**Summary**
- Active membership of all private-sector DB schemes is about 1.6 million. There are 6,000 DB schemes in the UK, but 5,000 of these DB schemes are in deficit. The total number of people who stand to receive DB pension benefits is 27.3 million, including 4.27 million current pensioners.
- Running costs of DB schemes are rising: up by 37 per cent, from £400 to £546 per member, between 2015-2016.
- Consolidation of DB schemes, or the sharing of services, has been recommended to deliver better value for members and scheme sponsors with lower risk and lower costs.
- There are concerns about multi-employer schemes making employers liable for debts of employers who no longer belong to the scheme, but unable to escape increasing liabilities without having to pay large exit costs.
- There is an argument that talk of DB schemes being unaffordable is overblown, as the size of a deficit is largely theoretical and is smaller if calculated on a 'scheme specific' basis rather than in terms of a buyout price from an insurance company.

# Time to panic?

**With membership declining and costs rising, DB schemes can be considered to be in freefall. Or are they? David Adams examines the ways DB schemes' issues can be tackled and asks whether DB problems are really as insurmountable as they appear**

In his iconic 1992 book about the life of the football fan, *Fever Pitch*, Nick Hornby lamented the apparent demise of elegant, creative passers of the ball, like his hero, former Arsenal and Ireland midfielder Liam Brady. "There are still a couple of passers in England," he wrote, "but then, there are still a number of blacksmiths." One day we will say something similar about DB pension schemes in the UK.

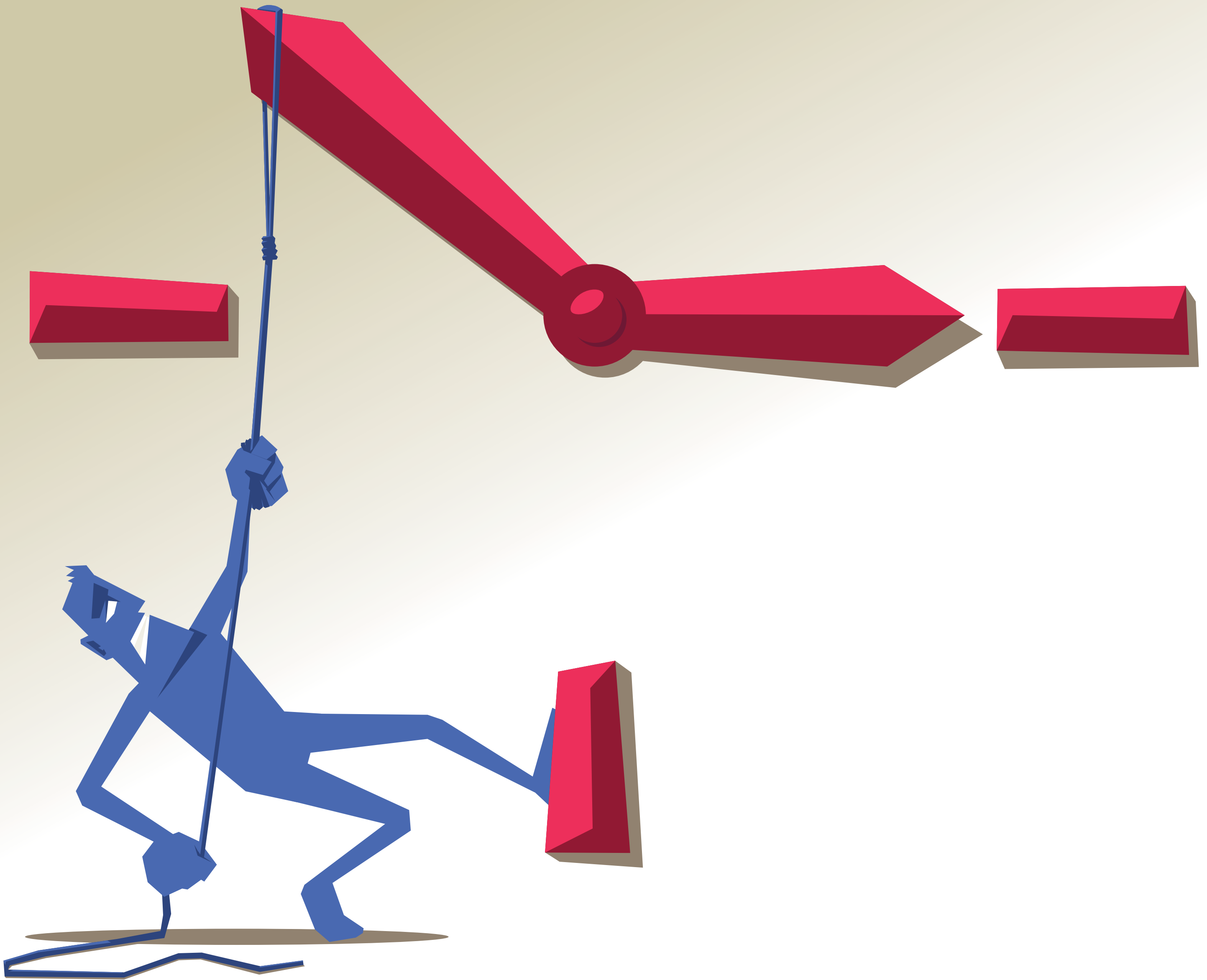
**Shrinking**

The analogy already suits in terms of numbers of private-sector DB schemes still open to future accrual. Active membership of all private sector DB schemes is about 1.6 million, according to the Office for National Statistics (ONS), but the number of active members in schemes that are still open to new members was just 600,000 in 2015, down from 1.4 million in 2006. Only 4 per cent of private-sector DB schemes are still open to new members, according to the Pensions and Lifetime Savings Association (PLSA).

But the total number of people who stand to receive DB pension benefits is still very significant: 27.3 million, including 4.27 million current pensioners. All will rely on the 6,000 or so DB schemes in the UK, some of which are very large, but many of which are tiny, with just a handful of active or deferred members.

About 5,000 schemes are currently in deficit (leaving just 1,000 in surplus); and the largest deficits may be threatening the financial viability or performance of sponsoring employers. The biggest deficits include those at Sainsbury's (£1.3 billion), Barclays (£1.1 billion after having had a surplus of £800 million as recently as the end of 2015); and BT (a staggering £11.5 billion).

Running costs are also rising: up by 37 per cent since 2015, from £400 to £546 per member, as a result of increased fund management and custody costs, according to figures released by the PLSA in December 2016. Research suggests 2017 may see the most insurer-based buyout and buy-in deals so far, despite the expense this entails: LCP predicts that the buy-in/buyout/longevity swap market



may be worth over £15 billion in 2017.

In October 2016 the PLSA's Defined Benefit Taskforce released its interim report at the PLSA Conference. Its chair, Ashok Gupta, told the conference that the current state of DB schemes threatened member benefits – in that schemes might fall into the Pension Protection Fund (PPF) with benefits reduced by 15 to 20 per cent – in all but a minority of well-funded schemes. He highlighted the relatively low awareness of this issue among scheme members and the negative effect that large pension deficits had on employer investment and the wider economy. The taskforce concluded that work should be undertaken to investigate how consolidation of DB schemes might be achieved.

Gupta pointed to the benefits of scale that the nine public sector local government pension schemes are expected to enjoy as a result of consolidation: cost savings worth £200 million over the next 15 years. "We need to understand how a smaller number of better-governed schemes could help deliver better value for members and scheme sponsors with lower risk," he

said. He called for further input from the industry in response to the interim findings, prior to the publication of the final report in March 2017.

In December 2016, The Pensions Regulator (TPR) chair Mark Boyle told the PLSA Trustee Conference that the regulator believed "there are possibilities to improve the funding position of some stressed DB schemes by reducing the costs associated with governance, administration and investment management" and by some sharing of professional services.

Former Pensions Minister Baroness Ros Altmann also believes some consolidation of DB schemes is necessary. She expects consolidation to be most useful "for most small and medium-sized schemes".

"Managing a pension fund has become more and more complex and, with most schemes now closed, the task requires extra diligence during difficult markets," she says. "With no new monies coming in, much of the hard work will need to be done by the asset management of the scheme and larger funds are generally more efficient."

**Coming together**

She acknowledges that consolidation would not work for all DB schemes. She also highlights the need to address problems with non-associated multi-employer schemes, where employers, including charities, may be held liable for debts of employers who no longer belong to the scheme. Ironically, some of these organisations had joined these schemes as a way to share pension risks. They are now unable to escape increasing liabilities without having to pay large exit costs (so-called Section 75 debts) based on the potential costs of buying annuities for their employees in the scheme.

Some form of sharing liabilities would be the biggest stumbling block to increased consolidation of DB schemes with varying funding profiles and benefits structures. "The only way around that, I think, is to think about flexibility in terms of benefits and regulation," says Russell Investments head of client strategy and research, EMEA, David Rae. "Consolidation would require a fundamental change to the current regulatory and trustee framework, to allow the degree of flexibility the DB Taskforce report calls for."

If a DB master trust had to be constructed without any cross-subsidy of benefits, this would undermine the rationale for consolidation, suggests Mercer financial strategy group senior partner Adam Hartshorn.

"A master trust of that kind would have a common management structure, but a whole host of segregated sections that would need to be managed as if they were separate schemes," he says. "You'd need individual funding policies and investment strategies. If that's going to be the case, quite quickly you start asking, what are the advantages of this arrangement? You would also have to decide what happens if an insolvency event affects one of the sponsors. So you still face all the challenges you have with lots of different, separate schemes, but a sponsor wouldn't have the same control and flexibility as if they retained a separate scheme.

"So personally I think consolidation in these master trust vehicles isn't going to work. It might work for the odd sponsor, but it's not the mass solution people are looking for."

A well-funded scheme with well-defined risk would be a much better candidate for consolidation, he suggests – but such schemes would also be very good candidates for a buyout arrangement with an insurer.

**Keeping calm**

Meanwhile, there is also an argument that talk of a crisis in an unaffordable DB system is a little overdone. TPR executive director for regulatory policy Andrew Warwick-Thompson made this case in a September 2016 blog entry. He pointed out – as have others – that the size of a deficit is largely theoretical and looks much smaller if calculated on a 'scheme specific' basis rather than in terms of the price a scheme would have to pay an insurance company to guarantee all of its liabilities in a buyout arrangement.

"The majority of employers will be able to ensure that their DB schemes are sufficiently funded to meet their liabilities as they fall due," he wrote. "There is a minority of employers whose businesses may fail in the future, and the schemes they sponsor may end up falling into the PPF – but that is why Parliament set it up."

Hartshorn believes the key priority for DB schemes at present is simply to manage their finances more effectively. "It's about having more financial expertise on trustee boards."

He also points to other solutions being devised to solve challenges faced by DB schemes, such as the solution Mercer worked on for the Weetabix DB scheme, which closed to new entrants in 2013, but is still open to future accrual. The scheme's investment strategy has shifted from a conventional strategy, including a significant portfolio allocation to equities, to use of income-generating assets, featuring long-term buy and maintain corporate bonds, alternative credit investments such as high-yield debt, multi-asset credit, income-focused property and private debt; and liability hedging funds.

Rae is hopeful that the DB Taskforce will be able to produce some useful ideas for how to meet the challenges faced by DB schemes. "I don't think the DB Taskforce will present its report and then we'll all say, 'Oh well, it's too hard'," he says. "I think the momentum is there to try to solve this problem.

"But it will require a change in the regulation, governance and ultimately the benefits promised to members. It's hard to see a solution – particularly the longer we leave it – that doesn't require those things."

**Written by David Adams, a freelance journalist**

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# Multi-asset roundtable

## CHAIR

**Jamie Patterson, Senior Investment Consultant, PwC**

Jamie Patterson is a senior investment consultant for PwC's pension investment consulting business, advising a mix of trustee boards and corporate sponsors on a range of investment issues. He has nearly 20 years experience of advising pension scheme trustees and sponsors on investment issues, and has worked with various scheme situations and sizes, from sub-£10 million to over-£1 billion schemes. His previous experience was at Mercer and Bluefin. He is a CFA charterholder and a regular event speaker.

**Alan Pickering, CBE, Chairman, BESTrustees**

Alan Pickering is chairman of BESTrustees and a trustee of a number of pension schemes. These include The Plumbing Industry Pension Scheme, which he chairs, and The People's Pension. Alan chairs the governance group of the Royal Mail Statutory Pension Scheme. He was a trustee of the Kosovo Pensions Savings Trust between 2011 and 2015. He previously chaired the financial literacy charity, Life Academy. He has served as a non-executive director of The Pensions Regulator and been a member of the Occupational Pensions Board.

## PANEL

**Kate Mijakowska, Vice President, Manager Research, Redington**

Kate Mijakowska joined Redington as part of the Manager Research graduate team in 2011, and now works with senior members of the manager research team to provide advice to a range of trustee and sponsor-side clients. Kate holds a BSc degree in economics from Sussex University, as well as a MSc in real estate economics and finance from the London School of Economics. She is a regular commentator to the pensions and investment press and a regular speaker at industry events.

**Percival Stanion, Head of International Multi Asset, Pictet Asset Management**

Percival Stanion joined Pictet Asset Management in 2014. He is head of multi asset and co-chairman of the Pictet Asset Management Strategy Unit (PSU). He has 35 years investment experience. Previously Percival was the head of the global multi asset group at Barings Asset Management. Prior to Barings Asset Management, he worked for BNP Paribas Asset Management, where he was head of asset allocation. From 1992 to 1998 Percival managed the global diversified accounts team at Pictet Asset Management.

**Chris Parrott, Head of Pensions, Heathrow Airport Holdings**

Chris Parrott is head of pensions for Heathrow Airport Holdings (formerly the British Airports Authority), responsible for the operation of all group pension arrangements and insured benefits. He has been working in occupational pensions since 1982, holding management positions for the operation of both public and private sector pension schemes. Chris is a fellow of the PMI and in 2013 was elected to the institute's council. He is also a member of the advisory council for AIMSE Europe.

**John Stannard, Client Director, CCTL**

John Stannard joined Capital Cranfield in 2016. He is independent trustee for the Mercer Master Trust (UK) and non-executive chair of UBS Asset Management Life. An experienced professional with extensive experience in the investment and pension field, John spent most of his career at Russell Investments, retiring in 2015. He has also been actively involved in industry initiatives, chairing the Global Investment Performance Standards Committee and the board of governors of the CFA Institute.

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# Defining multi-asset

## The *Pensions Age* multi-asset panel discusses what multi-asset investing means for pension funds today

**Chair:** The first item on the agenda is: what is multi-asset investing?

**Stannard:** Broadly speaking, multi-asset strategies are strategies that employ multiple sources of return and added value. Now that definition covers a multitude of sins, and one of the things we'll probably talk about today is the different kinds of multi-asset funds and where they fit in the strategy.

Pension funds have been investing in multi-asset for years, but the difference between then and now is that the governance framework has changed. Today, trustees get more involved in strategic governance than in the past, when they might just hand the money over to a balanced manger. So, that's one change.

Also, looking at some of the sources of return, for example equity alpha, term premium and credit spread – these are all sources of return that have been used for years to generate returns within a portfolio. The problem is, more recently these three sources of return have generated a good deal less than they might have done in the past.

Other return sources however, such as relative value – moving between asset classes, high yield – both domestic and foreign, and illiquidity feature more today in terms of what trustees should be considering as part of their investment strategy.

So the evolution is that trustees are looking at ways of being able to access those return sources, amongst others, as part of their strategy, and that's leading them think about a multi-asset fund or a multi-asset portfolio, accessing techniques that might not have been exploited quite so much in the past. That's a multi-asset strategy. Nothing new about that, but the way in which it is being implemented is different.

**Pickering:** We have to ask the investment management community to be open and honest with us and not to let the marketing department use a strapline that fits on a sheet of paper to appear to be a generic description of a homogenous product. Trustees are now much more open to having an intellectual discussion and their consultants and/or the asset management community need to come along and say: "We've put together this package of assets or strategies; this is how they are future-proofed; this is how you can get out of them if they no longer suit your needs; this is how we might want to evolve them."

Of course that isn't snappy and doesn't fit on a headline, but we shouldn't be blinded by headlines. We ought to talk turkey with the consultants or the asset managers as to what it is they're offering and how they think that offering might suit our needs.

**Mijakowska:** I don't like the label 'multi-asset' because it doesn't actually mean much, nor does the term 'DGF'. These terms can create confusion. Maybe it wasn't such a problem a few decades ago when multi-asset usually meant balanced funds but now we have risk parity, we have risk factor investing, we have DGFs and they all do different things. DGFs themselves vary – some are just have dynamic asset allocation strategies; while some employ relative value trades. They're not very comparable to each other, and therefore we should maybe lose these labels and try to focus on the individual strategies and what they do.

**Parrott:** I couldn't agree more. There is confusion amongst many groups. If you brought in 20 trustee groups and ask them if they were invested in multi-asset, they would probably say yes because they've got a DGF or they're invested in a fund of hedge funds or they're in a tactical asset allocation fund. Some clarification is needed around the term 'multi-asset' – the more you look at the topic, the more jargon there seems to be.

Then if we're talking about a multi-asset strategy that delivers something on style or momentum or whatever,

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suddenly we're into factor investing, so yes the definition should be clearer.

**Stanion:** We developed our multi-asset investment philosophy back in 2001. My team and I were very unhappy with peer group and market capped benchmarks, whereas the industry was clustering around these, managing its own business risk and it had lost sight of what the ultimate goal was of the investment management process, which was to meet a pension liability.

So, what we did when we developed the product – which actually has been called four different things over that 15-year period – is we went back to the first principle of: "If we have a liability stream to meet, how can we best meet that at the lowest risk possible?"

Looking back over the 100-odd years of our then in-house pension scheme, which we had the data on, we could see that before the First World War there had been a massively different asset structure than after the First World War, which was again massively different from the 1930s, and that was massively different to the post-Second World War asset structure.

That challenged us and made us ask ourselves: "Why should we always think about the same rough ingredients in the same proportions just because it has become the accepted norm?" It seemed clear to us that there had always been a multi-asset approach to solving the pension fund solution, it's just the industry had become ossified for various reasons to a particular way of thinking about the solution, and that we would serve our clients better by breaking away from that.

One of the things that I'm uncomfortable about now is that this 'breaking away' has gradually become mainstream, and once again you've got a clustering of people around strategies and packaged products, which have effectively become a new form of ossification – a manufactured product; you buy it because it sticks into a particular box that you've been told is a solution for you. That's probably why some people are now suffering from buyers' remorse. They're discovering that the thing that was put together had its own particular characteristics and those characteristics don't always work in particular environments.

We're currently going through a major turning point in the behaviour of assets, where a set of relationships that has been in place for a number of years is beginning to break down and re-establish itself. What that's throwing up is that quite a number of offerings actually had characteristics that may have been suitable once but that probably aren't going to be very successful in the future.

**Chair:** Do you think that the structure of pension fund decision-making – so the make-up of trustee boards, the skills on the board, how often they meet their advisers etc – is falling short? That actually decision-making, at a point that could be quite pivotal, is flawed?

**Stanion:** I'm sure that if I was sitting as an outsider, a non-city professional, looking in on this, meeting three or four times a year, I'd find it quite mystifying as to what the differences were between these different offerings. The consulting community does try to work out what the essential differences are between the characteristics of different products, but it is a struggle to actually communicate that to a non-specialist audience. That's why it gets simplified into short messages like 'DGF'. You need a growth asset. You've done your liability matching, so now you need some assets that will provide you with a bit of return, maybe, to reduce the overall cost.

That simplification process, while essential, comes with drawbacks.

**Chair:** I'd be interested in the trustees' perspective on this. Is this all too difficult for trustees?

**Pickering:** I don't think anything is too difficult for trustees provided that trustees are sensibly selected. Whenever we talk about trustee effectiveness we often skip the issue of board composition and there is now a healthy realisation that if Plc boards need diversity, trustee boards need diversity, but it's diversity of background and not necessarily diversity of intellect. We need people who are bright enough to take these things on board and arriving in a trustee board by election might not be the best way of producing a team.

Nothing against member-nominated trustees. Nothing against lay trustees, nominated by the company who have particular skillsets that aren't particularly close to today's debate. But they have to be put on that board because they are bright enough, because they understand how to manage sub-contractors. Many of them are managing £1 million sub-contractors in their day jobs, and it's just a case of bringing them together on a trustee board. Trustees are up for it and they are able to put in place rapid response mechanisms to facilitate change between pre-ordained meeting dates.

Where trustees are challenged is in

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the extent to which they want to buy products that are packaged or products that are broken down into smaller chunks so that they or their advisers might be able to create the sort of scheme-specific asset mixture that was referred to earlier on.

**Stannard:** There are a few reasons why the multi-asset fund discussion continues to gather momentum. One is we're in a very low return environment, notwithstanding the recent run up in equities. Expectations that most investors have for forward-looking returns, both in equities and bonds, are pretty low. We also have increased pension liabilities – again, there's been some fluctuation, but there are few pension funds that aren't looking at a sizeable deficit that they want to make up somehow. We've also got pricing anomalies in the government bond markets around the world, and particularly in gilts.

So, there's a perfect storm of problems, which is encouraging trustees to look for other sources of return, which perhaps in the past they didn't feel a need to access.

One useful way of looking at the benefits of multi-asset investing is by focusing on three things: access to asset classes; flexibility between asset classes; and the governance framework around the decision process. Those three factors suggest that multi-asset is an area that trustees should be looking at. But to implement a multi-asset strategy effectively trustees need to start with a clear understanding of (a) what their objectives are; (b) what mix of assets across the portfolio they should have - which might include multi-asset funds, de-risking, various other components; and (c) how those sources of return play together to meet those objectives. Also they need to be able to ask the right questions of the providers and be very searching in terms of understanding the solutions proposed.

**Parrott:** This objective point is important and I'm glad Percival *[Stanion]* mentioned liability targeting because that's what it all comes down to. Picking up on Alan *[Pickering's]* point, and I'm a great supporter of the trustee board, I don't think size does matter in all of this. I have managed some smaller schemes where the trustee board has been massively challenging. I also have the greatest respect for any trustee who will sit in a meeting and say to their advisers or their managers: "Look, I simply have no idea what you're talking about. Explain it in a different way."

It is a challenge but the direction of where you are going should be paramount to all of this; if you don't know where you are going, how on earth are you going to get anywhere on that journey?

**Pickering:** That really calls for a dialogue with the employer because the destination should hopefully be agreed. You might not agree on the estimated time of arrival, but you ought at least to understand where you're going. Where trusteeship is sub-optimal is where the employer isn't adequately engaged because again the employer, as part of their day job, is handling quite strange concepts and having to come to terms with disruptive entrants into particular marketplaces. I agree that we need to know where we're going, but we need to be embarking on that journey jointly with the employer and not sitting in silos.

**Chair:** That's interesting. At PwC we see a lot of employers and hear their views on investment strategy, and it's fair to say there are still some out there that probably haven't realised they really need to get to grips with the problem. Saying that, we have seen a real shift in the mindsets of employers over the last five years or so. You look back and think that each time something has caused the pension scheme pain, whether that be equity market falls back in the early 2000s, or the financial crisis or, more recently, falls in interest rates pushing the liabilities up. A series of shocks to the industry have actually pushed the company people who are tasked with dealing with the pension scheme to be more realistic about what the challenge is ahead.

What I think multi-asset is trying to do is deliver the returns that the schemes need with as little risk as possible. If there's a framework that can be agreed with the employer whereby a realistic time horizon is set and there is an acceptance that (a) it isn't going to be easy, (b) it is going to take that time and (c) returns are going to be slow and steady, then I feel that plays very strongly into using multi-asset as a form of reducing the volatility of that journey towards ultimately achieving the objectives.

**Mijakowska:** The question that was initially asked was: "Is this all too difficult for trustees?" I'd argue it's not too difficult, it's just that there are quite a lot of decisions, very important decisions, that trustees have to make on a regular basis and it's just deciding which ones they are going to have full control over and which ones they will delegate. My understanding of the rise of DGFs is that it was partly in response to that problem, because if you have a lot of volatility – you have the Brexit referendum, you have the Trump election – is it the best use of trustees' time to spend three hours debating whether they should increase or decrease their equity allocation in response to those short-term events? I

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would argue no. I'd argue that decision is better placed with a manager that's doing this day in and day out.

**Chair:** Do people agree that that is one of the key reasons behind the growth of the multi-asset/DGF-type strategies?

**Stanion:** Some clients have chosen DGFs as a type of less aggressive TAA-type policy, where they are effectively devolving equity exposure or risk asset exposure to the multi-asset manager. But other types of multi-asset product aren't that at all. They're not actually moving around the risk spectrum. Some of them may be fixed and have fixed proportions in different assets. Others may be relative value. There's no evidence of relative value moving around at all.

So yes, some of the more clear-sighted decisions have led to that solution, but in other cases people have been perhaps more confused as to what they were buying the products for.

**Chair:** That leads to this issue of exploiting relative value – the trustee governance process isn't really geared towards being able to exploit short-term opportunities in the marketplace. Some trustees will have investment committees that meet fairly regularly, maybe once a month. Maybe they have more insight. But the chances are that by the time they get around to making a decision and implementing that decision that opportunity may not be there anymore. So that's really best left to a professional firm that has the daily insights into the

marketplace.

The view framework is worth thinking about too. I can remember back to the balanced manager days, pension fund strategies were often set up with a long-term, 10-year view on markets, and that would create a kind of 'set-and-forget' type asset allocation. I think those days are gone.

Good multi-asset managers are taking a three to four year view and there's a very different set of factors that will affect those trends; and very often, for a multi-asset portfolio, it's those kinds of factors that will affect how the weightings in those portfolios go.

I think the key is: know what kind of influences you want in the portfolio, and be able to understand if the manager that you're going to select to do this has got those skills.

**Pickering:** I don't think that trustees should be involved in micro-managing either the assets or the liabilities. The choice is: what do you delegate and to whom? Whenever you're thinking of moving into new investment territory, the trustee board needs some just-in-time training. It needs to be contemporary training, and it needs to be delivered by somebody who hasn't got a financial interest in the outcome of that training. So someone will explain the new horizons, explain the new players, and outline how those new players might help you arrive at your desired destination without more volatility than you can cope with. Volatility can be your friend as well as your enemy, but it depends on circumstances.

So a lot of education is needed at the outset as to what you're letting yourselves in for, what might go wrong, and how you can get out it when that product no longer meets your needs.

But we mustn't allow this debate to be purely about defined benefit (DB) because increasingly our members are in defined contribution (DC) arrangements and I think, at the growth phase, most members want the same thing, which is steady growth without too many shocks. Saying that, they can cope with some volatility, particularly if money is going in on a regular basis as that might make up for short-term dips in nominal values of your accrued assets. But I certainly think there is a place in the accumulation phase of a DC member's journey to have exposure to different asset classes and different strategies.

Also, I am a big believer in defaults. If we see that 90-odd per cent of people are in a default that's good news to me, not something that we should be ashamed of. If it is in a default that is properly governed, members don't have to regularly get their minds around what differences there might be between the marketing label and what's in the tin.

**Chair:** Is the market providing better access to asset classes than in the past?

**Parrott:** I think it is. Gone are the days when you could only have a particular asset if you were one of the big boys and, particularly given the growth of DC, there is greater access for many of the smaller pots.

As far as DB is concerned, again I'm seeing greater interest and comments from my peer groups saying, yes, we're seeing greater access into these things that historically we may never have done purely because of scale.

**Chair:** The DC point is interesting. Percival *[Stanion]*, you were talking about your philosophy around when you were setting strategies up 15, 20 years ago. You could have been talking about DC actually.

**Stanion:** I could. We didn't have the business in that area at the time.

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We subsequently developed some DC business, partly because in the middle of the noughties, it became apparent that a lot of people had bought the early generation of DC default products which often put them straight into equities – tracker funds or whatever. There were quite simplistic menu sets that had been provided, and trustees didn't give a huge amount of time and attention to developing more complex products for them.

The problem with that was that people would only look at these things when they first signed up to them, and then they might only re-visit them five, 10 years later, when some financial disaster occurred. Then they would look at their financial statements and see that their funds had collapsed in value because very often they would have large amounts of risk assets in them. That would trigger an ending of the DC contribution.

**Chair:** So how did you address that?

**Stanion:** Well we felt that some type of volatility control band would be very attractive to people who were in continuous savings, and that if you could produce a return stream that avoided those big drawdowns, encouraged people to continue with their contributions, then you'd get the benefit of compounding.

The issue is that people have asymmetrical views towards risk, in that they want to keep what they've got, they don't want to lose it, and the problem is having the 50-year view – where the risk appetite may be more symmetrical – is only available to very few institutions.

I sit on an Oxford College endowment committee and you'd think they'd be able to take the very longest view about the distribution of assets, but the problem is that even they, within their own governance structure, have to demonstrate to higher bodies that they have managed the assets appropriately.

For instance, you might put everything into equities because equities have the highest risk premia, and are prepared to look through a 10-year bear market, and all the suggestions will tell you that's sensible. The trouble is, if you lose a third or even a half of the value in a short period of time, you will find people saying: "Well we can't do the next fund raising programme if you've just lost half the assets."

So, whatever the statistics of the long-term view about risk taking are, the reality is that we all live in governance structures that require us to answer appropriately over shorter time periods. We're subject to those human emotions that have huge regret risk.

**Pickering:** Outside of our bubble, the concept of risk is quite difficult to understand. Something is either risky or it isn't, and you can do all sorts of tests to determine how risk averse people are, but if you talk about relative risk, you lose people.

One area where I see these multi-asset funds as helping me is that in the past I've often been sold products that have been influenced by last year's market winners. I get offered an emerging market debt fund, and my traditional response is that emerging market debt is either too big a category, because there's lots of different debt configurations within emerging markets, or it's too narrow because there are lots of debt markets that might be useful to have but don't carry the sobriquet of emerging.

So if we can try and focus people, and particularly marketing departments, away from picking last year's winners, and allowing packages to evolve on a forward-looking basis, not being driven by the rear-view mirror, that would be good.

**Mijakowska:** But the same thing is going to happen as on a DGF level, so the DGF manager might not be victim to that problem, because they might understand the behaviour of biases, but then you present a DGF to a client and often the one that has done phenomenally well is going to get picked over the one that hasn't done very well, even though the one that hasn't done very well in the last 12 months might be a better one.

**Pickering:** But not if you're advising them. If I trust you as my adviser, you would go through your version of the process and tell me that past performance is no predictor of future returns. I may or may not believe you, but at least you've got the script.

**Mijakowska:** We definitely do that, we definitely try, but I would say statistically speaking the one that performed better is going to get picked by clients over the one that hasn't because of the behavioural biases that we all have.

**Parrott:** It's easy for a trustee board – some trustee boards, not all – to just focus on the numbers, because why wouldn't they? They're human beings after all, and if you're comparing something that will gave a 2 per cent return last year with something that gave a 12 per cent return, that 10 per cent difference means that they feel they can better justify their decision to whoever it is that they're representing.

But they should of course be

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# Multi-asset roundtable

challenging those numbers – asking: "Did they do so well this year simply because they've been lucky?"

**Pickering:** Another point worth raising is that in the old days consultants gave you advice and product providers sold you products. These days the consultants want to sell you products and the product providers want to give you advice as well.

**Stannard:** That's a very important point. I have been talking to colleagues about multi-asset generally and they have seen a few examples where small and medium-sized funds have talked to their advisers about ways of accessing multi-asset, they've been pointed to the advisers' own funds. How do trustees address that?

The key is to make sure that there is a clear understanding about incentives and rewards. If you think that your adviser is well-placed to provide access to a product, if the provision of that is done in a way that is completely separate from the objective advice, and if the advisers themselves are not remunerated in any way, that option could well be worth considering. But if the waters are muddied then that could be a problem. It's further a problem if you're relying on your adviser to show you the landscape of what's out there in terms of opportunities – if they have their own offering, they may not have access to research on other product offerings, and indeed competitors may not want to be researched.

That's, I think, where trustees are having to find their way in the dark. Yes, they can go to yet another adviser who specialises in multi-asset, but that means they're juggling between advisers that needs careful management.

**Parrott:** I have no issue about multiple advisers as long as the advisers are bringing their best ideas quickly rather than holding their best ideas back for their preferred clients first, or indeed their own internal funds.

**Chair:** Can we move on to the topic of benchmarking performance? What I see – and this is taking a very simplistic view – is that the equity market is up 10 per cent this year, but my DGF or multi-asset manager is up 3 per cent or is flat. That's poor. They've underperformed.

**Pickering:** Producing a benchmark for any evolving product is of course challenging but one of my schemes had, for its DC offering, produced a blend of multi-asset fund strategies and asset classes, and this year members are writing in and saying: "If I'd just had passive exposure to any mix of bonds and equities I would have done better." That prompted the trustees to revisit the decisions that they'd made, but because those decisions were made following advice, after a debate, with our eyes open, we knew what we were expecting and we knew market conditions that would help our strategy and market conditions that might hinder our strategy.

We've gone back to members saying, in the short-term, these comparisons don't put our mix in a very good light, but we're in this for the long-term and we still think we made the right decision three, four years ago. We'll keep it under review, but we're not going to buy last year's winners.

**Stanion:** You're almost acting as a servant - like in the parable of the talents; when the master returns you're required to answer for what you've done with the assets and you should be able to demonstrate what the pallet of opportunities were available to you and which one of those actually worked and which ones didn't work in any time period.

You wouldn't make a judgement of hiring a manager on one year of figures, but on a three, five-year figure, you need to be able to justify what you're doing relative to the blind monkey and the sensible mix of passive funds.

The sector this year has some significant questions to answer because it's not been a particularly bad environment for the asset classes that we typically invest in, certainly for a sterling-based investor. There are questions here to answer, particularly for certain sub-groups, which have sold themselves historically based on what were effectively bond portfolios that had a lot carry, a lot of roll down in them, with the particular risk characteristics of bond portfolios.

They've sold those as relative value plays and, actually, as the bond bull market has run out, they've found themselves running into a wall. The problem with that is that where they are now, they don't have the risk budgets – if we have passed into a new bond environment – to access any other forms of risk to make a return in the future.

So legitimate questions to them would be: "Where did you actually get your returns from over the last X years? What were the real skillsets you were employing and deploying? Are those skillsets, looking forward, capable of producing the type of returns that we need to meet our pension obligation?"

**Parrott:** Measurement is an important thing and it has evolved, but

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from a corporate sponsor side it would be difficult to accept if somebody has just given you a flat return compared to a benchmark of 5 per cent, when my liabilities have also gone up 15 per cent. We're here to pay a pension and that's the important driver to all of this in a DB environment.

**Mijakowska:** There are quite a few issues here. One is, what do you measure against? People like to look at equities and at some point they even looked at equities plus FX, or 60/40. Most funds that I have researched don't really say they benchmark themselves against this. They say we target cash plus or cash plus five, for example, as an absolute return target. That's what they promised you so that's what you should be holding them against. Look at a sensible period of time rather than ask what the DGFs have done in the last 12 months because that's not particularly relevant. That's the first confusion.

The second confusion is that, people ask: "What have DGFs done?" It's an irrelevant question because what does Standard Life GARS have to do with, for example, Percival *[Stanion]* does? Not that much. Putting all of these funds in one sector and measuring some sort of weighted index is absurd.

The third thing is that people are confused about risk adjusted returns. They look at absolute returns but ignore how much volatility that comes with.

**Stannard:** One of the challenges has been that when many of these funds were sold, in what was a somewhat higher return environment, they were billed as providing equity-like returns, and that can mean different things to different people. Some, I believe, perceived that as you will receive the return of the equity market at lower risk, and of course that's not really going to happen, and hence a sense of disappointment has arisen. That's one thing.

This 60/40 point is a really good one and needs to be a bit further investigated. I've seen comparisons of some diversified growth funds versus a 60/40 equity/bond benchmark and in several cases, they didn't cut the mustard. So, I think it is up to the industry to really be able to demonstrate what it's trying to do in these funds by making it clear it's a Libor benchmark or it's an inflation benchmark or a cash benchmark. Such benchmarks are actually very consistent with the liability targets or the objectives of a pension fund. So if the benchmark is understood, investors can evaluate success accordingly and not necessarily be concerned about underperformance when equity markets are going up strongly.

Maybe one of the answers is to try and build a kind of industry-standard definition or framework for the different kinds of funds. This will help trustees and other investors appreciate how they're different and enable them to evaluate multi-asset opportunities versus homogenous type funds.

**Chair:** We're clearly in interesting times. What lies ahead? There's a general expectation that returns from asset markets are going to be lower over the next 10 years or so. That seems to be the prevailing consensus even from houses that were traditionally more optimistic.

**Stanion:** It's the prevailing consensus because of the structure of bond yields and therefore interest rates – it's very difficult to see a route out of the current aftermath of the financial crisis and the debt mountain that's been built up that doesn't involve somehow or other bond yields rising from emergency low levels and negative levels back to something higher. Even without positing an inflationary catastrophe, that means that bond returns are going to be miserable.

It's good for pension funds in that hopefully it means that quite a lot of pension funds will be able to see their liabilities finally start moving in the right direction and that might actually offer opportunities to close out or cap what's been, for the UK small, mid-size pension scheme, a dreadful nightmare environment. But because of that interest rate structure looking out from a five, 10-year view, it's very difficult to see how returns from other assets wouldn't be affected by that, including equities.

Having said that, I think having that negative view has in fact influenced behaviour this year, which has meant that people have been throughout 2016 expecting catastrophe, and even when they've had really bad news, actually the markets have gone up. That over-discounting of what is a slow negative trend can be overwhelmed in the short-term by actually some better news.

Going forward, we've been saying for a decade that we think that people's expectations are structured too high, they should be low. We still abide by that, but what that leads us to do is be more selective in the assets that we use. Within equities, bonds and other assets you will find things that still do quite well, that are beneficiaries of this environment even if the averages are quite mediocre. Don't over-diversify just for the sake of it because you may find that, in itself, is a recipe for mediocrity.

# Protection required

**The FCA recently stated that a third of over-75s have been targeted by investment scams. A consultation into banning cold-calling was announced in the 2016 Autumn Statement, but *Pensions Age* asks: What more can be done to protect retirees from investment scams?**

"We welcome the consultation on banning cold-calling, but would like to see it extended beyond pensions to general investments and claims chasers as well. The ban should include text messaging, email and other forms of communication that cold-callers use to manipulate consumers.

It's not only policy makers that have a responsibility to act. The Personal Finance Society's national anti-scamming campaign calls on financial advice professionals to join the fight against scammers. They are best placed to spot potential scams and have a vested interest in contributing to the wider effort of protecting consumers.

In collaboration with the FCA's ScamSmart initiative, we're urging the profession to commit 15 minutes each month to scouring press, web and telephone promotions to help identify and report potential scams.

Retirees and consumers should make themselves aware of the common traps by researching a number of government websites that offer tips on how to spot and avoid scams. Common scams such as those that offer early access to pension pots can be easily avoided with some simple research. If someone is offering something that seems too good to be true, it probably is, and if there is any doubt, professional advice should be sought."

**The Personal Finance Society CEO Keith Richards**

"Pension savers getting scammed out of their retirement savings is a real issue. The problem is many of these scams look perfectly legitimate so are not easy to spot. Others offer investment returns that to be fair are too good to be true but people get sucked in. We work with many major employers to help educate their employees on what to look out for and the importance of getting regulated advice. Anything the government can do to help is welcomed."

**Wealth at work director Jonathan Watts-Lay**

"While banning cold-calling is important, it is not a panacea. Overseas calls will still be able to do their worst, as will attractive internet sites that pop up whenever you ask a pension question. It will take time for legislation to take effect and for the word to get around that cold-calls can and should be ignored. A popular and sustained media campaign is needed now to make it clear that good guys do not call you out of the blue about your pension, no matter how genuine they may seem. No need to wait for a change in the law – just hang up."

**PASA chair Margaret Snowdon**

"Pension scammers need an image overhaul to make them akin to door-to-door double glazing salesmen or people that sell DVDs down the pub or that Nigerian prince with the unmissable offer. People should react to a pension scammer with that same sense of ridicule and that the concept of engaging with someone like that is ridiculous. However, the general public do need to take responsibility for their own actions, whereby greed isn't good. To help people to understand how the scammers work and the unrealistic promises they make we need a major public awareness campaign that the BBC and Channel 4 have a public service broadcasting duty to support. *Watchdog, Rogue Traders, Rip Off Britain*; programmes that warn us about dodgy builders and an unlicensed plumber should move their sights more regularly onto these unsavoury practices."

**Broadstone technical director David Brooks**

"I am sceptical about imposing layers of bureaucracy on the current processes. The effect may be just to bog down the system and create inefficiencies that cost everyone, whilst spawning a new compliance industry and possibly opening up new opportunities for litigation where the new processes are not followed and losses are suffered. A ban on cold-calling is of course welcome – no one wants to be cold-called, least of all by someone trying to rip you off – but we must not be complacent that this will be effective or, if it is, that it will deter fraudsters from finding their way to potential victims. The reason why these fraudsters are able to run pensions liberation scams is because some people are vulnerable and open to being seduced by the fraudsters' promises. No bureaucracy can change the existence of vulnerable people or, ultimately, a determined fraudsters' ability to find those people and so, in my view, the government and regulator should invest heavily in educating people so they are better equipped to make sound decisions."

**Taylor Wessing partner Nick Moser**

"Most risks and warnings are focused on members at the time when they need to make a decision about their pension. However it is often the case that, as soon as the processes end, and the transfer – in many cases of huge amounts of cash – has been deposited into their bank accounts the member is forgotten. It's fair to say as an industry we need to do much more to support them with the investment decisions they need to take after their pension starts and their bank balance has swelled – a time when they are most vulnerable. Just like the process we use to educate members about pension transfer scams, we should be issuing investment scam warnings to members whenever we settle pension lump sums."

**Trafalgar House client relationship manager Toby Clark**

"The proposals to ensure registered pension schemes are supported by a genuinely trading employer and limiting the statutory right to transfer to actual employees linked to the receiving scheme will mean fewer people end up in schemes that are intended to scam them. However, the government's proposals could have gone further by re-introducing pensioner trustees for small schemes. This would help members to avoid high risk or possibly fraudulent investments within the scheme itself. Ultimately, the best way to help savers avoid being scammed is to create more trust between them and the people managing their pensions. Better and more regular communication does not require legislation and is easier to adapt when the scammers change tack, as they surely will."

**Royal London business development manager Fiona Tait**

"The government's proposals recognise a ban on cold-calling is needed to stop fraudsters contacting individuals direct. But it does not address the wider question as to how to deal with other types of electronic communications, including emails and text messages, or indeed calls made from abroad. Simply imposing an official ban on cold-calling will not in itself stop such calls being made or deter the fraudsters employing other means of ensnaring their victims. A more comprehensive solution must be found to block as many outlets as possible. The proposed wider action to limit the statutory right to a transfer to some occupational schemes is welcome, as is the plan to make it harder for fraudsters to open small schemes."

**Barnett Waddingham senior consultant Malcolm McLean**

"Unfortunately, where there's money, there's likely to be scammers at work. Investments and pensions are complex and it is easy to confuse and entice an investor who has limited knowledge and experience. The ban to stop cold-calling is a positive step and needs to extend to emails, texts and other forms of communication. In addition, consumers must be made aware of the ban because scammers are unlikely to stop soliciting business via these channels when they weren't meant to be doing so in the first place. Even when a scam is detected, identifying and charging the people responsible can be difficult and by then it might be too late to protect the victim of the crime."

**Intelligent Pensions head of pathways Andrew Pennie**