated emerging markets) possess inadequate resources or financial-market depth to manage economic, social or geopolitical shocks to the system – especially if they are dependent on a narrow tax base for the bulk of their revenue.

Doing the 'right thing'
In our view, governments that are engaging, transparent, and trying to do the 'right thing', are more likely to



Source: Newton, July 2020

be treated favourably if and when they do require assistance from multilateral lenders such as the International Monetary Fund (IMF) or the World Bank.

This hypothesis has proved to be valid, and through our own research we have been able to find a link between the quality of sovereign governance scores and their respective credit spreads, as illustrated in the chart on page 64 using five-year credit default swap (CDS) spreads. The higher the governance score, the narrower the spread tends to be, although correlations will change depending on the point reached in the economic cycle.

Over the years, we have observed one anomaly which has bucked this trend. During periods of relative economic calm, we have seen on several occasions a tendency to factor in geopolitical sensitivity issues ahead of the normal modus operandi of the IMF and other lenders, which is to make lending decisions based on sustainability criteria alone. This seems like a sensible approach to us, as lenders need to ensure that they avoid throwing good money after bad.

Bespoke solution

As fixed-income investors, we have always had numerous sources of data at our disposal. Much of this derives from our own industry and responsible investment analysts who assess corporate governance and sustainability, but there is no standard way of extending this to apply to government bonds. We believe that global and emerging-market government bonds, which often play a key role in flexible or unconstrained bond funds, require a bespoke solution.

To this end, we believe it makes sense to align ESG analysis of governments alongside an environmental attribution, screening and scoring process. We have been doing this since 2010, and we feel that it provides us with a great starting point for discussions over bond selection, as well as acting as an effective screening process for our government-bond picks.

Emergency funding

At the time of writing, 102 governments across the globe have applied for emergency IMF funding in response to the global pandemic. Some of the poorer nations are rightly only required to meet much looser criteria to qualify for emergency funding, as without such aid being granted, there are likely to be some major humanitarian crises.

However, among the governments which are issuers of emerging-market bonds, we are now finding that our belief that good governance brings rewards to sovereign issuers and investors is holding true, in that those countries which are trying to do the 'right thing' are being afforded greater flexibility. We have already seen a handful of governments that we downgraded during our regular government ESG screening process, and others where we had expressed concerns, currently facing greater delays with their own emergency funding application processes (South Africa, Zambia and Belarus, for example). Moreover, approval of more substantial IMF medium-term lending programmes will entail greater conditionality (and a full debt-sustainability assessment) before further funding is granted, highlighting once again the enduring importance of open and transparent political governance.

Written by Carl Shepherd and Trevor Holder, portfolio managers, fixed income, Newton Investment Management

In association with NEWTON Investment Management

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ESG: Investing today to build a better tomorrow

Gareth Trainor explains Standard Life's current approach to responsible investing and ESG, and how they plan to future-proof this to meet growing customer demands

The importance of responsible investing and environmental, social and governance (ESG) keeps growing. Gareth Trainor, head of unit-linked investment solutions at Standard Life Assurance Limited (Standard Life), tells *Pensions Age* that it's all about what customers expect from their pension provider.

Seventy-four per cent of our customers expect us to consider how responsible all their investments are, not just those labelled responsible or ESG

Almost three-quarters of people responding to a Standard Life survey[1] believe we should be thinking about responsible investing factors when we choose investments on our customers' behalf. However, many are unsure if their investments have an ESG approach.

At Standard Life, we listen to our customers. And we aim to help them meet their expectations about investing responsibly in their pension plan.

We've tested our customers' understanding of the overarching term 'responsible investing'. We've also engaged with them to find out what ESG issues matter to them. The top three cited as most important, from many options, were climate change, human rights and recycling.

Clearly, there are a lot of themes under the responsible investing or ESG banner so we're helping our customers understand what we're already doing and how we're doing it. We're taking action now to deliver significant change over time so we continue to resonate with most of our customers' expectations. Of course, we're making sure we still meet our customers' other investment needs and goals as well.

Improving outcomes and delivering value for our customers

Standard Life Assurance Limited is part of the Phoenix Group, which aims to help people save for a stable and sustainable future. This purpose is supported by our four group sustainability commitments:

- Deliver for our customers
- Foster responsible investment
- Reduce our environmental impact
- Be a good corporate citizen

To make this happen, Standard Life has a comprehensive policy setting out how we incorporate ESG-related risks and opportunities into our investment processes. This includes how we engage with our investment providers in our stewardship role; that's how we keep an eye on their ESG investment approach on behalf of our customers.

Plus we benefit from our strategic partnership with Standard Life Aberdeen and their investment manager, Aberdeen Standard Investments (ASI). Across their actively managed funds, ASI aims to invest considering ESG risks and issues as well as practicing high stewardship standards in their investment process.

Anyone investing in a Standard Life fund actively managed by ASI has benefitted from having the key financial risks associated with ESG taken into account for many years. ASI have a long and distinguished history of investing responsibly. Plus, they have an extensive stewardship capability, encouraging the companies they invest in to improve their practices right across the ESG landscape.

The examples in the table on the next page give an indication of the actions taken on behalf of Standard Life customers, day-in, day-out, across our funds managed by ASI.

While many of our customers have actively managed solutions with ESG risks taken into account, and extensive stewardship applied on their behalf, many customers invest passively. It's challenging to effectively consider ESG risks and principles in low-cost passive solutions, which typically track the broad market. This needs to be a key focus for the industry in driving positive change.

That's why we're working with our investment partners, using our collective capabilities, to provide appropriate solutions for Standard Life's advisers, trustees and customers. For example, we'll be launching a passive ESG solution later in the year to provide a credible low-cost passive option. In addition, we'll introduce more sustainable and thematic options through the rest of this year, which will provide a broader range for customers who wish to invest in this manner.

ESG needs further education, for our industry and our customers

Beyond what we're doing, there's still much more to be done within our industry. Different companies use different terminology, which may leave customers confused. Our research showed customers' levels of understanding were typically low, with many not realising the crucial differences between some of the language used across the industry.

That's why Standard Life has aligned its language and terminology to the UN-supported Principles of Responsible Investment and the UK Stewardship Code. And we keep an eye on initiatives to standardise and simplify this language.

ESG integration is applied in all of our actively managed options managed by ASI. Our passively managed options don't integrate ESG considerations to the same extent as they tend to track a market index; however, it's an area in which we're developing. Our passive investment managers also perform stewardship activities to try and improve practices within the firms they invest in.

ESG incorporation combines three broad approaches to include ESG into the overarching investment process and fund design. ESG integration helps spot opportunities and manage risks and can be applied across all funds. Screening removes 'bad' or seeks 'good' investments and includes ethical funds. Thematic aims to address specific ESG issues and includes impact funds.

While our customers' views and our own principles are important, we also provide solutions under the oversight and/or direction of our Independent Governance Committee and Master Trust Board. Both have clear and distinct responsibilities when it comes to ESG and investing responsibly. We're continuing to work closely with both these and our wider stakeholders to make sure we achieve our shared goals.

One small step, one giant ESG leap

At Standard Life, we have significant ambition across our sustainability agenda. We have a position of strength to build from and are excited to launch further capabilities later in 2020. We believe that what some see now as forward-thinking will one day be the norm. However, there's a real risk that our industry doesn't use this moment of opportunity to drive real sustainable change.

At the heart of our activity is our corporate purpose, our group sustainability function and the sustainability ambassadors embedded across every function in the wider Phoenix Group. Plus there's a growing number of passionate employees, trustees and customers who are all determined to make a difference to the world that we live in and to help build a better tomorrow.

Written by Gareth Trainor, head of unit-linked investment solutions, Standard Life Assurance Limited

In association with Standard Life

There's a lot to look forward to

Here are just a few of the examples of how ASI's research and actions could add value for Standard Life customers:

E.On SE: an international and privately owned energy supplier.

ASI is the lead investor with E.On as part of Climate Action 100+, a collaborative initiative to engage the highest greenhouse gas emitters globally.

Following a request from ASI, E.On set a net-zero target and they've committed to publishing a "task force on climate-related financial disclosures" report in 2020.

ASI continues to engage and encourage progress with the company.

Boohoo: an online fashion retailer.

ASI was originally encouraged by Boohoo's aspirations to be a leader in sustainability. In particular, the companies discussed the transparency of Boohoo's end-to-end supply chain.

However, in July this year, ASI removed Boohoo from all funds following allegations of modern slavery within their supply chain. Boohoo hadn't adequately met ASI standards as responsible stewards of their clients' (including Standard Life customers') capital.

Royal Dutch Shell (Shell): a multi-national oil and gas company.

ASI has been working with Shell over a number of years to help manage its low-carbon energy transition strategy and to achieve the ambitions of the 2015 Paris Agreement with the United Nations (UN).

ASI and Shell's relationship shows how constructive engagement can lead to much stronger carbon-emission-reduction commitments.

Companies have been selected for illustrative purposes only to demonstrate the investment management style described. This is not an investment recommendation or indication of future performance.

The value of investments can go down as well as up, and the investor could get back less than was paid in.

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[1]Source: Standard Life, based on 3,924 responses, 2019

Do 'sustainable' and 'investment' go together?

Finding ways to be part of the solution

Interest in sustainability and environmental, social and governance (ESG) has grown strongly in recent years and the Covid-19 pandemic has thrust the topic into the limelight. Global capitalism, however, is often seen as directly opposed to sustainability: can investors really find solutions that marry the two goals?

Climate change has become a megatrend

We have reached an inflection point. Society wants better environmental policies, consumers demand more sustainable products, and investors seek investments that will make a difference.

Companies that offer solutions to climate and environmental challenges are seeing – and will continue to see – strong growth in demand. Nordea's Global Climate and Environment Strategy is at the forefront of thematic investment solutions, investing in exactly such businesses. Thomas Sørensen and Henning Padberg, managers of the strategy for over 12 years, have built a deep understanding of this area. "We see climate and environment as a sustainable megatrend," Sørensen says, "and there are many opportunities to capitalise on this."

Resource efficiency can make economic sense

New legislation and customer demand are big drivers of change, but pure economics may be the biggest motivator for a business to become more climate friendly. If a manufacturer can improve its energy usage, it saves money while also reducing emissions. An example held by Nordea's strategy is Rational, a German manufacturer of appliances for large and industrial kitchens. Rational Combi Ovens can reduce by 70 per cent the energy commercial canteens and restaurants consume when preparing food and offer a very short pay-back period.

The majority of the strategy's assets are allocated to companies like this, which offer products and services that improve the user's resource efficiency. This wide-ranging theme covers areas as diverse as smart farming, intelligent construction, eco-mobility and advanced materials.

Growing environmental protection

Another major theme Sørensen and Padberg focus on is environmental protection. This includes businesses involved in waste management, environmental services, sustainable forestry and clean air and water, but also covers the extensive green consumer movement. Here we find companies such as the Norwegian company Tomra, the global leader in reverse vending machines for recycling of plastic bottles.

Alternative energy is still growing

The final area the team invests in is the perhaps more predictable alternative energy sector. This category includes both renewable power and energy storage solutions. The strategy's holding Vestas is the world leader in design, manufacture, installation and maintenance of wind turbines. These turbines generate 25-50x more energy than they will use during their lifecycle.

Picking stocks at the forefront of the sustainable revolution

The global equity market offers plenty of opportunities for a well-differentiated solution-led investment approach. The Global Climate and Environment Strategy picks stocks from an opportunity set of more than 1250 investable stocks with a combined market cap of over €6 trillion. This universe has a bias towards growth-oriented mid and large-cap companies and is therefore able to offer diversification benefits against a wider global equity investment universe. From this, the managers build a portfolio of 40-60 high-conviction stocks.

Invest in sustainability

The Nordea Global Climate and Environment Strategy has invested in innovators delivering new solutions to climate change for more than 12 years. This strategy is a key example of sustainable investment at its best, allowing its investors to benefit from the climate megatrend while at the same time being part of the solution.

Written by Thomas Sørensen and Henning Padberg, portfolio manager of Nordea's Global Climate and Environment Strategy

Focusing on the 'social'

Guillaume Mascotto explores the elevation of the social dimension of ESG

It is clear Covid-19 has altered global economies, but it has also affected investment theory. Investors assume what is good for the long-term viability of our economic system and society will also lead to positive investment outcomes. It's no longer about what makes a good stock, but what makes a good company. The virus's escalation to a global pandemic has hastened the shift in mindset toward sustainable investing. While public health is a key ESG issue, the effects of Covid-19 are being felt in areas beyond individuals' health and well-being. We believe investors will increasingly focus on the social (or 'S') pillar of ESG in the aftermath of the global pandemic. Investors will also measure the impact of an effective and transparent diversity, equity and inclusion (DE&I) strategy, business ethics and strong corporate governance on company performance.

"When evaluating companies for our portfolios, we use a proprietary framework to assess each company's risks related to environmental, social and governance (ESG) issues...We consider DE&I to be sector agnostic and include it under both the social and governance pillars of the ESG equation"

The 'S' pillar will gain traction

While social issues have always been central to ESG analysis, especially for exposed sectors such as health care, technology and consumer, one of the pandemic's tangible consequences is the elevation of the social dimension of ESG.

For ESG analysts to consider public health negative externalities idiosyncratic, they would need to determine if the issue is triggered by misconduct or failure of companies' process quality or asset integrity (ie, 'ESG fundamentals'). In the case of Covid-19, available evidence does not establish a link between the cause of the pandemic and companies' ESG risk management practices (as was the case in 2008).

However, the pandemic's societal reverberations are having an impact on these ESG fundamentals, especially under the social pillar. Institutional investors are likely to increase focus on companies' emergency response mechanisms (eg, telecommuting and distributed management) and employee benefits (eg, paid sick leave and telemedicine) as a gauge of long-term competitiveness (human capital) and operational integrity (business continuity). While companies could adapt to the 'working from home' era, they will also likely face heightened data privacy and security risk.

Pre-pandemic, these factors were difficult to quantify. Investors now understand they can have material implications for the companies they invest in and therefore need to be quantified and accounted for. Subsequently, and considering the growing issue of 'green washing', the post-Covid-19 investment space is likely to result in increased investor ESG due diligence. Investors will likely ask for verifiable evidence that ESG considerations, including those flowing from Covid-19, are formally integrated into a manager's investment process and for support of such claims by stock selection, reporting and portfolio construction.

DE&I and the effect on the bottom Line

From an investment perspective, research increasingly shows the financial benefits to companies that emphasise DE&I in their organisational and business strategies. For example, the Pipeline's *Women Count 2020* report found FTSE 350 companies with executive committees comprised of at least 33 per cent women had a net profit margin over 10 times greater than companies with no women on their committees.

Investors place growing importance on this topic and are the main drivers of momentum in the ESG space.

DE&I is also playing a larger role in manager selection as asset owners and large investment consultants include more questions and criteria during the due diligence process. A survey by the CFA Institute found that 83 per cent of institutional investors value gender diversity specifically, with 55 per cent believing that it drives better performance in investment teams.

"Investors assume what is good for the long-term viability of our economic system and society will also lead to positive investment outcomes. It's no longer about what makes a good stock, but what makes a good company"

Even so, governments are passing new regulations to establish quotas for female participation and revamping older regulations with stricter requirements. Examples include Germany, France and California (the first and only US legislation).

We believe companies lacking transparency in this area or trailing their peers' DE&I efforts may see negative impacts to their long-term competitiveness, brand reputation or financial condition.

Governance as part of DE&I analysis

When evaluating companies for our portfolios, we use a proprietary framework to assess each company's risks related to environmental, social and governance (ESG) issues. Within this framework, we consider DE&I to be sector agnostic and include it under both the social and governance pillars of the ESG equation. We specifically look for strong evidence of DE&I as part of a company's human capital strategy. We believe DE&I to be a material factor for workforce acquisition, and by extension, long-term competitiveness. Gender diversity in the boardroom and in senior and middle management is another of the factors to consider when analysing a company's governance practices. We immediately flag companies with no women on their boards of directors. We also use the Hampton-Alexander Review's annual FTSE *Women Leaders* report to help evaluate corporate board membership. As part of our proxy voting guidelines, we also support resolutions pertaining to DE&I, including gender and racial pay gap and board parity.

"From an investment perspective, research increasingly shows the financial benefits to companies that emphasise DE&I in their organisational and business strategies"

American Century Investments

American Century Investments is a leading global asset manager focused on delivering investment results and building long-term client relationships while supporting research that can improve human health and save lives. Founded in 1958, American Century Investments' 1,400 employees serve financial professionals, institutions, corporations and individual investors from offices in New York; London; Hong Kong; Frankfurt; Sydney; Los Angeles; Mountain View, Calif.; and Kansas City, Mo. Jonathan S. Thomas is president and chief executive officer, and Victor Zhang serves as chief investment officer. Delivering investment results to clients enables American Century Investments to distribute over 40 percent of its dividends to the Stowers Institute for Medical Research, a 500-person, non-profit basic biomedical research organisation. The institute owns more than 40 per cent of American Century Investments and has received dividend payments of $1.6 billion since 2000. For more information about American Century Investments, visit www.americancentury.com.

Written by American Century Investments vice president, head of ESG and investment stewardship, Guillaume Mascotto

In association with

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A strategy or emphasis on environmental, social and governance factors (ESG) may limit the investment opportunities available to a portfolio. Therefore, the portfolio may underperform or perform differently than other portfolios that do not have an ESG investment focus. A portfolio's ESG investment focus may also result in the portfolio investing in securities or industry sectors that perform differently or maintain a different risk profile than the market generally or compared to underlying holdings that are not screened for ESG standards.

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Company Profiles

Pictet Asset Management

Pictet Asset Management has been managing UK pension fund assets for over 25 years. We have had an office in London since 1980. This is an investment centre with nearly 300 employees, where we have an institutional team looking after our UK clients.

We are part of the Pictet Group, founded in Geneva in 1805. Our key investment capabilities include: Multi Asset, Emerging Markets Debt, Global Fixed Income including Absolute Return Fixed Income, Global Thematic Equities and Alternative Investments. We manage £169 billion in assets as at the end of June 2020.

Our approach to responsible investment

Responsibility goes hand-in-hand with a long-term, partnership approach. It means having a sense of responsibility and integrity not only towards the present generation but also to future generations – and to the real economy and the wider world. This is true sustainable thinking.

We are convinced that environmental, social and governance (ESG) considerations can help us make better long-term investment decisions for our clients.

We believe in responsible capitalism and take an enlarged view of the economy and its interactions with civil society and the natural environment.

We are committed to integrating material ESG criteria in our investment processes and ownership practices with a view to enhance returns and/or mitigate risks.

We embed ESG in our risk management and reporting tools in order to maintain high standards of transparency and accountability.

PICTET 1805 Asset Management

Newton Investment Management

Newton Investment Management is a London-based, global investment management firm, providing a focused range of investment strategies to public and private-sector DB and DC pension funds, corporations, charities and, via BNY Mellon, individuals. With £46.2 billion of assets under management (as at 30 June 2020), we run a broad range of equity, fixed-income and multi-asset strategies, and have particular expertise in absolute-return, income-focused, high-conviction and sustainable investing.

We use bottom-up security selection tied with a thematic framework to create and manage strategies that aim to help secure our clients' futures. Our global investment themes are vital to us in providing crucial perspectives on the investment landscape. They identify key long-term forces of structural change, such as changing demographics and a technological revolution, and give us a framework for research and debate.

Our investment managers are supported by career global research analysts who provide investment ideas based on bottom-up fundamental research. Our investment professionals work as part of a single investment team, which promotes perspective on the investment landscape, strong idea generation and the swift implementation of investment ideas.

In addition to financial measures, we evaluate factors such as environmental impacts, social standards, and the effectiveness of people in charge. We believe this 'purposeful ownership' approach allows us to better manage risk and make more informed investment decisions.

www.newtonim.com

NEWTON Investment Management

Standard Life

At Standard Life, we're committed to helping people make good choices with their life savings, whether they're saving throughout their working lives, enjoying financial security in retirement or planning to pass wealth on to loved ones.

We've been building our expertise, developing quality solutions and helping to shape the pensions industry since 1825.

Standard Life Assurance Limited is part of the Phoenix Group, the UK's largest long-term savings and retirement business. The Phoenix Group is passionate about helping people achieve a more secure and sustainable future.

Throughout the entire organisation, everything is anchored to four sustainability commitments:

· Deliver for our customers
· Foster responsible investment
· Reduce our environmental impact
· Be a good corporate citizen

People need more support than ever to make important financial decisions. So we're here to help them make better financial choices for their future. This is delivered in a way that works best for our clients and their employees.

We offer a range of high-quality products for workplace pensions, personal pensions, savings, investments and retirement. Our close relationship with Aberdeen Standard Investments allows us to offer world-class investment solutions.

We believe that experience matters. Our clients, and their employees, need us and together we'll succeed. When we work together, there's a lot to look forward to.

Standard Life
There's a lot to look forward to

Nordea Asset Management

Nordea Asset Management (NAM, AuM 223bn EUR*), is part of the Nordea Group, the largest financial services group in the Nordic region (AuM 311bn EUR*). NAM offers European and global investors' exposure to a broad set of investment funds. We serve a wide range of clients and distributors which include banks, asset managers, independent financial advisers and insurance companies.

Nordea Asset Management has a presence in Bonn, Brussels, Copenhagen, Frankfurt, Helsinki, Lisbon, London, Luxembourg, Madrid, Milan, New York, Oslo, Paris, Santiago de Chile, Singapore, Stockholm, Vienna and Zurich. Nordea's local presence goes hand in hand with the objective of being accessible and offering the best service to clients.

Nordea's success is based on a sustainable and unique multi-boutique approach that combines the expertise of specialised internal boutiques with exclusive external competences allowing us to deliver alpha in a stable way for the benefit of our clients. NAM solutions cover all asset classes from fixed income and equity to multi asset solutions, and manage local and European as well as US, global and emerging market products.

***Source: Nordea Investment Funds, S.A., 30.06.2020**

Nordea
ASSET MANAGEMENT

Company Profiles

American Century Investments

American Century Investments is a leading global asset manager focused on delivering investment results and building long-term client relationships while supporting research that can improve human health and save lives. Founded in 1958, American Century Investments' 1,400 employees serve financial professionals, institutions, corporations and individual investors from offices in New York; London; Hong Kong; Frankfurt; Sydney; Los Angeles; Mountain View, Calif.; and Kansas City, Mo. Jonathan S. Thomas is president and chief executive officer, and Victor Zhang serves as chief investment officer. Delivering investment results to clients enables American Century Investments to distribute over 40 percent of its dividends to the Stowers Institute for Medical Research, a 500-person, non-profit basic biomedical research organisation. The institute owns more than 40 per cent of American Century Investments and has received dividend payments of $1.6 billion since 2000. For more information about American Century Investments, visit www.americancentury.com.

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Pensions Age

Pensions Age is the leading title targeting UK pension funds and their consultants. Published monthly in print since 1996, and daily online, we invest heavily in our circulation and content to ensure we are the clear market leading title. Our in-house editorial team of Francesca Fabrizi (Editor in Chief), Laura Blows (Editor), Natalie Tuck (Associate Editor), Jack Gray (News Editor), Sophie Smith (Reporter) and Duncan Ferris (Reporter) ensure we cover the latest news and topical industry issues to help our readers make the best informed decisions.

www.pensionsage.com is the leading website for pension funds, and we look to cover the breaking stories as they happen. With over 24,000 subscribers to our email newsletter service; we offer our readers an unrivalled service. At the core of this is high quality, news-breaking journalism combined with in-depth knowledge of the target market and heavy research into data.

Pensions Age runs highly successful conferences, and the Pensions Age Awards.

We also publish *European Pensions*, which targets those managing pensions funds across Europe, as well as hosting the European Pensions Awards and Irish Pensions Awards.

PENSIONSAge

Summary
- Virtual member verification offers a robust and cost-effective solution to member identification.
- There are still limitations, such as member willingness and accessibility, that can leave room for member ID fraud, but the pandemic has created more acceptance.
- Historical data issues will need to be addressed, but digital ID services can help prevent them building back up.

The future is now

Forced to become the mainstream option amid the pandemic, Sophie Smith looks at how digital member verification services have advanced and the limitations still present

"Virtual member verification is revolutionary for pension schemes," says The Tracing Group managing director, Danielle Higgins, who explains that it offers a much more robust means to identify an individual than a traditional approach. ITM director, Matt Dodds adds that digital verification not only provides protection from fraud, but also means a better experience for members, and increased efficiency by removing manual processes, time delays and human error.

Being asked to confirm your identity via your phone may have once sounded like a 'dodgy' request, but amid the pandemic it's quickly becoming the mainstream. And as Pensions and Administration Standards Association (Pasa) chair, Kim Gubler, notes, ID verification has evolved, meaning administrators can go beyond the probability they're dealing with the right person, as biometrics give 'certainty' you are. Administrators can also support members better through a more efficient benefit process, as there are no delays caused by waiting for key documentation.

"It doesn't stop at the administrator though," Gubler clarifies, "with ID verification embedded in online processes, straight-through benefit processing becomes possible – leaving the member in control."

This sense of control is a core advantage also highlighted by MyPensionID managing director and founder, Lisa Lyon, who argues that member verification services allow schemes to give the power back to members, a particularly valuable aspect amid the Covid-19 pandemic.

Higgins highlights digital ID verification as having a "vital part to play" in the current landscape, with lockdown forcing pension schemes to adapt. This, according to Dodds, has "accelerated many operations into more modern ways of working", with many businesses looking to the wider adoption of technology enabled solutions that are commonplace in other areas of financial service.

A kink in the system

"Of course," he clarifies, "there are limitations on technology, a key one being the customer must be able to make it work". This is a concern shared by Gubler, who warns that the industry must never forget about the digitally disengaged.

"It's not just older people who do not interact online, over six million people in the UK do not," she stresses, arguing that member engagement is not about only offering one way of dealing with people, but about allowing people to choose the method by which they interact with their scheme.

"Technology is an enabler," she explains, "if administrators offer a quick online solution, many people are used

to technology and will use this route. Leaving time and resource available at the administrator to support those who do not."

Lyon agrees that it is not necessarily about age, but more about the need and why, noting that users for the MyPensionsID service for instance, range from 19 to 94. She explains that digital ID services will allow members an easier, and "far more secure" way of accessing their pension, stressing that if the need is there, such as for retirees abroad, then even non-technologically inclined users will use it, provided it is easier than the alternative.

Technical ability is not the only limitation however, as Dodds highlights that whilst unrestricted access to the internet is almost taken for granted, there will be individuals who do not have an internet connection or the skills to use an online tool to verify their identity. Furthermore, whilst some might be used to verifying their identity online, whether for their Glastonbury tickets or Monzo account, others may not.

"These individuals may be comfortable taking a picture of their passport and then their face," Dodds warns, "but for many this may set alarm bells ringing and either increase the pressure on operations staff to provide support through the process or negatively impact customer experience."

Access denied

Customer willingness is also highlighted as a key limitation by Higgins, who warns that schemes will only get the benefit of this "significantly improved approach" if members are willing to engage. Unfortunately, she warns that not all are, especially in cases where they are making a fraudulent claim.

Indeed, one recent case that The Tracing Group worked on saw the impact of fraudulent members who are unwilling to engage with digital verification, leaving the scheme to take a more traditional approach to verification, which Higgins warned "might have been where the process fell down".

However, she points out that this issue was only discovered during a 'deep-dive' data exercise, stressing that there are issues around historical data that could be present in a number of schemes.

She explains: "At the minute, there is a lot of emphasis on how to improve this process now and in the future, but I think where schemes need to start is also by looking back and seeing if there is anything that has been missed in the past, because the identification process that has been applied historically will not be this lovely robust method that is used now, so that really needs to be the starting point for most clients."

Dodds echoes this, emphasising that the key to embedding new technologies is in the systems, and that system effectiveness relies on data, meaning that a scheme relying on paper records will be have "immediately less effective" systems.

"Digitisation of as much data as possible is valuable," he adds, "but often still overlooked, in increasing efficiency. It's safe to say there are still pension schemes that are too reliant on data that isn't on their main administrative platform."

Laying the right foundations

Lyon meanwhile, argues that there is real pressure on schemes to get their data accurate. "Not just present," she clarifies, "but actually accurate", also emphasising that there are costs involved both in getting, and keeping, data clean.

Higgins, however, argues that a scheme that is "wholeheartedly committed" to improving their data and routing out any problems will usually result in "the very best outcomes", acknowledging that whilst this involves "a slightly greater investment", the benefits of that initial investment "significantly outweigh" the costs. Furthermore, she argues that the process to review data is relatively quick and painless from a scheme perspective, clarifying however, that reviewing data alone is not enough.

The bigger investment, according to Higgins, is the commitment to dealing with anything that gets raised as part of that process. She clarified that whilst this can feel like a scary process for trustees, the benefits to the scheme can be significant, adding that deep dive exercise should only be needed once, with a "business as usual" process to maintain data after this.

Whilst Lyon agrees that data can become out of date as soon as it is corrected, she explains that giving members the power to keep data up to date themselves through digital tools such as MyPensionID can keep data clean going forward. Furthermore, she explains that the use of services such as MyPensionID has also led to a far higher success rate of tracing and verification exercises than historically seen, as it is easy for members to ensure their details are accurate, emphasising that this is likely the future, compared to traditional retrospective tracing.

Adapting to the new norm

Digital ID verification could have a range of implications within pensions, with Dodds also highlighting the potential impact on the dashboard, arguing that lost pots "would be a thing of the past" if people had one digital identity that connected them to their pots and automatically populated common data items.

"Digital ID verification has been on the periphery for a few years," he adds, explaining however, that as people are increasingly required to prove their identity, this has become more of a focus, with the government currently consulting on developing legislation for consumer protection for digital identity. "It makes complete sense to develop a robust and well governed environment to operate digital ID verification – especially considering the rise we have seen in identity fraud," he adds.

Adding to this, Target business and innovation director, Nic Jones, states that digital opportunity is being talked about more widely across the financial services industry, noting that whilst the pensions industry has been "a little bit slow on the uptake" historically, the pandemic has forced to schemes to adapt new methods.

Furthermore, Jones notes that some schemes have even begun to restrict their verification options to allow only the use of digital verification, potentially preventing issues where members refuse to engage. In addition, Dodds argues that as technology increasingly becomes part of more and more facets of everyday life, the fall out numbers will drop, "because the pace of change in technology is so rapid, and also because human adoption and acceptance of new technology is not far behind".

Already being used on platforms such as Airbnb, Lyon emphasises that services such as this are likely to become the norm, with many simply expecting some form of digital identity verification service when accessing their pension. With attitudes shifting to become more accepting of digital solutions amid the pandemic, it seems likely that virtual verification has an important role in pensions too – so long as members are ready to sit up and engage.

Written by Sophie Smith

Case study

In October 2019, The Tracing Group was appointed by a scheme to screen its data and identify historic deaths, which triggered a process of residency checks on all members. Whilst carrying out this work, the group identified that the address held on record for a member was unable to be verified, as the member refused to engage. It was at this stage that the group flagged the case as a potential issue.

The scheme acted "proactively" in instructing the group to conduct a trace on all members highlighted, which saw the member traced to a new address. After subsequently confirming the members new details as part of this check, the scheme learned that the member had not lived at his previous address for decades.

The scheme found that, unknown to the member, someone had been fraudulently claiming the pension, with payments ongoing for several months. The member later revealed that he had spent much of 2019 in hospital, with others having access to his home during this time. It was during this period that the benefits were put into payment, after an electronic verification was attempted unsuccessfully, whilst a request for identifying documents was not.

The pension has since been suspended, and the case referred to the pensions administrator's financial crime team, whilst the correct member is now being paid.

Summary
- The coronavirus pandemic has had a huge impact on lifestyles, leaving offices deserted and food and retail units with little footfall.
- The ramifications of this will lead to long-term changes in demand for property, but with the current low interest rates it can still offer a way to diversify a portfolio.
- Investors need to adapt and look at opportunities in areas that have benefited from the pandemic, such as logistics and datacentres.

Structural changes

The pandemic has brought about a sea change in the way people work and live, leaving many city centres deserted, but what does this mean for property investments and should pension funds panic? Natalie Tuck reports

The impacts of the pandemic have been felt far and wide, but for those who usually work in offices, one of the biggest changes to daily life has been the shift to remote working.

Although there was a brief pause in the advice to work from home in the summer, with the UK now in the throes of a second wave, the Prime Minister has once again urged people to work from home if they can. For city centres it means that office blocks will stand deserted and food and retail shops are left struggling to survive.

If forecasters are correct, this shift is here to stay. Pictet Alternative Advisors global head of real estate and co-chief executive, Zsolt Kohalmi, says the working from home trend is real – he expects people to work one to two days in the office. Although he doesn't think the pandemic will be the "end of the office by any stretch", investors will need to adapt.

Kohalmi adds that the pandemic has also caused shifts in other areas of real estate: "In terms of sectors, there is a funnel effect just like in the public markets today in real estate as well. While logistics, driven by more and more e-commerce, and datacentres are booming, retail and hospitality sectors are suffering due to restrictions on movement. These structural trends were of course there even before the pandemic, but have now been greatly accelerated," he explains.

Short-term impacts

In the short term, government support for businesses has seen a moratorium placed on commercial evictions (which was extended for a further three months in September) providing much-needed respite for those businesses that were forced to close during the lockdown, and now find themselves with limited customers.

However, British Property Federation chief executive, Melanie Leech, notes that this has a wider impact, as the "savings and pensions of 45 million people are invested in UK real estate".

"If the funds that have relied on stable rental income streams to pay our pensions can no longer do so at the stroke of a minister's pen, from where else will this and future governments get the investment for the physical fabric of our communities across the country?" she questions.

Those property funds Leech refers to were suspended in March as a result of the panic caused by the virus. Big names such as LGIM, Columbia Threadneedle, St James's Place and BMO, among others, closed their property funds for around six months. Several have now re-opened, however, and others are set to begin trading again in October.

In regards to the shift to working from home, Willis Towers Watson global head of real assets, Paul Jayasingha, says there is a "more negative outlook for city offices" with many tenants embracing flexible working.

"This has made many tenants re-think their long-term office space needs. However, in the short term, any return to the office has needed far more space per employee than was the case pre-Covid. Additionally, several employees are not able to adequately work from home and some prefer the face-to-face contact for mentoring and informal discussions.

"These two factors are helping offset the expected reduced demand for office space. Although London office headline rents are not materially changed, increased rent-free periods are lowering the net effective rents that tenants pay. Rent collections in city offices have generally been more resilient than that from the retail and leisure property sectors," he says.

All this has caused a re-think for pension schemes; speaking at a recent Irish Association of Pension Funds (IAPF) conference, Nest CEO Mark Fawcett, says: "Given what has happened in the pandemic we have been a bit cautious about property, both debt and equity, and have really scaled back our commitments to those."

Expanding on this, Nest head of manager selection, Anders Lundgren, says: "Although the property market has stabilised we remain cautious. Leisure and hospitality have still far from recovered and with further lockdown measures being announced we're concerned about the short-term outlook for this sector. We've therefore underweighted property in our portfolio in anticipation of some structural changes, in areas such as retail.

"However, we expect leisure and hospitality to recover over the longer term and that there'll be opportunities in sectors like logistics. In general we continue to view property as a yield enhancement and diversification benefit."

Long-term focus

Pension schemes are long-term investors, however, so CBRE Global Investors chief investment officer EMEA direct real estate strategies, Paul Gibson, recommends they focus on "properties that are best placed to benefit from, rather than be disrupted by, structural trends and evolving occupier requirements". He favours logistics and residential sectors where demographic and technological changes continue to provide tailwinds for customer demand.

In regards to offices, Border to Coast portfolio manager (property), Paul Campbell, says: "For office assets, increased working from home/reduced office demand is, to some extent, offset by the reversal of the long-term trend of increased employee densification and the continued need for employee training and coaching which has been successfully achieved in an office-based environment.

"As a result, pension funds need to be as close as possible to their tenants to understand their requirements from office space in the medium to long term in order to form a view of the scale of the impact and plan accordingly."

Furthermore, Jayasingha notes that UK property is "expensive to trade" and takes time to invest and divest. Therefore, he advises that pension schemes continue to focus on their longer-term overall risk and return objectives and consider (and in some cases re-consider) how best property can play a part in achieving these objectives alongside other asset classes.

"We believe it is important to continually re-assess how society is using real estate and what this may mean for a pension fund's property allocation. For example, the rise in online retailing has increased the demand for logistics and reduced the demand for certain types of retail. Longer-term lifestyle, demographic and technology trends may be supportive for residential, healthcare and data centres," he states.

Despite these structural changes taking place within the property market, Kohalmi expects that property will still draw interest from pension schemes over the coming years. "We are entering a world of universally low rates, very likely coupled with a higher degree of volatility in the equity markets," he says.

"For pension plans that want to diversify their holdings to a degree from listed equities to products with lower volatility, but still an ability to produce alpha, value add real estate funds should prove to be one of the more attractive solutions. For pension plans looking to diversify away from low to negative yielding bonds, more core real estate exposure providing real cash on cash income will be a strong draw. Hence overall I expect real estate to be a net benefactor in terms of interest from pensions plans in the coming years."

Debt or equity

When it comes to property, investors can choose to invest in debt or equity real estate but which one should pension funds consider? Jayasingha says this depends on a pension funds preference for specific risk and return opportunities. "Senior real estate debt, given its priority position, is more defensive to a downturn in property values.

"That said, certain ungeared real estate equity strategies like commercial ground rents or long lease property, can be similarly defensive but also offer long-term inflation linkages, which debt strategies typically don't offer. These longer-term inflation linkages are attractive characteristics to pension funds."

Kohalmi, however, is less inclined to lean towards real estate debt: "One can argue that by investing into real estate debt one gains a more conservative exposure given where one sits in the capital stack.

"The key issue I see for pension plans is that they are mostly keen on long-term capital flows. The problem with debt is that it regularly gets refinanced, and hence the debt book needs to turn over regularly in order to remain invested. This in turn does mean that when cycles heat up – as was the case in 2018/19 – debt providers have to consider lending to slightly more cyclical assets.

"Hence for most pension plans I would suggest that holding very high quality core real estate investments over the long term would be at least as attractive as debt funds exposure that rolls often. Value add funds are of course different altogether, aiming to create more alpha, albeit admittedly with the higher volatility of returns."

Written by Natalie Tuck

In association with BESTRUSTEES, ROYAL LONDON ASSET MANAGEMENT, JUST. RETHINK RETIREMENT

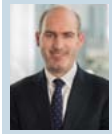
De-risking roundtable

CHAIR

Mike Smaje, Trustee Executive, BESTrustees
Mike joined BESTrustees earlier in 2020, having previously worked as an investment partner with Aon. He is a qualified actuary with over 25 years' pensions experience, as both a scheme actuary and investment consultant. Mike has also worked for a leading investment manager and before that spent 19 years with Willis Towers Watson. Mike specialises in funding and investment matters and currently represents BESTrustees on six schemes, including two as chair of trustees. He is a regular contributor to the pensions press.

PANEL

Ewan McAlpine, Senior Client Portfolio Manager, Fixed Income, Royal London Asset Management (RLAM)
Ewan joined RLAM in 2012, bringing with him extensive experience in asset management and bond markets. He spent a number of years as a scientist before beginning a career in finance in 1993, initially with the London Stock Exchange, and subsequently with a number of major asset management firms. Prior to joining RLAM, Ewan was a portfolio manager at Rogge Global Partners. He has a degree in Applied Physics from the University of Strathclyde.



Rob Mechem, Director of Business Development, Just
Rob joined the DB solutions team in 2014. He cares about what is right for schemes of all sizes when they are preparing to buy-in or buyout. His team supports trustees and their administration partners from enquiry, through transaction and onwards to transition. He is a qualified life insurance actuary, which helps ensure the right questions get asked to focus the expertise within the team and maximise value for trustees. Before joining Just, he spent 12 years at Aviva.

Tom Seecharan, Business Development, Rothesay Life
Tom joined Rothesay Life's business development team in October 2019 and has over 19 years' experience as a pensions actuary advising schemes and sponsors on assessing and managing pensions risk, with a particular emphasis on pensions risk transfer. Prior to joining Rothesay Life, Tom led KPMG in the UK's 20-strong specialist pensions risk settlement team, which had experience of helping clients in more than 200 insurance transactions of a range of sizes from £1 million to more than £2 billion with a combined total of more than £20 billion of liabilities.

Matthew Swynnerton, Partner, DLA Piper
Matthew advises on all aspects of pensions law, including corporate and bulk annuity transactions, reorganisations, benefit redesign and liability management projects, reviewing and updating scheme documentation and advising trustees and employers on their legislative and trust law duties. He drafted key legal sections of the Combatting Pension Scams Code of Practice, which received widespread praise from The Pensions Regulator, the Pensions Ombudsman and the Pensions Minister. Matthew heads the London pensions team.

In association with

De-risking roundtable

De-risking in a new world

Our de-risking experts reflect on the impact Covid-19 has had on the pensions de-risking space and ask what help is at hand for schemes large and small

Chair: What has the pandemic environment of 2020 meant for pension schemes from a de-risking perspective? Is it all doom and gloom?

Mechem: It's never been busier for us. We focus on the small to medium transactions and, from our perspective, we have never seen the market as busy in that segment and at our H1 results we had announced circa £650 million of DB transactions.

Saying that, Covid-19 did have an impact on demand. Back in March, our pipeline was strong. It was looking to be another successful year for the market – £20 billion to £25 billion being talked about. Then Covid hit and there were three outcomes for schemes.

Firstly, those that were perfectly hedged continued to transact during March and April.

Second, some stalled, either because of liquidity issues or because they were impacted by their sponsor covenant.

Volatility in the investment markets meant that some wanted to pause and transact at a later date. Those have since come back, some having completed, some in the process of re-engaging insurers. An important point here is that the dialogue between the advisers, the trustees and the insurers has been critical throughout.

Then there were others that stalled because of their sponsor covenants. Again, some have come back, in industries that have not been as affected by the pandemic, and others have not because their sponsors are still focusing on their businesses.

Third, there were schemes that weren't quite affordable in 2019, but their assets have worked well for them and therefore they've come to the market in the second half of 2020 looking for potential opportunity transactions.

So, is it all doom and gloom? No, there have in fact been opportunities for those very well-prepared schemes that have already done the groundwork.

Seecharan: That's similar to our experience. We saw some schemes carrying on as if nothing had happened, some slowing down, and some pausing that came back.

Also, what we initially saw for the processes that were coming towards an end around then – where you had gone exclusive and maybe schemes were doing their financial covenant reviews – was a lot of focus on our financial strength. People wanted us to explain in detail, in the midst of this crazy environment where yields had fallen and sterling had fallen, how we had held up to that. So,

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this whole scenario has been an excellent demonstration of an insurer's financial resilience.

Then we moved on to looking at how, operationally, we had to change in order to service what was coming in but also the customers we already had.

We as a firm were quite early to send people to work from home and we were wondering whether we should slow down, but it became apparent quite quickly that we were still able to effectively do the quotations and service those pieces of work that were coming in.

We also had to consider how, when further along in the process, we were going to do the due diligence that Rothesay Life is so well-known for. How were we going to do that remotely? How were the administrators going to get us the information that we needed to see and how were we going to get the right access? But we have done it now several times and we are comfortable that all the parts of what we need to do, we can do.

So, all in all, we have not seen the pipeline affected. It is still very busy.

Swynnerton: For us, from a legal perspective, things also have not slowed down. We have all adapted to working from home, as have our clients on the trustee side, the company side, and the provider side. It does not seem like funding positions have been particularly adversely affected either. Obviously, there are covenant issues that have, for certain employers, come out of the pandemic. But, as a result of de-risking over the past few years, it seems like most funding positions have remained resilient. The market generally seems to have weathered the storm.

Like everybody, there were several logistical issues that we had to get to grips with at the start of lockdown. For example, we had several transactions that were close to completion when lockdown

began, and we had some interesting legal discussions around witnessing documents whilst socially distancing and the use of electronic signatures. We have all got to grips with those kinds of issues now.

The trustees and administrators that I have been working with also seem to have adapted well to working remotely, which does not appear to have affected de-risking transactions.

Chair: Our experience at BESTrustees has been similar. We have all adapted to working from home and have overcome the logistical challenges of signing documents and so on.

Ewan *[McAlpine]*, from a pension fund de-risking/buyout perspective, have you seen much activity amongst your clients?

McAlpine: It is going on but the extent to which we are involved has been fairly limited. From time to time, we receive a notification that a credit portfolio is going to go out the door and that is disappointing to see, but we know the reasons behind it and it is usually just a question of making sure that the portfolio is in a suitable state for it to transfer out all in one piece.

Chair: What impact has the pandemic had on the credit space?

McAlpine: Over the last year to date, we saw the most dramatic activity in the middle to late part of March, when a number of schemes were, in terms of de-risking, simply looking at re-asset allocating away from risk assets to something more safe.

Some of those swings were large and it meant that there were some significant flows out of credit funds. Saying that, for the opportunistically-minded, there were also significant flows back into credit funds because, over the past six months or so, one of the most popular questions we have had posed to us has been: is now a good time to invest in credit?

In terms of when the best time to invest was, it was probably 19 March, which is when spreads peaked. Since then, it has almost been a one-way road of spread tightening, bar for a few short periods.

So, spreads have tightened back to, more or less, where they were a year ago – that is where they are right now, around 120 for sterling investment-grade credit, for example; and that is where we would have expected them to end up if we knew the world was going to go back to normal. We still don't really know whether the world is going to go back to normal because, as evident from the news out there, there's an uptick in Covid-19 infection rates and the jury is still very much out on whether we are through the worst of it, health-wise as well as economically. Therefore, it's difficult to say whether current spread levels are here to stay or not, but we are back to where we were one year ago.

But through the time from 19 March to now, it has still been a decent time to invest in credit because you are still getting that uplift in yield that's available from the credit market.

Also, by applying a little bit of thought around what you invest, within and away from the market index and such, you can achieve even more. We specialise in enhancing that yield spread level while also emphasising security and that remains an attractive proposition to many investors.

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Chair: Did your strategy change at all due to the pandemic?

McAlpine: We had a few difficult moments in March when we underperformed versus market indices because of the way we chose to implement our strategy, with a focus on security that results in overweight exposures to various sectors, which, as it happened, performed less well than the broader market; and certainly versus government bonds as well as other non-risk assets.

So, it was a challenging time and, at times like that, you do need to stand back and consider what's going on and decide whether you need to change your approach. But we decided that we should not change our approach or our strategy, and we have worked hard to make sure it is maintained.

Everyone needs to do that sometimes and really stand by what they see as their medium- to long-term strategy and not try and change it on the fly. Over time, that will prove to be the defining factor in demonstrating whether your approach is successful to many investors.

Chair: Have you found the fundamental credit analysis challenging in this environment where presumably the outlook for a number of businesses is still uncertain?

McAlpine: It has been because, undoubtedly, the rise in yield spread levels that we saw, when you boil it down, was telling you that there was an increased expectation of defaults; and when everything is signalling an increase in default probability of just about everything in the world, then you really have to do your work to try and see whether those default probabilities are warranted or not.

Fairly quickly it occurred to most investors, however, that those default rates that were priced in via spreads did not really represent reality and, if you stand yourself back on 19 March and you look forwards, everyone was probably saying that, yes, there is an increase in the likelihood of defaults but not necessarily such an increase in the probability of everything defaulting.

So, you have to pick out very carefully where you see those defaults to be more likely; and, to some extent, where those defaults have been more likely has been fairly obvious – more 'Covid-sensitive' sectors such as retail and leisure – but there is still a lot of work to do in terms of the areas of the economy that have suffered most and will continue to suffer.

Another area of focus for us has also been around security and how it can benefit investors over the medium to long term. Even some of those structures have been challenged and there are high-profile names out there being affected. With investments in those structures having fallen in price significantly, a lot of investors are asking: How is the underlying affected? There is a lot of stress testing that must go into whether you decide to hang onto those investments or not.

It is a difficult decision to make and a complex one that requires a lot of work. So, that is where a lot of our attention has been focused, on making sure that we maintain our investments where we think we should.

Chair: Have you seen any appetite for the 'cov-lite' issues coming to market?

McAlpine: We did see a lightening up of covenants last year and, in the immediate aftermath of the crisis, you saw numerous issuers who had issued bonds with light covenants being the only ones who could continue to raise finance through the debt markets because their light covenants allowed them to do so.

That very much contributed to their survival. If they had not had such light covenants, they probably would not have been able to survive. Many issuers with the tighter covenants have found it more difficult to raise additional finance. That has been an interesting dynamic over the past six months.

However, once you get through this period where lots of re-financing has been done and we return to some sort of normality, whether it is old or new, then you will see people looking for the traditional protections of strong covenants.

There will also be a lot of head scratching over what is, over the medium to long term, the best strategy to have from an issuer point of view as well as an investor point of view – on the mix between those light and more protective covenants.

So, it's been dynamically peculiar, and many issuers will be breathing a sigh of relief that they did lighten up as, otherwise, they might not still be here.

Journey planning

Chair: Tom *[Seecharan]*, what journey planning considerations do you think should be at the forefront of schemes' minds now?

Seecharan: As before, schemes should be asking themselves what they expect their endgame to be, bearing in mind that we have an extra potential endgame now, which is the commercial consolidators.

The point of the endgame planning

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is to drive your agenda, and help you determine what actions you and your advisors are going to take.

Some actions of course are common to any of the possible endgames. For example, data cleansing; getting clarity on your schemes' rules and requirements; working out where things like member options might fit into your overall strategy today and in the future. These are all essential, whatever your endgame might be.

Then, once you have got all of those things planned, there are other actions schemes can take that are more specific to their particular endgame.

So, is it self-sufficiency? Is it a continued reliance on your covenant if you have a very strong covenant? Or is your plan to move to a third-party solution like a superfund or buyout provider?

Schemes should be thinking about all of this in a holistic way, trying to do things as early as they can, then checking back in with not only the balance sheet side of what's going on with your funding level in the scheme but also what's going on with your sponsor – recent events have brought this all into very sharp relief. You do have to keep checking back in.

Swynnerton: I agree the recent pandemic has brought into sharp relief the issues in relation to reliance on covenant. Obviously, that is a key part of the regulator's long-term funding objective and it's probably something that most schemes have been looking at for some time anyway. Reducing the reliance on your covenant via low-dependency funding and resilient investment has been something that many trustees have been looking at for some time, and the current situation will probably serve to further heighten awareness.

But, as always, journey and endgame planning have got to be suitable for the individual scheme's circumstances. So, whether that means buyout or looking at consolidators or managed run-off will vary on a scheme-to-scheme basis.

Mechem: All true and given the 'gold standard' security offered by a buyout, I would hope that most schemes will be targeting an insurance based solution, unless it looks certain their sponsor will become severely impaired, to provide the most secure outcome for their members, one that guarantees insured pensions are paid in full.

GMP considerations

Chair: Looking at the buyout market, there is a lot of preparatory work that schemes have to do to put themselves in a good position to be able to strike a deal and one of the thorny issues has been around GMP equalisation, rectification and reconciliation. It seems that not many schemes have fully grasped that nettle yet.

Mechem: First and foremost, schemes need to understand where they are with the GMP reconciliation and the rectification. Once they've completed that, from an insurer's perspective and particularly from a Just perspective, we believe that conversion is the best route to GMP equalisation – the D2 methodology – but we do recognise that creates potential tax issues. Therefore, like a number of other insurers, we are working on the ability to do C2 i.e. dual records as well.

It is very important that schemes understand what approach they plan to take, C2 or D2, if they're on the route to buyout.

Having GMP equalisation in train does not matter too much if you are only looking at a buy-in, but if you're aiming for a buyout, you've got to give that a lot of thought before you come to market because it has implications on the data that we will want from you, particularly if you are going to go down the dual records process.

Seecharan: For schemes that want to go through buyout, particularly ones that want to do something like a residual risks buyout or a buyout whereby the buy-in to buyout is very fast, they do unfortunately have to grasp that GMP nettle.

Swynnerton: Yes, in the context of de-risking and more generally, grasping that nettle is important. Most schemes have started to look at their GMP

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position and most are, at the very least, doing something now in relation to transfers out, for example.

Investment considerations

Chair: What comments might you have on the asset and investment considerations for schemes looking to get to a buyout?

Seecharan: Trustees do not wake up one day and say, "let's go and do a buyout"– it is usually years in the making. So, these decisions on how to invest are made over time with an ultimate end game in mind.

I would break it down into three phases.

Phase one – you're at the stage where you might go to buyout in a couple of years, so you need to consider what you want your investment strategy to achieve for you.

Some schemes want to invest like an insurer because they believe that will reduce their risk towards insurer pricing. Some want to run some risk towards insurer pricing because they still need to bridge a gap.

The reality is, investing like an insurer can mean taking some quite illiquid assets because they are going to match your cashflows and, depending on what assets you choose, you can end up finding that, if that day comes sooner than you thought, maybe those assets are too illiquid and you now have a problem getting out of them.

So, all of those are considerations in phase one.

Phase two – you are at the market. You're close to choosing – or maybe have chosen – your preferred provider and perhaps you want them to, rather than say "here is my price on the day you asked for it and here's how I am going to move my price", maybe you want their price to roll with your assets. That is a brilliant position for a scheme to be in.

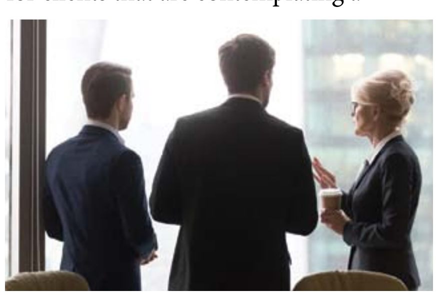
If you want that as a scheme, it's important that your assets are something like how we view our price. Ultimately, we are talking gilts, swaps, corporate bonds and some mixture of that.

It does not have to be perfect as we can do some things at our end to smooth out any rough edges. However, you do need to consider what kind of gilts, swaps and corporate bonds to hold – because if you actually then want to novate them, we are less likely to agree to that if, for example, you've created a portfolio for yourself that has a large number of corporate bonds in it. If that is the case, then we can possibly give you some sort of proxy for your credit exposure instead.

So, schemes need to think about how they can make this simple. That is the phase three. At some point, you have to transition those assets to the insurer and if you have got yourself into a good position, it's going to be a lot better for you to just give us the assets – you do not really want to have to sell them for cash or end up having to come out of swaps that you could have just novated.

It's not easy and sometimes schemes think about this a bit late in the day, but there are different advisers out there who can give specialist investment advice for a buy-in or a buyout transaction whatever phase you are in. The sooner you can think about these things, the better.

Chair: Ewan *[McAlpine]*, is this something that you get involved with for clients that are contemplating a



transaction? Or do you generally just get the redemption notice?

McAlpine: We sometimes do get the redemption notice and that's it. That is most typically in the cases where a client has got a holding in a pooled fund and they just want to sell the units and take the cash; and that is a simple process. We just have to sell down the underlying credit within the fund and we can manage that because we have most-often got interest from other parties in the assets being sold by those funds.

But we do also have cases where, for example, someone comes along and says "we like the idea of your buy and maintain strategy, because it is fairly low turnover, it is high quality in terms of risk-adjusted returns, and we know that you build in security; but we have to tell you that we're considering a buyout within the next *x* number of years".

At that point we need to ask ourselves if we want to take on this piece of business because we pride ourselves in buying and holding assets for the long term; and likewise the investor needs to consider if this is the right strategy for them – if they are planning a buyout, they might get to that point in, say, five years' time and realise that the set of assets that they've got isn't really best suited to moving to an insurance portfolio. They might be assets that are less liquid, less difficult to understand and price, for example.

So, there's a bit of a standoff sometimes in terms of where we see ourselves as an expert credit manager and where a portfolio is ultimately potentially going to end up.

Chair: Rob *[Mechem]*, is this a subject that you have a lot of conversations with clients or potential clients about?

Mechem: Not so much because we tend to focus on the small to medium

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transactions and they tend to be in pooled funds and therefore it is an all or nothing approach. For the larger transactions we quote on, I would agree with what Tom *[Seecharan]* said and for all schemes I would definitely echo that this all needs to be thought about much earlier in the process; and discussing these issues with insurers at the outset is helpful if you want to maximise the potential of hedging any market risk between deciding on the insurer and transacting.

Seecharan: At the larger end of the scale, where we are focused, people are sometimes ambitious in what they will ask us for, and we can be innovative in what we can design for a client. If they're prepared to share all the details of what they're invested in then, given time, we are going to have a better shot of being able to design something at our end because we can take something that's not perfect and do some hedging of our own to make the two fit.

But what we cannot do is turn that around in two days or do it with partial information.

Buyouts at the smaller end of the market

Chair: What are the current market dynamics for small schemes? Can they get attention from insurers?

Mechem: Smaller schemes can get traction from insurers. We have completed a number of transactions which we would class as small, some sub-£10 million, but it is clear that competitive tension is not always there.

It comes back to the question of what you are trying to achieve from de-risking and the details of how you're targeting your end game of buyout.

We have completed five transactions this year below £10 million that have all been buyout cases. They have all come to the market fully prepared – they've done the GMP rectification; they've done the GMP reconciliation; they've done 95 per cent of the planning for GMP equalisation, even if they haven't done it. Therefore, they've come to the insurer market with a target to try and achieve. That's probably the main dynamic that I would suggest is covered at the very small end, sub-£10 million.

Once you get into the £10 million to £50 million range, again schemes need to be prepared but they can get traction with two or three insurers if they have a well thought-out, prepared process – covering the data cleanse and the benefit specification; and, probably more importantly, they need to have secured sponsor engagement and explained the process so their stakeholders are patient.

As I have mentioned, the market is very busy. A quote process generally takes six to eight weeks and, if you are a small scheme and you want to get traction, think about a slightly longer period, if you want competitive tension.

But do not be scared to share things like targets. We are certainly hearing a lot more questions like: "This is what we can afford, is it sufficient to achieve a buyout?"

So, the market for small schemes is open. They just need to be prepared, be patient and have open conversations with the insurers that they're looking at.

Seecharan: Typically, Rothesay is unlikely to quote for something less than £100 million and, from year-to-year, £100 million could easily become £200 million if we are very busy on larger transactions.

We are quite a small new business team and therefore we have to marshal those resources according to what's in front of us.

Chair: What can small and medium schemes do differently in the future to make sure that they get the insurer engagement? Is it all about the preparation?

Mechem: It is all about the preparation. It's about knowing the benefits that you want to insure. There is nothing worse than coming to the market and then telling insurers your lawyers haven't even looked at the benefit specification yet. We will almost certainly decline on that basis. Whereas, if it has gone through your lawyers, and we know what we are taking on, we are more inclined to take the opportunity seriously and provide pricing. It's also about being open and honest.

Seecharan: In addition, working exclusively with one insurer over a period of time might be the best action perhaps for smaller schemes with a clear target in mind rather than going multiple rounds of beauty parades which just prolongs the process.

Chair: Matthew *[Swynnerton]*, what is your view in terms of trustees going exclusive with one insurer?

Swynnerton: Whilst there may be a loss of competitive tension, the market is still quite small, and all of the players are well established. Ultimately it will boil down to the advice the trustees get from their investment advisers. Provided they get a clear recommendation, this should not be a problem.

Chair: One point I would make about small schemes is that they should think quite carefully about which adviser they are going to appoint. There are firms out there that really specialise in doing smaller transactions and it might be that if you go with one of those, you know your scheme will get the right focus.

Platforms

Chair: There are several consultancies, primarily the bigger ones, that have platforms on which they can load schemes and get streamlined quotations.

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What are your views on those?

Seecharan: The platforms can make it easier to quote. I would not say that we differentiate massively on whether we are going to quote on something or how hard we are going to quote depending on which platform it came from.

Some of the deals we quote on have a streamlined legal process. I would say that's a good thing, but these days it does not really feel like we are far off from having streamlined legals anyway. Most of the legal advisers in the market have huge experience and usually take up the points that they should take up and do not spend a lot of time on others.

Swynnerton: I think that's right and, in terms of the legals, most of the major law firms will have teams that are specialised in de-risking transactions and will be familiar with the policy documentation used by most of the insurers, so it may not make a huge amount of difference whether the process is streamlined, although there is certainly an increased use of streamlined processes for smaller transactions.

However, particularly on smaller transactions where there may be limited scope to negotiate on the policy terms anyway, the issues may be more on the benefit spec side, outside the streamlined elements of the process, and those issues can be the same for small schemes and large schemes.

Often it can be the smaller schemes that have the bigger issues because perhaps their governance has not been as tight as some of the larger schemes.

You can have a small scheme with some pretty big issues that come to light and in a streamlined process it is often not the people dealing the policy that will be looking at that. It will be the scheme's normal legal advisers who are doing the benefits spec.

That is sometimes where, with the streamlined processes, there can be a disconnect between the people who are working on the benefit spec side of things and the policy side, and where it can be advantageous for trustees to have the same firm advising on both.

Mechem: This all comes back to the point that picking your adviser is really important – it is important for all schemes but particularly for small schemes. We are after a quick, efficient process, where all the thought has been done upfront and you can get a transaction done quickly and efficiently.

There are specialists in the small scheme market that do this preparation so you can get a transaction completed in a six to eight-week window from coming to the market.

In terms of using platforms, the important thing for us is, when data is uploaded onto a platform, it's consistent scheme on scheme on scheme. Each scheme is vastly different but, if their data is uploaded in a consistent format, then we can utilise that to get through multiple quotes quickly.

If it's one scheme or 10 schemes on there, if it's in exactly the same format, we can build something that will run through very high-level indicative pricing quite quickly. But we're always going to be asking questions such as: How far away is this transaction? What are the next steps? Is it affordable? What price are you targeting?

Seecharan: The key thing for me and Rob *[Mechem]* is that our job is to go and

sell to the rest of the organisation why we should commit resource to quoting on this case.

The worst thing that can happen for us is if we have pushed a particular case and persuaded people to commit resource and then that case falls apart for some reason that should have been known about – either it was uploaded to the platform but they did not really mean it; or the data was wrong; or it was miles off and should not have even been there in the first place.

So I wouldn't say there is any platform that on its own solves all of those things. Whatever method is used to give us access to the information, the most important thing is the quality of the conversation with the consultant and that we can still have the conversations as we normally would.

Mechem: I would echo all of that – your point about us having to sell it to the pricing team, sell it to the investment team, sell it across the board is absolutely critical. Whatever you do on a platform, whatever data you provide, we have still got to sell the story that it's a transaction that will proceed. There is nothing worse than having backed a transaction through our triage process and spending significant effort on pricing and then it fails. So, the human factor of keeping colleagues onside is critical.

Seecharan: On that point, also, it is okay to come to us for an indicative quote but just say that's what it is and be honest and upfront about it.

Mechem: One of the most efficient cases we had this year was for a £5 million buyout where we met the trustees and the finance director at the start of the process, and we had a very open conversation before we did any work. The finance director outlined what they were trying to achieve and asked what we could do to help them along that journey.

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That is an incredibly powerful message to be able to take back to the team – that this scheme is serious about doing a transaction with us and this is what it has got to look like.

Seecharan: Indeed – in fact, any kind of relationship you can create and maintain that might give you a bit more insight later is helpful.

Chair: I've seen it said before where schemes have looked at partial transactions and worried that it hampers their ability to do another transaction down the line to perhaps get to buyout. Have you got any thoughts on that?

Mechem: The thought-process has to be mindful of that. A number of our clients have done one transaction with us and then done multiple subsequent transactions with us afterwards on their de-risking journeys, and these are very much partnerships that work very well.

Equally, we have clients that have done one transaction with us, one with a competitor and they've got two or three insurers to compete for the remaining assets.

Up until very recently, there were only three or four insurers that could do deferreds. I know that is a changing dynamic, but you wouldn't want to get left with £10 million of deferreds and few or no pensioners, which might leave you with only one insurer willing to quote. So, it's very much about thinking through the full de-risking process all the way to the end game – which is especially important for small schemes.

Superfunds

Chair: What does the regulator's new interim regime for the emerging superfund market tell us about the likely long-term plans for regulation of the superfunds? Can it strike the right balance between enabling transactions and protecting members?

Swynnerton: The regulator has a difficult job in striking that balance, but it is critical for the superfunds that it does – the regulation needs to ensure that superfunds deliver the best member outcomes and the standards must be tough enough to robustly protect the members.

For all schemes, superfunds are unchartered territory. You need high standards in order to enable trustees to feel sufficiently confident to transact with them but, at the same time, those standards cannot be so high that the innovation that superfunds bring is stifled or unavailable to some or all schemes.

So, that is the balance that they are trying to strike and whether they have struck it with the interim guidance and, probably more importantly, the longer-term regime that we're expecting remains to be seen.

The interim guidance, whilst it is broad and we have still got a lot of the detail to come, does seem to indicate that the regulator is taking a very hands-on approach.

Chair: It feels to me as if there is a political will to make this a success, but the regulator has a tough job of walking that line between protecting members whilst allowing the market to succeed.

McAlpine: I can only hope that the consolidators follow through in ultimately offering schemes the same kind of investment benefits that are open to investors right now i.e. that they do not adopt a bland investment approach as opposed to an appropriately specialised one that can be supported by the appointment of individual managers outside of a consolidator.

So we have had discussions with the consolidators around what we offer and, from a de-risking perspective, they have to continue to offer something that is not just de-risking in terms of meeting liabilities but also de-risking in a true investment sense and offering the best potential for avoiding default risk, for example; offering the best risk-adjusted returns within their consolidated offering as the schemes currently have exposure to. That is something that we hope will come through, but it is only going to show itself once enough business does fall through to the consolidators and they can actually come back to us and say "this is what we need".

Mechem: It is clear the regulator is going to be very hands-on with this, particularly in the short to medium term. Saying that, the interim regulation is quite light in certain places, particularly around the gateway and on how that would work. For trustees and sponsors to consider what that actually means with the right advice and the right regulation is going to be the critical bit in that. I do not think that is overly clear in the regulations so far.

Seecharan: I agree. From what was published, the regulator seems to have done a largely good job of what was quite a difficult high wire act of making the regime strong enough that you could allow a scheme to transact with a consolidator but not so strong that you run them out of business before they have even started.

I did not think the publication of the interim regime was going to suddenly lead to a flood of cases and as it's turned out, it didn't. I still do not know when those cases are going to come. There is a good chance, I would say, that there will be cases done in the next 12 months.

Meeting investment demand

Chair: Are there sufficient infrastructure and similar long duration and secure investment opportunities to meet insurer demand?

McAlpine: There is no doubt about the amount of available credit generally in terms of what has been issued. Certainly, in sterling, euros and US dollars it has been another bumper year, which is surprising, given what we went through in March.

But even very shortly after March we could see that, even though there was virtually no issuance during the month, it had been a record year up to the end of February and then it took off massively again in April. So, here we are heading for another record-breaking year in terms of new issuance.

In terms of the kind of issues that might be favoured, we would say more secured bonds, infrastructure bonds for example, but there could be more. The UK government, for example, could do a lot more in terms of issuing infrastructure bonds. It is an opportunity that's sitting there waiting to be taken advantage of, given the level of yields at the moment. It is beyond comprehension why more is not made of the current situation in terms of the need for infrastructure projects and infrastructure bonds to finance them when we have very eager buyers for those bonds.

So, it is a strange situation we find ourselves in – seeing the opportunity there for issuing these kinds of securities but it not being taken up.

ESG

Chair: Where do ESG considerations fit in the de-risking space?

McAlpine: ESG is something that, from a direct investment perspective, has become extremely important to trustees, and massively more so over the past couple of years.

It is also interesting to see how trustees are approaching it in terms of their understanding of what ESG investing is versus ethical investing, versus sustainable investing. We try to make the point that ESG has got to be considered as just one set of fundamental risks that are out there when you are investing in credit. You should not be looking at ESG analysis as anything particularly special because it has got to be done all the time along with traditional financial credit analysis if you want to be doing credit investment right.

But advancing further beyond this ESG integration leads towards investing sustainably (where you are only investing in the companies that are doing a positive good for society and so on) and that is a change that we are seeing more and more in the minds of trustees.

They are getting increasingly drawn by this idea which is good. It is a positive step forward but I do wonder if some schemes are doing it not because they believe it's the right thing to do but are just following the trend.

What concerns me also is that, while we may see asset managers like ourselves going along and managing assets in a responsible way for schemes before they go into buyout, for example, once those transactions actually take place, is there then a possibility that the amount of care that is taken in respect of responsible investment is somehow lost? I'd like to think that ESG integration and responsible investing in general remains as important post a transaction as it did before the transaction.

Mechem: ESG is an area that we are being asked more and more about at trustee meetings, not just from prospective clients but also from existing clients. We have always explained our investment strategy and how that fits into our pricing but, increasingly, we're being asked about our long-term ESG strategy.

We have been committed to ESG for some time. We are a signatory to the United Nations Principles for Responsible Investment and were the first UK insurer to do this. And we are a constituent of the FTSE4Good Index Series which is designed to measure the performance of companies demonstrating strong ESG practices. ESG leads to us investing sustainably which is important as DB liabilities are longer duration and we have an obligation to meet policyholder liabilities in a one in 200-year extreme event.

So, as an example, we do not invest in tobacco companies or in opportunities that we think will have a long-term detriment to the environment. Instead we invest sustainably in things like wind farms, loans to SMEs, solar energy and social housing.

Seecharan: This is a really important area and the fact that we are getting more questions directly from trustees and potential customers is a positive because trustees do control that money and they should use it in a way that has the right benefit.

Swynnerton: The direction of travel among trustees I believe is very much one way with ESG, and that's underscored by the DWP consultation that was published in recent weeks which specifically says that, given the materiality of risk that climate change poses, the trustees' fiduciary duties require them to take it into account. Obviously how that plays out in practice will vary and does not necessarily mean it will ultimately change what they do, but it must be considered – it's a factor that cannot be ignored.

Changes coming

Expectations are that we will be living with Covid-19 significantly affecting our lives for at least another six months. What do you think will be the biggest changes to the pensions industry – good or bad – once we come out the other side of this?

Inevitably we will start to see a massive swing towards holistic workplace savings, shifting to an approach that is much less pensions centric. The current concerns around financial wellbeing for individuals, and having enough funds to ride out the storm, is not just about pensions, it's also about having accessible savings. The biggest wake-up call from Covid-19 is that employees in the main aren't financially resilient and employers are recognising that they have a big role to play in addressing this. Pensions on their own are simply not going to solve the problem.

Cushon head of proposition, Steve Watson

Much as in life, the pandemic has forced trustees and advisers to focus on the important stuff. No-one wants to sit through a six-hour virtual trustee meeting or listen to their actuary 'present' a report for an hour that they had already read in the meeting papers.

The shift to the virtual world has given administrators and schemes a crack of the whip on shaping up their online services. We are seeing an accelerated move forwards in online offerings, with greater automation. This means members can access more information and more quickly.

Isio partner, Mike Smedley

One new big and permanent change to our industry as a result of Covid-19 is in how we work. Our industry has shown that it can function extremely well, maybe even better, via remote working and home working. Online trustee meetings and other meetings and conferences are here to stay. The pensions industry will lead the way in a brave new world of home workers.

Mercer chief actuary, Charles Cowling

For DB schemes, the main challenges will be funding. Interest rates will be lower for longer, possibly zero or negative. This inflates liabilities and increases deficits. At the same time, challenging economic conditions will weaken sponsor covenant – the ability and willingness of companies to fund and support their pension schemes.

For DC schemes, and more specifically DC members, the issue will come from job losses. As furlough schemes end, redundancies will pick up. Members who are out of work will not be contributing to their pension scheme and will face a gap in contributions that they will need to make up later to have the retirement income they need. Equally, some older members aged 55+ may need to tap into their pension assets to meet short-term financial needs, with a negative impact on their longer-term retirement income adequacy. This is all an inevitable consequence of the economic disruption, but the key will be to provide guidance to members to help them understand the options and consequences.

State Street Global Advisors managing director and head of EMEA pensions and retirement strategy, Alistair Byrne

The coronavirus pandemic has prompted a re-evaluation of which companies will be most resilient to the next global catastrophes – climate change and biodiversity loss. The Covid-19 economic shock has woken asset managers to the reality that an impact investment strategy achieves both long-term capital preservation and growth. Over the past few months, the markets have witnessed an ESG investment boom. Once viewed with suspicion, funds that place sustainability at their heart have proved their mettle and outperformed their counterparts during this financial crisis.

Earth Capital chief sustainability officer, Richard Burrett

It's possible that there will be changes in the labour market changes as a consequence of Covid-19, with a study by Harvard suggesting more people will now split their time between home and office. This could really benefit working mums as a shift to flexible working could mean that women will be able to work more hours in future with higher pay, pensions and better job progression as a result. This will go some way to closing the gender pensions gap.

The People's Pension director of policy, Phil Brown

Cash is king. Again. Schemes that ramped up illiquid assets in the hunt for yield pre Covid-19 may now be nervous with some funds closed and Brexit, US elections and a winter of Covid-19 ahead. Should there be a rise in nominal rates/LDI collateral needs combined with an equity market fall, liquidity could be key. In addition, schemes should favour holding more liquidity long term to manage risk and to capture opportunities. In March, global investment-grade credit was yielding 3 per cent above government bonds. In times like these, what price the right governance model?

BMO Global Asset Management managing director, head of UK fiduciary solutions, David Hickey

The coronavirus pandemic has hastened the slow death of traditional pension funds' portfolio strategies, typically heavily weighted toward equities and fixed income. In a world where returns from fixed income are few and far between, investors are on the hunt for yield – more than ever before. These investors – particularly those with high fixed income allocations – are increasingly turning to real assets, with renewable energy and healthcare infrastructure consistently proving to be cash-yielding with stable long-term returns.

The growing interest from fund members as to how their money is invested has been accelerated by Covid. There is no turning back from this. Trustees are facing increasing pressure from their members to ensure their money is being allocated to companies and assets that align with their core values and have a positive impact on society.

Octopus Group co-founder, Chris Hulatt

Arguably the biggest impact the turmoil of 2020 is having on pensions is the renewed focus on ensuring that pension scheme governance is truly resilient to unexpected events. Many schemes are taking the hard-earned experiences from 2020 to establish new working practices and structures so that they are better positioned for the next unexpected disruption – whether that is specific to them or global in nature.

Aon head of UK retirement policy, Matthew Arends

Some employers will be facing financial challenges. We expect that employers will review their reward packages with some reducing pension contribution levels and some allowing members to reallocate some of their employer pension contribution (above the auto-enrolment minimum) to support shorter term goals such as repay debt. This could have an impact on workforce planning as many employees will have to work longer.

Standard Life head of proposition deployment, Donna Walsh

A juggling act

Pensions for Purpose director, Karen Shackleton, chats with Sophie Smith about her work on pensions and impact investing, and her secret love for punk music

What's your employment history (including jobs outside of pensions)?
I've always worked in the pensions sector, initially as a fund manager, then in 1995 as a self-employed market researcher for asset managers and investment consultants. I have been an independent investment adviser to pension funds since 2006 and have held various non-executive roles since 2015. I also set up Pensions for Purpose, a collaborative information sharing platform on ESG, sustainable and impact investment.

What's your favourite memory of working in the pensions sector?
There's a moment when you work with a pensions committee, when you explain a complex strategy or a new, jargon-filled concept, and you see the relief on the trustees' faces as they reach a point of understanding. Knowing that you have facilitated informed decision-making is always a rewarding moment.

If you did not work in pensions, what sector do you think you would be in instead?
I always fancied becoming an interior designer, but the truth is I have very little artistic flair so I'd probably be an unemployed interior designer. Most likely I'd have become a teacher or lecturer instead, although I did toy with the idea of studying law.

What do you like to do in your spare time?
I run every day, play badminton and tennis, love walking, enjoy cooking and gardening, play the piano badly, I'm in a book group so always reading, and I'm very active with my church (at the moment, I'm the communications adviser for a new-build £2.6 million centre to help the vulnerable in Lancaster where I live).

Do you have any hidden skills or talents?
I seem to be able to juggle many, many different things at once – I am the ultimate multi-tasker… useless at juggling itself though!

If you had to choose one favourite book, which would you recommend people read?
This is where I am by Karen Campbell. I have worked with refugees who have come to live in Lancaster (a City of Sanctuary), and they all show such bravery, escaping their home country in often dangerous circumstances, and starting a new life here with little or no English. How frightening that must be! This book is a moving (fictional) account of an African refugee and his young daughter. Everyone should read it to appreciate refugees' experiences when they come to the UK.

And what film/boxset should people see?
I recommend *Crash* (directed and co-written by Paul Haggis). It powerfully demonstrates the impact of prejudice and judgement in our society and how perceptions can change, when seen from a different perspective. There is a lesson in there for us all.

Is there any particular music/band that you enjoy?
I'm a Coldplay fan – I went to their last major concert and loved it. That's what I play in my car, at least, but I like all types of music from punk (Magazine and Stranglers more than Sex Pistols) to classical. I went to a lot of punk concerts in my younger days... although I never had a mohican.


Editorial credit: John Gress Media Inc / Shutterstock.com

Who would be your dream dinner party guests?
I'd love to invite Michelle and Barack Obama to dinner – such interesting people, and I'd be fascinated to hear their unencumbered, off-the-record views on how to address social injustice.

Is there an inspirational quote/saying you particularly like?
"Everyone has an invisible sign hanging from their neck saying, 'Make me feel important'. Never forget this when working with people." This quote is by Mary Kay Ash, a US businesswoman. It's simple, but such a valuable piece of advice.

Written by Sophie Smith

Pensions history

Pension fund investment challenges in 1975

At the Investment and Property Studies conference on 28 October 1975, George Ross Goobey said 10 months ago he had addressed a similar conference. Then, the Financial Times Ordinary Share Index had been around 150 and the investment world very gloomy. "Today it is 356.7 and yet there was probably more gloom in the pension fund world than there had been previously," he said.

He felt this continuing gloom was due to pension fund liabilities escalating far beyond the amounts expected or allowed for by the continued inflation of wages and salaries at an ever-increasing rate.

"When inflation gets to the 20 per cent or 25 per cent, which we have experienced in recent years, the pension fund investment manager cannot hope to provide the answer needed, for the very best long-term investment he can produce today is probably in the 15 per cent region," he continued.

"How at the present time in the current market and economic situation does a pension fund manager set about achieving the best long-term result? There is so little to choose between fixed interest securities, Stock Exchange equities and property that I think I can best help by suggesting a few things which should not be done.

"One of the latest fads is commodities and because these are a difficult thing for pension funds to buy direct the merchant banks are jumping on the bandwagon and setting up unit trusts to enable pension funds to indulge in commodity dealing third hand. I regard this as complete speculation which takes no account whatsoever of a pension fund's biggest investment asset, its immunity from tax on investment income.

"Gold, silver, diamonds, pictures, works of art, agricultural land, forestry, even race horses have been contemplated, but they all suffer from the disability of no income and in my opinion, they are not for pension funds."

The Pensions Archive Trust chairman, Alan Herbert

Fun and games

Wordsearch

K	C	R	T	L	C	H	A	N	G	E	S	A
I	O	E	M	E	A	E	S	O	T	E	U	V
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CHANGES
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I know that face...

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