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CHAIR



✦ Lara Edmonstone-West, Head of Solutions Distribution, L&G – Asset Management

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.

PARTICIPANTS



✦ Ian Craig, Trustee Director, Dalriada Trustees

Ian is an accredited professional trustee and trustee director with experience in scheme governance, investment oversight and strategic project delivery. He plays a leading role in ensuring schemes receive high-quality administration services that deliver excellent member outcomes and strong value for money.



✦ Tim Dougall, Head of Delegated Solutions, L&G – Asset Management

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.



✦ Matthew Downey, Senior Investment Consultant, Broadstone

Matthew is a senior investment consultant at Broadstone, advising institutional investors on investment strategy, manager selection and governance. He joined Broadstone in 2022, having previously worked at Deloitte and Mercer.



✦ Zahir Fazal, Professional Trustee, BESTrustees

Zahir is a former director and immediate past chairman at BESTrustees, having joined them in 2008. Prior to this, Zahir was a partner in a major accountancy practice. His specialist areas include endgame strategies, smaller schemes and funding.



✦ Anne-Marie Gillon, Principal Investment Consultant, Quantum Advisory

Anne-Marie supports clients through investment governance reviews and with the selection and oversight of their fiduciary manager. She previously worked for Baillie Gifford and IC Select.



✦ Jordan Harrison, Partner, XPS Group

Jordan joined XPS Group in 2018, and leads the investment team in Birmingham providing strategic investment advice to pension scheme trustees and corporates. Prior to joining XPS, he held roles in investment consulting at Barnett Waddingham and PWC.



✦ Aimee Hunter, Executive Investment Consultant & Deputy Head of Fiduciary Management Research, Isio

Aimee is a Glasgow-based consultant in Isio's investment team. She advises a range of DB schemes in a traditional investment consulting role, and offers fiduciary management oversight to schemes.



✦ Ben Lucas, Senior Multi-Manager Solutions Specialist, L&G – Asset Management

Ben focuses on developing private market solutions across DB, DC, insurance and wealth client channels. He brings expertise across private equity, private debt, real estate, infrastructure and secondaries.



✦ Euan McNeil, Senior Investment Research Consultant, Hymans Robertson

Euan is a senior investment consultant at Hymans Robertson, with primary focus on the research team. Prior to working at Hymans, he worked for over 20 years at Aegon Asset Management.



✦ Nicola Paul, Client Director, Regional Lead for Scotland, Vidett

Nicola is a qualified actuary, with more than 30 years' industry experience serving a wide range of trustee and corporate clients. She is involved with a portfolio of pension schemes, ranging in size from £1 million to £1 billion.



✦ Matt Robb, Senior Consultant, Pensions Consulting, Ernst & Young

Matt supports in advising trustees and sponsoring employers on a wide range of topics including investment governance and delegated investment solutions, helping schemes navigate evolving funding and endgame considerations.



✦ Kirsty Steven, Investment Consultant, Howden

Kirsty is an investment consultant at Howden. She advises on a range of DB and local government pension schemes ranging from £2 million to £2 billion. As well as her consulting role, Kirsty sits within Howden's Outsourced Investment Advisory team.



L&G roundtable

Chair: What is driving the renewed interest in DB scheme run-on? Is this a permanent change in direction or a response to short-term factors?

Ian Craig: What's driving that interest? It is absolutely the market environment. From a corporate perspective, the pension fund has gone from something that was all about cashflow outflow to it now being viewed as a potential source of capital.

From a trustee's perspective, you need to consider your principal duty to provide the correct benefits to all the beneficiaries. But once you start getting into surplus territory, some really interesting conversations can open up between trustees and sponsors with a range of options to consider.

Zahir Fazal: I think this is a permanent change in direction. The approach we are seeing from policymakers and regulators reflects a shift in attitude. I also think the Stagecoach transaction was a game changer in terms of showing what can and cannot be done.

So yes, the renewed interest is a response to a change in funding levels and surpluses being more common than they were, but there are other factors which are making it a longer-term change.

TPT's Superfund is also expected to be authorised over the course of the next few months, and we know there are others waiting in the wings. So again, that landscape is changing.

Chair: What do we think that change in direction will mean for schemes of different sizes?

Matthew Downey: Anything under £100 million in size means that it is more difficult to run on, and once you get



DB excellence in motion: Governance, partnerships, and the run-on path ahead

▶ With conversations around run-on moving up a gear, our panel considers what trustees need to know as they face a new world filled with unprecedented choice

down to that £100 million mark, there are hundreds if not thousands of schemes out there.

We are seeing a policy push from the UK government to get pension funds investing in productive assets, for example. But is there that demand-pull from any schemes, apart from billion-pound plus clients? From our point of view, no. We do have some that are keen

– and they are the very well-funded and more patriarchal organisations – but they are the exception rather than the rule.

Tim Dougall: But do we think the policy push will convert into a demand-pull? For example, I always thought that it was difficult for trustees in the past to consider run-on and surplus extraction, but now that the government is out there saying, 'actually, you should be looking

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at the full range of endgame options, it makes it a lot easier.

Downey: It allows trustees to do it, so it takes the brakes off. But does that mean there is a huge demand? Possibly not.

Jordan Harrison: Do we think there'll perhaps be a member expectation that builds over time on this, as they maybe see other pensioners getting Christmas bonuses or other pension increases because of run-on, and feel they are missing out?

Dougall: Well, I do think the high inflation of the past few years means we are now seeing some members unhappy about capped pension increases.

Harrison: Yes, although perhaps for structural reasons, they're unlikely to get increased inflation because you're locking into future benefits, so companies are more likely to agree to a one-off.

Fazal: There could be some member interest, depending on how much talk there is around this topic, although I wouldn't say the majority of members will be reading the pension press to pick up on it, but there could be some pull.

We are also increasingly seeing members looking at AI for their pension planning, and whether that leads towards them thinking about what trustees and sponsors are doing with the surpluses, who knows? But there are so many factors at play.

Harrison: This is all obviously a real challenge for a trustee of a DB scheme,

so how do trustees go about thinking about what the members might/might not want?

Nicola Paul: Before we delve into that, I would argue that there is another people element here that is driving this, and that is the fact that there's now effectively been a couple of valuations where there's been no pain, and boards and finance directors typically tend to have quite short memories. Also, finance directors particularly can tend to change roles – they don't tend to stay in positions for very long. So, there's a slightly different view on this with people coming in/boards coming in who might now see this as an asset rather than a liability. In my view, this will change once the pain starts again and, if there is one thing I've learnt from working in pensions for as long as I have, it's that the pain will start again at some point in time.

Harrison: So, how do we then factor in what the member wants?

Paul: What members want is a pension, an income. In terms of any surplus consultations I've done so far with the members, where we have written to them and asked them what they think should happen to the surplus, they initially say it should go back to the member, but then when we explain that the employer also contributed, the conversation stops; so, broadly speaking, I think, as long as they are getting their benefits and as long as they're getting looked after, they're generally happy.

Saying that, following on from the point that was made about AI, yes that could change things. Once members get

a hold of how big these pots of money are, things could change. But, at the moment, there's no real clamour coming across from members.

The one exception to that has been pensioners with things like discretionary increases who had been specifically told that they weren't getting them awarded because there wasn't funding, and now that there's a surplus, they want their discretionary increases back. So, where there has been a historical practice that has been stopped because of funding, that creates an exception.

Fazal: Who the surplus belongs to is also quite nuanced, and trustees need to take good and proper advice on it.

Paul: Yes, and I don't think there is a specific answer to the question of what is right or wrong for the member. It depends on the scheme, their expectation, the paternalism of the company and where the scheme is. So, it's very difficult as a trustee to do the same thing necessarily for any two schemes.

Craig: I agree, and even when looking at a scheme's rules, no two schemes are the same. You can get some very complex rules around what you can do with the surplus, and some that are more straightforward.

From the member's perspective, ultimately, it's a question of what the member is planning for in retirement. They will know through their final salary scheme what the benefit basis is within the rules. If there's a historic practice of discretionary increases, that could come into play, but it's difficult to plan for retirement based upon a potential discretionary uplift at an undefined point in time.

That being said, there could also come a point where IFAs start asking what is going to be done with any scheme surpluses.





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Kirsty Steven: I do think state pension expectations, or expectations around increases in that area, could also have quite a big influence on members. If they start to see their state pension decreasing and then see they could potentially get increases from their DB surpluses, they may start pushing more for that. It depends therefore on the government changes there.

Defining run-on

Chair: What does a credible run-on approach look like at a high level? How should objectives, time horizon and measures of success be defined?

Dougall: First you need to define what you mean by run-on – define your objectives. There is short-term run-on with potential buyout; there's also longer-term run-on. Are you just running on until you can secure benefits with an insurer? Or are you doing it because you want to extract surplus over the longer term. And if so, how is that surplus extraction going to be shared between the members and the sponsor? So, you've got a whole lot of quite different objectives there and a different set of risks.

So, going back to your question of what does an approach look like, you've got to start with that, and you've got to ask, what are we trying to deliver for these different people? Then you build up your strategy around that.

Chair: What happens if, as is the case with some of the schemes that I am talking to, you have a scheme which is in a healthy funding position, which has a surplus, but has no idea what it wants to do with that surplus, but just wants to run on for now?

Dougall: I'd say, as long as you're doing that consciously, that's fine. You're saying, 'I want to retain flexibility for now because I haven't quite decided.'

The concern, in my view, would be if you didn't actively consider your options and simply ended up doing what you've always done by default.

So, it's fine to have a flexible approach, but I think it's important to be deliberate about it and say, 'okay, we haven't locked down what precisely we're going to do right now', because that, in itself, is a strategy.

Chair: What are the consultants' views here?

Aimee Hunter: I would say, for run-on specifically, it's important to be very clear on what your objectives are. It's also important to be able to measure the success of how that run-on plan goes. I do think you have to predefine those. I appreciate also that this is an evolving space, and some trustees might be saying, 'let's just see how this goes'; but, if you actually want to see whether it's a success in running this on, you need to have some specific objectives in mind to start with.

You may have a plan to go 10, 15 years, but there still should be a continuous review. You can think of it in smaller chunks as well – where do we want to be in five years? Where do we want to be in 10 years? And what does that look like from a success perspective? No run-on strategy will be the same – it's very nuanced, it's very specific, and I think you do have to be very clear on those objectives at the start for it to be a success.

Matt Robb: I agree. It is easy to assume that a surplus extraction strategy could run for another 15 years, but if you invest in illiquid assets and then circumstances change, you might not



be able to unwind positions quickly. So, it's important to look at your overall strategy and your investment strategy in conjunction.

Hunter: Yes, flexibility here is key because market conditions could change, sponsor covenant strength could change, and you need to be able to pivot out of run-on if that ends up being the path that's more sensible.

Chair: Well, for over a year, I would say, we've been having conversations with many schemes that want that flexibility but, while flexibility is important, it does also make it hard for them to establish the right investment strategy, and that creates other challenges – and perhaps missed opportunities – too.

Anne-Marie Gillon: For me it's about asking the question, 'if I could afford to buy out and secure member benefits, should I not do that?' Be aware of the risks of running on and evaluate that against the opportunity of securing member benefits. And one consideration on risk is, where there's not been that many comparable cases that have gone before, is there tail risk? What don't I know? It's the black swan event that could appear and have a real impact.

As a trustee, you've spent a lot of time thinking about your journey, perhaps two or three years preparing the scheme to be able to afford buyout. While it is important that you have the conversation

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about running on, it's hard to change course, unless the opportunity from run-on is sufficiently attractive for members, and probably the sponsor as well.

The mindset required to get a scheme to buyout is a different from the one needed to continue a run-on journey.

Fazal: And until quite recently, for some schemes, buyout hasn't been affordable, so we have been running on until it becomes possible. Run-on for surplus is very new.

Also, there are some sponsors that haven't really thought about all of this yet, what it means and what they want to do. Some schemes have overseas parent companies, for example, that don't have a strategy for an endgame.

As a trustee, all I can say is, 'let's have a sensible conversation and decide on the long-term strategy'.

Downey: But even if you do have that long-term strategy – it could be run-on to get rid of the illiquids, or a strategic run-on, for example – even if you have that agreement in place, and it's all documented, things can change. The CFO leaves, for example, then suddenly the employer wants to buy out, or the ultimate ownership goes to America, and they want to get rid of the DB scheme. So, you could have all your plans in place, and then things change.

Fazal: Which is why you've got to

retain that flexibility as a trustee.

Dougall: We see a big range here. We work with some of the larger schemes who have very clear ideas that they want to pursue long-term run-on – the corporates are at the table, and

everyone's aligned. We also work with other schemes who haven't thought about it that much yet.

Chair: And, as has been said, the FD or CFO representation can change and that can have a huge bearing on where that scheme or plan goes and what's been put in place.

Harrison: Isn't that wild, though, that you might get a change of character, and they do the same set of sums and come up with the polar opposite view? Isn't that a strange way to operate what might be a large pool of capital to a business?

Craig: This is a strand of operating an effective system of governance. As trustee, you are aware that this is ultimately a risk that should be documented. You may have a long-term strategy, but you should be aware of the likelihood that the covenant could change, resulting in a change of course for your scheme and to plan for it accordingly.

Fazal: We were discussing this internally and we came up with terms 'covenant longevity', 'guardrails' and 'off-ramp'. As a trustee, you've got to be thinking of those.

Chair: Is this all any different, though, to what trustees should always have been doing?

Fazal: It is different because, until now, the trustees always regarded the

money in a pension scheme as being for the benefit of the members. Now, they're talking about giving money out of the pension scheme and we don't know yet what the rules around that are going to be.

Chair: Also, I think it is healthy that trustees really want to properly understand the covenant, because maybe previously they haven't given it as much thought as they should have.

Fazal: And it's not just about the covenant now, but you need someone whose processes are good enough to look at covenant longevity, because it changes. Even the regulators have said that 10 years is a maximum for looking at covenant longevity. So, if you've got a run-on period of 15 years, for example, you're going to want, as a trustee, quite a buffer there.

Harrison: I totally agree with that, because then the covenant becomes a combination of the surplus within the scheme and what the sponsor position is – you have to consider both.

Paul: For me, it seems as though we are moving into a slightly different environment.

When we had deficits, it was a clear objective that all pension schemes had to get from point A to B. Of course, company policies change, management changes sometimes and employees/members are used to that.

Today, though, as trustees, we've got to adapt to moving in a much more short-term, faster-moving environment than we have been used to because, in the past, you were talking 10-15 years. If something changed or went wrong, you had quite a long time to sort it out, whereas now we are dealing with much shorter, almost more corporate-type approaches to decision making in terms of what you're trying to get and



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we're not looking at these 10-15-year time horizons.

If you're looking at three years run-on, for example, the decisions that you want to take today from an investment perspective, from a covenant perspective, from all those perspectives are very different to the way that we've potentially looked at them in the past.

This also translates to how you communicate with members because, although members might be used to some short-term changes from the company side, I'm not sure they're going to take it as well from the trustees who keep writing to them and changing their plans for the scheme. So, we've got to become a lot more strategic and a lot more corporate in our approach.

Chair: You raise a good point there about the comms, because I've sat through many trustee meetings where comms has been such a big topic – how do you do the communications properly, how do you acknowledge change and so on? And you're right, if change becomes more prevalent, or even if it's just a change in direction, that whole messaging to members, and managing their expectations, becomes even more challenging.

Investment risk

Chair: Following on from there then, how much investment risk should a well-funded scheme take during run-on? And how should that risk budget evolve as the scheme matures?

Dougall: You shouldn't take more risk than you need to, in my view. This might seem obvious, but some schemes may not be thinking about it so explicitly currently. Some may be thinking, 'this is our investment strategy, we've always done it like this, we've got some equities, so we're just going to keep running on

because that's what we've always done.' So, it does go back to the objectives point. I would start by asking: What are you really trying to do? You're trying to protect member benefits. You need to make sure you've got a buffer to help you do that. And then, maybe you want to target some outperformance to generate surplus. How much? Design your strategy to aim for that. I think that's the right amount of risk to take.

Euan McNeil: I agree with all of that. As a consultant sitting in front of the trustees, the biggest question for me is how much risk appetite you have and what the liquidity requirements are. When you have an extended period where risk assets are performing pretty well, memories are short and I think people perhaps don't factor in those liquidity considerations. Also, to the point that was made earlier on time horizons, I agree, you need to be clear about what they are.

Fazal: And, as always, you've got to have a real eye on covenant and the interplay there – have a real understanding of your covenant. Large schemes with large sponsors may have complicated group structures, and so it's important to really understand your covenant and the ability to meet liquidity requirements.

That covenant longevity and ability to underwrite investment risk is hugely important when it comes to how much you're willing to let out of the scheme.

Harrison: I spend a lot of time sat in front of corporates talking about run-on

modelling and different strategies, and the one thing that keeps coming up is, if you can run a bigger buffer than you need to over a reasonable time horizon, it actually covers quite a lot of the issues because it covers your liquidity issue, your risk issue, your return requirement issue, and so on. But it's persuading companies not to extract as much as you can as quickly as you can, but to go at a slower pace because that way you're going to get more stable cashflows.

Gillon: When it comes to investment risk, we've historically thought 'pension schemes have long-term time horizons'. That time horizon is now, at most, medium-term if not short-term, because even if you are going to run on for 10 years, that's now your timeline, not 'oh, we can ride out volatility, we can ride out markets'. So, that would change my investment strategy, because I can't afford for that dip to be so low that guardrails have been breached; or you get a change in corporate direction, and you need to be able to pivot. We can't think long-term like we used to.

Dougall: The other thing we're seeing with some of the larger schemes that are really thinking about long-term run-on is that, when it comes to investment risk, they're increasingly thinking in terms of CDI, cashflow-matching, and bond-type assets. The question they sometimes



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come back to us with is: How much return can I generate while matching cashflows? I think that will become an increasingly important part of the conversation as well, as it already is for insurance companies.

Portfolio design

Chair: Let's talk more about the portfolio. What should a run-on investment portfolio look like? And how should it differ from what schemes have done historically, if at all?

Downey: With the CDI approach, there is talk of dynamic discount rates. In theory, that is straightforward and the principles are logically sound, but the mechanics are a nightmare. It is very difficult – how often do you re-set the discount rate, what should the re-investment spread be, and what about the duration differences between the assets and liabilities? These are far more complicated than the intellectual clarity used to design the approach. So, going back to the main question, what do you do? Do you do a CDI approach with a bit of a surplus? Lock everything down to cover the liabilities and then invest around the edges more aggressively for the surplus? It could be that approach, or it could be a more traditional 'CDI-plus' approach.

Chair: I agree we are seeing conversations about dynamic discount

rates coming more to the table. Tim [Dougall], what are your thoughts here?

Dougall: There are different types of run-on. Some schemes are running on temporarily – they want to get to buyout in the medium term. Others are committed to long-term run-on – they're going to run for 10-20 plus years. And there is some crossover in those investment strategies, but you need to think about the flexibility around illiquidity. The schemes committed to long-term run-on can take advantage of the opportunity that is the illiquidity premium. Some schemes will want more flexibility.

When you're in that mature position, cashflow negative, schemes just have a lower risk tolerance because they're cashflow negative, they're paying out money, and if the funding level falls, that can accelerate, so you really need to manage the risk more closely.

I think you've got to start with the liabilities – there you've got to take lessons from the insurance industry. Life insurers manage large books of mature liabilities, and they do it using a cashflow-matching CDI-driven approach. Pension schemes don't have the same restrictions as insurance companies – they have different regulations, so they've got more flexibility – but I think that cashflow-driven approach is still very important. However, you can expand it out into a

broader range of cashflow-matching assets. So not just credit, you can move into secure income assets, into absolute return assets backed with swaps for example.

There's a broad range of

opportunities out there, but rather than the barbell strategy that a lot of schemes have taken in the past (where they've got their bond portfolio and they've got their equity portfolio), I think there's going to be much more focus on the mid-risk assets that are seeking to, yes, pay cashflows, but also generate a bit of extra return. And then you can have a conversation about whether it is liquid or illiquid. And also, in many cases, you'll have legacy illiquid assets that you'll need to think about as well.

Chair: What about the role of private markets there?

Ben Lucas: In terms of private markets and alternatives, for those schemes that have committed to that long-term run-on, there is obviously greater capacity to take on some illiquidity; but also bear in mind that private market asset classes can differ, they are not homogenous and they can play different roles within a portfolio. Private credit, for example, can offer some longer-term cashflow-matching contractual income; but, on the other side, you've got asset-backed finance, where actually it can be short-term duration, two-to-three years, self-amortising, so you're getting the cashflow match. So different parts of the private markets universe can suit different schemes.

Saying that, the starting point always is understanding what role you're trying to fulfil within the portfolio, and then ask the question, is a private markets allocation the best way of fulfilling that role? Is the prospective reward, the expected return, the potential diversification benefit, the structural protection sufficient to justify the complexity, the illiquidity, the fees and the governance burden? So that's how I consider it.





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It is also important for schemes to be able to distinguish between those strategic private market exposures that have been made with an active decision, and those legacy illiquids that are the result of previous decisions and endgame assumptions, which actually might no longer provide a useful role within the portfolio. So, continued ownership of those needs to be an active decision.

Dougall: What are other people's opinions on what should be in a run-on portfolio?

Robb: I think the higher correlation we have seen recently between equities and bonds is an important consideration when constructing run-on portfolios. Even if you're looking at short-term run-on until buyout becomes affordable, trustees may need to consider whether liquid alternatives should play a role. If there is a sufficient risk that the scheme drops in funding level because all growth assets have high levels of return correlation, some kind of diversifier may be needed to help achieve the funding objective even over a relatively short period.

Hunter: From our perspective, for our clients, we do tend to be more fixed-income heavy, so more focus on that credit space and the contractual income that will become so important if you're running on.

But the other side of it is interesting, the growth piece and how you are going to generate that return, because it can be very difficult to do that with low-risk fixed income assets. So, on the private markets, illiquid side of things, it's an interesting area, but it will be heavily dependent on the scheme itself and what the objectives around run-on are. But it must be purposeful i.e. what is the gap that it's filling? Is it diversification? Is it inflation hedge?

Is it to meet payments over time?

And then, on the governance piece – which is so important – you might permit illiquids, but how are you going to manage that? Are you going to review it annually? You need to know if this is an illiquid that you have to sell in secondaries, what is the haircut that we would get if we needed to sell this next year? So, the governance piece becomes so much more important as is really understanding what you're getting into, and how you review that over time. You can permit it, but you must be aware of how to exit if you need to pivot out.

Chair: It must be purposeful – that is such a strong statement. What about the different fund structures that these illiquids are held in? How does that affect things?

Lucas: Looking at, for example, evergreen versus closed-ended, I don't think there's one that is inherently superior to the other. It's very dependent on what the underlying asset class is, its role and what the overall scheme's liquidity objectives are. We're seeing a lot more evergreens coming to the market now, one reason is because they are going after the wealth market, but for institutional investors as well, there's still less of a governance headache with the evergreen vehicles. You don't need to consistently, for successive vintage years, recommit, continue that due diligence; you get that immediate diversified exposure.



Harrison: But is closed-ended easier to plan?

Lucas: For certain asset classes, for example private equity where there's a longer time horizon for value creation, you need that patient committed capital, and you can't easily sell some of these holdings, so I think closed-ended works very well for those. Of course, there's a limit to the amount, within the illiquidity budget, that schemes can hold of those closed-ended funds, but it again comes back to purpose.

But the key thing for trustees, with these evergreen vehicles for example, is always understanding what's underneath the bonnet. What are the sources of liquidity? When you're looking at a fund, the more important thing is the alignment between the fund structure and the underlying liquidity of those assets.

Steven: Do you think the introduction of LTAFs will help especially smaller schemes here?

Lucas: Yes, certainly. There are different types of LTAF – we've got our private markets access LTAF which was initially for DC schemes which has opened up for DB schemes that want some private market exposure.

Fazal: From a trustee perspective, some of us are coloured by experience,

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some of us have struggled with illiquids in the past and the advice we had at the time. That memory is there if you've been bitten, no doubt about it.

Added to that, I think the size of scheme, the governance budget and the sophistication of the trustee board are also all factors which need to be taken into account and being able to ask the right questions.

Gillon: And it's not about asking the questions today that you would have asked three years ago, it's about asking new questions relevant to the current environment. And you have got to take the trustee board with you on that journey.

Governance and run-on

Chair: Does run-on require a different governance and operating model? When and/or where can delegation to a fiduciary manager or OCIO provider add value?

Steven: Historically, when you had a buyout objective, trustees had one objective they were working towards. When it comes to run-on, you don't just get there and that's you done. You might be asking what you want to do with your surplus, for example – there will be ongoing objectives that you have to be

looking at. So, I would argue there is a lot more governance needed in run-on, and that objective can change over time. Delegation still fits within that model and could

even be more important because you are delegating a lot more to the provider, there is a lot more monitoring and implementation that's happening, but there are a lot of decisions that still sit with the trustees. So, if you're going down the delegation route, you have to make the decision of what still sits with you as trustees and what sits with your FM/OCIO etc.

Hunter: I would still ask the same questions, for whether to delegate or not, that I would ask a scheme that's not running on, such as: What is the level of knowledge across the trustee board? Would you benefit from having an experienced manager running the portfolio? How much time does the trustee board have to manage the day-to-day decisions? A lot of the questions you would ask still apply here. I can see also how, as Kirsty [Steven] said, there can potentially be a lot more monitoring when running on.

I think there are also benefits when we're talking about CDI/LDI and the importance of that for a run-on portfolio. I can see how that would be beneficial for a delegated model, and there are different ways you can approach that in-house too. But it does just depend, like it would for any scheme, of whether it's the right

decision for this specific trustee board and the specific scheme.

Chair: Matt [Robb], if someone has decided they want to do a form of delegation to a fiduciary manager/OCIO, and they've decided they want to run on, and perhaps they know exactly what objective they're looking for, would you look for different capabilities in that delegated manager?

Robb: Specifically thinking about investment governance, a key differentiator may be reporting. When delegating to an FM or OCIO within a run-on framework, reporting should be tailored to the specific objective of the run-on. If the goal is short-term run-on, the manager should have insights into insurer pricing dynamics and be able to report on pricing levels on a regular basis. Whereas, if the scheme is pursuing a long-term surplus extraction strategy, trustees may be looking for someone with more experience of working with long-term asset owners.

Chair: There are definitely more questions being asked of us about reporting capabilities. What other changes are you seeing Tim [Dougall]?

Dougall: Specifically, technology, data and AI are where we have seen the biggest changes in recent years, and that also goes to the nature of managing a run-on portfolio which, for a mature scheme, is different from managing an immature scheme. Because people are more focused on the risk, they want more data more quickly. They want to analyse it in different ways to see different specific metrics. Having different ways of thinking about long-term projections and sustainability is becoming increasingly important.

Hunter: More tailored, bespoke reporting, as well as just the general proposition, also becomes important for



L&G roundtable

run-on as it is so different for different schemes. So, being able to demonstrate that you can tailor, you can bespoke, is key.

Chair: Anne-Marie [Gillon], you have helped schemes of all different sizes when they're looking at some form of delegation. Now with this new optionality that is available, if somebody is looking at run-on, would you look for a particular capability if you were helping somebody select an FM or an OCIO?

Gillon: Yes – if I am running on, I need a manager that can look at things through different lenses. Somebody who's thinking ahead, who's thinking about what's around the corner, what could happen and one who can show me things in real time. I don't want the trustee board to have to be looking at this information themselves every day, but I do want to know that there's somebody who's managing the portfolio who can see where things stand and identify early warning signs and potential issues. That also feeds through to communication. I don't want to be told at a trustee meeting what happened up to the end of last quarter. I want effective, real-time communication.

Run-on success versus failure

Chair: Looking ahead 10 years, what will distinguish the schemes that have run on successfully? And what are the most likely reasons that a run-on strategy could fail?

Fazal: If you are talking about success, for me, the trustee, the members must have benefited. If the members haven't benefited as much as you thought at the outset, you haven't succeeded.

What about reasons for failing? That the risks haven't been properly managed and you probably didn't set up

the guardrails and the off-ramps at the outset, and that you're monitoring and governance around it hasn't been strong enough.

Harrison: And thinking about the guardrails, you can't just use one because, for example, if you peg yourself to insurance pricing, what happens if a regulatory change and nothing else increases insurance pricing by 10 per cent across the board? You might be forced into a buyout at exactly the point in time when it's completely illogical.

But I think the schemes that run on will come out the other end being glad that they did. Because I think the economic opportunity is stronger than perhaps the emotional experience of the pensions industry would lead people to believe. But who knows?

Paul: I think in terms of the reasons they could fail, possibly investment risk isn't actually top of my list in some ways.

I think investment risk is one that has been focused on a lot and there are solutions out there to help you manage that. To me, it's the factors that are maybe more outside of your control – mortality risk, covenant risk, and legislative risk – just look at the *Virgin Media* case as an example of that.

Craig: I would say one of the most likely reasons for failing would be inadequate governance over that time

period. We've spoken about guardrails, but we have just focused on investment strategy, and perhaps not factored in things like contingent asset arrangements and how you can actually mitigate risk; the likes of escrows and similar arrangements can be used effectively where trigger events can provide quite a lot of downside protection to schemes.

Chair: It's always fascinating to hear what people are thinking about, and what works for them and what doesn't. We have talked today about optionality, and that this new environment has given trustees the fuel to have that optionality, and to have a conversation about run-on when before they maybe wouldn't have. We have talked about covenant, and that continual review of the covenant; about guardrails and the off-ramps. And we have looked at how the environment is changing and is faster moving, so trustees need to adapt to that. We also highlighted the importance of effective reporting, and strong communication to members.

We also had, I believe, agreement that run-on strategies are already being put into practice by a number of schemes, and that the risks are different and need to be carefully managed. We are already working with trustees to implement these strategies effectively, and look forward to seeing how the broader industry discussion develops.

