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MODERATOR



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

Lara is responsible for L&G's solutions distribution, leading the development and delivery of a sales strategy to drive L&G's global solutions business for institutional clients. Lara joined L&G in 2025 from BlackRock where she held the title head of UK DB pensions outsourcing partnerships, growing BlackRock's UK OCIO business in DB markets, and across CDC and endowment investors. Prior to BlackRock, Lara was head of UK fuduciary management business development for DB schemes at Van Lanschot Kempen.

PANEL



Mark Clews, Professional Trustee, Dalriada

Mark is a professional trustee and experienced investment consultant and is passionate about positioning clients to make the most appropriate decisions for them given differing aims and objectives. Mark deals with pension scheme clients with assets of up to around £400 million on investment matters and has worked with several household names. He has experience of a wide range of investment work including investment strategy oversight, with a focus on managing risk, delegated investment management and coordinating the implementation of investment solutions.



Michelle Darracott, Professional Trustee, BESTrustees

Michelle joined BESTrustees in 2023 after a number of senior strategy, digital and liability-driven investment (LDI) roles in pensions. She is a highly accomplished, award-winning senior business leader with a speciality in pensions, investments and technology. Her most recent executive-level role was as chief strategy officer at Smart Pension. Before that, Michelle worked at Legal & General Investment Management and spent eight years as a consulting actuary with Hewitt Associates (now Aon).



Tim Dougall, Head of Delegated Solutions, L&G

Tim is head of delegated solutions at L&G Asset Management, 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. Tim joined L&G in 2015 from Towers Watson (now WTW), where he was head of investment strategy for the UK delegated investment services business. Tim is a fellow of the Institute of Actuaries and graduated from Oxford University in 2002.



Hatty Goodwin, Trustee Director and Head of Risk Transfer, IGG

Hatty is trustee director and head of risk transfer at IGG, leading strategic de-risking and endgame planning for defined benefit pension schemes. With over 17 years of experience across investment consulting, governance, and risk settlement, she combines deep technical expertise with a pragmatic, results-driven approach. Before joining IGG, Hatty held senior roles in the pensions industry, advising on large-scale transactions and innovative risk management strategies.



Darren Masters, Professional Trustee, Capital Cranfield

Darren is a professional trustee at Capital Cranfield Pension Trustees Limited. Prior to joining Capital Cranfield, he was a partner at Mercer and headed up the covenant consulting business, having been involved in the covenant industry since its establishment in 2004. He is a chartered accountant and former restructuring and insolvency practitioner. He is also a regular contributor to the UK pensions press.



Lok Ma, Trustee Director, Law Debenture

Lok is a trustee director at Law Debenture, having joined in 2023. He has been working in pensions for more than 25 years, and in his prior role was an actuary and investment consultant at Willis Towers Watson. As a trustee, he works mostly with larger, well-funded defined benefit schemes, for which the topic of running on versus insuring liabilities is highly relevant. Alongside his defined benefit clients, Lok is also on the board for a commercial defined contribution master trust. He is a regular contributor to the UK pensions press.



Matt Riley, Client Director, Zedra Governance

Matt joined Zedra in 2008 with a decade of varied professional pensions experience ranging from documentation consultant at Prudential to consultant at Mercer. He is an Accredited Professional Pension Trustee (AMAPPT) and an associate of the Pensions Management Institute. Matt trustees to a number of defined benefit pension schemes with experience of schemes ranging in size from less than £1 million to £500 million. He is a regular contributor to the UK pensions press.



Mike Weston, Professional Trustee, Pi Partnership

Mike is an experienced pension trustee chair and non-executive director, bringing extensive executive leadership experience across pensions and investment management. His roles benefit from a strong history of delivering long-term value for pension schemes and their members through governance, investment strategy and stakeholder engagement. As the first chief executive of the Pensions Infrastructure Platform, Mike established a £1 billion infrastructure investment manager focused on core UK projects.



A time of opportunity?

Our panel of experts explores the potential implications of the Pensions Investment Review on the future of the de-risking space and wider pensions environment

Chair *[Lara Edmonstone-West]*: We were all delighted earlier this year when we finally got a direction coming through in relation to the Pensions Investment Review and the Mansion House reforms. The government wants to improve UK economic growth – that's on the agenda. It can see the collective amount of money sitting in UK pension schemes, defined benefit (DB) and defined contribution (DC), and thinks, 'what can we do with this?' The government wants to boost investment, and I think that's good for pension savers; it's good for asset managers; and hopefully a good opportunity for trustees to think about how to better invest.

But how do people around the table feel about the Pensions Investment Review? Does it present opportunity?

Michelle Darracott: I think the Pensions Investment Review does present an opportunity to approach investment strategy considerations through a different lens and, one of the good things that comes with regulation often is innovation. One of the reasons I've stayed in the industry so long is that nothing ever stands still, keeping us on our toes.

For a long time, buyout has been seen as the gold standard and it is still high up there, but it's always good to have choices because what's right for one scheme isn't necessarily right for all schemes.

Chair: I like the word 'choices' – choices are important.

Mark Clews: I don't think the investment reforms alone have led to increased choice or optionality. In recent years we've seen the consolidators, for example, come into the market and that's created optionality, which has been built on by the pension reforms.

I agree the review does create an opportunity, but you also need to have the building blocks and the regulatory changes to allow that opportunity to exist. The headline is there to say, 'this will exist', but how long will it be before we see those changes coming through?

Chair: Yes, in the past few years there's been more optionality, but have people been using the optionality to the extent they should or could have done?

Clews: No. If you consider the consolidators, for example, the idea was there many years ago, but it's taken a long time to get those first transactions over the threshold. We've seen a small number of transactions and, even within those transactions, we've seen changes to the structure of those transactions, which has meant that the optionality is further still.

Also, from a consolidator point of view, the gilts crisis has meant that some schemes that were potentially in their cohort can instead now consider buyout, given the change in their funding positions; or may even be in a position where there's surplus, so can run on.

Mike Weston: The review to me is almost playing catch-up with where the industry has been going in various instances – it is addressing a lot of issues and trying to put more structure around them. For example, the consolidation which the government talks about across the Local Government Pension Scheme (LGPS), DB and DC has already been happening, but there was a degree of uncertainty around how it should go forward and to what extent.

So, the regulation is catching up with where the industry's been going, which means that we can get there faster.

Darren Masters: The Pensions Investment Review does represent opportunity and that will drive innovation. But are we an industry that's stood still? Not necessarily. Twenty years

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ago, when we first formed the covenant industry – one line in a DB funding code – we innovated, we created things.

If there's one frustration, though, it's that we're jumping horses. We've gone through a passage where schemes have been pushed towards de-risking, with The Pensions Regulator (TPR) supporting de-risking, and we've got a lot of schemes heavily de-risked and in a position where member benefits are secure, and they're now suggesting an unwind of that. It's a paradigm shift in terms of direction of travel, but it does create optionality. It gives those schemes opportunities to stand back and reflect and say, 'yes, we have got to that secure position, but is there now something better we can do?'

Matt Riley: I think the innovation has been there. If you think back a few years, everybody was buying an annuity. That was the gold standard, and the options at retirement have developed over time.

The wider role of pension fund assets

Lok Ma: If you look back quite a few years, pensions regulations were very much about pensions within their own world. In the past few years, there's more of a trend to think about how pensions fit into the wider world and the wider economy. It started with ESG, and now with productive finance.

Darracott: And I like that! We saw from the gilts crisis the systemic importance of pension funds and, when



I think about my role as a trustee and what fiduciary duty means, maybe historically we've thought too narrowly about what fiduciary means from a trustee perspective?

Given all the money in pension funds, not just in the UK but globally, it's difficult not to think about the broader impact that pension funds can have.

Tim Dougall: We see that in the insurance space as well because, not only is there the Pensions Investment Review, but the government has also changed the solvency regulations for insurers, which makes it easier for them to invest in a broader range of productive assets.

Hatty Goodwin: There's an important point here – insurers have been positioning this as some form of intergenerational wealth transfer for a while. Now, I don't really believe the argument is either run-on or buyout, as it's more about setting a timeframe that is suitable for your scheme. But if a pension fund is going to be around for a while, there's a real opportunity to use its assets to benefit the community, the environment, or infrastructure. That's worth exploring. Of course, for lay trustees who are newer to investment, it can feel like a daunting subject.

Clews: I think the whole matching assets under Solvency II change is going to have the bigger impact because it allows that transition.

As a pension scheme, those schemes which are potentially five to seven years from thinking about endgame strategies, this is the time when you're thinking we need liquid assets to enable that transition to take place. If there can be a transition of their illiquid assets, good quality illiquid assets, into an insurance solution, then that creates that opportunity to say, 'yes, we will hold those because we know we can exit'.

We all know that the income streams from illiquid assets are almost perfectly aligned to what we need from a pension scheme point of view, but we've all been potentially burnt by the idea of going into them and not being able to exit.

So, we need to keep an eye on that illiquid allocation. For example, a 10-15 per cent allocation makes complete sense, but we all saw during the gilts crisis that allocation very quickly could become a 25 to 30 per cent allocation.

Weston: Paradoxically, I'm intrigued that we have now the phenomenon of Long Term Asset Funds (LTAFs) introduced to address DC investment in private markets. They could be an ideal vehicle for DB schemes that have exposure to private markets in that gap between, or while you're thinking about, run-on or buyout.

Dougall: In fact, we are doing exactly that with our private markets LTAF.

Asset allocation and run-on

Masters: I had a recent discussion with a client who wants to run on for 10 years – they're fully funded on a solvency basis, and want to re-risk. I asked what sort of target they were looking at, and they said gilts plus one/gilts plus one and a quarter. Are we going to use that money to invest in aggressive UK productive finance assets? Probably not. But it also depends on how you define productive assets.

Chair: Yes, it's different if it's a scheme that knows it wants to run on compared to one that has a transaction in mind.

Ma: I have a few schemes that are looking at run-on. There is a concern that some schemes may be looking to de-risk too much, even in a self-sufficiency, low dependency state – and by that, I mean taking the return target way down. I actually think one needs to retain enough return either to build up a buffer against bad experience or as a partial way of mitigating longevity risk. So, return-

seeking assets, even within a low-risk portfolio, definitely have a place.

That said, within the DB world, even given that argument, I'm not seeing many schemes go into very illiquid investments, just because they don't know whether people might change their minds about running on; there is more of a trend to go into what I would think of as semi-illiquid type assets. So, you still get the illiquidity premium, but it doesn't necessarily take two years to get out of it.

Goodwin: In the run-on debate, the covenant is key. You also need to consider whether you're looking at the investments holistically, or whether you've ring-fenced assets for annuity purchase if that decision is made. Then there's the question of genuine surplus – are those assets truly under trustee control? Who owns them in the end? Do they go back to members, or to the sponsor? If the sponsor is ultimately taking the surplus, they'll likely have views on liquidity, return targets, and intended use, especially since they bear the downside risk.

Masters: We often talk about the trade-off between illiquidity and return, but risk here is also important – obviously risk and return, that's the balance that we take as trustees.

Well, the risk-return dynamic we're looking at there, where we maybe have a surplus and we're running on to continue to generate surplus, is driven by who the surplus belongs to, but also who's taking the risk. So, if we have a buffer in the portfolio, I agree entirely that you want to keep some flexibility in relation to a portfolio for a number of different reasons (the implications of the *Virgin Media* case, for example – the known unknowns plus the unknown unknowns). But if you're consciously doing something, you've developed a framework, can you just run on in the belief that you've got a strong covenant, so it'll all be okay? Probably not. From a trustee perspective, back to the fiduciary responsibility point, not having that covenant framework seems like a risk.

Dougall: It's difficult for trustees now also because we don't have all the secondary regulation yet, so we don't know the detail of what the framework is going to be. That seems to me to be the key thing that people must be concerned about – it's difficult to commit to long-term illiquid solutions because we don't have the detail yet.

Clews: Also, the one thing that we've seen outside of the changes to the investment regulations is the DB funding code coming through, and that has put a significant emphasis on covenant and the sustainability of that covenant. All these things combined allow us more informed decision-making in relation to saying, 'how strong is that covenant not just for next year, but throughout this period?'

Masters: Covenant is 21 years old this year – it came from the 2004 Pensions Act, and it has come a long way since.

Weston: Sometimes we forget that, if you went back 10-15 years or so, pensions just would run on. People didn't really think about buyout unless all your members retired, and the numbers went down and down until you'd get to a point where buyout would be the logical final act. Run-on was effectively running a pension scheme to its natural end.

Goodwin: Schemes began buying in benefits to insure risks they couldn't manage themselves – longevity being the prime example. It's a major unknown. A buy-in policy provides a cashflow matching, longevity hedging asset – it is a secure position. Trustees also benefit from both sponsor covenant and the regulatory protections backing insurers. So, if a scheme is fully funded on a solvency basis and has surplus, but



chooses to run on rather than purchase an annuity, that's a conscious decision. If it hasn't been properly considered, it could be risky – you might think you're enhancing protection, but you're actually shifting the risk back onto the sponsor.

Changing directions

Chair: Do we think the Pensions Investment Review has made people focus more clearly on the end game, what they're doing and where they should go? Has it changed their mind on what they're doing? Or is it too early for that?

Goodwin: This is new territory – we haven't previously been talking about surpluses at buyout. It's a different world. If you look at TPR's trustee toolkit, it's still geared towards closing deficits. There's very little guidance for trustees navigating a buyout surplus position. And there are risks – if you improve your position based on that surplus, you could inadvertently harm your technical provisions position if circumstances change and you need to reassess.

Darracott: I have an interesting scheme with a neat arrangement in place. If their surplus gets to a certain point, 105 per cent on a low dependency basis, then the sponsor can ask for money. (It's quasi-government, so it's a very strong sponsor). But then, if the funding position falls below a certain level, the sponsor commits to putting money in. That's a good example of a structure that was put in place many years ago that works well and could be something for

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other schemes to learn from in the future.

In this case, the Pensions Investment Review has permitted us to consider if there is anything else that we should be doing a bit differently. Also, because in this example it is quasi-government, the UK productive assets angle is quite interesting for them just in terms of the broader sponsor discussion.

So, looking ahead, I think it's about putting more of a framework around some of the things we've been talking about for the past 10-15 years, and making them more uniform.

Masters: I agree that the Pensions Investment Review is a cause for inflection. For the past five years, people have been saying that buyout is the gold standard, but this review is at least making people step back and ask if there are alternatives. Absolutely, there are alternatives, so it's an opportunity to reconsider our strategies, to think about what it is we as trustees – in conjunction with the sponsor and while thinking about the members' best interests – actually want to achieve.

For most of these schemes, we are not thinking about run-on forever, but run-on for a certain period. I used the example earlier of a client that wants to run on for about 10 years, knowing that timeframe would get all the members into a position where they're pensioners. And after that point, they're realistically running an insurance-type vehicle. But this is the first time that they've had an opportunity to step back and think.

Chair: So that's somebody who's talking about perhaps a change in direction; and I hear snippets every now and again about schemes that were just about to do a transaction for a buyout and then they've paused for thought. So, do we think the Pensions Investment Review will change the landscape fundamentally?

Clews: I think everybody will think, at some point in time, that they will engage with an insurer. Timeframe to that? Who knows. For those schemes that are going through valuations/statements of strategy, I'd be very surprised if within that statement of strategy they're going to be saying, yes, they want to buy out, because that is quite bold.

So it's then a run-on. But if you then went to that trustee board and asked, 'what actually is your overall objective here?', it will be buyout, but it's the timeframes to that which are uncertain.

Ma: One of the things that has surprised me in these conversations is that, generally, the trustees have been a bit ahead of the corporates. When the regulations came out, my expectation was that corporates and advisers would be rubbing their hands thinking there's money to come back. But, by and large, on most of my schemes, it's the trustees that have been doing quite a lot of thinking in preparation for an approach from the corporate which typically hasn't come yet. I was a bit surprised by that.

Smaller schemes

Chair: Can I get Matt *[Riley's]* view here – you work with some smaller schemes and you said primarily their destination is to go to an insurance transaction. Do you think any of this will change that? Do you think they might aim to get there eventually but take a little bit longer because they do something else along the way?

Riley: I don't think so – they are too small. The actual getting the surplus out, it's just not viable, I don't think.

Chair: Is there an area of the market where they perhaps need a greater level of support to be able to understand how they can do it because, typically, it's an area which hasn't been governed perhaps as effectively? Will all this help crystallise a different level of support for those such schemes so that they can still access this opportunity and do something?

Riley: It's the classic case of them learning from the experience of larger schemes and then bringing it down to the level and the affordability for the smaller schemes to be able to take that forward.

Dougall: Also, with the growth of professional trustees, you are seeing a lot more of them helping those smaller schemes in that space. So, for a small scheme to run on, you need good governance and the growth of the professional trustee model is a fundamental part of that.

Riley: Yes, it's about bringing all of the options to the table. So, as with any decision, as a trustee you work your way through the options to ask, 'Is it a yes? Is it a no? What's best for the scheme?'

Masters: My view is that, over £500 million, you've definitely got optionality. Below £500 million, your options start to narrow. Below £50 million and £100 million, where are you going to go? You're probably going to go to the buyout market. It's just a question of when.

Clews: Also, with the smaller schemes – especially those that haven't been well managed in the past – the main challenge when looking to an insurer is data, and data quality. Until that is sorted, your timeframe to engage with an insurer is anybody's guess.

So, whilst you might be well funded and potentially in a position to transact, how much engagement are you going

to get from the insurer to say, 'yes, we're willing to work with you?'

Riley: Once you start digging and looking in detail at the data, you find issues, don't you? We definitely do find issues that comes out of woodwork when data is reviewed.

Portfolio implications

Chair: So Tim *[Dougall],* when you talk to people and they're looking at their asset allocation, to what extent will some of these changes drive a change in asset allocation?

Dougall: Going back to the macro view, what's the government trying to achieve with the Pensions Investment Review? It is trying to avoid fragmentation, and to encourage a shift in mindset towards a focus on value rather than purely cost. If you start from that, you'd expect to see more consolidation, with larger schemes running on for longer, potentially with more complex portfolios, looking to access productive finance investments such as infrastructure, real estate and other private market assets.

That's the big picture government goal. That's what government wants to happen. It wants schemes to set themselves up to do that. Will it happen? There are a lot of operational challenges in the way – we need to have the new regulations and we also need buy-in from lots of people to make it happen.

In practical terms today, the conversations we're having with clients are typically about their long-term goals – are they aiming for buyout? Or run-on? Do they need flexibility? And so, yes, people are thinking in theory they might want to have more illiquid assets in their portfolios, but they just can't decide on that yet. So, they want optionality.

Weston: If we are talking about small schemes we have to recognise that many won't really control detailed asset allocation because they've outsourced to a fiduciary manager (FM) and given that FM a number of high level objectives. It's then the FM that's deciding on the underlying asset allocation, including how much illiquids go into the portfolio.

Compulsion

Ma: We talk about 'productive finance' and then we talk about 'UK productive finance' – which are very different. In relation to UK productive finance, within the DB space, it doesn't really come into the conversation very much. In the DC space, there are arguments for and against. But the best incentive to invest in the UK is through a tax incentive – what's been universally unpopular is the idea of a reserve power to compel pension schemes to invest in the UK.

Chair: Do you have a view on that?

Ma: As a trustee, I will take into account the things that I'm told to take into account. So, if the regulatory regime changed so that I have to invest in UK assets, I will do it. Do I think it's in the best interest of members? It's probably a balance between the fact that pension members have benefited from a tax incentive in the past, so is there a quid pro quo that the investment is in certain areas that should benefit the government and the wider population? I don't have a strong view on that. I'm just waiting to be told one way or the other. Personally, I would prefer a tax incentive, which is the driving force behind the rise of pensions for the last however many years.

I'm not down on UK investments, it's just that a wider toolkit is always better.

Dougall: I think it's fine as long as the supply side's managed as well, because they're trying to fix the demand side here, and the danger is you put a whole bunch of capital into a market that doesn't have enough supply and force up asset prices, and that's not good for the end saver; so as long as the government also makes sure there's sufficient supply, then it is arguably OK.

Masters: But what is productive finance? What do they want us to achieve? If this is about investment in startups, my background is as an insolvency practitioner and where do you see most of those startup businesses ending up? These are not established businesses, so it comes back to that risk-return dynamic, what are we trying to achieve here? And from a DB perspective, I find it difficult to consider this as an asset class that I want to invest in, even in run-on.

Riley: And in the DC world, it's about the default – and is the man on the street going to be able to understand investing in these assets?

Masters: It's also about increasing that pot, isn't it? It's about adequacy. It's about making sure we're trying to deliver better return, good for the member, good for the economy. And that's a different dynamic. In the DB world, you're delivering a benefit. It's a set benefit. Yes, again, you can drive some surplus, but it comes back again to what's our fiduciary responsibility as trustees? To deliver the benefits that are due and not necessarily to drive surplus.

Clews: I like what Lok *[Ma]* said, which was, basically, until we're mandated to do it and told to do it, I would struggle as a trustee to go down that route, given the risk that those UK



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opportunities could drag on return and lead to an issue in relation to meeting the member benefits.

Now, it all comes back to what allocation you're making and what funding position you're in and everything like that, and whether it is just the surplus piece. Because, on this point about surplus being distributed to members and sponsor, ultimately, if the members are getting what was promised, is there an expectation to get more than that? That is a discussion to be had. But as long as the security of those members' benefits isn't at risk, it's a discussion to be had with the sponsor then, I think.

Dougall: Yes, if that surplus pot is viewed as part of the company's assets, and they want to invest in venture capital, then maybe.

Clews: I also agree that, while I think the appetite for illiquid assets is there, I don't think the architecture and the solutions are – that's the barrier! It's not necessarily whether everybody around the table thinks it's a good idea – illiquid assets in general are probably a reasonable idea. UK over global? That is a discussion to be had. But I don't think, in the UK at the present time, the architecture and the solutions and the opportunity set are there.

Weston: The key here is that productive assets cover a range of things. I would be completely comfortable – because I have an investment and infrastructure background – putting core infrastructure in a DB portfolio because it's long-term contractual inflation-linked income – perfect. And private markets asset classes in a DC master trust that's got a 50-100 year investment horizon? Absolutely.



It's about the right private productive finance asset in the right place to achieve the right outcomes, and recognising the outcomes are very different for mature DB schemes that are thinking about run-on or buyout as opposed to an open, functioning master trust, as opposed to an LGPS fund, and so on – the right asset for the right type of scheme.

Governance and fiduciary duty

Ma: Can I ask an LGPS question? In the private sector, there's increasing professionalisation of people like us joining governing bodies. I know the government proposals include some changes to the administering authorities, in an effort to improve governance, but I think they've got watered down a little because the independent advisers end up not having a voting power. Do we feel like that world could benefit from a similar trend towards having more professionals involved? By size of assets, they're massive.

Weston: The biggest differentiator here is the independent advisers that are in the sector at the moment are mostly investment focused, and the government's push is to bring in people with a broader pensions focus. And I fully support that, because the pensions world is very complicated and adding that governance and experienced pensions resource into the LGPS will be very beneficial. But I haven't seen much of it yet. When and if that starts to happen remains to be seen.

Ma: What would make it happen?

Weston: It will need a regulatory push to make it happen.

Chair: Picking up on governance, generally the industry is getting more complicated. What is the role of the advisers to help with all this? What do trustees need to be able to unpick some of these choices?

Ma: We touched earlier on the lack of clarity over our exact fiduciary duties as trustees/different interpretations. Some people think our duty is purely to look after guaranteed benefits, historical accrued benefits; other people have a more holistic view about the sum total of what you get. I know there are strict legal definitions and interpretations of what they are, but if the government wanted to encourage more of the 'how do pensions fit into the wider world?' type mentality, some clarification there would be helpful.

Weston: I personally have never felt unnecessarily constrained by fiduciary duty. You mention a strict legal definition, I think there is one, but it's still open to broad practical interpretation. When I hear people say, 'let's do a legal review of fiducial duty', that to me is an excuse for doing nothing. It would take a long time and probably not get us a whole lot further.

My own fiduciary perspective is that we've got two ends of the spectrum here: Do I want my members to retire with the most fantastic pension, but in an awful world? Equally it would not be good to have a brilliant world that my retired members have no money to spend in. Inevitably I'm somewhere in the middle. So the question is: What's the right level of pension and what's the right quality of world to have members retire into? I don't think that will ever be defined precisely by a fiducial duty. That is going to rely on the members, the environment, the trustees, the experience and, as long as we are within that spectrum, I do not feel I am constrained by fiducial duty.

Goodwin: There's definitely a

shift in priorities in this new decision-making environment. The assumption that members' benefits are fully secured on buyout is a big one – they may not receive the same terms, and could lose out on factors, transfer values, and other elements. Similarly, assuming the insurer offers greater security than the sponsor isn't always accurate – we've seen consolidation and turnover in the insurance market, which can be unsettling from a member communications perspective.

Then there's administration – reviewing data and records is essential, but if members have had poor experiences and find the same administrator on the buy-in side, that could be problematic.

There are many consequences to either running on or transacting, and I don't think we're currently good at stepping back and defining our priorities. Are we focusing on discretionary increases? On admin service? Are we prioritising the person who's picking up the phone to our members when they are calling with a question? And then working out what the right solution is that fits our own individual objectives? And they're so different scheme-by-scheme.

Chair: So what value can the professional trustee bring to schemes here, and what does that mean for the governance framework?

Darracott: I don't think my value as a professional trustee is the fact that I've worked in pensions for 30 years and done a variety of things and understand pensions. Obviously, that's helpful. But the biggest value I bring as a professional trustee is being able to ask the difficult questions, or even the easy questions that nobody feels comfortable asking. Also to know when I need to bring in the investment managers, when I need to bring in the advisers, and have a collaborative conversation to be able to answer some of the questions and assign the right priorities.

Chair: What are your thoughts on the definition of fiduciary duty here?

Darracott: I've never felt particularly constrained by a definition of fiduciary responsibility because, with the number of professionals available in the industry, collectively, with the right people in the room, we should be able to come up with a good solution.

Yes, it would be helpful to have framework stipulated in regulation so there's more consistency, but I don't feel like I have to wait for those regulations to be in place to be able to have productive conversations.

Masters: I agree the role of a good trustee is about asking those difficult questions. Most of the advice we get is the 'what?', and the bit where we add value is asking, 'So what? Why? When? How?'

So, how does a professional trustee add value? Particularly if you come on to a new trustee board, it's that ability to look and ask, 'Why are we doing what we're doing and how have we got here? Is it the right place to be?'

Clews: I would argue that the additional value a professional trustee can have relative to just a single independent is being able to bring the experience not from our backgrounds in our industry, but having the experience of working on different schemes, and being able to cross-fertilise that conversation to say, for example, 'this is something we need to consider now, because it's something that has come up and reared its head elsewhere, and this is what we need to do'. That's really important, and it's almost an unperceived value that independent trustees can bring.



Riley: That's the key bit, taking the best bits, the best people's ideas.

We are all going to approach a particular aspect differently, and as long as you've gone through the process, looked at the problem, discussed it with the people who have experience, then that has to be better governance.

Dougall: Do we think the industry in general is in the right place here? We hear all the time that the industry is slow moving and government wants some change. It wants capital invested. Do we think the industry overall is in the right place to make those decisions quickly? Is that going to happen, or is it just going to be a few years of nothing?

Weston: Arguably making decisions quickly is certainly not the best idea. There's a sweet spot. You don't want to be too quick, because then there's the risk of unintended consequences. But you don't want to be too slow. So I wouldn't be focused on making quick decisions, but the right decisions.

Goodwin: Rapid acquisition of knowledge is key. Having a professional trustee in the room who's up-to-speed, able to lead the discussion, and cut through the noise is invaluable – especially given the sheer volume of information we're all dealing with. Filtering that and pointing people in the right direction is essential.

I do agree with Mike *[Weston]* – it's about getting the knowledge first, then taking the time to make decisions within a well-considered framework.

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Ma: For me, the merits of professional trusteeship lie in the fact that we are now facing very existential choices. It is not the kind of 'how quickly can we get to buyout' discussion we have been having in the past. The run-on versus insurance settlement question is kind of probabilistic in nature, because you really need to understand the risk versus benefits-type stuff and that could benefit from a professional viewpoint.

Intergenerational fairness

Ma: To follow on from this discussion, trustee duties are to the membership, that's a basic definition, but increasingly trustees and professional trustees need to think about intergenerational fairness across different layers of membership. When I hear about discussions around surplus sharing, discretionary increases for example, all that sounds great, but you do need to ask, 'Are we in a situation where potentially one layer of the membership is getting all the benefits out of a surplus position, whilst another layer of the membership is essentially taking on the long-term risk of not settling the liability sooner?'

Chair: So how can trustees look at that intergenerational fairness, if you're looking at the employer and the members and other beneficiaries?

Ma: One idea is the ability to distribute surplus through lump sums rather than by piling on top of pension amounts. The reason we like that is because it allows for much easier ways of enhancing everybody's benefits in a way that's fair, and it also does it in a way that doesn't pile on obligations and expectations for the future.

If you give a couple of discretionary increases, all of a sudden is it a long-term liability that you need to keep providing for? A lump sum is much cleaner, you're not committing yourself to future things, and it is much more flexible.

Riley: It's easy to communicate and understand from a member point of view as well.

Chair: We were talking about the benefits of a professional viewpoint, and I loved Hatty *[Goodwin's]* phrase, 'cutting through the noise', as that's so important. And we were talking about how you can learn from other schemes – that's something you bring, cross-pollination.

How does that work for you in your world, Tim *[Dougall],* when you're looking at your clients who come to L&G for delegated services? How do some of the clients benefit from what your learnings are and from your experiences on other schemes? Because it's probably got some similarities.

Dougall: Yes, there's a lot of crossover. In a sense, fiduciary management is a consolidation model – you're allowing multiple schemes to benefit from the provider's experience and scale, you're consolidating the ability to source attractive investments, to manage risk, to access to a robust operating platform.

It's always been difficult to consolidate on the liability side, and that's what schemes have traditionally had to move to buyout for, but an outsourced chief investment officer (OCIO)/fiduciary manager is a way of accessing the benefits of consolidation on the asset side.

ESG

Masters: Are you under more pressure to report more from a stewardship perspective as well?

Dougall: Yes, definitely, but as a positive pressure point.

Masters: We're asking the questions more and more because we can't simply just say, 'we've given you the money to look after, tell us how you've done'. We want to know how it's been done, and what you're doing in terms of those interventions.

Dougall: And that filters down. So trustees get pressure from regulators, from the government, and then the role of the fiduciary manager or OCIO is to help examine those issues and make sure that they're addressed.

Riley: The pensions industry is a large voice from an ESG point of view, in the background. 2030 is drawing ever closer and we are having to ask those difficult questions as an industry.

Chair: I am pleased that ESG has been raised today because it was a big focus point in the industry a few years ago, then it has gone a little bit quiet, depending on clients; but I think the traction is coming back and maybe it's because the target dates are getting closer.

Clews: ESG was pushing its way up the agenda in the lead-up to 2022. Then 2022 came around, the gilts crisis happened, and it got pushed back to the bottom because there were bigger issues. Now, funding levels have improved and it's pushing its way back up the agenda again. But it's all about data. From a fiduciary management point of view, six years ago getting the data from the underlying was very difficult. It's now more readily available.

Weston: If you went back pre-2022 when it was pushing its way up the agenda, that's because it was different. The assumption now – and certainly my experience – is that it's being done. It's become mainstream, integrated into everything. That's why we're perhaps not

talking about it, because it is being done as a matter of course.

We see lots of reports from the managers and fiduciaries about the ESG activity that's being done, which we would not have seen five years ago. The managers that are not doing ESG are now definitely in the minority, if any of them exist at all. So, now it's about checking how it's being done, the levels at which it is being done and avoiding greenwashing.

Dougall: TCFD analysis as well, at least for larger schemes, was initially about making sure that the essentials were being covered, but the conversations we're seeing now are more around getting into the detail on strategy.

Goodwin: There's a strong member engagement angle here. ESG is an emotive topic, and especially as we are in the middle of Pension Awareness Week, it's often the one area that genuinely sparks interest from members. If a scheme asks about ESG-related issues, it tends to get a response – which is rare.

So for me, it's less about ticking compliance boxes and more about asking members how we can use their money in ways they actually care about.

Government asks and key take-aways

Chair: What would you be your one ask from the government to make your life as a trustee easier?

Ma: Distribution of surplus via lump sum.

Clews: I would like some continuity. Four years ago, the regulation was pushing us to de-risk to a level that buyout was the objective. Now there are more options out there, yes. But what I don't want to see is that, in two, three, four years' time, because things haven't happened quickly, for the government rhetoric to change. The government has made a decision. I'm not yet sure whether it's the right decision or the wrong decision, but stick to it to allow us to implement some of these changes because flipping from one viewpoint to another doesn't help.

Riley: I agree with the stability bit, and take the party politics out of it and let it settle. That probably applies to health, education, everything! But the key point is to let it bed in before then tinkering with it again and having to reassess it.

Goodwin: And we would prefer carrot not stick – avoid mandation. Guidelines, yes, frameworks, yes, but mandation puts too narrow a focus on one particular piece.

Masters: I'd say don't paint trustees as the bad guys. We're being challenged now to reinvest for productive growth in the UK economy, having been pushed towards a position of de-risking. We've changed the course massively and, to an extent, there's a risk that we get painted as the bad guys because we're not supporting the government's growth agenda. Well, fiduciary responsibility and member interest is my key driver.

Chair: Any other key takeaways?

Weston: My key takeaway is consolidation. From my perspective, consolidation is a good thing because it has the potential to increase professionalism, expertise, and scale does tend to reduce costs.

Secondly, I accept that our world is getting more complex – we have a broader range of options to consider. That's where professional trustees can help because we have the experience to look at that more complex environment, to ask the right questions and then to take considered decisions on that basis. Hopefully, if we do our job properly, that will feed through to better overall holistic outcomes, for the members, sponsors and the broader environment.

Darracott: I agree – we play important roles as professional pension trustees, but coming to events like this reminds me just how important the co-creation of solutions is, and that we continue to have diverse views around the table, and that we do challenge the way things have been done historically, because there's always room for improvement. That's not about taking sudden jerks in a new direction but asking whether there are ways that we can continue to evolve.

It's about evolution for the benefit of the member. In DC, members are actually interested in how their money is being put to use. And if we can do more of that, get members more engaged through having productive conversations around what we're doing with the investment strategy, that would be great.

Dougall: In terms of my key takeaway from today's discussion, I think the Pensions Investment Review is a catalyst for change, but it's going to require engagement from a lot of different industry participants to make that change happen and get the outcome the government wants.

It seems to me there is a lot of engagement in the industry and the point that was made earlier about trustees thinking about what to do with surplus even before sponsors, that was interesting.

But it's up to the government to follow up with the secondary legislation and to provide the consistency and the timeline to allow the industry to develop.

