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CHAIR



▶ Lara Edmonstone-West, Head of Solutions Distribution, L&G

Lara is responsible for L&G's solutions distribution, leading the development and delivery of a sales strategy to drive L&G's global solutions business for institutional clients. Lara joined L&G in 2025 from BlackRock.



▶ Tim Dougall, Head of Delegated Solutions, L&G

Tim is responsible for providing holistic portfolio management services to a range of institutional investors. He works with clients across a broad spectrum of investment issues, governance, strategy, portfolio construction and implementation.



▶ Sophia Harrison, Client Director, Vidett

Sophia is a client director, qualified actuary and professional pension trustee with extensive experience advising DB pension schemes. She works closely with trustees and senior stakeholders on funding strategy, investment strategy and governance.



▶ Sam Seadon, Head of Investment Strategy, PwC

Sam works with corporate sponsors and pension scheme trustees on pensions strategy and investment implementation. He has been in the UK pensions industry for 20 years as an adviser to trustees and sponsors, around eight of these at PwC.



▶ Mathew Webb, Head of Insurance & Endgame Solutions, L&G

Mathew specialises in helping pension schemes achieve their endgame objectives, whether that is buyout, run-on or both. He has over 25 years' experience in pensions, insurance, and banking markets.

PARTICIPANTS



▶ Alison Bostock, Director, Zedra

Alison is a director at Zedra and an experienced accredited professional trustee. With over 30 years of pensions experience, she now works with schemes of all sizes, open and closed, DB and DC, including master trusts. She is a regular commentator in the pensions press.



▶ Tim Giles, Trustee Director, IGG

Tim is a seasoned professional with 35 years of experience and a comprehensive background in pensions and investment. He has advised some of the largest UK pension schemes and financial institutions; and previously led Aon's investment business in the UK and EMEA.



▶ Michele Hirons-Wood, Professional Trustee Chair, Capital Cranfield

Michele joined Capital Cranfield in 2020 with over 30 years in the pensions industry. She specialised in executive pensions management and has a real-world insight into the challenges faced by both pension schemes and sponsors.



▶ Tiffany Tsang, Head of DB, LGPS and Investment, Pensions UK

Tiffany joined the governance & investment team at Pensions UK in 2018. She is an economist and pensions policy specialist with over 15 years of public policy experience. Previously, she was a policy adviser for the Association of British Insurers.



▶ Fraser Weir, Senior Investment Consultant, XPS Group

A senior investment consultant, Fraser joined XPS in 2020 as an investment consultant from Buck, where he was a senior investment analyst. Prior to this he was a valuations analyst at Legal & General Investment Management.



▶ Charles Cameron, Partner and Head of Pensions, Slaughter & May

Charles' practice extends to trustees, sponsors, insurers and investors and both on a project or consultancy basis, and as long term adviser to plans and sponsors. He is also a regular contributor to the pensions press.



▶ Tom Greeves, Actuarial Manager, EY

Tom is a manager in EY's pensions consulting practice. He works on a variety of investment consulting and governance projects across the UK and North America. He is a regular contributor to the pensions press.



▶ Emma Pittaway, Professional Trustee, Law Debenture

Emma joined LawDeb from PwC, where she was head of fiduciary and OCIO research within the investment team, responsible for pension-scheme related investment advice and support to corporate clients and UK DB pension schemes.



▶ Anthony Webb, Director, and Head of Fiduciary Management Advice, Isio

Anthony has been with Isio since its inception in 2020, coming from the KPMG investment advice practice. A qualified actuary with 20 years' experience, he advises on investment governance, and reviewing or selecting fiduciary managers.



▶ Ken Willis, Investment Partner, LCP

Ken has been helping his clients to understand risk, improve their investment returns and better secure members' outcomes for over three decades. He advises a range of £billion+ clients, across a range of industries, with very different objectives.



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Chair [Lara Edmonstone-West]: I would like to begin today's discussion by looking at governance in relation to size of pension scheme. I know governance is important to everybody around this table, but what does a good governance and decision-making framework look like today for small, medium and large defined benefit (DB) pension schemes?

Tim Giles: Rather than be related to scheme size, it's about ensuring the right expertise is brought at the right time, information is available at the right time, and decision-making rights are clear.

If you go back several years, there were very distinct roles and, gradually, we are seeing providers do broader roles in different ways to suit the circumstances. But then it comes back to expertise, clarity of decision-making and the information that is available to make good decisions. Governance is about making good decisions in light of what's there.

Alison Bostock: For me, it's also not so much about size – it's about having the right governance model and set-up for where the scheme is in its journey. If you need a lot of return, for example, fiduciary management can work quite well because you need to aim for a lot of return but in a risk-controlled way. Whereas, if you're de-risked and things are straightforward, that's a different set-up that you need. So, it's more about where you are in the journey, the return that you need and your risk budget, than necessarily just about big versus small.

Emma Pittaway: It's also about providers tuning into the governance bandwidth that different schemes have. The larger schemes may want complexity and a bespoke approach, but how do we



Investment governance: Striving for excellence

▶ What are the investment governance challenges for small schemes? Are today's operating models fit-for-purpose? Where does AI fit into the governance framework? These are just some of the questions our governance panel addresses this month

bring that value and those options to the mid- and smaller-sized schemes that are perhaps governance constrained, in a way that's not going to give them decision fatigue? That's an additional challenge.

Chair: I like the phrase, 'decision fatigue', and it's good that providers are thinking more about what's right for the scheme.

Ken Willis: Also, sometimes people don't do a good enough job of looking at all the decisions they can make and deciding which ones to keep and which ones to delegate. You need to make a list of what you want to keep, and what you want to go away. Trustees are good at making decisions but they also don't always want to be bogged down with the detail of making things happen after those decisions have been made.

Tim Dougall: There are points there

around delegating decisions, but the other piece is the coordination across the whole. Because, if you've got different decisions being made in different work streams, then yes, you might have a clear decision framework for the individual decisions, but it might not work when you view it across the whole.

With the very large schemes, that can be an issue if individual in-house teams are working independently – an equity team, a credit team, a real assets team, and so on. Some of those schemes are now working to adopt more of a Total Portfolio Approach. That's actually been more straightforward for some mid-sized schemes in the past because, with less complexity and fewer stakeholders, it's been easier to ensure consistency.

Chair: How do you work with people to make sure that their governance

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framework is in place, is robust and working to purpose?

Fraser Weir: To some extent it depends on where the work is needed at any one time – you might need a lot more governance at some points in the journey and, at other times, a lot less.

But the most important thing at the outset is to see what is needed and define the roles and responsibilities. With the trustee board, however the set-up – whether it's sole trustee or otherwise – there is so much opportunity to get it right at the outset in terms of recognising what skills everyone brings to the table. You can't have 11 left-backs in the same team! It's just not effective. You need to be able to bring in everyone's different skillsets to make it effective governance.

In terms of the big scheme/small scheme difference, whilst big schemes probably get more options at the outset in terms of what they can do, the narrative around small schemes is that the opportunities are limited, but actually the small schemes can take advantage of the bigger schemes being the guinea pigs. You have the opportunity as a small scheme to look at what the bigger schemes are doing, see what really works, challenge it and pick and choose from what those big schemes have done.

Chair: There are also some smaller schemes pushing the boundaries and doing things that others would consider innovative.

Sophia Harrison: It also very much depends on the trustee model that you've



got in place. Sometimes it's easier for small schemes with a sole trustee or experienced board to be able to push those boundaries.

That highlights the importance of having a professional trustee on a board. Whilst it's a minority of schemes that don't have one now, to have that view of what other schemes are doing, what the bigger schemes are doing, enables professional trustees to bring that broader knowledge and innovations to the smaller schemes. Also knowing where providers' strengths lie is crucial.

Tiffany Tsang: In terms of the view from Pensions UK, when we have conversations with our members around fiduciary duty, two key things come up repeatedly – advice and support. We had a roundtable with the Pensions Minister, for example, on fiduciary duty earlier this year, and a message that came through strongly was how trustees want to change the culture of the relationship between trustees, particularly from small- and medium-sized schemes, with the advice that they're getting.

Some trustees expressed a sense of not being heard or wanting to pursue an approach that wasn't supported and they didn't know how to push back. There's a culture point around the advice and support that they get.

The other point that came through strongly from trustees was the importance of investing in the right internal executive team – the operational capacity overload came up again and again. So, this point of 'take the resource, take the time to choose the right people to help support you internally with the operational overload' was a key message.

Chair: What's the lawyer's view here?

Charles Cameron: I feel there is not enough thought being given as to how trustees go about their decision-making. If you look at the Competition

and Markets Authority's (CMA) report from 2019, it talks a lot about trustee bandwidth and capability, but nowhere does it talk about how trustee boards should go about their decision-making in a granular way.

If you look at the parallel of corporate boards, it's easier for them because the board is mainly made up of non-execs and they set the strategy and monitor what the executive does, but they're not themselves making the management decisions – someone else is.

If you plug that into a pension scheme, it's often quite fudged when you're having any board interaction as to what exactly is happening in that moment. Is the board talking about setting strategy? Is it making an executive decision? This is all going to become more the case with the very large decisions and options that are available to trustees under the new Act. It's going to be important for boards to be able to step back and think about who's performing what role in a board meeting amongst the members of the board and the advisers and so on, and which bit of the meeting is dealing with which things. I agree with Tiffany [Tsang] that, in a paradigm world, you would have an internal executive, and you could copy the way corporate boards do it, but most schemes don't have that, so you have to internalise the executive bit of it.

Operating models

Chair: Are scheme operating models still fit-for-purpose for mature schemes in today's complex world?

Michele Hiron-Wood: It is mixed in my experience. I work with some schemes that are coming towards their end and others where we haven't got an end game in sight, and you've got to make sure that when you're thinking about your governance framework,



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it's not just focused on operational governance but also the strategic consideration of what you're looking to achieve, which is sometimes missing.

Also, you've got silos, different advisers thinking about their little bit. The trustees' job is to take a step back and think about 'where are we going?'

In terms of different approaches that I've taken with different schemes, some are in a fiduciary management/OCIO arrangement, and sometimes, in those arrangements, trustees make assumptions that what worked when you were driving for return will also work when you're moving into de-risking and potentially an insurance scenario when that's not always within the bailiwick of that provider. That can cause real problems if you don't anticipate that.

So, you need to consider where you are going and whether your partner can provide the service that you're looking to achieve. Can they provide the advice that you need as you navigate your way through that particular transaction?

The other thing schemes need to ask themselves is, while they may have been striving for a specific objective, does that still make sense, given the current risks that are present and the proximity to what they're looking to achieve?

And are they asking the right questions of their advisers as a team? There have been several instances where I've come onto boards and nobody's asked those questions. If trustees are not asking those questions, and the advisers aren't bringing those questions to you, then something is going to get missed.

Essentially, if the right questions are not being asked you are relying on your operational framework or your governance framework being fit-for-purpose to ensure it caters for the challenges you face along the scheme's journey.

In summary, not all delegated mandates are made equally, and not all investment consultants are made equally, so trustees need to kick the tyres on those things rather than assume that somebody's doing that thinking for them.

Pittaway: Building on that assumptions point, there is often an assumption among the mature schemes heading towards buy-in that there is no point in using delegated services, whereas I think there's quite a big gap where delegated frameworks can help in the run-up to that sort of end solution. As an industry we don't talk enough about that.

Harrison: My challenge to that is that I have struggled to find delegated solutions that understand the requirement of adjusting from being more growth-driven to dialling down the risk and having more of a credit-focused portfolio that can be tailored for the needs of the scheme. It feels like there hasn't been enough thought put into those solutions in the market.

Hirons-Wood: Again, I think it's mixed. I've got some which are great partners and others less so.

So, importantly, it's about understanding the capabilities of the firm you're partnering with, and then taking a decision through your risk-based governance approach around what's the best thing for your scheme.

Harrison: Also, the cost of moving puts people off. If you've been with a great provider for a growth-driven strategy, people feel that it's expensive to move, particularly when you're looking at de-risking and therefore not being in a strategy where there's an opportunity to earn back those costs quickly.

Willis: I would take a step back then and argue that the question is not just, 'are the operating models fit-for-purpose today?' but 'do they have the flexibility to adapt to your changing needs?' In



the past, most schemes wanted growth. They were underfunded, they needed growth, and therefore the operating models were probably fit for that purpose then. But now, with de-risking, things are changing.

So, you need to ask the hard questions today otherwise you could end up locked in an operating model that won't work for your changing needs.

Anthony Webb: To the question of whether the right range of operating models exists for our needs, I think that is improving. Now, when we look across the market, there's probably a representative sample of most strategies, most options. That's positive. But it does go back again to the point of governance – how do you work out what's out there, how do you work out what's suitable for you, and who do you listen to?

I've seen examples where there's a fiduciary manager (FM) in place and trustees are talking about a lower return run-on strategy, so the fiduciary manager will just roll out what they happen to have in their cupboard, which may or may not be fit-for-purpose, and there's not necessarily someone to challenge them.

A good example is you might want a CDI strategy – a credit-focused strategy, delivering income. They might say, no problem, we'll stick it all in evergreen corporate bonds. If you stop there, stop asking any further questions, you'll end up somewhere suboptimal compared to if you went out to the rest of the market.

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Harrison: I think trustees have a responsibility as part of their role to talk to consultants and FMs about the issues they face and the types of solutions they are looking for, and be specific.

A. Webb: The analogy I would use here is juggling balls. If I need more juggling balls, I need a more complicated system to keep all those balls in the air. If I need fewer juggling balls, then my governance model could be simpler and more streamlined.

Reassessing how many balls you need in the air to achieve your ultimate objective, pay benefits in a certain timeframe, should be on the trustee agenda every year – which it isn't always.

Flexibility

Chair: Flexibility is important. Can trustees, though, demand too much flexibility, which can create challenges for providers?

Willis: It's about having a list of priorities and asking the hard questions on the way in. If you want it all, you're going to be disappointed at some point – if you want a large scheme strategy for your small scheme, for example, or you want illiquids, but don't want illiquids if you change your strategy. And so on.

Sam Seadon: As has been highlighted, we were in a world where most schemes wanted return because they were in deficit, but now you've had a bifurcation of that objective, maybe

even a trifurcation. The small schemes want to buy in, the big schemes might want to run on or do something else, depending on what the government says in that regard. So, it feels reasonable that, at some point, there's a decision to be made and you might need to change something. I don't think there can be continuous endless flexibility to do absolutely anything.

There are now at least several well signposted routes that you can go down, so I think it's fair to say, at some point, we need to make a strategic decision about what we're doing and we should have a provider that is able to do that for us.

Mathew Webb: Can you not have a plan to do both, though? Can you not have a plan A to run on for the moment and then a plan B as a separate governance question to know how to buy out? Because the switch between the two itself is valuable. One of the challenges I find talking to clients is that, if they make the decision and say categorically where they're going, then it puts them in a pen – they've got to do that. Whereas we want flexibility, we want them to be able to do both.

Harrison: In all the 'intentional run-on' research that I've been doing, 'pivot' is the word that comes up most – to be prepared to pivot; and one of the big debates I'm having is around illiquidity.

If you're looking to capture an illiquidity premium – say, targeting gilts plus 1.5 per cent, which seems to be the middle-ground 'run-on' strategy – many investors are turning to semi-liquid assets because they want the flexibility to pivot if needed.

But that raises the question: are you still earning enough premium to justify giving up some liquidity in the first place? Or does the semi-liquid approach end up being a compromise on both fronts – sacrificing liquidity without

fully capturing the returns available from genuinely illiquid assets?

Seadon: It might be useful in that situation to have the sponsor on board with what you want to do as well, albeit at the moment we don't know what the regulatory regime is going to look like. But assuming we did know, then having the sponsor on board with an illiquidity approach feels like it might be important.

Giles: The sponsor should always be involved in a governance model – they are one of the key stakeholders within it and, particularly as schemes get better funded, that alignment becomes even more important.

To the point around flexibility, you build your model for your current circumstances but understand how it's going to change as well. If you say, I might want to buy out next year/the year after/the year after that, but I'm running on for now, you build a strategy to accommodate that. If you're going to run on for 10 to 15 years, you can afford to go for illiquids.

The role of the trustee

Tim Dougall: The professionalisation of trustees is also a trend we have seen – we've talked a lot today about investment providers but, actually, a big part of governance is the trustee piece itself, and the increasing professionalisation of the trustee body is key. I would say we've come quite a long way there.

Chair: To build on that, is it the professional trustee's role to drive innovation and drive change? Or is it the consultant's or the manager's role?

Giles: I don't think it's our role to drive innovation. It's our role to understand the objectives of the scheme and figure out how innovative solutions might better meet those objectives. Providers should be bringing forth innovation, making sure that, as the



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world changes, their solutions fit with the evolving objectives. If you ask the trustee firms to come up with innovation, you're less likely to find it. Providers have bigger research teams.

Pittaway: Professional trustees though do support the spread of innovation, sitting across multiple schemes, where they can then raise new ideas to other relevant schemes; so, they help spread that value around to more schemes which maybe wasn't as widespread before.

Chair: What about the consultant's role here in driving innovation?

Weir: Consultants should be using their expertise to see what is possible in order to meet the demands of the market. So, the trustees drive the demand, knowing what is needed, and the advisers should be able to come back and say, 'this is what can be done to meet those demands, these are your options'.

It's also about making sure that your advisers really listen to what you need and are not going to get something out of the cupboard that they think will do. The advisers need to actually listen and never forget that the point of being an adviser is to answer the problem, not have something already made-up that will just fit it. Advisers need to stop trying to put a circle into a square hole.

Everything should always be about answering the question. It's sad to hear that takeaway from Pensions UK that some members feel they aren't being heard. We should, as a whole industry, be really worried about that, because if we're not helping answer these problems, then where have we got to?

So, it's about the trustees picking the right advisers, making sure they've got the skillset to actually listen to the trustees' demands, and that they have the capability to go away and find a solution to whatever problems the trustees are faced with.

Giles: I'm worried we're carving the line between advisers and providers and delegated spaces and non-delegated spaces. I don't think that line is clearly defined. Also, we're talking a lot here about investments, whereas a lot of the risks are potentially outside the investment world. So, risk transfer providers, fiduciary managers, managers, advisers – all those can be used as access to innovation and all of them are coming to the table to do it. If you rely on one party, you tend to be governed by their potential conflicts.

Hirons-Wood: Also, their level of capability, experience and expertise. Looking at it through a trustee lens, I think we get the best outcomes when we're working with all our advisers – getting input from all of them and then testing it. If not, you don't know what you don't know.

If an adviser comes up with what they say is a fantastic idea, how do you know it's the best idea out there? A professional trustee that sits across multiple schemes, and works with other advisers, is in a better position to be able to assess that, compared to perhaps a lay trustee.

Tom Greeves: As a consultant, I see two key roles when working with OCIOs or fiduciary managers.

First, it is about ensuring schemes get the best from their appointed provider. OCIO and fiduciary management firms are typically large, scaled organisations. While this brings significant resources and expertise, their size and complexity can mean it is challenging to sometimes align the right solutions for clients in today's climate of rapidly evolving markets and industry positioning. For example, we have seen instances where approaches still reflect legacy, growth-oriented thinking from a deficit environment.

A key part of our role is therefore to provide constructive challenge, testing whether proposed strategies remain aligned with the scheme's current objectives and circumstances, and whether they represent the manager's best and most up-to-date thinking. Where they do not, we work collaboratively with both the trustee and the manager to refine and modernise the approach.

Second, our role is to support clarity around responsibilities and operating models. The industry is not always consistent in how key models, such as fiduciary management and OCIO are defined and implemented in practice.

While these labels provide a useful starting point, there can be significant variation between providers in terms of scope, discretion and accountability. A professional trustee could appoint two providers across different schemes under the same OCIO label yet receive materially different services. We therefore see it as an essential part of our role to help trustees clearly define and agree responsibilities upfront, ensuring alignment of expectations and a governance framework that is fit for purpose and free of any gaps in governance.

Pittaway: On the innovation point, while innovation is great, it is key to always have in mind what the scheme's objectives are. It's very easy to go down an academic rabbit hole and come up with something whizzy, but complicated, which might only be 1 per cent better



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than doing it the standard way. And as much as we're all very interested in learning about new ways of doing things, we do have to bear in mind that there can be limited bandwidth from trustees and we do need to focus on our objectives.

Weir: Yes, and in some cases, things have become too complicated for some schemes and what they're trying to achieve, so we need to make sure we get the right balance.

Willis: I take a positive view on innovation. But trustees shouldn't be the ones necessarily driving innovation. Trustees are part of the industry – if everyone worked together, had good conversations, you never know what might come out of it. I don't think it's always about more investment products per se, but it might just be that some trustee will say, I would really love to do x,y,z, and the light bulbs could go off around the table. So, they shouldn't necessarily be driving innovation, but they should be a part of it.

Bostock: That's a good point. One of the things I find myself saying a lot is, 'yes, don't worry, I've seen this before, it's fine' when you've got something that feels a bit wacky to some other trustees on the board. But equally it's really important that we're open to new ideas.

Another thing that professional trustees can help to bring is a different perspective on things – saying, perhaps, 'yes, I know you've always done it like this, and you've always seen an investment manager every quarter, but



actually, with these funds you've got now, do you need to see them every quarter? Would once a year be fine?' Helping them understand ways in which they could spend their time more effectively, perhaps on the more strategic matters.

Strategic partnerships

Chair: We see lots of people asking us about strategic partnerships. What does strategic partnership mean to you?

Weir: Where I see value in a strategic partnership is where you've got a party advising on very high-level elements of, perhaps, the investment strategy, or the level of hedging.

But it all relates back to the question of what do schemes or trustee boards really need? Why would you have two parties, one being delegated to the investment arrangements and implementing them, and another doing strategic advisory, when one can do both?

It's good if you're comparing one firm to another, or if you're getting a third-party opinion on strategy. But the downside is that it's going to be more costly because you're bringing in another party. I've seen arrangements where there are strategic advisers and implementation managers working alongside each other resulting in more costs for the scheme.

Giles: Strategic partnership is broader than that for me. If you contrast it to an OCIO or a FM, which are fairly defined relationships, a strategic partner is somebody you would share your problem with, be it an investment manager, be it a consultant, be it anybody else, and they will look at ways of solving that. They'll bring their arsenal to bear. So, rather than just seeing an asset manager as somebody who delivers a return against a mandate, they bring their intellectual capital to your discussions and help you by suggesting new aspects as to how you might solve them. A strategic partner is

somebody who works with you to help you solve your biggest challenges.

Chair: Could that be a law firm?

Cameron: Yes. You've got somebody who doesn't have skin in the game in terms of getting a fee benefit out of the decision, they're just getting a consultancy fee and then making a proposal to the board, which the board can then agree or not with. It's not a bad idea.

Dougall: I particularly agree with the problem-solving aspect. I see OCIO or fiduciary management as a form of strategic partnership and there are differences between them. But fundamentally, what you are getting access to is a team of problem solvers. That looks different for different institutions of different sizes but that is the key thing for me that people are looking for in a strategic partnership.

Willis: The key word is 'partner' – working with a partner that has knowledge and views about the market that they can bring to bear in a trustee meeting. Someone you can go to and say, 'I've got a knotty problem, how can I deal with it?' But it's someone that you trust, it's not someone that is trying to sell you A,B&C because that's not a strategic partner.

M. Webb: Partnership is the key word, as that suggests an alignment (as compared to when you are just providing a service) – you can both win somehow.

Harrison: Thinking about this in relation to run-on, and the advisers involved there, run-on draws on your investment portfolio, your covenant, the actuarial aspect, plus you have to work with the sponsor to get the best outcome for the members in any situation. Run-on again highlights the importance of collaboration between sponsor and trustees, and the corporate advisers can be an important part of that relationship.



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You do need a lead adviser to drive the project forward and agree the run-on framework, but it could potentially come from any of those places, including, dare I say it, the corporate.

Chair: Yes, someone needs to drive but it could be one of many parties that drives it. Following on from there, how can a strategic partnership with an asset manager add value for a pension scheme? How can it reduce risk?

Seadon: It does feel like there's a need for an independent strategic adviser, and that person needs to acknowledge that there are a number of providers; and what we want to do is get the best out of those providers. Also, we need to, on an ongoing basis, ensure that there remain competitive tensions. So, in order to make the best strategic decision, it feels like you need somebody who is an independent strategic adviser.

Hirons-Wood: I see that as my job, as chair of the board – I see it as my job to be bringing together the people that I need, for whichever problem I'm trying to address. I build the team to get the best outcome. And in terms of driving it forward, in terms of delivery, in terms of knowing what we need to do for the members, that's my job.

The one thing I can't get past is that the buck stops with me and any other trustee around the table – it rests with us (apart from when you delegate, for example, under a fiduciary mandate and so on); so for me it's about building the best team for what I need to deliver at whatever stage.

Bostock: But especially when it comes to end game, it includes really productive engagement with the sponsor, and if you've got a situation where the sponsor isn't as familiar with pensions, then it can be quite difficult. You're taking the scheme, you believe, in a

sensible direction and then you get a left field from the sponsor, or indeed even no engagement from the sponsor sometimes!

Giles: The word that I struggle with from time-to-time is 'independent', particularly when you put it in front of the words 'strategic adviser'. Because most advisers ultimately have conflicts.

Harrison: I agree it is so important to build the right team. Sometimes trustees can silo their advisers too much; and with a project like choosing to run on versus when to buy out or consider a consolidator, you need to make the most of the broader skillset and knowledge that each advisor can bring.

Weir: In terms of conflicts, everyone's got conflicts, and I'd like to see more parties when they're starting arrangements being clear about what their conflicts are; then it means that anyone who's actually making decisions, as long as they're aware of what the conflicts are, can be clear about those decisions and make the decisions with those conflicts in mind. That makes it a fairer playing field and clearer for everyone making those decisions.

We've all got commercial focuses, but we all, hand on heart, also want to make members secure in their pensions, and being open and honest about your conflicts up front is always going to be a better way forward.

Tsang: From a Pensions UK perspective, the way we think about strategic partnerships internally is more from an operational side. The key points that were raised here about problem solving, partnership versus providing a service, I know these are fine lines sometimes, but for us it often comes back to, how can schemes/trustees outsource to help better support themselves operationally?



We see this a lot in the Local Government Pension Scheme (LGPS) as well, where there isn't enough administrative and governance support to manage the execution of all the regulatory stuff coming down the track, of which the volume is tremendous.

In the LGPS, while the next steps of consolidation in pooling is exciting in some ways, it also throws up its own governance challenges. Finding the right independent person to support the new changes will be one of the next big issues for our fund members in this space.

In the DB world, it's about which aspects of the trustees' jobs do they not have enough time or enough of the skills to manage internally, and how can they outsource that in the right way, to make room for their key objectives?

More widely, we are part of a technical working group with DWP on fiduciary duty guidance. The goal of this is to develop a guide on how investment decision-making can be done, how it can be evidenced, so trustees can feel secure in the steps that they're taking in an ever-changing politicised environment, where pressure mounts to invest, or not invest, in specific ways. This should in theory help with overall investment governance.

Dougall: The LGPS is undertaking a massive governance review in a very compressed time scale – effectively, the pools are setting themselves up as full-spectrum asset managers or OCIO providers. We talk to some of those providers and it's interesting to see how

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they're thinking about everything from top-level board decision making all the way to operations and systems. That does link back to the strategic partnership point, because when these large organisations have an in-house team that has some capabilities, but not all, they are often looking to partner with a third-party to ensure they can access the full benefits of scale.

Tsang: Something that is very encouraging to me in watching how our members in the LGPS space work is that the funds within the LGPS really pride themselves on their collaborative nature and already a lot of systems exist for them to work together. They would of course prefer not to have to do all of this in such a condensed period, but they have infrastructure they've created themselves to make this work and make this happen. It's quite inspirational to see.

Chair: When you're working with somebody in a strategic partnership, how can providers help trustees make sure it is being effective? Are there key performance indicators (KPIs) that they need to be working to? How do you know whether that strategic partnership's effective or not?

Giles: It always comes back to, why are you doing this? Why have I got this relationship with these people? What am I asking them to do? Then you need to have some way of monitoring that. Then, every now and then, you need to challenge yourself and ask, 'is this still right in the circumstances?'

Chair: Do you think schemes have

everything they need to be able to manage effectiveness of partnerships?

Giles: There is enough change going on that I think there is effective management of partnerships. Do all partnerships change as quickly as they should? No, but that's a virtue of hindsight.

A. Webb: Again, it's all about clarity of roles. If your governance is going to work, you need to be clear on who is doing that. If it's clear what you're trying to do and how that fits into the objective, then you can measure it. Then you figure out what is the most effective way of making that measurement. So, clarity of roles is key.

Pittaway: From the strategic partner's perspective, it's also about being open to ask how it's going. What could be better feedback than having that open communication loop? You can have KPIs, but some parts are less measurable.

Regulatory change

Chair: Looking forward, regulatory change is going to a big consideration for trustees. How can we help trustees to future-proof governance frameworks against what feels like constant change?

Cameron: It's all about having the right framework, and the problem with the CMA is that they've got a particular lens. They want competition in the market. They're not looking at it from the broader perspective of what's right from a trustee view. So, I would encourage trustee boards to spend more time coming up with a framework to set strategy and objectives and revisit that from time-to-time; and that is not typically how trustee agendas are set. Trustee agendas are blown with the winds of regulatory and guidance changes. So having the time to step back and do that could help schemes future-proof their governance arrangements.

Bostock: Also, a lot of regulatory solutions that are being put in are fixing somebody else's problems – you were already doing things more or less in the right way, but then some really specific regulatory requirement comes in that makes you have to change what you're doing, even though what you were doing was perfectly fit-for-purpose. That's what I find frustrating about a lot of regulatory change that we see.

M. Webb: Can I ask about surplus extraction – giving money back or letting it out of the scheme is quite a significant decision. Is it just the reverse of what we already do, so recovery plans in reverse? Or do we need new governance controls to try and balance that?

Willis: You need to think it through really hard, and in advance. When you're underfunded, it's almost an easier decision. Now you're on the other side, it can become very emotional and challenging. You may think the sponsor is aligned, and then you discover perhaps they're not. So having those conversations upfront is key. Giving money out of the scheme is hard but keeping it in the scheme and not doing anything with it can go against the interests of members who might not be around anymore by the time a decision on it has been made. The hard stuff can be considered with some scenario planning. That's how you future proof your governance.

Giles: We keep coming back to this point about objectives - you need to stand back on a regular basis and ask: What is this scheme doing? What's the purpose of it? What are the objectives? How are we using the surplus? What's the interaction of sponsor? None of that is easy to codify. It's not easy to set out in a checklist, but it has to happen. Does it always happen at every trustee board? Probably not. You get caught in



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the whims of the quarterly meeting cycle, which is focusing on different things. But if you were running a company, you would be regularly standing back and thinking, what is this here to do? What is my reason to exist?

Artificial Intelligence (AI)

Chair: Does AI have a role to play in pension scheme governance?

Pittaway: I asked AI what it thought the answer was to this question. It said: 1) AI can sharpen oversight, but it doesn't change where accountability sits. 2) In a delegated framework, AI raises the bar on mandate clarity and reporting standards. When I dug a little deeper there, it said it meant in terms of providers being fully clear where AI is being used, particularly in reporting and investment processes. 3) The biggest near-term opportunity is trustee side, not manager side.

Bostock: I guess there they are referring to time saving, summarising papers, recording calls and meetings, preparing minutes and so on.

Pittaway: AI called it a governance multiplier.

Bostock: That again, comes back to my point of you've got to use that time you've freed up to do something more useful instead.

Weir: Yes, AI will be good at freeing up the trustees' time to focus more on the objectives of the scheme – free us up for the more important thinking.

Tsang: Going back to the strategic partnership angle, we would say that AI features quite heavily in the future of strategic partnerships, helping to lift some of the load off of trustees so they can focus on the strategic matters.

M. Webb: Someone described AI to me as being like the new version of Excel. It gives you the ability to do analytics and test models efficiently,

but it only really works if you've got the data to start with. If you can't see the information, it doesn't give you any extra point of view. It is exciting but you still need to have the expert to give a sense check as to what it's doing, to know that it's not hallucinating and it hasn't done something wrong.

Also, we don't need to have an infinite number of AI models. What we need to do is use it as a tool to make things more efficient, to remove some tasks that it can do more efficiently than us. That should allow us to innovate.

Willis: It saves time, and in a UK productivity sense we need to spend that time doing something else. But it's not just about data – it's also about how you communicate with members and so on. There is so much else it can help with.

Dougall: It's also helpful for strategic thinking, because you can treat it as an extremely well-read person that you can ask to challenge you and give you different perspectives. You can say to it, for example, 'I'm thinking of doing this, what haven't I thought of?' For trustees, that's a powerful tool.

Giles: AI is great at changing perspective – it gives you the ability to look across the whole industry at once and look for similarities to the position you're in and see where you might be doing something different. You can use it then to dig in and say, 'I need the answer to this specific question for this situation.' It might not always get it right, but it's highlighting 'have you thought about this, this, or this?' Governance is about effective challenge and if AI can add to that, that is fantastic.

A. Webb: To take an opposite view, one thing we don't think about enough is the inherent bias within AI. There is an inherent bias already, of course, but later there'll be a commercial bias when all these companies actually have

to make some money. All of a sudden, you'll find the answer to your problem lies in whichever company, for example, sponsors a particular topic. So, you have to be careful about the dependence on it.

Weir: And the risk of homogenous thinking as well. If we all continue to use it, will it get to the point where it all gets quite similar, in terms of thinking? Is there a risk to diversity of thought? Even if that's perhaps a long way off.

Let's also not forget the data risk as well. Cyber risk, is quite rightly, so important. We are concerned about what can potentially get into our data via hacking, we should be just as concerned about what can potentially get out. We've all got our own internal AI tools. How are we going to trust those AI tools to talk to one another as different parties and not release data?

Greeves: AI presents both significant opportunities and risks. It represents another evolution in the industry that requires the bar to be raised on the quality of investment governance, as the use or misuse of AI will amplify both good and poor decision making depending on how it is applied. While AI can provide insight and inform decisions, robust governance frameworks remain essential to interpret AI outputs and exercise judgement on the best course of action for a scheme's specific circumstances.

Chair: I love the passion around AI. I am also starting to use it more, so it will be fascinating to see how it develops from here on.

