DB surplus
How trustees can make the most of their current DB surpluses

Gender pensions gap
How the pandemic has exacerbated the gender pensions gap

Cryptocurrencies
Is it time for UK pension funds to make an allocation to cryptocurrencies?

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April 2022

PENSIONS Age

The leading pensions magazine

Annuities: *The role annuities still have to play in the decumulation market*

DC: *Regulators' and pension providers' increased focus on DC retirement outcomes*

Watering ESG goals

How the strength of the employer covenant influences their pension schemes' ESG appetites

INSIDE: Pensions Age Awards 2022 Winners Brochure


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Editorial Comment

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

Pension funds' investment is going through a process of evolution. Starting in the cosy world of DB funds investing 60/40 in UK equities/bonds, pension schemes have since expanded across the investment landscape, taking in a wide variety of asset classes across many different regions.

There are still barriers to be broken here. For instance, as our news focus on page 10 and feature on page 54 explain, illiquid assets can be a good fit for DC schemes, due to their illiquidity premium and stable returns, and so efforts are currently being made to enable DC schemes to more easily invest in this area.

I remember not too many years ago, high up on the list of industry conversations was *how* pension schemes should invest – that good old active versus passive debate. This has started to rear up again, with some highlighting how active management can prove its worth through it engagement on environmental, social and governance (ESG) issues or Russian divestment, for example.

So, while the conversation of where and how to invest never truly goes away, more debates and goals are added into the mix as time goes on.

Having bubbled away in the background for so long, the past couple of years have seen ESG considerations and ethical investing boil over to the top of the agenda.

To what extent pension schemes are considering ESG, beyond that of regulatory duty, can often be dependent on the strength of scheme's employer covenant, as our cover feature on page 52 explores.

But just as pension funds look out and see the influence they wield for society/the environment/the world at large, so too has their vision now turned inwards, to consider the impact they can have on their members' retirement wellbeing.

Trustees' fiduciary duty to make the best financial decisions on behalf of the member has always been enshrined. However, since 2015's pension freedoms, there has been a growing awareness that members need help to make the most of their retirement savings. This year, with all the financial challenges that we know it will bring, may well be the year that members' financial wellbeing climbs high on trustees' agendas.

Recent studies have found that providers and regulators are raising their focus on DC retirement outcomes, as our feature on page 36 explores. This will be increasingly crucial as more members begin to retire with purely DC pensions and, following freedom and choice, are far less likely to take the guaranteed regular income that annuities bring. However, there may still be a role for annuities later on in the decumulation phase, as our feature on page 38 discovers.

Pension savers look to the pensions industry for guidance that they are doing the 'right thing' for retirement. The timing may not be right for auto-enrolment (AE) contribution rises right now, but recent research from The People's Pension found millions 'wrongly' believe they are saving enough for retirement because they are contributing the amount set out by AE regulations.

This potential shock in income levels at retirement level will be even more acute for ethnic minorities, as the PPF recently reported an ethnic minority pay gap of 15.6 per cent in 2021. Also, the average gender pensions pay gap is estimated at 38 per cent, as our feature on page 64 explores.

While it's fantastic that trustees are finally realising the power pension fund investment can have in helping to shape the global future, they must not lose sight of the influence they have on individual members' retirement futures.

The theme for the magazine this month is 'money matters' – but we have to make sure, as time goes on and investment priorities change, that pensions still matter too.

Laura Blows, Editor

COVER FEATURE

Theme: Money matters

Highlighted features

Features & columns

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Dateline - March 2022

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

3 March The Pensions Regulator (TPR) publishes new guidance for trustees of defined contribution (DC) pension schemes who will be in scope of the 'stronger nudge' regulations coming in June 2022. Under the new regulations, DC scheme trustees will be required to offer to book their members an appointment with Pension Wise when they apply to access their flexible benefits. TPR notes that the way trustees include the requirements in their member retirement journeys was up to them to decide so they retain some flexibility in how they engage with members. Trustees are told that they must not proceed with the member's application to access flexible benefits until they have confirmation from the member that they have received guidance or have opted out of receiving guidance. TPR says it is good practice to offer to book a Pension Wise appointment as early as possible in the process.

4 March TPR calls on pension scheme trustees to be "vigilant" and talk to advisers about any action that may be needed in light of Russia's invasion of Ukraine and subsequent global sanctions. The regulator outlines a number of expectations for pension schemes, stating that trustees should take steps to consider any action they may need to take, including in relation to investments, to align with sanctions announced by the UK government.

7 March The government plans to proceed with its proposal to include the costs of the **McCloud** remedy in the cost control mechanism for public sector pension schemes' 2016 valuations, despite widespread opposition. Member contribution rates for 2022/23 will be based on the 2016 valuation, which was released in December 2021, including McCloud remedy costs.

9 March The government confirms that paid-for fraudulent adverts will be brought into the scope of the **Online Safety Bill**, and launches a consultation on a wider overhaul of how online advertising is regulated in the UK. The changes aim to improve the protection available for internet users from the potentially devastating impact of fake adverts, including impersonation scams.

10 March TPR confirms that it will take a flexible approach amid the first wave of TCFD reports and share examples of best practice later this year, although it states that all schemes could be doing more on climate change issues. Speaking at the PLSA ESG Conference 2022, TPR investment consultant, Brendan Walshe, emphasises that climate change was a systemic risk and therefore applies to all schemes.

10 March Work and Pensions Secretary, **Thérèse Coffey**, and Pensions Minister, **Guy Opperman**, are working on making 2023 'the year of the trustee'. Addressing the PLSA ESG Conference 2022, Coffey says that this work will include providing more support to trustees through a programme of education and by promoting best practice through the course of next year. "In the next few months, the Department for Work and Pensions (DWP) will be publishing specific guidance on the new Paris-alignment metric, as well as on the stewardship role of trustees," she continues. "The Minister for Pensions and I think we can go further. We are looking right now at how we can make 2023 the year of the trustee, to recognise some of the excellent work trustees are already doing."

11 March The **DWP** confirms that it will proceed with plans to increase the Fraud Compensation Levy ceiling to 65 pence per member for master trusts and £1.80 per member for other eligible occupational schemes. The increase, which will take effect from the 2022/23 levy year onwards, was subject to a consultation, with the majority of respondents opposing the rate of increase.

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

17 March Total pension scheme buy-in and buyout volumes reached £28.6bn in 2021, making it the third busiest year on record, according to **Mercer** and **Aon**. Mercer notes that 2021 saw a record volume of 'core' bulk annuity deals of £1bn or under, 10 per cent higher than any previous year, with 65 per cent of deals below £100m in size.

18 March Some members who transferred out of the **British Steel Pension Scheme** (BSPS) suffered significant financial losses due to unsuitable advice and were failed to be protected by the regulated financial advice market, according to the National Audit Office (NAO). In its investigation into the BSPS transfer scandal, the NAO concludes that, alongside these failings and losses, many affected members have not been fully compensated. The investigation related to the BSPS's separation from Tata Steel in 2017, at which time members were given alternative pension options, including transferring their savings out of the scheme. Almost 8,000 members chose to transfer their benefits.

Ink Drop / Shutterstock.com

23 March Flexible pension withdrawals increased to £8.3bn for the period of April – December 2021, an increase of 19 per cent compared to the same period in 2020, **HMRC** reveals. The total value of flexible withdrawals since pension freedoms were introduced in 2015 has now exceeded £53bn.

25 March Contributions to private sector defined contribution (DC) schemes increased in Q3 2021, despite similar numbers of active members, whilst the market value of pension funds rose to £2.5trn, according to data from the **Office for National Statistics (ONS).** Figures from the ONS reveal that membership of private DC schemes saw little change in Q3 2021, rising from 25.3 million in June 2021 to 25.71 million, with active membership increasing from 10.65 million to 10.67 million.

28 March Pensions Minister, **Guy Opperman**, says he is keen to move quickly on plans to extend collective defined contribution (CDC) schemes to more savers, with a consultation on a package of prospective design principles expected "later this year". Speaking at the Royal Society of Arts CDC Forum, Opperman suggests that the government should capitalise on industry enthusiasm to extend CDC to other types of schemes, calling on the industry for help in making this a reality. Whilst the regulations coming into force on 1 August 2022 will provide for single and connected employer CDC schemes, some parties have already expressed interest in pursuing multi-employer CDC schemes.

30 March The **DWP** says it will engage further with the industry as it proceeds with its proposals to exclude performance fees from the 0.75 per cent charge cap on defined contribution (DC) default arrangements. In its response to its consultation, the DWP states it had received a "mixed reaction" to its proposals, recognising that the proposed change was "not positively received or supported" across the pensions sector. However, it reaffirms its belief that the proposal could lead the way in giving DC schemes used for auto-enrolment the flexibility and freedom to invest in illiquid assets.

31 March The **FCA** sets out plans for a compensation scheme worth £71.2m for former members of the British Steel Pension Scheme (BSPS) who had received unsuitable advice to transfer out of the scheme. It proposes that the compensation scheme will cover individuals who transferred out of the BSPS between 26 May 2016 and 29 March 2018.

News focus

DWP issues consultations on DC scheme illiquid investments

The DWP published a policy document with consultations and consultation responses relating to the DC pension market, including its plans on excluding performance fees from the charge cap, how it will expect schemes to disclose and explain policy for illiquid investment, and draft employer-related investment regulations

The Department for Work and Pensions (DWP) has said that it will engage further with the industry as it proceeds with its proposals to exclude performance fees from the 0.75 per cent charge cap on defined contribution (DC) default arrangements.

In its response to its consultation, *Enabling Investment in Productive Finance*, the DWP stated that it had received a "mixed reaction" to its proposals, recognising that the proposed change was "not positively received or supported" across the pensions sector.

However, it reaffirmed its belief that the proposal could lead the way in giving DC schemes used for auto-enrolment the flexibility and freedom to invest in illiquid assets, and said it would engage further with the industry as it pursues the changes.

"We are encouraged by the feedback we received that the policy intention we set out to only exempt 'well-designed' performance fees that are paid when an asset manager exceeds pre-determined performance targets is well intended," it said.

"However, we recognise that all performance fees are not created equal and that the concept may be new to trustees. Therefore, we intend to consult on principle-based draft guidance alongside any proposed consultation on draft regulations."

Although some respondents were supportive of the removal of performance fees from the cap, many did not believe the changes would be positive, including Scottish Widows, which stated that there was "no evidence to suggest that performance fees improve customer outcomes and we do not see a need for performance fees to be permitted in default funds in the first place. The charge cap offers valuable protection to savers."

Also included in the consultation document, the government detailed proposals to bring forward legislation this year to reduce burdens and further open up private markets by removing restrictions that currently apply to large authorised master trusts.

The DWP said that the proposals would maintain saver protections whilst removing "disproportionate" red tape.

It is aiming for the changes to also reduce the costs of investment in private equity and debt.

In the Ministerial Foreword, Pensions Minister, Guy Opperman, said: "I am determined to pursue the path to opening illiquid asset classes to DC schemes. We want to ensure that, as we progress with this reform, trustees can get the best overall deal for members when investing in private equity and venture capital."

In the same policy document, the government published a consultation on proposals for DC pension schemes to "disclose and explain" their policies on illiquid investment in their Statements of Investment Principles (SIP).

The consultation also proposed introducing regulations that would require relevant DC schemes with over £100m in assets to publicly disclose and explain their default asset class allocation in their annual Chair's Statements.

These proposals are part of the government's drive to encourage DC schemes to increase their investment in illiquid assets.

Trustees would be required to include an explanatory statement on their policy towards investment in illiquid assets in their triennial SIPs, including references to what illiquid assets are, whether the trustees choose to invest in illiquids, which members will be holding illiquid assets, a description of these allocations, why trustees decided to invest in illiquids, what factors they considered, any barriers to illiquid investment and any future plans for investment in illiquid assets.

The DWP stated it would like trustees to have a platform to describe the average percentage holding and type of illiquid assets they have in their default asset allocation, and the benefits they feel

these assets bring to their scheme and members.

It would also like to understand why other schemes choose not to include these assets in their default arrangements.

Under its proposals to require DC schemes with over £100m in assets to disclose and explain their default asset class allocation in their Chair's Statements, disclosures on the percentage of assets allocated in the default arrangement to each of the seven main asset classes will be required.

The seven asset classes are cash, bonds, listed equities, private equity, property, infrastructure and private debt.

The DWP stated that it believed members "deserved to have access" to this information.

However, it noted that disclosure was not uniform, which made it difficult for members to compare across schemes and across multiple pension pots.

As of this year, DC scheme trustees will be required to disclose net investment returns to their members.

The DWP said that information about asset allocation could complement the investment return information to ensure members have "more comprehensive information" at their fingertips.

"We propose to issue guidance to describe the way in which we propose trustees should disclose this information," it stated.

Alongside this in another consultation response, the DWP stated that it will not be introducing any new regulatory requirements with the sole purpose of consolidating the DC pension market in 2022.

In its response to its consultation, *Future of the defined contribution pensions market: The case for greater consolidation*, the DWP said that it remained concerned that members were suffering in poorly performing schemes.

However, it stated that the government had faith that ongoing interventions and proactive trustees will ensure that members are the "primary and only consideration" when deciding the fate of a pension scheme.

Furthermore, the DWP was encouraged by data from The Pensions Regulator (TPR), which showed that consolidation was continuing to take place at a "healthy pace" year-on-year.

It will continue to work with TPR to monitor the impact of the value for members' assessment, which will start to be produced this year.

Written by Jack Gray

VIEW FROM TPR

Our latest compliance and enforcement bulletin shows the use of our powers has remained steady over the past six months.

The report shows the total number of powers used in respect of auto-enrolment between January and July 2021 is 58,303 compared to 77,032 in the previous six-month period. The decrease represents a reduction in the number of employers due to complete their re-enrolment duties between January and June last year.

We are pleased that compliance has remained high, but we are not complacent. We continue to keep a close eye on employer behaviour to ensure staff do not miss out on the pensions they are due.

It is vital that employers enrol staff as soon as they start working for them and pay the correct pensions contributions, on time. Employers should also ensure they meet their re-enrolment responsibilities which give workers who opted out a fresh opportunity to save.

Where savers are missing out, we will take action including issuing financial penalties.

We also continue to keep a close eye on the gig economy. We recently welcomed the news that Evri (formerly Hermes UK) is now taking steps to give its workers access to pensions saving.

We want to see all employers in the gig economy recognise and comply with their automatic enrolment duties promptly and voluntarily. The gig economy is set to grow and it is only right that workers contributing to the economy have the opportunity to save for retirement.

TPR director of automatic enrolment, Mel Charles

The Pensions Regulator
Making workplace pensions work

NEWS IN BRIEF

Abrdn has announced that it will launch a defined benefit (DB) master trust in Q2 2022, in partnership with XPS Pensions Group. The asset manager and consultancy firm have formed a "strategic alliance" to develop and launch the DB master trust. XPS will provide the actuarial and investment consulting, administration, secretarial, and covenant services to the scheme.

Parcel delivery service **Hermes** UK has rebranded to Evri and announced that it will auto-enrol all of its 20,000 'self-employed plus' (SE+) workers into a pension by the end of the year. The firm reached the agreement with the union GMB and represents a £7m a year investment from Evri.

The **Air Canada Pension Trust Fund** has agreed a £380m buy-in with Pension Insurance Corporation, covering liabilities for around 1,400 members, 40 per cent of which are yet to start drawing their pension. Punter Southall Governance Services, the fund's sole professional corporate trustee, was advised by Aon on the transaction.

Scottish Widows has announced plans to divest a further £1.5bn in an update to its exclusions policy, including a commitment to divest from tobacco firms and tightened climate requirements. Scottish Widows will not invest in any company deriving more than 10 per cent of its revenue from tobacco, with this meaning tobacco manufacturers and distributers are excluded, without hampering investments in sectors that derive a small amount of revenue.

PLSA ESG 22: Next year will be 'year of the trustee' - Coffey

Speaking at the PLSA ESG Conference 2022, Coffey said that 2023 would be the 'year of the trustee', with her and Opperman working to provide trustees with more support through an education programme and by promoting best practice throughout the year. She also announced that the DWP will publish guidance on climate reporting metrics

Work and Pensions Secretary, Thérèse Coffey, and Pensions Minister, Guy Opperman, are working on making 2023 'the year of the trustee.'

Addressing the PLSA ESG Conference 2022, Coffey said that this work will include providing more support to trustees through a programme of education and by promoting best practice through the course of next year.

"In the next few months, the Department for Work and Pensions (DWP) will be publishing specific guidance on the new Paris-alignment metric, as well as on the stewardship role of trustees," she continued.

"The Minister for Pensions and I think we can go further. We are looking right now at how we can make 2023 the year of the trustee, to recognise some of the excellent work trustees are already doing."

Coffey noted that the DWP will be working with industry partners, including the PLSA, on the venture, telling attendees to "watch this space".

"We want to look at a range of support and opportunities, as I recognise that we are asking a lot of trustees and occupational pension schemes," she added.

"I want to thank you for the leadership and focus you are taking."

Answering questions following Coffey's recorded message, DWP policy director, private pensions & arm's length bodies, Pete Searle, said that the department was "really keen" to support trustees and to encourage people to come forward to be trustees.

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"She *[Coffey]* is keen to work with the industry on what this *['the year of the trustee']* might involve, and work with The Pensions Regulator (TPR) and others around it," he continued.

"Without telling you it's XYZ at this point, it's more of an offer: What would be useful for you? What would help you in the 'year of the trustee'?"

When asked about the upcoming stewardship regulations, Searle said: "We will be publishing a response to that consultation and in this case guidance around May/June of this year.

"The coming into force date is not set, but we are ambitious to get this in place sooner rather than later."

Written by Jack Gray

DWP proceeds with Fraud Compensation Levy ceiling rise

Despite widespread opposition, the government has confirmed that it will be proceeding with plans to increase the Fraud Compensation Levy ceiling for master trusts and other eligible occupational schemes

The Department for Work and Pensions (DWP) has confirmed that it will proceed with plans to increase the Fraud Compensation Levy (FCL) ceiling to 65 pence per member for master trusts and £1.80 per member for other eligible occupational schemes.

The increase, which will take effect from the 2022/23 levy year onwards, was subject to a consultation, with the majority of respondents opposing the rate of increase.

In total, the DWP received 11 responses to its consultation, with nine respondents expressing their opposition for the funding proposal outlined in the consultation, nine calling for a structural review of the Fraud Compensation Fund (FCF) and/or FCL, and seven suggesting that the increase should be delayed pending the review.

In its consultation response, the government stated that it acknowledged the 'strength of feeling' amongst respondents for a review.

However, it said that the government was not persuaded that an urgent review was required.

"Its immediate priorities are to ensure the FCF is properly funded through the government loan so that all legitimate claims can be met as promptly as possible, and to put in place robust arrangements for the recovery of that loan," the consultation response stated.

Written by Jack Gray

Guest comment: Another important step towards a 'third way' for pension savers

People saving for retirement shouldn't have to choose between security and affordability. With the introduction of a new pension type, we can help millions of savers find the right balance and bring a new injection of innovation into the pensions sector.

Collective defined contribution (CDC) pension schemes will offer a 'third way' for employers and savers, from 1 August this year.

We've seen these schemes work overseas in countries such as the Netherlands and Canada, and I've been making the case for some time that well-designed and well-run CDC schemes have the potential to provide a positive retirement outcome for savers.

These new schemes offer an alternative to the status quo by combining a reliable income in retirement for members with predictable costs for the employer, as well as building in more resilience against economic shocks.

Their collective nature means that investment and longevity risks are shared across the whole membership. As these schemes provide an income for pensioner members, they also eliminate the potential risk associated with having complex financial decisions at the point of retirement.

Following our consultation last year, we have continued to engage with a wide range of interested parties on how CDCs can be extended beyond the single or connected employer schemes we are currently legislating for.

At this stage I am willing to discuss any potential model of CDC that parties want to explore.

It was a pleasure to speak recently at the Royal Society of Arts, Manufactures and Commerce's CDC Forum.

I hope this work will help inform the consultation we plan to undertake later this year on potential options for extending the scope of CDC provision to bring the potential benefits to more members.

I truly believe that this new type of pension provision will be more sustainable for employees and employers alike and has the potential to offer better outcomes for savers.

Written by Pensions Minister, Guy Opperman

VIEW FROM THE PLSA

It's that time of year again when UK public companies report to shareholders on how their money is being spent.

Each year the PLSA publishes its *Stewardship and Voting Guidelines* document. High on the priority list this year is ensuring companies are properly disclosing their footprint on the environment in the wake of the ongoing climate emergency.

It's no longer the case that climate considerations can be considered a 'nice to have' for companies, and investors now expect that disclosure, monitoring, assessment and oversight of risks is considered a priority.

Investee companies are also being encouraged to be cautious on how they attribute pay to business leaders, especially where they have benefited from government support. Significant pay discrepancies between a company's senior executives and the rest of the workforce, as well as those based on gender or ethnicity, can be a signifier of wider issues with a workplace's culture and processes.

A third area covers diversity on investee company boards. Diversity of thought is a key tool in effective governance and the PLSA is calling for a continued focus on ensuring diversity with FTSE 100 companies that are failing to meet the Parker Review target of 'no white boards' by 2021, should expect to see this challenged by investors.

PLSA director policy & advocacy, Nigel Peaple

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

DWP calls for industry views on potential to extend CDC regs

Pensions Minister, Guy Opperman, has announced plans to consult on the extension of CDC pension regulations so CDC schemes are accessible to more savers, following industry 'enthusiasm' for the government to regulate for multi-employer CDC schemes

Pensions Minister, Guy Opperman, has said he is keen to move quickly on plans to extend collective defined contribution (CDC) pension schemes to more savers, with a consultation on a package of prospective design principles expected "later this year".

Speaking at the Royal Society of Arts (RSA) CDC Forum, Opperman suggested that the government should capitalise on industry enthusiasm to extend CDC to other types of pension schemes, calling on the industry for help in making this a reality.

Whilst the regulations coming into force on 1 August 2022 will provide for single and connected employer CDC schemes, some parties have already expressed interest in pursuing multi-employer CDC schemes as an offer for members.

In light of this, the Department for Work and Pensions (DWP) has confirmed its intent to consult on a package of prospective design principles and approaches to accommodate new types of CDC schemes "later this year".

These design principles aim to bring the potential benefits of CDC to more savers in the UK in an appropriate way, capitalising on the enthusiasm that the industry has shown for innovation in this area.

In related news, The Pensions Regulator (TPR) was urged finalise its code of practice for the authorisation and supervision of CDC schemes "as soon as possible" to allow employers considering CDC to move forward by the Association of Consulting Actuaries (ACA).

In response to the regulator's recent consultation on the code of practice, the ACA suggested that the regulator has "clearly put a significant amount of consideration" into the appropriate governance structures, describing the draft code as "extremely comprehensive".

However, also responding to TPR's consultation, the Society of Pension Professionals (SPP) and Aon cited concerns that the authorisation requirements could be excessive for single employers. SPP president, James Riley, stated that while the draft code appears comprehensive, the SPP had concerns about the potential unintended consequences.

He added that the demands and therefore cost of the code were "significantly too onerous", and risked repelling any "nascent" interest from single employers in CDC schemes.

Written by Sophie Smith and Jack Gray

McCloud remedy costs to be included in schemes' valuations

The costs associated with the McCloud remedy will be included in the cost control mechanism for public sector pension scheme' 2016 valuations, the government has confirmed, despite receiving opposition to the proposals set out in its consultation

The government plans to proceed with its proposal to include the costs of the McCloud remedy in the cost control mechanism for public sector pension schemes' 2016 valuations, despite widespread opposition.

Member contribution rates for 2022/23 will be based on the 2016 valuation, which was released in December 2021, including McCloud remedy costs.

Contribution rates were usually set every four years as part of the cost control mechanism process. However, the cost control element of the 2016 valuations was paused due to the McCloud and Sargeant judgments.

The government had asked whether it should 'roll over' member contribution rates from 2021/22, and impose the cost of the McCloud remedy in the 2016 valuations, in its consultation on the Civil Service Pension Scheme.

It received 1,257 responses to the question, of which 1,253 disagreed with the roll forward of contributions and imposition of McCloud costs on 2016 valuations.

The government noted that 1,239 of the responses it received used a standardised template provided by a union.

The template argued that member contribution rates for 2022/23 should be informed by the results of the 2016 cost control mechanism without the inclusion of the costs of McCloud, that the inclusion of McCloud costs was "unlawful", that the Cabinet Office should not be adopting such a short-term approach to the setting of member contribution rates, and that it should publish a timeline for the finalisation of the 2016 cost control mechanism and complete the 2020 valuation.

Despite the opposition, the Cabinet Office stated that the results of the 2016 valuation concluded that the cost cap of the scheme was 0.4 per cent below the employer cost cap, and therefore lies within the 2 per cent corridor specified by the Treasury.

This meant, according to the government, that no changes to benefits or member contributions were required.

There are currently two judicial review applications underway against the inclusion of the McCloud costs within the cost control mechanism, with the government noting that unless there was an "adverse judgment" at some point in the future requiring the recalculation of the 2016 valuation, it would base the 2022/23 contributions on the 2016 valuation, including McCloud costs.

"The 2020 valuation, due at a later date, will be the next time when there is the possibility of adjusting employee contribution rates," the consultation response stated.

Written by Jack Gray

VIEW FROM AMNT

"If you want to improve your self-worth, stop giving other people the calculator." — Tim Fargo

A self-fulfilling prophecy is a sociological term used to describe a prediction that causes it to become true. Such prophecies can have a beneficial as well as detrimental effect such as; the placebo effect and racial and gender stereotyping.

Eventually, you, or the person you're making the expectation about, will act or conform to the expectations you set.

Pension innovations, alongside increased regulation, has led to discussion on the role of the pension trustee and how they can manage in this complex environment. This worthwhile debate, rather than examining ways to help the trustee, has evolved into speculation on the future of pension trustees; in particular member-nominated trustees (MNTs). This speculation has, in turn, become a theory, namely that pension complexity signals the end of MNTs.

Simply relating the continuing role of MNTs to the technical aspect of the role ignores the fundamental reason for the existence of the MNT, which is the protection and representation of the members' interests. The conversation around trustees needs to be constructive; covering all aspects of the role and purpose, otherwise the danger is that this so called 'theory' becomes a self-fulfilling prophecy.

AMNT member, Stephen Fallowell

AMNT Association of Member Nominated Trustees

VIEW FROM THE PPI

Living costs, as measured by the Consumer Price Index + Housing (CPIH) rose by 4.9 per cent between January 2021 and 2022, meaning that on average, people will spend £104.90 for every £100 they spent 12 months ago. However, those who spend in different proportions will experience different rises. Pensioners, for example, spend more on housing and less on recreation and transport than working-age people.

Pensioner income does not always increase in line with CPIH. This year, state pension and pensioner benefits (which usually rise at least in line with earnings) are increasing by the rise in the Consumer Price Index (CPI) of 3.1 per cent. Increases to pensioner income from earnings and private pensions varies, but generally increases by a price index (the Retail Price Index or CPI) or less. Some pensioners may experience difficulties with cost-of-living increases.

The ONS is constructing Household Cost Indices, which will provide cost-of-living measures for different households, including pensioners. These indices could help pensioner income rise in line with costs of living, if, for example, state and private pension payments were linked to a Household Cost Index (while allowing for higher increases). In the meantime, it's worth policy-makers exploring other ways of ensuring rises to living costs don't lead to deprivation for some pensioner households.

PPI head of policy research, Daniela Silcock

PENSIONS POLICY INSTITUTE
PPI

FCA proposes compensation scheme for former BSPS members

The FCA has launched a consultation on plans to introduce a £71.2m compensation scheme for former members of the BSPS who have received unsuitable advice to transfer out the scheme, following the NAO's investigation that concluded former members had been 'failed' by the system

The Financial Conduct Authority (FCA) has set out plans for a compensation scheme worth £71.2m for former members of the British Steel Pension Scheme (BSPS) who have received unsuitable advice to transfer out of the scheme.

It has been proposed that the compensation scheme will cover individuals who transferred out of the BSPS between 26 May 2016 and 29 March 2018.

If the scheme is approved, the FCA will publish rules outlining how advisers must determine whether they have unsuitable advice and whether they need to pay compensation.

The FCA previously found that 47 per cent of the advice relating to the BSPS was unsuitable.

The regulator stated that independent checks and monitoring will be put in place to ensure that firms comply with the rules of the scheme and that consumers can be "confident" in the outcome of the review.

If confirmed, the compensation scheme is expected to be in place by early 2023, with affected consumers starting to receive compensation from late 2023.

People who believe they have a claim to compensation can make a complaint now rather than waiting for the outcome of the consultation.

Individuals who received advice from a now insolvent business or one that no longer exists will need to make claims through the Financial Services Compensation Scheme.

Those who have already accepted redress will not be covered by the proposed scheme.

Earlier in the month, the National Audit Office (NAO) found that some members who transferred out of the BSPS suffered significant financial losses due to unsuitable advice and were failed to be protected by the regulated financial advice market.

In its investigation into the BSPS transfer scandal, the NAO concluded that, alongside these failings and losses, many affected members have not been fully compensated.

The NAO concluded that the financial advice market was not prepared for the impact of the BSPS restructure, with most advisers at the time being financially incentivised to recommend to members that they transfer out of the BSPS, even if it was not in members' best interests.

Almost 8,000 members chose to transfer their benefits out of the scheme, with 95 per cent of these decisions informed by financial advisers.

Written by Jack Gray

Market commentary: A waiting game

Whilst every major stock market was in negative territory around two weeks after Russia's invasion of Ukraine, there has been a recovery from the initial shock, with Interactive Investor (II) suggesting that many global stock markets are doing better now than before the war.

"If anyone doubted the resilience of stock markets, the past month has demonstrated just how quickly they are able to overcome the impact of shocking events, and this can be uncomfortable for some," II head of equity strategy, Lee Wild, stated.

"Despite the horrific situation in Ukraine, after the initial shock and along with the ongoing revulsion, the market tends to keep calm and carry on over the long term."

However, Hargreaves Lansdown senior investment and markets analyst, Susannah Streeter, also warned that threats from President Biden of a NATO response if more lethal weapons are used by Russia has raised worries about potential escalation, which is weighing on sentiment.

"High commodity prices, sent soaring by the repercussions of the conflict, have been flagged by companies as a drag on growth this year," she said. "This is adding to the lack of sustained progress for the FTSE 100 which, having largely recovered from the initial shock of war, is still down marginally since the start of the year."

Indeed, Streeter stressed that geopolitical tensions are still high in investors' minds with negotiations set to re-start in Turkey to try and find a way to break through the impasse in the attempts to broker a ceasefire.

"But it's largely a wait and see approach traders are taking right now," she clarified, "with hopes lifting slightly with President Zelensky reported to be ready to discuss neutral status.

"However, a fresh cloud has been put over these talks after President Biden's off-the-cuff remarks about President Putin, despite the backtracking by the US administration, which has underlined that regime change in Moscow is not on the cards."

And the invasion has already fanned inflation concerns, with inflation in the UK reaching a 30-year high of 6.2 per cent in February, whilst the US Federal Reserve has increased interest rates by 25 basis points.

Indeed, Martin Currie head of the global long-term unconstrained team, Zehrid Osmani, warned that the war has the potential to fuel more inflation globally, as a result of the higher oil prices and disruptions to energy supplies, but also in soft commodities given the Ukraine's and Russia's sizeable agricultural production.

He continued: "Soft commodities price increases risk leading to pronounced increases in food prices, which have the potential to impact countries where food is a bigger proportion of consumer baskets, notably emerging markets. This could lead to increased social tensions further down the line. This increased inflationary pressure will further add to the elevated and longer lasting inflation that we have been going through, and which could last beyond the middle of 2022."

More broadly, Osmani acknowledged that, unfortunately, it is difficult to foresee a rapid resolution to the Ukraine-Russia conflict, or indeed to the broader tensions between Russia, NATO and the EU.

"As such, volatility and an elevated equity risk premium are likely to be the conditions that investors will need to accept for the time being," he explained.

Written by Sophie Smith

VIEW FROM THE PMI

Pensions Management Institute

Russia's invasion of Ukraine has had significant implications for UK pension schemes. In March, The Pensions Regulator issued guidance for trustees about the ways in which the war might affect their schemes. One immediate concern has been the enhanced risk of cyber-attacks. However, another enforced change is likely to have deeper and more long-term relevance.

Trustees have been advised to review their asset portfolios. Divestment from Russian stocks might be considered desirable, on grounds of moral principle, or necessary, in order to avoid continued support for individuals sanctioned by the government. However, it is worth noting that the majority of investment in Russian companies has been in the fossil fuel sector. Disinvestment is likely to accelerate a process that is already underway, as trustees seek to achieve a net-zero target for their schemes' investments.

Screenwriter Richard Curtis has led a campaign to persuade both institutional and private investors to shed oil and gas from portfolios, and this is perfectly aligned with existing objectives set out by Pensions Minister, Guy Opperman. A process that was already underway is now likely to be completed far sooner than might otherwise have been expected.

PMI director of policy and external affairs, Tim Middleton

Appointments, moves and mandates


Simon True

Clara-Pensions has appointed Simon True as its chief executive.

True has over 30 years of experience in the life insurance industry. His most recent executive role was the group corporate development director and group chief actuary at the FTSE100 insurer Phoenix Group.

The DB consolidator's chairman, Lawrence Churchill, stated that the company was "delighted to have attracted someone of Simon's industry stature, experience and reputation".

True takes over from Adam Saron, who founded the business and successfully led it through its regulatory assessment process last year. Saron will continue in an advisory role.

"We would like to express our thanks and gratitude to Adam for his work in bringing Clara to its current position. He has been a driving force in the creation of the DB consolidation market and taken Clara from an idea to the point where we have a firm foundation for our future development," Churchill added.


Andy Watson

Canada Life has announced their current chairman, Derek Netherton, is set to step down from the position after 10 years to be replaced by the current non-executive director, Andy Watson.

Watson has had a 30-year career in the insurance sector, working for Direct Line, Co-operative Financial Services, RBS, HSBC and as CEO of Ageas UK before retiring from the role to start a portfolio career.


Sylvia Pozezanac

Redington has named Sylvia Pozezanac as its CEO, subject to regulatory approval. Pozezanac joins from Mercer UK, where she was president and CEO. She bring more than 30 years of international experience in retirement, investment consulting and insurance to her new role. She succeeds Mitesh Sheth, who left Redington in December 2021. Interim CEO and Executive Board member, Zoe Taylor, will resume her deputy CEO role.


Rowena Humphreys

Smart has appointed Rowena Humphreys as its first group sustainability director. She has consulted for over 20 international organisations and NGOs on strategic sustainability programmes' design and implementation, including the World Food Programme. Her appointment was announced amid several climate initiatives by the group, and is expected to play "an integral part" in helping the firm become a net-zero business.


Andrew Bradshaw

Ross Trustees have named Andrew Bradshaw as CEO. Bradshaw was previously its chief business development officer and has been part of the management team since 2012. He succeeds Nigel Moore as chief executive officer, who will remain on the Ross Trustees board, as vice chairman. The appointment was announced amid continued growth for the firm, recording 40 per cent headcount growth in 2021.


Jeff Houston

Barnett Waddingham has appointed Jeff Houston as senior consultant.

Houston was appointed to provide pensions advice and support to Local Government Pension Scheme clients, and to further develop the firms public sector consulting offering. He joins the company with over 40 years' pensions experience, with over 10 years of head of pensions at the Local Government Association and 17 years at the London Pension Fund Authority.


Chris Connelly

Heywood Pension Technologies has appointed Chris Connelly as head of propositions and Chris McGraw as business development manager.

Connelly, who won this year's Pensions Age Pensions Personality of the Year award, joins with 30 years of experience, having previously held senior roles at NatWest, Fidelity, Aon, and Equiniti. He has also worked on several industry initiatives, including The Pensions Regulator's data quality and record keeping guidelines. He is currently a member of the Pension Administration Standards Association (Pasa) Pensions Dashboards Working Group and represents Pasa within the Pensions Dashboards Programme. McGraw has worked in senior positions in the financial services software and fintech sectors, specialising in retail banking, life and pensions, wealth management, lending, and funds administration. Most recently, Connelly has been focusing on digital innovation in financial services including areas such as open banking, artificial intelligence and machine learning.

Attracting attention

Standard Life defined benefit solutions senior business development manager, Kieran Mistry, speaks to *Pensions Age* about bulk purchase annuity market trends and how schemes can attract insurers' attention

The bulk annuity market has seen record volumes in recent years – how is 2022 shaping up so far, and how does it compare with last year?
In 2021, bulk annuity transaction volumes were around £28 billion, the third largest total ever. That's an impressive figure when you consider that only £8 billion had been written by mid-year.

Looking ahead at how 2022 will pan out, we've already had sight of over £13 billion worth of buy-ins and buyouts that plan to complete by mid-year. Given that activity tends to pick up in the second half of the year, we'd anticipate market volumes in 2022 to once again exceed £30 billion.

The one thing to watch out for which can really swing volumes is the very largest transactions, such as those that drove record volumes in 2019. A couple of our transactions at the end of 2021 fall into that camp and helped bump up the total for the year – a £1.8 billion pensioner buy-in with the Imperial Tobacco Pension Fund, and a £1.7 billion full scheme buy-in with Gallaher Pension Scheme.

Do you expect to see many more of those mega deals coming to market over the longer term?
I think there are plenty of very large schemes out there which will look to buy out when funding allows, so expect so-called 'mega deals' to continue to be a feature of the market.

More generally, there are over £2 trillion of UK defined benefit pension liabilities out there, and more and more schemes are aiming towards buyout. This trend appears set to continue as the sponsors and trustees look to minimise their risk, and The Pensions Regulator pushes trustees to set long-term objectives.

Given recent funding level improvements, a large proportion of schemes making up that £2 trillion of liabilities are expected to be able to afford buyout in the next 10-15 years. When stacked against a market writing £30 billion a year, it feels quite clear demand and volumes will be on the rise.

As the bulk annuity market is very broad with lots of transaction shapes and sizes, which areas do Standard Life like to focus on?
Within Standard Life we aim to quote on the majority of the BPA market, from pensioner-only buy-ins to full scheme buyouts. We do not have an upper limit as to the size we have appetite for. Over the past year or so we have quoted on around 90 per cent of transactions by volume, so we really do try to cover the whole market.

We have a very talented bulk annuity team, however our core transactions team that price transactions is relatively small. We carefully protect that resource to ensure we deliver on processes we commit to, which means we can't always participate in tender processes for the smallest transactions. However, we're exploring ways to serve the smaller end of the market. For example, we continue to hire pricing analysts into the team to increase capacity. And of course, there are steps trustees of smaller schemes can take to make saying no difficult!

As you do have to be somewhat selective – how do you decide which deals to quote on? What's important?
When we look at a transaction that comes to market, there are quite a few things we consider, but you can pretty much bucket them into three areas.

The first is all about preparation. We'll look for evidence that the scheme has done their homework, appointed an experienced adviser, that they have good quality data, the benefit specification is clear and has been signed off by their legal adviser, and it is all presented in an easy to understand way.

The second thing is governance, such as ensuring timescales are clear, that there is clarity on who is driving the process and that both the sponsor and trustee are engaged and aligned. Most importantly, there can be unexpected developments during a bulk annuity process, so seeing that the trustees and sponsor can be nimble and reactive is important.

Third is looking for areas where we can add value, for example when a scheme has a particular concern or issue to fix. We really pride ourselves on thinking outside the box and finding innovative solutions that meet schemes' objectives, and love to have opportunities to put this into practice!

VIEW FROM THE SPP

More and more trustees are placing a greater focus on the environmental, social and governance (ESG) factors in their investment decisions. Increasingly, defined benefit pension scheme trustees are also considering how these risk factors might impact the sponsor which stands behind and ultimately underwrites the risk being run by the scheme – in other words, the employer covenant.

Many trustees have focused on climate change risks within their investment strategy. This has been driven both by regulation and the generally accepted view that the seismic shift required in the global economy to achieve climate change targets, will have a significant impact on asset values and returns.

In terms of employer covenant, this risk will be amplified as schemes tend to be reliant on a single company. Unlike an investment strategy, this cannot be diversified away or uninvested. There will be schemes whose covenant relies on companies which will not manage to adapt but will decline. The implications of this will depend on the speed of decline and the covenant reliance of the scheme.

Trustees are starting to take steps to understand their employer's potential exposure to climate change and how this could impact funding strategy. But this will need to be managed while not losing sight of the S and G elements of ESG.

SPP covenant committee member, Ryan Cox

THE SOCIETY OF PENSION PROFESSIONALS
leading pension thinking

Diary: April 2022 and beyond

Pensions Age Spring Conference
28 April 2022
Hilton Tower Bridge

The Pensions Age Spring Conference offers pension funds and those working in the pensions sector the opportunity to learn and network alongside their peers. This one-day conference is open to pension scheme managers, trustees, FDs, advisers, pension and HR professionals, and will feature insight from a range of speakers, including spokespeople from The Pensions Regulator and the Pensions Dashboards Programme. Registration for the event is now open, with places filling fast.

For more information, visit:
pensionsage.com/springconference/

PLSA Investment Conference
25-26 May 2022
EICC, Edinburgh

The Pensions and Lifetime Savings Association's Investment Conference is back in Edinburgh. The two-day event comes as we enter a new era for pensions investment, with the government calling for an investment 'big bang' amid rising inflation and continuing economic disruption due to the pandemic. This conference will discuss the hot topic issues and how the pensions industry can meet their responsibilities in this challenging time.

For more information, visit:
plsa.co.uk/events/

Pensions Age Northern Conference
7 June 2022 2022
Park Plaza, Leeds

This one-day conference will be returning to Leeds this year, offering pension schemes and pension professionals the chance to learn and network at one of the most unprecedented times in UK pensions history. Covering all aspects of pension provision, the Pensions Age Northern Conference is open to pension scheme managers, trustees, FDs, advisers, pension, and HR professionals; registration is now open.

For more information, visit:
pensionsage.com/northernconference/

PLSA Local Authority Conference
13-15 June 2022
De Vere Cotswold Water Park Hotel

With 2022 looking set to be another major year for the LGPS, the Pensions and Lifetime Savings Association's upcoming Local Authority Conference will give attendees the chance to network and learn alongside their peers. The likelihood of new climate-related reporting requirements being on the horizon, long-term issues due to the pandemic and the government's call for an investment 'big bang' mean this conference is a must-attend event for all those involved in local authority pensions.

For more information, visit:
plsa.co.uk/events/

Visit www.pensionsage.com for more diary listings

Month in numbers

37%

More than a third (37 per cent) of people would be willing to accept some reduction in their pension savings if their investments were made more ethically, according to the High Pay Centre.

20,000

Parcel delivery service Hermes UK has rebranded to Evri and announced that it will auto-enrol all of its 20,000 'self-employed plus' workers into a pension by the end of the year, representing a £7m a year commitment by the firm.

£1.7bn

The Office for Budget Responsibility (OBR) has revised its estimate for the amount of tax over-55s will pay on flexibly withdrawing from their pensions in 2021/22 up to £1.7bn. This represents a £0.4bn increase in tax receipts in comparison to 2020/21 and a £0.5bn rise on its previous estimate in October 2021. It also revised its pensions tax receipt estimate from 2022/23 onwards up by an average of £0.8bn a year, as the OBR assumes that people will make use of earlier withdrawals to manage the rise in the cost of living this year.

Adequacy – are we saving enough?

Phil Brown explores the need to increase pension saving, despite the success of auto-enrolment, and how this could be achieved

There can be little argument that the introduction of auto-enrolment (AE) 10 years ago – a radical policy change to tackle concerns about an increasing old age poverty crisis – has been an unqualified success.

The figures speak for themselves: Since 2012, 10.6 million employees have enrolled in a workplace scheme, with an additional total of £28.5 billion saved into UK pension pots each year.* But there remains the question of whether the average auto-enrolled member is saving enough for their retirement.

The Pensions Commission was clear in its 2005 review that at least 16 per cent of qualifying earnings – double the current minimum contribution – would be required to provide an adequate retirement income, with half expected to come from a workplace pension and the other half from additional voluntary saving.**

But new research shows this hasn't happened. Our report, Pension Adequacy: A Pension Saver's Perspective,*** finds that most auto-enrolled pension savers and employers are anchored to the minimum rate, with most savers wrongly believing that they are on track for a 'moderate' or 'comfortable' standard of retirement living, based on the PLSA Retirement Living Standards. Just 7 per cent of savers are aware that the current minimum contribution will only provide a 'basic' retirement income, and worryingly, four in ten people believe that because the contribution rates have been set by the government, they are saving enough.

On top of this, the idea of additional voluntary saving is far from reality; almost half (43 per cent) of all savers haven't considered paying more into their pension, almost half (46 per cent) don't know they're allowed to pay in more than the minimum, and two-thirds (64 per cent) of people have less than £10,000 in additional savings.

If you accept the idea that contribution levels should be increased to prevent poor saver outcomes, questions remain: How much should this increase be, and who should bear the burden? How do we encourage people to pay more if they can afford to? And should it be made easier for them to pay more as they get older? With many savers not knowing they're allowed to increase their contributions or how to pay more in, our research is clear that more can be done to help savers understand the options open to them.

There's a growing consensus across the pension industry that an increase in contributions is required to lead to positive saver outcomes. But with so many questions around how this could or should be done, we're calling on the government to set out plans for a review of the minimum contributions required for auto-enrolment. We're also asking them to outline a timeline for implementing the recommendations of the 2017 automatic enrolment review once economic circumstances allow.

While millions of people are rightly concerned about the increasing cost of living, a very real problem is building up for millions in their retirement and it is crucial that the government comes up with a plan to tackle this.

What's clear from the deeply troubling findings of this research is that millions of hardworking people are simply not saving enough for their retirement. While affordability obviously plays a role in this, the research shows that in most cases, people believe that because they're saving what they've been told to by those who run the country, they're saving enough. While auto-enrolment has had a truly successful first decade, government must now plan ahead to ensure that over the next 10 years, auto-enrolment members are saving enough to provide for a comfortable retirement.

It's clear that some need to save more for their retirement and the government needs to act to ensure that the minimum contribution level helps them do this. This is something that must be addressed to ensure the continuing success of auto-enrolment.

Written by B&CE, provider of The People's Pension, director of policy & external affairs, Phil Brown

*Department for Work and Pensions figures (2021)
**Pensions Commission (2005)
*** Pension Adequacy: A Pension Saver's Perspective report, prepared by Ignition House and published by B&CE in March 2022. To read the full report, see www.thepeoplespension.co.uk/pension-adequacy-report

VIEW FROM THE ACA

Our recent *Pension trends* survey found British business is rightly worried that we're not saving enough and supports increasing auto-enrolment minimum contributions. Doing so would address inequities in today's pension landscape, which hit women, minority groups and the poorest hardest. Extending this to make pensions more flexible and better integrated with later-life social care would help everyone.

The government's inaction here is particularly concerning. We are seeing millions of workers in DC schemes 'sleep walking' towards retirement income in the years ahead that will fall far short of the incomes of millions of current pensioners with defined benefit arrangements. Without a plan for increasing saving levels, the younger generation of taxpayers will face enormous bills to support the elderly in retirement, dwarfing the extra funds recently allocated to social care.

Our survey found it's not all doom and gloom. There remains strong business support for pensions becoming central to tackling climate risk, with savers demanding action and schemes beginning to grasp the nettle. And there's an increasing appetite beyond Royal Mail for collective defined contribution as a new way of saving, provided the regulatory regime is proportionate and is extended widely to more employers in a timely way. The recent pronouncements from the Pensions Minister are encouraging in this policy area.

ACA chair, Patrick Bloomfield

ACA
ASSOCIATION OF CONSULTING ACTUARIES

In my opinion

On the National Audit Office's (NAO) investigation into the British Steel Pension Scheme

"Although measures have been put in place aimed at improving how the pensions advice market is regulated and to attempt to remedy the financial losses suffered by BSPS members, it is clear that many people have not been compensated fully under current arrangements. The BSPS case demonstrates the costs and difficulties of remedying failures in financial services and the importance of preventing problems from occurring in the first place."

NAO head, Gareth Davies

On research revealing that 58 per cent of single working mothers are ineligible for automatic enrolment

"It is really troubling that the majority of single mothers are being locked out of workplace pension savings, with single mothers reaching retirement age with the lowest pension wealth on record. With the majority of single mothers now locked out of workplace pensions, we are calling on the government to make policy changes and remove the auto-enrolment trigger of £10,000 and starting contributions from the first £1 of earnings. We must ensure that everyone has an equal opportunity to save for their futures and build an adequate savings pot for later in life."

Now Pensions head of campaigns, Samantha Gould

On the confirmation that the Fraud Compensation Levy will be increased to 65 pence per member for master trusts and £1.80 per member for other schemes

"It is vital that we have an effective regime to protect members and ensure they are compensated when victims of dishonest behaviours. However, the new rates confirmed by the government for 2022/23 will amount to a more than £5m per annum increase for some schemes, give very little notice to schemes and – because they ask automatic enrolment master trusts to pay a disproportionate amount in contributions – will ultimately see the costs borne unfairly by savers with the lowest balances. The PLSA has repeatedly argued that the fraud compensation regime is not fit for purpose and requested a one-year delay to the levy hike to allow time for a proper review to build a more robust and future-proofed compensation regime that offers protection for all pension savers."

PLSA deputy director of policy, Joe Dabrowski

On findings that showed just 10 per cent of pension schemes have a standalone environmental, social and governance (ESG) policy

"Our analysis shows that some pension schemes are racing ahead on their ESG journey, while others are left not knowing where to start. Schemes don't need all the answers to start their ESG journey, but they need to assess how well integrated their existing plan is on ESG issues. From there, they should establish a plan in line with their defined ESG objectives, with actions on how to improve their position, and importantly, determine how they will show their stakeholders and members how they are tracking that progress."

Mercer partner and director of consulting, Brian Henderson

On the proportion of pension transfers showing scam warnings reaching a 12-month high

"The new flags introduced last year by the Department for Work and Pension's updated transfer regulations have driven a spike in transfer cases showing warning signs of pension scams. We expect this trend to continue over the coming weeks and months, which will put increased pressure on the government's MoneyHelper service to provide guidance to all these members."

XPS pensions group client and member engagement hub, Helen Cavanagh

DC adequacy: Action needed to match intention

Clare Freeman and Steven Leigh explore the work DC schemes can do to help members achieve adequate retirement outcomes

Pension schemes' overriding purpose is to help members save for an adequate retirement. However, defined contribution (DC) schemes have not always been able to articulate what an adequate retirement looks like or, importantly, to identify whether members are on course to achieve it.

Aon's *DC Pensions and Financial Wellbeing Survey 2022* received responses from DC pension schemes across many industry sectors, sizes and types, covering over half a million members.

It was encouraging to see in this research that the most popular aim for DC schemes (46 per cent of respondents) is to deliver an adequate retirement outcome for members. This is a significant shift from 29 per cent in 2020. At that point, benchmarking with peers was the biggest priority.

This change of mindset is badly needed. Our 2021 employee research, *Keeping on track in challenging times,* found that one in three individuals expects to work to age 70 or beyond, and one in four think they may never be able to afford to retire. That uncertainty was being fuelled by concern over poor pension outcomes.

Focusing on outcomes is a step in the right direction, but schemes have work to do to make sure they understand whether members are on track to retire. Our 2022 research found that most schemes (63 per cent) said that they did not know the expected outcome for a typical member of their DC scheme. This is a real cause for concern as it is vital that those making pension scheme decisions understand the

63% of schemes do not know typical member outcomes

membership. A starting point would be to review an annual benefit statement for a recent joiner and use this as a baseline for the sort of outcome a member might expect.

The next question is whether this is likely to be enough. Among respondents who said they do know typical member outcomes, the Pensions and Lifetime Savings Association's Retirement Living Standards are the most common method used to assess outcomes (22 per cent of respondents). These 'rule of thumb' guidelines for retirement adequacy have rapidly overtaken the replacement ratios measure for schemes.

Twice as many use 'Retirement Living Standards' compared to 'Replacement Ratio'

It is not just pension schemes that have a knowledge gap. Just 19 per cent of respondents say that their sponsoring employer takes pension outcomes into account as part of its future workforce planning. Poor outcomes could result in future challenges for businesses, including rising employment costs, lower workforce engagement and succession planning issues.

Building an accurate picture of retirement adequacy across a workforce can be complicated. For example, by the time most people approach retirement, they will have savings in multiple workplace schemes, as well as other personal savings and state pension accrual.

However, reasonable assumptions can be made and combined with data from your current DC scheme to create a better understanding of whether pension scheme members are on track.

Tools such as Aon's DC Analytics can help. DC Analytics assigns a retirement target based on the Retirement Living Standards taking into account expected salary at retirement. It then includes state pension and other work-related pensions, as well as future returns. Based on this information, it creates a summary across the scheme of whether members are on track for an adequate retirement.

Schemes can react to any shortfalls by targeting communications to groups of members, encouraging them to increase their own contributions or to help them understand their likely retirement timelines. Employers and trustees can also help to improve the likelihood of members being on track for a good pension outcome, by adjusting contribution design, or by enhancing the investment strategy.

Ultimately, our 2022 research shows that schemes really want to improve member outcomes but lack the data and insights they need to act on that intent. Understanding current adequacy and putting a plan in place to drive improvements are crucial next steps in DC pensions to making a genuine change to pension outcomes.

Download the Aon DC survey here: aon.io/3u4c73c

Written by Aon DC consultant, Clare Freeman, and associate partner, DC consulting, Steven Leigh

VIEW FROM THE ABI

We have just made it through the near-final checkpoints on the journey to pensions dashboards, with both the DWP and FCA consultations now closed. However, two urgent questions still need to be answered.

Firstly, can the technical building timeline marry into the regulations? The uncertainty in technical standards and having no legal basis for early onboarding means connection solutions might not be sufficiently tested before the first onboarding window begins. This subsequently will impact the readiness of these solutions and cause delays to dashboards' launch. Cross-industry coordination by PDP is required outside of the regulations to ensure that providers can onboard on time; and the regulations should allow for non-compliance if it arises from a dependency on a third party.

Secondly, will dashboards built within the regulatory regime actually satisfy user needs? ABI research found that data completeness is a priority for customers and there is little tolerance for filling out additional information. The proposal to allow days for pensions' values to be returned to dashboards and require users to resolve a possible match within 30 days will likely disappoint users. There will need to be a regular review of the timeframe, and also inclusion of other value-adding functions such as transactions and calculations.

ABI senior policy adviser, Evey Tang

ABI

Soapbox: The kids aren't alright

Since starting as a pensions reporter I have learnt so much about the industry and it can sometimes be easy to forget that not everybody is exposed to the same amount and quality of information as myself. This might explain why, when I have conversations with people my age who have just started in their first proper jobs, they describe their lack of awareness of their own pension and a lack of engagement with it.

One reason for their lack of engagement with their pension, as they have described, is their lack of interaction with the fund. They describe their pension as an invisible force that they only see through a deduction on their paycheck.

Asking people with this view why they don't engage more with their retirement savings will inevitably lead to several additional questions: Why should I? How would I do that? How much saving is enough? How do I know if I'm doing it right? Where can I get advice?

This is not a problem that can just be fixed by encouraging young people to engage more; access to information needs to be made easier. Additionally, there needs to be a way to increase interaction with existing pension funds. Simply put, there needs to be an increase in transparency.

I do believe another aspect that has restricted young people's engagement in their pension, or at least those close to me, is a profound sense of negativity. I have had many interactions with people saving into their pensions who, whilst still saving into their retirement pot, regard the act of paying in with cynicism as "I won't be able to retire anyway".

They represent a group of young people who, whilst recognising a lack of a proper pension is a problem, don't ever see obtaining a decent retirement income as a realistic probability and, looking at the economic conditions of their pre and early adulthood, you can understand why. After racking up £45,000 worth of debt (the average for UK students after graduating) and seeing house prices climb far beyond reach, they have started to question the things that previous generations have taken for granted. Many have told me they never see themselves owning their own home, paying off all their student loans, and retiring comfortably.

I believe young people's pessimism regarding their pensions needs to be addressed to see any substantial improvement in engagement with the necessity lying in convincing them that, not only is a comfortable retirement possible, its realistic if they spend more time understanding their pension fund and start paying into it as early and as often as they can.

Whilst this all seem a bit bleak there is a crumb of comfort that I can offer as I also believe that the launch of the pensions dashboards will be a step in the right direction. All those I have spoken to who show no interest in their pension have reacted to my descriptions of the dashboards with overwhelming positivity seeing them as a useful way to have a deeper relationship with their pension. Defeating the negativity surrounding pensions is a deeper matter that I have no hard and fast solutions for and can only hope that young people are inspired to see their retirement as something worth fighting tooth and nail for.

Written by Tom Dunstan

Sovereign bond investing: A climate-focused approach

When it comes to responsible investment strategies, sovereign bonds have so far largely been overlooked. We believe that needs to change

Responsible investment has taken equity markets by storm. Although its penetration into fixed-income markets has been slower, it is picking up speed there too. Yet one area remains overlooked – government bonds. That's a major oversight. After all, governments set the rules and regulations that companies and individuals follow, and without their support and investment, the world will not be able to tackle its most pressing problems – climate change in particular.

Fixed-income investors have a key part to play in providing the capital required to keep climate change in check. While individually, investors have a negligible influence on government policy, collectively they can make a real difference – after all, the investment community holds $88 trillion in bonds issued by governments and their agencies.[1]

Focus on emissions

So how might fixed-income investors construct government bond portfolios in a way that has biggest possible impact in the fight against climate change? Investors in emerging-market bonds are central to the transition. That's because developing economies are more vulnerable to the physical impacts of global warming than their developed counterparts, in part due to geographical factors, but also because of weaker economic and institutional underpinnings. At the same time, emerging nations can be global leaders in many of the technologies needed for transition. But investors in developed sovereign bond markets also have a key role to play in the transition.

Based on today's level of emissions relative to GDP, bond investors should reward Western Europe (particularly Scandinavia). Some emerging markets, such as Mexico, are also relatively green. To tackle global warming, though, fixed income investors also have a duty to incentivise the laggards to reduce emissions. In other words, bond investors should consider allocating capital to countries whose carbon emissions are falling at the steepest rate relative to the size of their economy.

Focusing investments in the bonds of these nations may mean leaving out countries which are the mainstays of traditional bond indices. But that, in turn, increases diversification benefits for investors and should placate those who complain that funds that claim to embed environmental, social and governance (ESG) criteria are too often remarkably similar in their composition to non-ESG labelled ones.

By focusing on countries that are actively working on reducing emissions, sovereign bond investors can play a part in the fight against climate change and significantly reduce the carbon footprint of their own portfolios. As more investors take this view, we believe we can start to incentivise change in government policy.

Green returns

In terms of the type of investment, green bonds are a natural choice for climate-conscious government bond investors. It's a small but rapidly growing universe.

As well as its limited size (so far), the green bond market is hampered by a lack of universal rules and standards. Currently, the labelling and certification of sustainable bonds differs considerably from one country to another, while efforts to harmonise disclosure requirements haven't met with much success. We expect to see increased standardisation as the green bond market deepens and increases in value.

Given these limitations, we believe that a climate-focused sovereign debt portfolio shouldn't focus exclusively on green bonds. It should also invest extensively in traditional bonds, which are in greater supply, are easier to understand and exhibit more attractive valuations.

Change starts with planting a seed.

When Pictet launched its water equity investment strategy back in 2000, investments targeting positive change and sustainability were virtually unheard of. Two decades later, such strategies are mainstream and thriving. In just a year from launch, the Net Zero Asset Managers initiative has gained 220 signatories, who together manage $57 trillion.[2] We believe it is now time to transform sovereign bond investing by embracing climate change concerns and incentivising change – both through dedicated strategies and through including these considerations in the investment decision process for conventional bond funds.

Written by Pictet Asset Management senior investment manager, global bonds, Ella Hoxha

In association with PICTET 1805 Asset Management

[1] International Monetary Fund, October 2021 **https://blogs.imf.org/2021/10/13/fiscal-policy-for-an-uncertain-world/**
[2] **https://www.netzeroassetmanagers.org/**

Looking to gold

Pension funds increasingly recognise gold's diversification potential

Global levels of risk and uncertainty have burgeoned in the last couple of years under the shadow of a global pandemic, surging inflation and, more recently, events in Ukraine. Together with a prolonged period of ultra-low interest rates and multi-decade high levels of inflation – to say nothing of dizzyingly high equity valuations – this has created a challenging environment for asset allocation.

Understandably in this changed environment, investors, including pensions funds, face a pressing need to diversify risk and build resilient portfolios which can weather market turmoil.

Bonds no longer the diversifier they once were

Investors have traditionally used government bonds as the primary vehicle to mitigate risk – a strategy that has been broadly successful for the past couple of decades, thanks to generous legacy coupons and the strong bull market during that time. But that has changed with the ultra-low yield/high inflation environment in which we now find ourselves.

Crucially, it is important that investors don't rely on data and assumptions that shaped the past two decades. Financial markets are in a different place today. Our analysis suggests that the negative bond/equity correlation – a relationship that is key for bonds to play their role as a portfolio diversifier – breaks down at inflation rates above 2 per cent.[1] Given the elevated global inflation outlook, it seems increasingly likely that the long-relied-upon correlations of the past 20 years could break down if this environment persists. And as central banks turn decidedly hawkish in response to soaring prices, bonds are likely to be increasingly susceptible to downside risk.

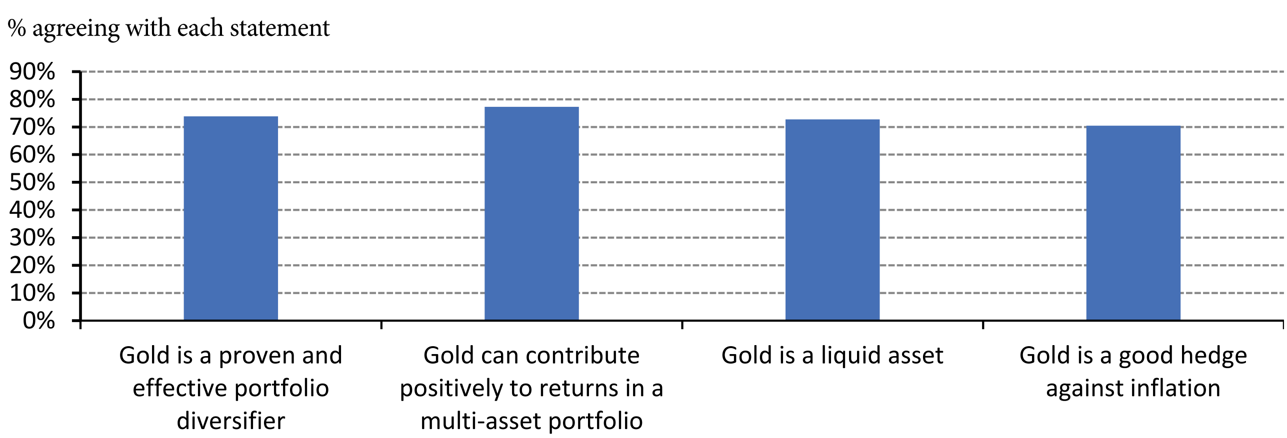
So, if bonds are less likely to be effective diversifiers going forward, what other assets could pension funds consider in their asset mix? We believe that gold is uniquely placed to play an important diversification role in pension fund portfolios, not just in the current environment but over the long term too. And the results of our third annual survey – conducted jointly with *Pensions Age* – suggests that UK pension funds increasingly agree.

Strategic gold allocations amongst UK pension funds have increased

The findings of our latest survey show that nearly 40 per cent of respondents hold an allocation to gold. This is up from 31 per cent of survey participants in 2021. Although these allocations are currently relatively modest (29 of the 34 respondents holding gold have an allocation of 2 per cent or less), it is nonetheless encouraging that they are more commonplace among the UK pension fund audience.

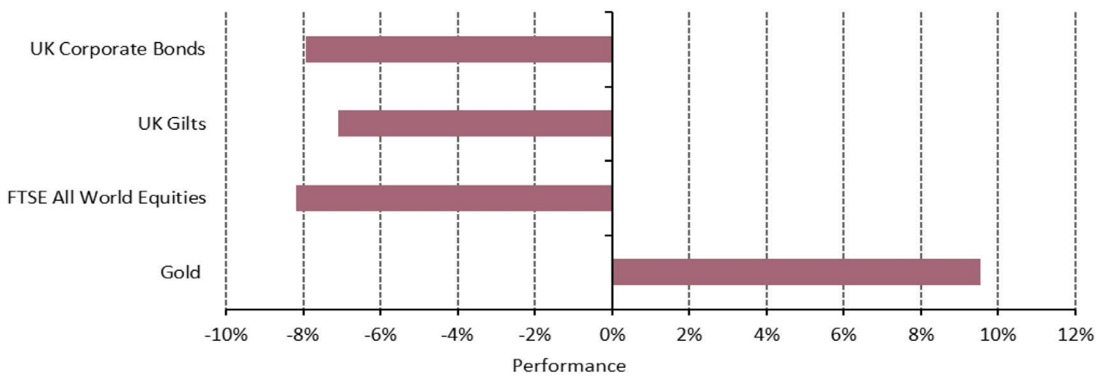
And the results suggest this is not a temporary phenomenon. The gold allocations were primarily described as strategic rather than tactical. And when asked how their allocation to gold may shift over the next 12 months, 39 per cent of respondents said that it would likely increase. That compares with less than one third expecting their bond allocation to increase. Is gold, therefore, becoming increasingly relevant as a portfolio diversifier in the current environment?

Chart 1: UK pension fund survey respondents view gold as an effective and liquid diversifier and inflation hedge



Base: 88 respondents

Chart 2: Year-to-date returns for gold versus UK bonds and global equities*



Source: Bloomberg
* As of 15 March 2022

Conclusion

Pension funds looking to protect their portfolios should carefully consider whether the diversifiers they choose will be effective in protecting portfolio performance when they need it the most. Bonds, the traditional asset of choice for defined contribution funds, may no longer offer the diversification benefits they once did.

Inflation a key risk for pension funds

Our survey responses indicate that may be the case. As inflation races to multi-decade highs, our survey showed widespread recognition to gold's diversification and inflation-hedging potential: around three quarters of the respondents agreed that gold has a proven track record as an effective portfolio diversifier and hedge against inflation.

The evidence suggests they are justified in this view. Our analysis has shown that gold's average annual return since the turn of the century, measured in pound sterling, is 11 per cent, far outpacing average annual UK CPI (2 per cent) over the same period.[2] And gold can also protect investors against higher inflation levels. In years when inflation was above 2 per cent, gold's price increased on average by 12 per cent.[3] Over the long term, therefore, gold has not only preserved capital but helped it grow.

Respondents also recognised gold's ability to generate long-term returns, with 80 per cent agreeing that it can positively contribute to returns within a multi-asset portfolio. Historically, gold has contributed positive performance during both good economic times and bad. Looking back over the half century since the end of the gold standard in 1971, the price of gold in pound sterling has increased by an average of nearly 12 per cent per year – a performance comparable to equities and higher than bonds.[4]

Gold provides downside protection

Many assets often become increasingly correlated as market uncertainty rises and volatility becomes more pronounced, driven in part by risk-on/risk-off investment decisions. As a result, many so-called diversifiers fail to protect portfolios when investors need them most.

Gold is different; its asymmetric correlation with other asset classes helps to make it a particularly effective portfolio diversifier. During periods of market stress, its negative correlation to equities and other risk assets actually increases as these assets sell off. We have seen this recently: While equities and bonds have tumbled in value since the start of the year (see chart 2), gold has rallied, increasing by 9.5 per cent in pound sterling.[5]

Our work has found that gold's unique characteristics make it stand apart from other mainstream assets. The prolonged environment of ultra-low interest rates, together with potentially persistent high inflation and greater uncertainty, seems to be boosting interest in gold as a diversifier, particularly given its historical track record of strong performance during periods of high inflation. And recent geopolitical events represent a clear example of why gold is such an effective and well-established hedge against both expected and unexpected market risks.

The World Gold Council/Pensions Age survey was conducted in February 2022 and participants were from 88 UK master trusts, DC and DB schemes. Questions related to the article or gold can be directed to claire.lincoln@gold.org

[1] Stocks go down, bonds go... down? | Post by World Gold Council | Gold Focus blog | World Gold Council
[2] As of 31 Dec 2021. Source: 'The Relevance of Gold as a Strategic Asset 2022', World Gold Council
[3] Source: Bloomberg; ICE Benchmark Administration
[4] Ibid.
[5] As of 15 March 2022

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The time is now

The Sustainable Investment Summit saw many speakers take to the stage to discuss the investment opportunities greater engagement with ESG will provide

March hosted the latest Sustainable Investment Summit, marking the first time the event has been held in person since the start of the Covid-19 pandemic.

The event was chaired was by Business and Human Rights strategic adviser on corporate responsibility and sustainability, Richard Howitt, and included a range of voices on a variety of topics, although one theme cropped up time and time again: When it comes to environmental issues, action must be taken now.

The conference began with the chairman's welcome, in which Howitt expressed his pleasure at once again having the event in-person and meeting attendees face to face. Howitt also highlighted how the skillsets of the people in the room *[focused on sustainable investing]* are currently very much in demand.

The first speaker after the welcome was UNEP head climate finance unit, Ivo Mulder, who outlined the current state of the climate crisis and described what he believed must be done to address this problem.

Mulder began by detailing the scope of the problem, commenting: "Eighty per cent of farmland will likely be lost anyway, even if climate change will be kept in check below 1.6 degrees. The IFCC's latest report also found that, to maintain resilience and adapt to climate change, we need to conserve up to between 30 and 50 per cent of the earth's surface."

In this race to net zero, Mulder outlined two initiatives, the Net-Zero Banking Alliance and the Net-Zero Asset Owner Alliance, which were designed to help companies hit their carbon reduction targets, although he warned that net zero is not enough on its own and investment in biodiversity is also crucial.

Mulder also warned that more should be done to reach net zero, stating: "Too few people, too few finance institutions, too few businesses and too few governments are really walking the talk."

Next up to the podium was M&G Investments fund manager, Randeep Somel, who, while reiterating the need for net zero, discussed how solving the climate crisis could be very profitable for many businesses willing to get involved as early as possible.

Somel described M&G's impact framework designed to determine whether investment in a particular company balanced both returns and economic responsibility through examining "the three I's".

"The first, like you would look at any investment, it's investment. Is it a good business model? What are its business risks? What is the intentionality of this business? Have they set out to be a sustainable business? The third part is the actual impact itself, very simply, prove it! What is the in-cap balance? How material is it to your overall revenues?"

Speaking on climate government bonds, Pictet Asset Management senior investment manager, Ella Hoxha, was the next to take the stage, detailing how bonds could be used to benefit the environment.

"We look at a climate approach that allocates capital to sovereigns, from the perspective of how they're performing regarding their missions", she said, going on to detail the two layers that this

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Mercer PICTET Asset Management Standard Life Part of Phoenix Group WORLD GOLD COUNCIL

approach examines – the absolute level of emissions of a country and the efficiency for a kiloton of CO_2 emissions per billion units of GDP.

Hoxha reiterated that the goal of government bonds is to help countries reduce their carbon footprint by encouraging falling emissions, more efficient dealing with emissions and more substantial environmental policies.

The chair then offered a change to the summit's format, sitting down for a fireside chat with BlackRock global head of investment stewardship, Sandra Boss, to discuss the long-term value of pursuing sustainability.

Boss began by commenting on the major issues for the proxy voting system this year. "I think that governance will continue to be at the heart of our approach. And we will continue to see, in Europe in particular, Say on Pay and remuneration with reference to whether companies have taken financial support being closely analysed," she said.

She then outlined BlackRock's strategy to proxy voting on climate risk stating: "Our approach is to support companies that do have clear disclosure, that have transition plans, that have Scope one and two targets and goals", although adding that BlackRock believed it was "too early" for Scope three to be a voting issue.

Climate Bonds Initiative head of market intelligence, Krista Tukiainen, was the first back up to the microphone after the break to discuss financing the transition to net zero.

The speaker began by talking on the fluid nature of the transition to net zero, linking to the ongoing war in Ukraine by stating: "We now have an opportunity to move away from fossil fuels in this region and beyond."

Tukiainen also spoke on both the benefits and the achievements of green bonds, talking of their tangible effect on broadening the investor base whilst also recalling the fact that they have been responsible for $3 trillion volume since their first issuing in 2007, coming from over 3,000 different entities whilst also emphasising the effectiveness of the bonds in times of volatility.

The next speaker was Mercer Europe principal sustainable investments, Hill Gaston, who used his time to encourage all those in attendance to raise their impact ambitions.

He began by defining impact investing as bringing together the idea of financial return and positive social or environmental impact with an explicit intention to deliver "a positive, measurable, social and environmental impact in underserved, critical areas alongside a financial return".

Gaston them discussed the 'impact pathway' – intent, action and outcome – which he described as the "critical" components to the successful impact approach. According to Gaston, 'intent' is about ambition and themes, 'action' is how the intent is expressed in the investment portfolio and 'outcome' is monitoring that it has generated the desired result.

Speaking on his experience with sustainable investing within emerging markets debt, HSBC Asset Management global emerging market debt head, Bryan Carter, was the next to present, offering up valuable lessons for asset managers to follow.

These lessons were what to do when the data ends, encouraging creativity and engagement to gain more understanding, not to fear failure, working with as many companies as possible while embracing the reality that not all with be able to adopt ESG polices, and utilising the competitive edge.

Carter elaborated on the idea of engagement, commenting on the need to: "Engage not exclude. We don't run away even when we can't invest, for example with Indonesian coal companies. We stay involved with these Indonesian coal companies even though we may not invest in them, to set up business transformation targets and to get them to move away from dirty coal."

Big Issue Invest head of impact, Joshua Meek, was next up to speak about input investing by social enterprise, offering real world context to ESG investment.

Meek commented: "I am surprised by how much we aren't engaging with what is a quite strong sector of data on a macroeconomic scale from UN sources

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like the World Bank, WHO, Health matters and, in the UK, the ONS. One of the things we want to do is really stop the silos that we see where the public sector, charity sector, social sector isn't talking to the investment sector so we can all learn and make better investments together."

He also described how Big Issue Invest has made their investment strategy more accessible to investors, publishing their due diligence online for free, developing a free to use Diversity Representation Measurement Tool, and conducting annual training for ESG and Impact.

The next presentation saw two speakers take to the stage as Phoenix Group head of climate change, Tim Lord, and Standard Life head of unit linked investment solutions, Gareth Trainor, discussed removing barriers to net-zero investment and engaging customers along the way.

Trainor took the helm first and stated that, whilst investing in companies that had a positive effect on the environment was a priority for their customers, risk and return were still the top priorities for their customer base.

Lord then stepped up to the mic to discuss the current barriers to net-zero investment, pointing to policy, financial services regulation, small scale ESG projects, and creating consumer demand.

He ended on a positive, stating that: "All of these barriers are in the process of being tackled".

World Gold council market relations and climate change lead director, John Muligan, was the next up to speak on decarbonising gold.

Muligan described the process of decarbonising gold as a value chain, starting with first discovering gold's carbon footprint. He explained that gold's emissions all came from its mining, specifically the electricity used in the process: "That's quite significant when you compare with any other mined product which, if you own it, implies you're accumulating further emissions".

He then went onto explain how this could be used to decarbonise gold as an asset, adding: "If the mining process is decarbonised, if they can decarbonise the way they generate electricity, basically, you can decarbonise the whole value chain."

The penultimate speaker of the summit was Asset Management One International head of equities EMEA, Anca Vasilov, who offered a different

perspective, discussing the role of engagement in enhancing returns in Japan.

Vasilov spoke of the company having developed and implemented an extensive stewardship engagement programme that builds on existing expertise in the firm and is tailored to the needs of passive asset managers.

Vasilov added that, over the past fiscal year, it engaged with companies that account for around 80 per cent of the total market capital and carried out over 1,000 separate engagements with companies that were identified as priority candidates for engagement.

The day's final speaker was Bank of England senior adviser, Michael Sheren, whose closing keynote presentation discussed his personal opinion on the transition to a sustainable global economy.

Sheren began by discussing the physical threats of climate change. He explained: "The acceleration around physical risk has been striking. The advantage of working for the BoE and the G20 is that we get personal access to some of the best scientists in the world, and some of them are terrified."

Sheren then described his thoughts on solutions, stating that we desperately need both a catalyst to encourage moving money into ESG areas and new sustainable investments to be a welcome place for the money to end up.

Sheren ended his talk by emphasising the need become involved in ESG investment immediately adding: "If you as asset owners are not digging deep into ESG issues, your clients are at risk."

Howitt ended the day by offering a quick recap on the wealth of information that had been offered up by the variety of speakers that took to the stage as well as all those who made the event possible including the sponsors, the organisers and the event staff.

Written by Tom Dunstan

Just Group business development manager, Martin Parker
ITS trustee director, Akash Rooprai

Buyouts and buy-ins for member and employer nominated trustees

Laura Blows speaks with Just Group business development manager, Martin Parker, and ITS trustee director, Akash Rooprai, about the pitfalls and good practices when approaching insurers for a bulk annuity deal

Having completed hundreds of bulk annuities over the years, Just business development manager, Martin Parker, and ITS trustee director, Akash Rooprai, share their experience to benefit member and employer nominated trustees who may be new to the bulk annuity process, in the latest *Pensions Age* podcast, *Buyouts and buy-ins for member and employer nominated trustees.*

As Parker explains: "Professional trustees are experts on bulk annuities. But there are many smaller schemes, the ones with under £100 million of assets, that may not have a professional trustee on board to guide them.

"They're likely to come to the market only once, for a full scheme buy-in and then move to buyout. So the likes of a pensions manager or member trustee will be responsible for securing a bulk annuity but without a professional trustee, like Akash, to guide them through the process."

Ensuring all stakeholders are involved in the bulk annuity plan is vital, as Parker gives one such example where as the trustees were ready to sign the bulk annuity contract, they realised their plan hadn't had approval from the overseas corporate sponsor, delaying the transaction by nearly six months whilst the corporate completed due diligence on the buy-in.

Rooprai explains: "Larger schemes often create a joint working group between the trustees and the employer, which is positive as it gets stakeholders on the same page. It's a tactic that can be used by smaller schemes."

In contrast, best practice for a small transaction is where the trustees and their advisers are well prepared, Parker says. For instance, one where trustees complete a feasibility study with insurers to establish affordability, write to deferred members to remind them of their options to improve affordability, have their lawyers review and sign-off of the benefit specification, ensure the data is cleaned and that scheme assets are hedged to fully protect against movements in interest rates and inflation. Rooprai highlights how a bulk annuity deal is not about timing the market, but about putting a cap on costs and risks.

As Rooprai states, insurers are able, commercially, to choose which opportunities they're most interested in and that's likely to be those schemes that are best prepared.

Rooprai has his own stories to share about the risk of being unprepared. He mentions a small scheme with a charity sponsor, looking to buy out. Before approaching the market, it prepared a benefit spec and asked its lawyer to review. It was then discovered that the scheme wasn't actually closed to accrual and the deal was therefore unaffordable.

However, an unaffordable deal at first may not always remain that way. Parker recalls a scheme that monitored affordability by actively tracking pricing to determine when market movements and member movements made the transaction viable.

"The trustees met the Just team that would manage their transition and future buyout," he says, "and after six months of monitoring, the target was met, the trustees locked into terms and moved to complete the transaction."

Therefore, it is important to lean on your advisers, your EBC and lawyers, "especially if you don't have a professional trustee", Rooprai says, "and to start way earlier than you think you need to".

"And lastly, it's worth saying you only need a couple insurers to get competition and in fact one is sufficient if they're competing against a realistic but challenging target price set by your advisers," he adds.

For Parker, its engagement with all stakeholders, preparation with data and early interaction with insurers that may lead to a successful bulk annuity deal for smaller schemes. He says: "If you've started all of this, we're very likely to be interested in helping you."

To listen to the podcast, please visit www.pensionsage.com

A labour of love

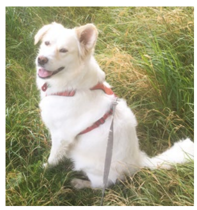
Former Pensions Minister and LCP partner, Steve Webb, chats to Sophie Smith about his proudest moments in pensions, Netflix recommendations and a lockdown rescue

What's your employment history (including jobs outside of pensions)?
I worked for nine years at the Institute for Fiscal Studies as a micro economist, which was a job I loved. For two years I was a professor of social policy at Bath University before being elected to parliament in 1997 and serving until 2015. From 2010-15 I was Pensions Minister. Since then I worked at mutual insurer Royal London for four years before joining LCP as a partner in 2020.

What's your favourite memory of working in the pensions sector?
There's so many to choose from! A very proud moment was standing up in parliament to launch the legislation to bring in the new state pension, which had been a labour of love for many years. And in more recent times, helping over 130,000 pensioners get back-payments totalling £1 billion in underpaid state pensions has been very worthwhile.

If you did not work in pensions, what sector do you think you would be in instead?
It's hard to think of anything I would enjoy more! But I've sometimes wondered about something in journalism or the media, trying to help people more broadly with money matters.

What was your dream job as a child?
As a teenager I wanted to be an actuary (honest!) as maths was always a favourite subject at school.



What do you like to do in your spare time?
I'm very involved in our local church near Bristol, and I also spend plenty of time walking Daisy, who is a golden retriever, a rescue dog who we took on during lockdown.

Do you have any hidden skills or talents?
When I was a teenager, I reached quite a high standard playing the oboe, and still play from time to time.

Is there a particular sport/team that you follow?
I grew up in the West Midlands and generations of my family have supported West Brom. This can often be a painful business however, with something of a rollercoaster of fortunes in recent years.

If you had to choose one favourite book, which would you recommend people read?
I really enjoyed *The Music of the Primes* by Marcus du Sautoy, which would appeal to anyone with a numerical bent.


Alessia Pierdomenico / Shutterstock.com

And what film/boxset should people see?
A bit late in the day, we've discovered *Moneyheist* on Netflix and are really enjoying that. And a childhood film classic that I still enjoy is *Close Encounters of the Third Kind.*

Is there any particular music/band that you enjoy?
My musical preference is usually listening to choral music, such as by the vocal group Voces8. On more modern music, I would usually have Coldplay on my playlist.

Who would be your dream dinner party guests?

I always admire people who stick to their principles even at great personal cost, so I'd be keen to invite Nelson Mandela and Archbishop Desmond Tutu to my fictional dinner party – something tells me I wouldn't get a word in edgeways!

Is there an inspirational quote/saying you particularly like?
I remember one Christmas Christian Aid that did a special carol about the meaning of Christmas for people 'at the bottom of the pile'. It looks forward to a time of real justice and I loved the line "..and the lowest and the least will be foremost at the feast", which has stayed with me.

Written by Sophie Smith

The final piece of the puzzle?

Following the industry victory to include paid-for advertising in the Online Safety Bill, Sophie Smith considers what this will mean for savers and the work that is still needed to protect members from bad actors in an increasingly digital world

Summary

- The government has confirmed plans to expand the Online Safety Bill to include paid-for advertising, after over a year of campaigning, although key details are still awaited.
- Pension scams remain a concern despite the changes, with scammers expected to evolve, prompting calls for a more holistic approach to digital scam issues.
- The Online Advertising Programme could present an opportunity to take a broader scope, although experts remain doubtful over the effectiveness of self-regulation.

After growing industry, political and regulatory pressure, the government recently confirmed plans to extend the Online Safety Bill (OSB) to include paid-for advertising just over a week before introducing the bill to parliament.

Calls for change in this area have been growing for some time, with household names including Martin Lewis, Dawn French, Sir Richard Branson and Rob Brydon calling on the Prime Minister to 'urgently' extend the bill, alongside similar calls from The Treasury, the Work and Pensions Committee, and the Joint OSB Committee.

The Financial Conduct Authority (FCA) also called for legislative change, with similar messages shared by the City of London Police, the Personal Investment Management and Financial Advice Association (PIMFA), the Investment Association, Quilter, B&CE and countless more private companies and industry bodies.

Perhaps unsurprisingly, the extension of the bill has therefore been highlighted as a "huge moment for the safety of all internet users", with Joint OSB Committee chair, Damian Collins, suggesting that the UK is "leading the world with legislation to finally hold social media companies for the offences that take place on their platforms".

The changes have also been welcomed by the pensions industry and Pensions Minister, Guy Opperman.

Speaking to *Pensions Age,* Opperman, states: "I welcome the expansion of the OSB to include illicit online adverts on social media and search engines.

"This will help defend consumers from pensions scams that are increasingly driven by fake websites and advertising that entices people to engage with scammers online."

Falling into place

Adding to this, Pension Scams Industry Group (PSIG) chair, Margaret Snowdon, highlights the move as a "huge step forward", clarifying however, that the devil will be in the detail.

Indeed, Aviva UK financial crime director, Paul Pisano, says that, whilst the inclusion of paid-for adverts is "crucial" in offering greater protection to members, it will be important to review the draft legislation of the OSB in detail to ensure it lives up to the government's aim for the UK to be the safest country in the world online.

Association of British Insurers (ABI) chief fraud and financial crime officer, Mark Allen, also points out that whilst the change will help protect savers, it will, of course, take time to come to fruition.

"During the interim, the tech platforms must play a more proactive role," he suggests. "We understand that the Online Fraud Steering Group is working with a number of tech platforms to this end. It might, for example, result in the introduction of a tech sector charter that would comprise a series of sector commitments to strengthen resilience against online scams. The ABI would be supportive of such a charter, which would be overseen by the revamped Joint Fraud Taskforce and chaired by the Minister for Security."

Allen also argues that the legislation should be passed before the end of this parliamentary session to avoid any further delay, particularly as it comes at a time of sharp rises in the cost of living and increased financial stress, and "we know that fraudsters target and exploit people with low financial resilience".

A temporary fit?

Whilst the extension may be a victory

for savers, Snowdon emphasises that this "is not the end of pension scams", warning: "There are still many ways to get at people and their savings and as the population ages, more people come into the cross hairs of scammers. We therefore need to improve reporting and be better able to spot the bad actors."

"Scammers will always find a way. I would hate to think that everyone thinks 'job done' and stops paying attention to pension scams. A priority for government should be recognising and helping victims of scams and stop the deep-seated belief that financial victims only have themselves to blame."

These concerns are shared by Allen, who warns that the tactics used by scammers change rapidly, explaining that whilst these regulations empower various stakeholders to take stronger actions, it will still be important to encourage reporting of pension scams and improve intelligence exchange within the industry and public sector.

Agreeing, Transparency Task Force (TTF) founder, Andy Agathangelou, says that although momentum may slow down, sadly, there will always be more work to do, with one key priority now being to ensure that bad practitioners are unable to become repeat offenders.

In addition to this, Agathangelou argues that more joined-up thinking will be needed on an international basis, urging the UK government to lead non-UK jurisdictions to follow suit.

"Scammers will exploit every weakness in the defensive wall, so there needs to be comprehensive, joined up thinking, internationally," he explains. "The authorities need to operate strategically, and not just tactically."

This is a concern shared by the broader industry too, as The Investing and Saving Association (Tisa) head of technical policy and regulation, Lisa Laybourn, warns that the newly introduced elements of the bill are "not a silver bullet" and will need to be analysed to ensure any gaps that could be exploited by criminals are closed.

She continues: "Given the sophisticated techniques employed by scammers, there needs to be a commitment to keep this issue under review. Legislation needs to be flexible enough to easily adapt to a constantly changing scam activity.

"We are spending more and more time online, and the rapid evolution of the online advertising ecosystem means that a regulatory framework that is fit for purpose and agile enough to keep pace with a rapidly changing environment is urgently required."

Commenting in response to these concerns, however, Opperman says that he also wants media companies to "go further and be vicariously liable for the content on their platforms".

"Alongside our transfer regulations, which came into force in November, these measures will help crack down on fraudsters trying to trick people into moving their pension pots into scam accounts," he continues.

"As scammers' techniques evolve, so must our defences, which is why we continue to work with industry, regulators and law enforcement to enhance consumer defences and stop scammers in their tracks."

Allen also suggests that, amid the changes to the OSB, it would be timely to review the pension cold-calling ban launched in 2017 so it can better support other scam-prevention initiatives, with the ABI backing a more holistic approach that covers all forms of digital communication channels.

Adding more pieces

In an ever-more digital world, the importance of online safety is increasingly urgent, with industry experts warning that the lack of trust around online advertising and tools could jeopardise the uptake in digital tools, such as the pensions dashboards.

Whether or not advertising will be allowed on the dashboards is yet to be confirmed. However, Allen suggests that, to encourage engagement with pensions, it will be important to allow signposting of reliable advice and guidance services within the dashboard's ecosystem.

Given this, Allen explains that the potential shift of needs brought by dashboards means the regulator will need to develop a holistic approach towards the advice and guidance boundary and consider whether some signposting can be seen as advertising.

"As part of this," he says, "we expect dashboards will be subject to related FCA rules and the new online advertising initiatives to protect users from fraudulent content."

Snowdon also says that the treatment may depend on what is being advertised, stressing that whilst there may not be a place for adverts on the Money and Pensions Service (Maps) dashboard, commercial dashboards would need to be able to stand behind adverts they allow on their sites. "Advertising is not all bad," she clarifies, emphasising that this can be useful, but need to be "honest and transparent".

If the pensions industry wants to keep up, it will need to ensure that pension savers are properly protected, as Snowdon stresses that pension savings are not just a nice to have, but an essential.

"It is nothing short of tragedy when people lose what they have built up because of the current power of search engines and social media," she adds, warning that many more people will have lost their savings to bogus advisers, investments and cloned firms amid the delays already seen in introducing greater protections.

And whilst Agathangelou acknowledges that the changes to the Online Safety Bill may be a case of "better very late than never", this is clearly an area that will need ongoing care and consideration to ensure protections evolve at a pace with the scammers.

Written by Sophie Smith

Creating a supportive frame

Alongside the changes to the Online Safety Bill, the government has launched its long-awaited consultation on the Online Advertising Programme (OAP), which intends to complement its work to establish a pro-competition regime for digital markets, with "significant interactions" expected between the programme and the bill.

Under the programme, harmful or misleading adverts, such as those promoting negative body images, and adverts for illegal activities such as weapons sales, could be subject to tougher rules and sanctions. Influencers failing to declare they are being paid to promote products on social media could also be subject to stronger penalties.

Aviva UK financial crime director, Paul Pisano, suggests that this will lead to relevant online platforms taking a more active and stringent approach to vetting advertisers and 'raising the bar' for those seeking to abuse such advertising methods.

"It should also ensure relevant regulatory powers cover online advertising more effectively as is already the case with traditional offline advertising," he continues. "This should mean better engagement from online platforms in tackling the issue head-on."

TTF founder, Andy Agathangelou, however, argues that transparency will be key to the success of the OAP, suggesting that it should share regular or quarterly updates on the programme and any cases/organisations found to be falling foul of the legislation.

More broadly, Agathangelou argues that the strength of the response on this issue must be "firm, robust and tenacious", stating: "The UK's stance on tackling all kinds of financial malpractice, malfeasance, misconduct, mis-selling, scamming, fraud, economic and financial crime is woeful. Our lack of activity in this space has created a situation where the crooks are so confident that they will not get investigated and prosecuted that it's 'open season for scammers.'"

The consultation considers a number of regulatory options, ranging from a continuation of the self-regulatory framework through to full statutory regulation, which would involve appointing a statutory regulator with "tough enforcement powers".

The latter perhaps seems more likely, however, as Pisano also notes that the evidence to date suggests self-regulation might not be the most effective approach, with online platforms only taking action to begin verifying financial services advertisers after significant pressure from the Financial Conduct Authority (FCA) and wider industry.

"Greater regulation is key to compelling online platforms to address this issue," he continues, arguing that a statutory regulatory seems like a "clearer way forward in compelling online platforms to adhere to minimum standards that the regulator can determine and enforce".

This sentiment is echoed by PSIG chair, Margaret Snowdon, who stresses that there are already many self-regulatory measures and good practice standards that have not succeeded.

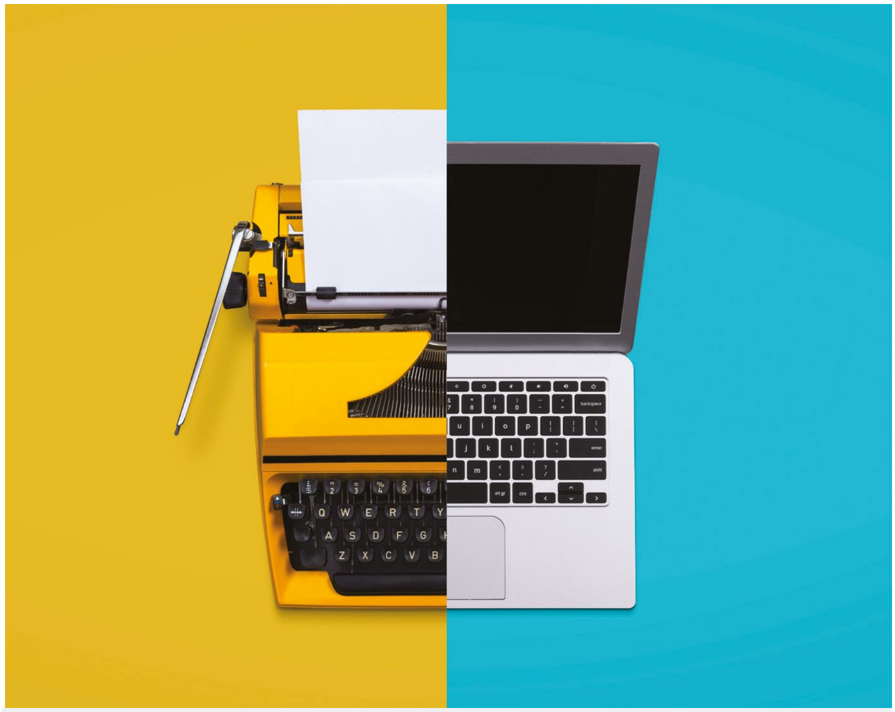
"Statutory regulation is needed, but it needs to be bold and it needs to look beyond the advertiser to the designers and the platforms," she adds. "It needs to have real teeth and a will to engage."

One 'priority need' highlighted by Snowdon, for instance, is the proper vetting and verification of those who place adverts, which she says could be done through a modified blue tick scheme.

"I also believe that host platforms should be accountable for consumer losses – whether through a compensation scheme or a levy remains to be seen," she adds.

Out with the old, in with the new

Jack Gray investigates pension providers' and regulators' increased focus on DC retirement outcomes



Summary
• As DB schemes continue to be gradually phased out, it is imperative that DC retirement outcomes take centre stage.
• Recent studies have found that providers and regulators are increasing their focus on DC retirement outcomes.
• These efforts are crucial as more members begin to retire with purely DC pensions.
• Initiatives such as pensions dashboards and the value for money framework could help boost member understanding and outcomes.

With DB schemes continuing to be phased out from the UK pensions landscape, pension providers and regulators are increasing their focus on DC retirement outcomes. While most people retiring today will likely be drawing at least part of their retirement income from DB pension, the era of pure DC retirement is fast approaching.

"Fundamentally, DB schemes were intended to provide an adequate retirement income for their members, providing the security of income for life with increases that protect pensions against inflation," says Ross Trustees trustee manager, Annabelle Hardiman.

"As we transitioned out of DB schemes, DC schemes became a means of supplementing this income. Yet as employers have moved towards offering DC schemes only, there has been increasing concern amongst pension professionals as to whether these pots will be sufficient, due to the nature of DC pension provision being heavily dependent on contributions."

Regulators have recognised this, with initiatives such as pensions dashboards and the value for money framework in development, while studies show that pension providers and schemes have been taking steps to prepare for the new world of retirement.

One such study is Aon's *DC Pension Scheme and Financial Wellbeing Survey,* which finds that the proportion of DC schemes that cite 'providing an adequate retirement income' as their main aim has increased from 29 per cent in 2020 to 46 per cent this year.

However, employers may be playing catch up, as the same survey reveals that just 19 per cent of sponsoring employers have considered pension outcomes in relation to their future workforce planning.

Increasing focus

Alongside the move from DB to DC pensions, there are several factors that mean efforts to understand and improve DC retirement incomes have been stepped up. Pensions and Lifetime Savings Association (PLSA) director of policy and advocacy, Nigel Peaple, notes that the population in the UK is ageing, with the number of people of state pension age and older expected to grow by 24 per cent over the next 25 years.

"As the balance of pension provision continues to switch from DB to DC, these future retirees will have increasingly large DC pots to manage, while numbers retiring with a guaranteed income will decline," he adds.

Furthermore, the introduction of

pension freedoms in 2015 means that it is more important for those retiring with DC benefits to have a better understanding of their pension savings and finance in general than those retiring with DB benefits. This is also a factor in providers and schemes increasing their focus on retirement outcomes as they aim to provide DC scheme members with better support as they approach retirement.

Peaple continues: "Pension freedoms, having given people new possibilities to choose how to draw their DC pension savings, also mean people need more help to make the best choices for their circumstances.

"Our research has shown that workplace pension schemes want to be a major part of the solution in creating a bridge between a system that uses the power of inertia to successfully bring people into pension saving, and the decisions they must take to access their pension saving in retirement.

"These decisions are complex; not only will these retirees be taking the investment and longevity risk, but their needs will likely change from the point of retirement – when they may like more flexibility – to later on when a steady, sustainable income may be more suitable. This makes designing retirement income products an important priority for pension schemes today."

Finding a solution

With the scale of the challenge of achieving good DC retirement outcomes becoming ever-more apparent, the industry, regulators and the government have been attempting to find solutions to help members and schemes with the changing landscape.

The Financial Conduct Authority's (FCA) Investment Pathways is one such initiative, whereby drawdown customers can select pre-prepared 'pathways' that define how they access their retirement income. "Investment Pathways are a step in the right direction, helping to alleviate anxieties and delivering on the promise to firm up retirement options, in particular for non-advised savers who are yet to draw down," says Legal & General Investment Management (LGIM) co-head of DC, Rita Butler-Jones.

"Those who previously confessed to having their head in the sand told us that this was a positive first step, a relatable and simple way to make retirement choices feel tangible, with a focus on the outcome of each decision."

Additionally, the FCA and The Pensions Regulator (TPR) are developing a framework for developing value for money in DC pension schemes, which has been proposed to be made up of three 'key elements': Investment performance; scheme oversight, including data quality and communications; and costs and charges.

"The more stringent value for member requirements coming into effect from this year will put a spotlight on what 'good' means for DC pensions savers, with charges and member communications being key factors for trustees to consider," comments Hardiman. "The launch of the pensions dashboard will also give savers greater visibility of their savings as a whole, and more meaningful data to measure retirement outcomes with."

However, Natixis IM head of DC strategy, Nick Groom, is less confident with the regulators' value for money proposals: "The industry needs to now focus on quality retirement outcomes. For employees, workplace pensions have become the only vehicle in town.

"However, unfortunately, amongst other dynamics, the market decided that cost was a function of value for member. This has created an unwanted competitive playing field where life companies in particular have driven fees down in a race to the bottom to extraordinarily low levels to capture new business. This has pushed the quality of investment design and options included in these schemes down to worrying levels."

Groom states that the "one lever we have left" to help build better outcomes for DC savers is the investment quality of default funds.

"This is all happening whilst the government is now trying to convince the DC market to include private assets, like venture capital funds that come with a fee level of 200bps, and performance fees on top, having regulated in a fee cap in the first place," he notes.

"Of course, the drive for consolidation will help to create appropriate scale, and that scale gives the buying power to create a more sophisticated and diversified investment process."

Moving forward

As the pure DC retirement world gets nearer, industry figures believe that the focus on outcomes will only increase. "As more people with purely DC pension pots begin to retire, I expect that adequate retirement outcomes will be increasingly considered when setting out new pension regulation," says Hardiman. "For those retiring over the next 10 years, this may be too little too late, but some solace can be found from the lessons the industry has learned."

Butler-Jones adds: "For future retirees, it's likely that their DC pot will be their only source of retirement income. As drawdown continues to become a more popular choice for savers, the need for better support will continue to grow."

To better support savers, the PLSA has called for a new set of product, communication and governance standards. Peaple explains: "Our proposals – called Guided Retirement Income Choices – are designed to complement pension freedoms and build on existing governance, regulatory approaches and guidance services, to provide member support throughout the retirement journey and develop product mixes that cater for the evolving needs of retirees over the course of retirement."

Written by Jack Gray

Summary

• Annuities have seen a decline in sales since the pension freedoms but there is a still a role for them to play in the decumulation market.
• Data is beginning to show a trend of purchasing an annuity later on in the decumulation phase.
• The market has seen some innovation but experts would welcome further development of hybrid drawdown and annuity products.
• Shopping around for an annuity is imperative for pension savers to be able to secure the best value annuity.

Annuities: Confined to the subs bench?

Annuities were once the only option for most retirees with a DC pot but in a post-pension freedom world, data is beginning to suggest their role in the decumulation phase is largely reserved for the second half

Annuities were once the star player of the decumulation phase, with most savers forced to purchase one upon retirement. That ended, however, when the pension freedoms were introduced in April 2015.

In the seven years since the freedoms were introduced, giving pension savers the choice of what to do with their pots, annuity sales have significantly decreased. The Financial Conduct Authority's (FCA) *Retirement income market data 2020/21* revealed that annuity purchases continued to decline, with the number of pots used to buy an annuity falling by 13 per cent to 60,383 on 2019/20 data. This contrasts with pots entering drawdown which stood at 165,988 for 2020/21.

Brooks Macdonald senior investment director, Andrew Lewis, speaking at a recent webinar on decumulation, noted: "If you looked at the typical client journey, when the client arrived at the point where they wanted to take a pension, over 90 per cent of advisers would recommend an annuity… if we fast forward today, the latest FCA retirement income data shows that that outlook looks very different now…. Annuities now count for a very small proportion of all pensions."

However, 60,000 annuity sales is not an insignificant number and Aviva head of individual annuities, Claire Reed, says that there is "absolutely is a role for annuities for the UK's decumulation market within a retirement portfolio… As a business, we offer a range of retirement products, and we believe annuities remain the right product for some people."

Canada Life annuities sales director, Nick Flynn, explains: "It honestly depends on the client's individual requirements and financial position. Annuities provide a guaranteed income in retirement, which is ideal for covering the bills and providing that peace of mind. Cashflow planning is critical as some people will need 100 per cent guaranteed income while others may be wealthy enough to not need any guaranteed income. For most people, a bit of both will make sense."

Furthermore, research by the Pensions Policy Institute (PPI) from September 2021 found that the potential market for annuities has risen sharply due to the rise in the number of DC pots as a result of auto-enrolment.

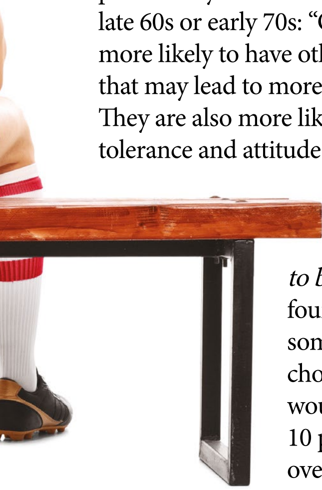
A role in the second half

"One of the big attractions of an annuity is that it protects you against uncertainty around how long you will live," LCP partner, Steve Webb, says, "but this is much less important when you are in your late fifties or early sixties and can expect to live for decades more.

"At this age, flexibility is much more important to people, including the potential for using a DC pot to fund early retirement. Because pension freedoms are only seven years old, we don't yet know what the 'pension freedoms generation' will do when they reach later retirement, but there are starting to be a few signs that annuity purchases among those in their 70s are starting to pick up slightly."

Data is beginning to emerge that shows annuities have a greater role to play later in the decumulation phase. For example, the FCA's *Retirement income market data 2020/21* found that more than half (59 per cent) of the annuities were taken by people over the age of 65.

Flynn too has seen this trend, particularly for clients approaching their late 60s or early 70s: "Older clients are more likely to have other health concerns that may lead to more attractive rates. They are also more likely to have a lower tolerance and attitude towards risk."



Furthermore, an LCP report, *Is there a 'right time' to buy an annuity,* found that although someone aged 60 who chooses drawdown would initially be 10 per cent 'happier' overall than someone who immediately uses all of their pension pot to buy an annuity, annuities become more attractive later in retirement. Its model predicted that a typical retiree would be happier overall with an annuity at around age 67, and the attractiveness of an annuity grows the older they get.

As well as providing more certainty around health and how long you might live for, Webb highlights another draw: "A second attractive feature of an annuity as you get older is that you no longer need to manage an investment pot. It seems likely that people in their 60s are more willing and able to manage a pot and live with the ups and downs of investing, but we don't yet know whether people will still want the same involvement and uncertainty when they get into their 70s and 80s."

Furthermore, Just Group group communications director, Stephen Lowe, notes several other reasons why annuities become more appealing with age. For example, annuity returns become more attractive over time relative to non-pooled solutions due to 'mortality drag and medical underwriting enables declining health to be reflected in higher annuity returns.

Product development

In response to the new trend of combining drawdown and annuities in the decumulation phase, innovation is needed in the market. Webb says: "While savers are free to enter into drawdown earlier in retirement and then use any remaining cash to purchase an annuity later on, experts would welcome innovation in the market that combines the two products."

Webb would like to see a product that combines drawdown with an annuity: "This could be a gradual shift in balance, with slices of annuity bought each year, or a bigger switch from drawdown to annuity at a set age (such as 75). A lot more work needs to be done on how this would be designed, but providers such as Nest and other master trusts are doing some interesting thinking in this space."

Canada Life is one of those providers that has begun to offer products that can combine the two. Flynn says: "We saw that people were interested in having the security of a guaranteed income alongside the flexibility that drawdown can offer. Our flexible drawdown product with an annuity option, allows users to enjoy this hybrid retirement option. We also offer fixed-term annuities that provides the security of an annuity for five, 10, 15 years or more."

Other areas of the market have also seen innovation to make purchasing an annuity a better experience for savers. For example, Just Group has focused on supporting retirees to buy the best annuity with the most suitable features for them that delivers the income they need with the right level of protection (spouse's pensions, guaranteed periods, value protection), Lowe says.

"That means we have seen innovation in terms of improving medical underwriting so each retiree is offered a personalised annuity rate for their circumstances," Lowe adds.

Furthermore, Reed says that since the pension freedoms the market has seen the introduction of improved death benefits on annuities to bring them in line with drawdown.

"Customers can now select guaranteed periods up to 30 years or add value protection, which allows them to select a minimum per cent of their fund that will be returned over the course of the product. Any innovation must still align with HMRC rules to ensure the annuity does not inadvertently create a significant tax liability for the customer."

Shopping around

One area that is important, however, regardless of products, is the need to encourage more savers to shop around for an annuity. PPI research found that a small majority do appear to shop around for an annuity but the levels of shopping around for pension products are lower than for other financial services.

It found that depending on various factors, such as age, geographical location and the type of annuity sought, people, especially those with health problems who could qualify for an enhanced annuity, could gain up to an extra 15 per cent, £800 per year (per £100,000 of purchase price) of retirement income if they shopped around.

Experts say that although the FCA has taken some steps to encourage shopping around, more needs to be done to help customers.

"The regulator has taken some steps to encourage shopping around but this seems to have had limited effect," Lowe says. "Where we have seen a step change in approach is the innovation among providers to offer their customers broking services so it is much easier for customers to secure the best rate in the market. We think this level of support will become the norm rather than leaving retirees to do the work for themselves. Not all providers are offering these services to help their customers."

Written by Natalie Tuck

PENSIONSAge

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Value for money assessments -Taking it step by step: *Rita Butler-Jones provides a four-step checklist to help DC schemes carrying out value for money assessments* **p42**

Hard to measure: Marek Handzel explores the difficulties of ensuring DC schemes' value for money assessments will truly generate the best results for members **p44**

DC consolidation focus:

Working together

LGIM's co-head of DC, Rita Butler-Jones

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Value for money assessments: Taking it step by step

Rita Butler-Jones provides a four-step checklist to help DC schemes carrying out value for money assessments

From 31 December 2021, new regulations come into force that require DC schemes to carry out extended value for money assessments and report back on whether consolidation into another scheme would improve outcomes for their members.

These new reporting obligations will initially only affect DC schemes with assets of less than £100 million. However, a consultation is underway to consider whether the regulations should be extended to schemes with assets of between £100 million and £5 billion.

Meanwhile, from 1 October, increased investment reporting requirements were introduced that apply to all schemes.

To help support you, we've put together our four-step checklist, which offers you useful tips and guidelines for addressing the new changes affecting pension consolidation.

Step 1 – Familiarise yourself with the legislation changes

Trustees of in-scope schemes must carry out a holistic assessment of how their scheme delivers value for members. The outcome of this assessment must be reported in the annual chair's statement and include consideration of reported costs and charges, fund performance (investment returns) and other measures of scheme governance and administration.

Since 1 October 2021, further regulations have taken effect (for the first scheme year ending after that date) where trustees of all schemes will be required to report their net investment returns.

As a minimum, returns from April 2015 (or the start date of the scheme if later) should be reported. The regulations specifically refer to costs and charges 'relating to those investments', so separate administration charges could be excluded.

Step 2 – Carry out the tasks listed in this summary trustees of in-scope schemes will need, in sum, to assess and report on:

- costs and charges – comparing the charges of the scheme and funds against alternative schemes
- the way you report on net investment returns
- measures of governance and administration – providing a self-assessment of record-keeping and member communications
- whether members are receiving value for money, and if not, whether to consolidate

Your findings should be reported as part of the chair's statement and annual scheme return.

Step 3 – See the following overview on how to comply with the requirements

Costs, charges and net returns:

- Trustees will need to compare costs, charges and net returns against three other larger schemes which have assets of greater than £100 million. This could be another own trust scheme, a master trust or a contract-based arrangement. This applies to all default arrangements and self-select funds. Of the three larger schemes chosen, the trustees should have discussed a potential transfer with at least one of those schemes, should they decide to wind up and consolidate
- Default funds should be compared with the default of the comparator, even if the comparator has a different investment strategy
- Self-select funds should be compared to the 'nearest comparable funds'. If the comparator scheme does not offer comparable funds such as legacy or with profits, the trustees should compare against the default
- However, trustees are expected to give more weight to net returns and their ability to properly manage the scheme than solely focusing on charges

Governance and administration:

- Trustees must carry out a self-assessment of their governance and administration, following the approach set out in the Department for Work and Pensions guidance and The Pensions Regulator's (TPR) DC Code of Practice, including:
- promptness and accuracy of financial transactions
- quality of record-keeping
- appropriateness of the default strategy
- quality of investment governance
- level of trustee knowledge, understanding and skills to run the scheme effectively
- quality of communications with members

Assessing whether members receive value for money:

- Taking all the above aspects into account, the trustees need to decide whether members receive good value
- If the scheme is deemed not to

provide value for members overall, trustees are expected to consider winding up and consolidating

• If trustees do not take immediate action to wind up, they must explain why and set out what steps they will take to ensure the scheme delivers value

• The impact of wind-up costs should be considered but needs to be weighed against the benefits of moving to a better-governed scheme with lower costs and potentially higher long-term net returns even if wind-up costs are very high

• If trustees strongly believe that only small areas of improvement are required and the resource and cost commitment is more favourable than winding up, that option can be explored but only if the proposed improvements are sustainable in the long term

Reporting:

• The outcome and explanation of the assessment should be reported in the chair's statement. The outcome should also be reported in the annual TPR scheme return alongside actions that will be taken

Step 4 – Check to see whether Legal & General can help

We're well-placed with the knowledge, expertise and resources to support you in meeting the new legislative obligations and in improving outcomes for members. So, why not get in touch with us to see if we can help?

We already support clients with information on costs, charges and net investment returns. If your scheme is administered by Legal & General, we can also provide guidance on measuring levels of achievement in administration, such as checking performance against service standards and record-keeping scores.

In addition, as the provider of the largest commercial master trust in the UK and with over £16 billion* of assets, we can further support in-scope schemes by:

• providing a comparison of costs, charges and net returns for the L&G Mastertrust's default and self-select funds

• discussing with you any potential decision to wind up and consolidate

• offering you the reassurance of knowing that the L&G Mastertrust is run by trustees who are legally responsible for making sure that the costs and charges give good value for money, and who act on behalf of members to regularly assess the trust's costs against a series of measures. Our independent trustees work hard with Legal & General to make sure that all charges are fair and competitive

• passing on the benefits of the economy of scale that comes from being the largest pension provider in the UK, with over £130 billion* of assets and four million members

• having a clear and compelling set of financial ambitions that deliver income and growth

• being committed to delivering profitable growth and to investing in society's future

If you'd like to find out more, please visit www.lgim.com/scheme-consolidation

Written by LGIM's co-head of DC, Rita Butler-Jones

*Source LGIM: as at 30 September 2021

Hard to measure

Marek Handzel explores the difficulties of ensuring DC schemes' value for money assessments will truly generate the best results for members

Summary

• More than two-fifths of DC pension schemes are looking to consolidate over the next five years in the UK, according to some estimates.

• New regulations requiring schemes to annually benchmark themselves against alternatives encourages a focus on value.

• Scheme assessment and comparison are not without their problems, however. Some of the biggest issues lie in a lack of available data and a danger of confirmation bias.

• 'Value for money' is a highly subjective term and may lead to outcomes that do not necessarily benefit all DC members.

Released at the end of January, The Pensions Regulator's 12th *DC Trust* report showed that the UK's occupational defined contribution (DC) pension market has consolidated by almost 40 per cent in the space of a decade. From having 45,150 DC schemes in 2011, the number in existence by December 2021 stood at 27,700.

At the same time, DC membership has continued to increase, while assets in master trusts have reached £78.8 billion. Speaking at the time the report was released, TPR executive director of policy, analysis and advice, David Fairs, said that this continuing trend of consolidation in the DC market was good news for savers. "The vast majority of DC members continue to be saving into larger, more stable master trusts, which have demonstrated that they meet the high standards of governance savers deserve," he said, adding however, that there remains a large segment of small DC schemes that are poorly run. "We expect this trend of DC consolidation to continue as small schemes are now required to demonstrate that they provide value for members," he added.

The regulations Fairs was referring to are, of course, those that came into force from 31 December last year. They require DC schemes with assets under £100 million to conduct thorough 'value for money' assessments and report back on whether consolidation into another DC pension plan would improve outcomes for their members. The directive is expected by many to result in a further wave of consolidation over the next few months and years.

WTW senior director of DC retirement, James Colegrave, explains that the assessments are very much needed. "Many smaller trust-based pensions arrangements have been delivering poor value to their members for too long," he says. "They have often continued for the wrong reasons, including a lack of understanding of the alternatives and the self-interest of those operating and managing them. Requiring schemes to annually benchmark themselves against alternatives encourages a focus on value and ensures that when they continue, the trustees are able to demonstrate that value is being provided."

Robust enough?

The legislation may be necessary, but is it fit-for-purpose? According to many commentators, the answer is a firm no, with some of the biggest problems lying in a lack of available data and a danger of confirmation bias.

"The regulator hasn't been clear on its end game for scheme consolidation, so until it provides some clear direction, we can't be completely confident that these assessments will be sufficiently robust," says LGIM co-head of DC, Rita Butler-Jones. "For example, we're still unclear about how, or if, any future assessment requirements might affect contract-based schemes."

LGIM hopes that trustees will take a holistic approach to their assessments and look for value in areas other than simply costs alone, such as the quality of communications, robust governance and ESG integration across a scheme's default options. "Since ESG isn't yet included in the regulator's value for money assessment guidelines, we're concerned that some assessments might not consider it, even though we believe investments that don't take account of ESG can be a material risk, while those that do can provide opportunities," says Butler-Jones. "Trustees should ask providers if their net-zero journey is on track and assess their short-term strategies."

For Premier head of DC consulting,

Sue Pemberton, the regulations are also impractical. Pemberton and her colleagues are coming across many issues in relation to the measuring of scheme data when aiding their clients through the process. This is perhaps best illustrated when attempting to weigh up the cost benefits of with-profits funds, which form a part of many older DC investment strategies. To start with, a with-profits fund does not have an explicit charge. But more concerningly, trustees are unable to measure the performance of a with-profits fund as there are complications created by the application of terminal bonuses and scheme maturity dates. "You simply can't assess it against it against larger DC schemes and so you've got nothing to assess against," says Pemberton.

A more general problem with the assessments is that they are not independently produced, so they can be subject to bias being applied by advisers and trustees who wish to protect the status quo. Colegrave says that WTW wants them to be reviewed after a period of time. "The assessments are designed to ensure that members receive good value through either the existing trust-based scheme or by consolidating with another scheme. A future review should consider whether an independent approach would be more robust," he argues.

The faulty default?

According to the legislation, default funds should be compared with the default of the plans they are using as comparators, even if that comparator employs a different investment strategy. Butler-Jones says that this is the best comparison to make in the circumstances, but trustees must remember that they are not comparing like-for-like.

A default fund may be more expensive, but it may have performed better than its cheaper comparator, for example. And aside from charges, a comparator fund could provide stronger ESG integration and access to illiquid assets. "Trustees should consider the strategy's flexibility," adds Butler-Jones. "Can it evolve over time to meet the changing needs of future generations? Does it offer a to-and-through solution? And how has the strategy performed over the shorter and longer term?"

Finding the right investment vehicle to compare against is not, however, as straightforward for all schemes. As Pemberton points out, many older DC schemes without active contributions may not have a default. This effectively means that somebody has to spend a considerable amount of time pouring over comparator schemes to find some funds that are similar.

Matters are not necessarily simplified with the use of a straight default-to-default observation either. The most accurate default data will only be found in the UK's 36 master trusts, because the UK does not currently have a large library of default DC investment data in place, despite it becoming a requirement to publish performance figures as of last October.

Selective assessment could also become an issue, warns Pemberton. "Eventually when we've got lots of data available, if you've got the time and energy — and deep enough pockets to look at all these funds — then you can manipulate which schemes you compare yourself against. And it's a bit cynical of me, I guess, but there is the ability for schemes who really want to stay in their current state to find other schemes that haven't necessarily performed well or have got very high costs."

Value for money?

Manipulation of data can also be partnered with very subjective views on what constitutes 'value for money'.

A recent survey conducted by XPS Pensions Group found that more than two-fifths of DC pension schemes it questioned are looking to consolidate over the next five years. Fifty-five per cent, however, are not planning on consolidating within the next five years, with the most common factor cited by respondents being that their current scheme offers appropriate "value-for-money".

But what constitutes good value in a DC scheme?

The key, says Colegrave, is knowing the membership and understanding the DC market; specifically, how other schemes may be delivering better value than your own. There are many constituents of value for money, he says, it is "absolutely not just about charges".

"Whenever we buy something, we typically weigh up many factors other than just price. The same applies for pensions. Administration services; digital functionality and support; communications and other support services; investment options and quality and relevance of governance oversight, are all important factors. But we all prioritise things differently."

For its part, Legal & General's WorkSave Mastertrust has a 'Value for Members Framework' that sets out in details how its independent trustees assess value, and the processes they undertake to ensure it.

It has also created a designated scheme consolidation microsite that provides information on conducting assessments and it accepts transitions straight into the master trust, which means value for money assessments aren't required. "The feedback received from clients who have already consolidated is that they felt well supported by us and their advisers," says Butler-Jones.

As always, then, it is teamwork and collaboration that will deliver the best results for DC schemes on their path to consolidation, rather than entrenched perspectives and pure corporate avarice.

Written by Marek Handzel, a freelance journalist

Signing up for stewardship

Financial Reporting Council (FRC) head of stewardship, Claudia Chapman, speaks to Jack Gray about the organisation's UK Stewardship Code and why it is important for pension schemes to sign up

Can you please give a brief overview of the code?
It's a set of best practice principles about the way in which those who look after the assets in their care undertake their responsibilities and how they do that. Those that are captured by the code or choose to sign the code are quite a varied bunch; you have the likes of small local government authority pension funds, and you have big insurers and multi-trillion pound global index-linked investors. What's great about the code is that everyone is brought together under those common set of principles. When we redid the code, we were thinking about how to connect it to the end user, being a UK pension saver. Everyone who is fulfilling those principles should be thinking about that stakeholder as the ultimate beneficiary of the code. We introduced some principles around purpose and governance because we think that is central to effective stewardship. That underpins the ways in which you integrate stewardship, investment and ESG factors, the way you undertake your engagement and escalation, and how you exercise your rights and responsibilities. You need a conscious decision around resourcing, purpose and governance to be able to fulfil those things. We've moved away from those policy statements we had 12 years ago when the code was first introduced.

How did you find a stringency balance within the code?
I think it works because it is principles based and regulation lends itself better to that. We try to be proportionate; essentially everybody has to do the same thing, but the resourcing put into it or the extent to which they achieve that can be different. It works broadly for most applicants. Putting reporting expectations in for asset classes other than listed equity and fixed income, now everybody's got used to that idea, people are going 'what do you expect from us in real estate where we own the assets?' or 'what is expected of private equity investments?'. Where we go next is to start to put more of a framework around what is expected in other asset classes other than listed equity and fixed income.

Why is it important for pension schemes to become signatories?
Its important for pension funds to be demonstrating what they are doing on behalf of their members/beneficiaries and how they are being responsible investors. Its not about prescribing a value-based approach necessarily, or having some altruistic reason for investing their money, but being very clear about what they are doing to look after those assets and how they are going to fulfil their responsibility to pay their pensions. Increasingly, members might not just be satisfied with the money, but they'd also say: 'What is the side effect of that investment?' The profile of people's members' views and expectations is changing.

How does one become a successful applicant?
We ask them to apply the principles, but they have to demonstrate their application of the principles by evidencing how they have applied them. They do that through responding to several reporting expectations. What we are looking for from pension funds, particularly if they are investing indirectly, is much more emphasis on how they are selecting those third parties as their agents, how they are holding their agents to account and what those agents are doing on their behalf. A lot of the evidence may not be evidence of direct engagement between the pension

fund and their holdings, but of how your asset manager demonstrated what they have done to invest on your behalf or how have they engaged, escalated or exercised rights with your assets. One of the shifts I observed is that the code has almost given greater levels of permission or a wake-up call to say that we are expecting asset owners to have these conversations and it's ok for you to ask your investment consultant and manager about this stuff. You are not a passenger in this, they are your assets and your members' assets. It shouldn't just be that they are advising on the investment and the return, it should be connected and integrated to the role of stewardship in maintaining the value of that asset.

Why might some applications be unsuccessful?

Currently, we are not making a judgement on people's choices of stewardship activity. For example, we ask that people integrate material ESG, we are not saying that they must have a particular ethical stance or a particular impact perspective, so we are just asking them to demonstrate what it is they consider. If someone has been unsuccessful, they haven't sufficiently demonstrated their application of the principles. For example, they haven't effectively provided enough evidence of how they select their asset managers, how they hold to account the third parties they work with, they haven't demonstrated what others are doing on their behalf with their assets, or they have not perhaps been clear. There are a few principles that people don't tend to do well across the board. That's conflicts of interest, and talking about how they review policies, procedures and processes, and who provides assurance on those. Perhaps they are not having those discussions at a high enough level in the organisation and reflecting on what they can do differently, and perhaps not being clear about how they set expectations of others that operate on their behalf.

How well have applicants generally been performing?

We've had some reapplications this time and people have taken on board our feedback quite well, and in many instances they will have done a wholesale review of what they submitted previously and produced a very different report, and taken what we said quite seriously and understood that. I do feel that people are engaging with the spirit of it, but I think there are areas across the board that we expect improvement in. What I've been particularly impressed with is, considering purpose and governance was a new inclusion in the code, people are doing quite well to explain their thinking about who they serve and why they are there. Pension funds do quite a good job of that. They tend to be able to describe their purpose quite well. Maybe you can say that, compared to a commercial organisation, there is usually a good clarity of purpose with a pension fund. Everybody in the room is probably clear what they are there to do, which can maybe differ if you are in the big engine of a multi-national business.

What are the FRC's future plans for the code?

We want to look at trying to align reporting where possible between us and the requirements of other regulators like the FCA, DWP and TPR. We also want to look at the usefulness of reporting. We are going to do a project with asset owners and investment consultants to understand how they use the stewardship reporting of asset managers, and what is useful and what is not useful, what they want more of and what they want less of, so that can feed into any future changes of the code when we do a review in 2023.

We are doing quite a lot of work with the Occupational Pension Scheme Council. I think that is a really useful output of the recommendations from the *Investing with Purpose* report that the Treasury did, and that seems to be providing quite a useful network for pension funds to get involved in. We would like to have more master trusts on board because the liability lies with the individual saver, and because we think there is a little bit more work for master trusts to do in terms of their responsible investment policies.

Written by Jack Gray

Summary
• Consolidation in the pensions industry continues at pace, not least spurred on by The Pensions Regulator's encouragement.
• Schemes look to consolidate, for instance into a master trust, with the aims of improved governance, communications and economies of scale.
• Larger schemes are also able to benefit from a wider choice of investment options.

Bigger can be more agile

Robert O'Connor investigates how scheme consolidation trends (both DC and DB) may affect investment options, attract talent, reassure the regulator and serve their members

As regulatory and commercial pressures drive master trusts to combine into ever-larger units, the managers of these vehicles are hoping to benefit from stronger governance, more competitive pricing, and increased investment heft.

"I would describe it as a bloodbath going on at the moment," WTW senior director, James Colegrave, says of the wave of mergers, before quickly adding that it is a "positive bloodbath" for the schemes and their members.

Hymans Robertson head of DC provider relations, Shabna Islam, says The Pensions Regulator has a strong interest in seeing single employer trust arrangements move under larger umbrellas. Defined contribution master trusts are "really attractive at the moment," Islam says.

Size can create valuable economies of scale, Islam adds. Her list includes lower fees, better communication with members, and access to more sophisticated investment tools.

Aon head of UK DC solutions, Tony Britton, attributes much of the impetus for change in the market to a push for more effective regulation and a desire to improve customer service. "I don't believe this is just a consolidation story," Britton says. "We continue to see new market entrants creating additional choice."

Aon partner, James Patten, says consolidation on the DB side involves a "smorgasbord of options" such as buyout, commercial consolidation, consolidation of investments and ongoing governance.

"The nature of consolidation has changed over the years as the pensions industry has responded to schemes' changing needs," Patten notes. "What was once focused on the bundling of services with one adviser, he says, has evolved into a wide array of techniques and strategies. It's no longer a case of 'one size fits all', he says.

Colegrave says the trustees of big funds must be aware that the assets they control might attract unwelcome political interest. He is also concerned that some trust managers might see them as a low-cost form of outsourcing without fully considering the specific needs of members.

Safeguarding members

The Pensions Regulator executive director of regulatory policy, analysis and advice, David Fairs, stresses the agency's desire to safeguard the interests of members. "Consolidation is happening and while we remain agnostic about the size of the pensions market, we recognise it presents an opportunity for improved outcomes for savers," Fairs says.

For defined contribution schemes, Fairs adds, the regulator wants "a market boasting well-governed schemes offering value for money".

"Trustees of schemes struggling to meet our expectations have a number of options including transferring to a master trust which, thanks to our authorisation and supervision regime, has created a market where savers are better protected," he notes.

For defined benefit schemes, Fairs says, the regulator supports "consolidation where it's in savers' interests and sees their benefits better protected".

"We will work with the market on the further development of innovative models such as superfunds, which have the potential to offer benefits for pension savers and sponsoring employers, such as economies of scale and good governance".

The Pensions Regulator says the "increasing professionalisation of the pensions industry" has been one of the factors in this consolidation. Even small schemes, it states, may be responsible for millions of pounds worth of benefits with greater demands on trustees' time and higher costs for sponsoring employers.

"The most significant difference between DC and DB schemes is that for a single employer DC scheme shifting to a master trust is essentially cost free," the regulator's statement says.

The speed of consolidation has convinced Colegrave that smaller trust-based arrangements will not remain viable past the next few years. There will be little reason for an employer to own a trust unless it has several billion pounds in assets, he argues. "Certainly anything below £1 billion, I think, has a question mark over its future viability."

Looking ahead

Looking ahead, Colegrave sees a DC world that will be made up largely of market-dominating master trusts and a small number of owned trusts. Smaller entities, Colegrave says, are likely to find it difficult to cope with "increasingly onerous" regulatory demands. Not only are disclosure requirements becoming stricter, he notes, but The Pensions Regulator is to add to the strain with the release this year of a new code of practice.

Islam expects the current level of 36 DC master trusts in the UK to fall to about half that over the next decade, with mergers peaking over the next three years.

A few years ago, Colegrave says, many small trust-based arrangements were run as something of a cottage industry. Today's bigger units, he said, bring advantages in administration, communications and governance.

Colegrave, who focuses on the DC sector, says bigger schemes will be able to tap into the kind of advice that can help them diversify their holdings in innovative ways.

"The emergence of these master trusts provides professionally run outsourced pension arrangements that are incredibly attractive to employers wanting to offer decent pension provision to their employees at really quite competitive costs," Colegrave says.

There is no need, Colegrave suggests, for a pension fund to be fixated on such traditionally traded instruments as equities and bonds. Instead, he adds, the "almost endless" list of alternatives can include private equity, infrastructure and commodities. Strategies, Colegrave says, will become more sophisticated. Members of pension schemes are in it for the long term. They do not need check their accounts every day with an eye on quick transactions.

While every new investment option vehicle is likely to carry risk, Colegrave believes, these risks can be studied and mitigated. And the effect of diversification is to reduce overall uncertainty, he adds.

Islam agrees on the importance of taking a wide strategic view. Being bigger, she says, master trusts have more access to markets and specialist expertise. She expects these advantages to increase as the amalgamation process continues.

Closer scrutiny

Islam agrees that closer regulatory scrutiny of single trusts has encouraged mergers. Trusts, she says, are expected to be well governed, with these expectations intensifying as the trusts grow in size. It is very appealing for smaller companies, she adds, to be able to hand over these responsibilities to specialists.

Colegrave is concerned that some trust managers might see them as a low-cost form of outsourcing without sufficiently considering the specific needs of their members.

The main element in the evolving DC world, Colegrave says, will be a number of master trusts that will dominate the market and a small number of owned trusts. There would be little appeal for an employer to own a trust unless it had several billion pounds in assets. "Certainly anything below one billion pounds, I think, has a question mark over its future viability," Colegrave adds.

Even as regulation becomes more difficult for smaller trusts, Colegrave says, they can expect their burden to increase this when The Pensions Regulator issues a new code of practice this year.

A few years ago, Colegrave notes, many small trust-based arrangements were run as something of a cottage industry. Today's bigger units, he explains, bring advantages in administration, communications and governance. "I would describe it as a process of professionalisation within the DC pension world," he says.

"The master trust authorisation regime has created a market where savers are better protected," the regulator says. "We may see market-led consolidation of the huge oversupply of defined contribution occupational schemes, some of which struggle to meet adequate standards of governance and administration and pose a risk to good member outcomes."

The regulator says it does not object to small schemes per se, but too often, it argues, small schemes fail to provide good governance and good investment prospects. The trustees of schemes that do not meet these standards, the regulator says, should consider consolidation.

Written by Robert O'Connor, a freelance journalist

Summary
• Until recently many DB schemes carried very large deficits, a state of affairs that forced trustees, sponsors and regulators to take action.
• A combination of strong investment returns, sound risk management and – to some extent – changing longevity risks have helped to reduce deficits and create surpluses for some schemes.
• Trustees and sponsors now need to redefine or clarify long-term objectives for schemes and adjust strategies, including investment strategies, accordingly.
• Growing numbers of schemes may now be targeting full buyout, in some cases within a much faster timeframe than had previously been assumed.
• Trustees and sponsors need to prepare schemes to meet their long-term strategic objectives, by refining risk management, administration, data management and governance, so they are ready to exploit new opportunities to lock in gains and remove risk.

Land of plenty

In just five years an aggregate deficit for the UK's DB schemes of £700 billion has become a surplus of £40 billion. David Adams finds out why and considers what scheme trustees and sponsors can do to make the most of a wonderful opportunity

There was a time, not long ago, when the backdrop to any discussion of DB pension schemes was the size of their deficits. In autumn 2016, PwC analysis suggested the aggregate deficits of the UK's (then) 6,000 DB schemes had grown beyond £700 billion, in part because yields on UK gilts had plummeted following the EU Referendum, but the aggregate deficit was still substantial in early 2020, when data from The Pensions Regulator showed a deficit that had grown again, from £159.2 billion in March 2019 to £203.4 billion a year later.

Yet just two years later, at the end of February 2022, there was an aggregate surplus, of £40 billion, up from around £30 billion a month earlier, according to PwC. How had this happened? And what should trustees and sponsoring employers be doing to take advantage of it?

A complicated reality

Pensions Age readers will understand that these headline figures simplify a complicated reality. For one thing, there are many ways to calculate scheme deficits. They include a Section 75 calculation, showing the cost of a full buyout; a technical provisions calculation, outlining the amount needed to pay members' benefits in full as they retire; a self-sufficiency/low dependency valuation, based on the assets needed to minimise dependence on a sponsor; and a PPF/Section 179 valuation, showing whether the scheme would have to go into the PPF if its sponsor became insolvent.

This makes any discussion of deficits difficult, even if headline figures are based on one or both of just two measures (buyout and technical provisions). Cartwright director of investment consulting, Sam Roberts, explains how this could play out in practice for an individual scheme.

"Two years ago, a scheme might have been 75 per cent funded on a technical provisions basis; and might now be at 105 per cent by that measure," he says. "But on a buyout basis the same scheme might have been 50 per cent funded two years ago and might now be at 70 per cent.

"So it's too early to celebrate," he concludes. "There's still a really wide range of funding situations."

An improved situation

But the situation has improved, thanks in part to the strong investment returns, primarily from equities; and to hedging strategies to mitigate market volatility and interest rate fluctuations. "Strong equity market returns have definitely helped, but when yields fell, if you didn't have that hedging in place then a lot of your gains would have been offset," says Hymans Robertson co-head of trustee DB investment, Elaine Torry.

Changing assumptions around life expectancy have also had an impact on liabilities, even if the long-term consequences of the pandemic on longevity will not become clear for some time. And more DB schemes have closed to new members and/or future accrual, reducing the addition of new liabilities.

Pensions Insurance Corporation (PIC) chief origination officer, Jay Shah, says more employers and trustees now come to PIC to talk seriously about an endgame. "People used to talk about journey plans as a concept – now they say 'we think we're going to be fully funded in two years' time, or five years' time, so what do we need to do?'" he says.

Long-term goals

Indeed, however you measure it, a surplus, or the realistic possibility of a surplus, presents trustees and sponsors with a need to clarify long-term objectives for the scheme. "It's turned into a high-class problem," says Redington head of investment consulting, Patrick O' Sullivan.

Some schemes will target self-sufficiency; or consolidation of the scheme within a superfund; but that market is still in a relatively early stage of development. In the meantime, LCP predicts annual transaction volumes for bulk purchase annuities (BPA, including buyouts and buy-ins) of between £30 billion and £50 billion every year until 2025. The BPA market has also become more competitive, with five insurers now holding more than a 10 per cent market share, compared to just three in 2019.

A recent survey of 120 UK pension schemes by Aon found that 34 per cent are now targeting buyout; 26 per cent expect to reach their endgame within five years; and 47 per cent within the next five to 10 years. LCP partner Charlie Finch notes that two-thirds of recent de-risking transactions covered both deferred members and pensions, whereas this was the case for only 25 per cent of transactions five years ago.

If a scheme is going to move towards buyout there are further options to consider. It might take a phased approach, encompassing buyouts of groups of pensioners or deferred members, buy-ins to insure some scheme liabilities; or use of other de-risking solutions, such as an Assured Payments Policy (APP), through which an insurer provides a series of cashflows to a scheme, agreed in advance and unaffected by longevity or demographic factors.

Whatever the long-term objective, it is essential that trustees and sponsors have an accurate view of the scheme's funding position. "Schemes shouldn't be relying on triennial valuations or annual updates," says Legal & General new business director, Dave Matthews.

"Some trustees are thinking that buyout is a long way away, but this is work that has got to be done at some point," says Roberts. "Bringing that forward, making sure your member data is clean, helps. You've got to be ready to act, knowing what you're trying to achieve."

Sponsor attitudes

Meanwhile, the way that a surplus affects a sponsor's attitude to the scheme may vary, says Torry: "You get sponsors who are saying 'This is no longer a problem – get on with it, trustees." By contrast, other sponsors will be keen to move scheme liabilities off their balance sheet as quickly as possible: "There are sponsors who think 'we can really get this dealt with now; it's no longer a headache, but let's not lose the gains we've made," she adds.

One issue that causes some employers concern is the threat of their contributions to a scheme being trapped within its surplus. Solutions to that problem include use of an escrow account or a trust, into which the employer can put contributions ready to be used by the scheme if needed, but which the employer can then retrieve if those contributions are not needed.

Investment strategies

Improved funding and a redefinition of strategic objectives for the scheme will also influence investment strategies. Generally speaking, a surplus will encourage a move away from riskier, return-seeking assets like equities, into gilts and corporate bonds. Liquidity is also a crucial issue for any scheme targeting full buyout.

A less mature scheme can afford to keep more investment risk and illiquid assets in play, while mitigating some risks through buying longevity swaps, or using partial buyouts or buy-ins. But in general, costs will tend to be higher and working towards a long-term strategic objective a more complicated process than would be the case for a mature scheme.

Investment strategies may also be influenced by other factors: by a desire to use a cashflow-driven investment strategy to help meet scheme costs; by ESG considerations – or by the effects of inflation. O'Sullivan outlines one possible side-effect of rising inflation if investment returns continue to be strong but some pension benefits are capped: Investment returns could outperform liabilities. Trustees and sponsors would then need to consider if or how these excess gains might be passed on to members and pensioners, in line with fiduciary responsibilities.

These are all issues that trustees and sponsors should be considering if a scheme is now well-funded and they can begin planning for the endgame, whatever – and whenever – it is going to be.

"What the regulator says to trustees," says PwC director and pensions actuary, John Dunn, "is that by the time your scheme is relatively secure and you're at the peak of cashflow being paid out; that's where you want to be fully funded on a reliance basis, or being in a position to go to a buyout".

It will take many years for all of the UK's DB schemes to reach that point, but thanks to an unexpected series of events many may now do so, with potentially very happy results for members and sponsoring employers. This new land of plenty offers opportunities that would have seemed unimaginable just a few years ago; opportunities that trustees must seize if they get the chance.

Written by Dave Adams, a freelance journalist

Summary
- Pension schemes with weak employer covenants are less able to implement ESG strategies.
- Trustees can benefit from engaging with employers to align ESG values and objectives.
- Appointing independent external advisers can help trustees with weak employer covenants to formulate an effective responsible investment strategy.

Employer covenant: Watering ESG goals

Gill Wadsworth considers how the strength of its employer covenant may influence a pension scheme's sustainable investing appetite

Not content with being the first administration to insist its pension schemes report their climate-related financial risks, the UK government is expanding its remit to encourage funds to take account of specific environmental issues.

This March, Pensions Minister, Guy Opperman, announced he would be "reaching out to UK pension funds, to help them further understand deforestation issues and how to manage this risk as effectively as possible".

Already schemes with 100 members of more are obliged to have a clear environmental, social and governance (ESG), climate change and stewardship policy, and by 2023 all occupational funds will need to report under the Taskforce for Climate-related Disclosures (TCFD).

The latest announcement from Opperman suggests they might also need to be transparent about how they are "using *[members']* hard-earned money in a way that jeopardises or prioritises the future for which they are saving", in relation to biodiversity, specifically the destruction of the world's forests and woodlands.

Size matters

While these climate-related disclosures will be important in helping the UK to meet its net-zero carbon emission targets by 2050, there is evidence to suggest pension schemes with weaker employer covenants are struggling to keep pace with their ESG demands.

A survey of 160 trustees and pensions professionals published by MallowStreet and Janus Henderson Investors at the end of 2021 found 45 per cent of schemes with a strong covenant are focused on ESG integration, but this proportion drops to 17 per cent of schemes with a sponsor which is 'tending to weak'.

The survey also finds that schemes with high funding levels are more likely to have included a policy on responsible investing in their statement of investment principles (SIP). Four out of five schemes funded to a level above 90 per cent have one, compared with just over half of schemes with a funding level below 80 per cent.

Meanwhile, 88 per cent of less well funded schemes have policies of financially material ESG considerations. This leads the researchers to conclude that "underfunded schemes still view ESG risk as something to consider rather than act on".

The survey also found that a strong covenant also helps increase the focus on responsible investments and climate change.

The research states: "Over 80 per cent of schemes with a sponsor leaning towards strong have added a policy on responsible investing to their SIP. In contrast, 70 per cent of schemes with a covenant tending to weak have made such adjustments. A stronger covenant also increases the chances of the scheme having a policy on alignment with managers and consultants, as well as a specific policy on climate change."

Money concerns

Sackers partner, Stuart O'Brien, says trustees may "lack the time and bandwidth" to manage a weak employer covenant and poor funding level, alongside formulating an ESG strategy.

He says: "If your roof is falling in you are not going to focus on double glazing the windows. I am not suggesting for a moment that ESG and climate change aren't material financial risks, but if you have got a massive concern about whether your employer is going to be around in the short or medium term, that will be the focus for your attention."

O'Brien's comments are borne out by the MallowStreet survey, which found those trustees with the lowest weakest employer covenants were most concerned with improving their scheme funding and agreeing an endgame plan.

This later point, O'Brien says, may limit schemes with weak employers even further from prioritising ESG strategies.

"Schemes with stressed employer covenants will likely be trying to de-risk their investment strategies, which tends towards allocation to defensive assets like gilts while lowering their equity exposure. That doesn't mean that ESG is irrelevant, but there is usually more stewardship involved in the equity space than there is in fixed income or LDI portfolio."

Even though engagement opportunities may lessen with a de-risked portfolio, that does not mean pension schemes should discount ESG investment, particularly as there is growing evidence that they offer outperformance potential.

WTW partner, and member of the Pensions Management Institute, which collaborated with MallowStreet on the research, Jed Newton, says: "ESG funds can outperform their non-ESG equivalents, and their use in a return-seeking component of a scheme's strategy could generate higher excess returns and reduce a pension scheme's deficit more quickly. This would increase the security of scheme benefits and reduce the corresponding risk that the scheme in question fails and is transferred to the Pension Protection Fund."

ESG transition

He adds: "Even though some ESG funds may outperform – and others underperform – their non-ESG equivalents in the short term, pension schemes usually have a very long investment horizon. This means that ESG funds may remain a suitable investment option."

Data from MSCI published in 2020 show that over a 13-year period, companies that scored highly across all three E, S and G pillars outperformed the bottom-scoring companies by between 27 per cent on a cumulative basis.

Despite the compelling evidence in favour of transitioning to an ESG weighted strategy, Teneo client development director, Simon Kew, says that trustees are reliant on advisers to drive allocations.

He suggests that trustees working under a weaker covenant may also find they have fewer resources available to help formulate an ESG approach.

"Less well-resourced employers may be likely to have a less well-resourced scheme which begs the question whether they have the right advisers to be able to hold their hand through that process."

Kew adds: "And where trustees have an investment adviser suggesting an ESG strategy, the trustees must kick the tyres and question what the investment adviser is telling them. Without other advisers there, it may be challenging."

Kew suggests that schemes consider bolstering their advisers to help them implement an ESG strategy.

"An under-resourced scheme that just has board of trustees – as good as they may be – will probably only have seen one scheme, so they don't have other experience to draw on. The great thing with any external adviser or lawyer is that they will have other trustees clients and they can bring that experience to bear."

PTL managing director, Richard Butcher, agrees that navigating the 'grey areas' of ESG investing is a challenge for less well-resourced schemes and those that have their hands full dealing with their number one objective: Pay beneficiaries in full and on time.

"Despite the assertions made by some, ESG investing is an incredibly complex subject, and the reality is most trustees have very little leverage when it comes to these matters," he states.

However, Butcher reminds trustees that it is worth working with employers to ensure their ESG priorities are aligned, and that the pension scheme investment strategy does not undermine the company's objectives.

"The delivery of a pension scheme should be a team effort between trustees, employer and advisers. And as far as possible, it is sensible to make sure that your values are aligned. If you are going to adopt ESG strategy as trustee that could include exclusions those values should be consistent among the team members. It makes sense to engage with the employer and agree that strategy," he adds.

As more regulation comes into force obliging trustees to report their ESG risks, even trustees battling with weak employer covenants and poor funding levels will need to have a policy in place.

Prioritising the interests of beneficiaries will always remain the number one priority but as Butcher says this need not be 'mutually exclusive' from adopting a responsible and sustainable investment strategy.

The key to balancing ESG obligations with responsibilities to members lies in appointing credible advisers that are understand the scheme's specific objectives and can find an ESG strategy that delivers for the long term.

Written by Gill Wadsworth, a freelance journalist

Summary
- Illiquid assets offer clear benefits to both DB and DC funds, including long-term returns, diversification and downside protection.
- Illiquid assets can assist investors in addressing the shortfalls from the low-yield environment, as well as addressing inflation fears and helping them meet their ESG requirements.
- Drawbacks include the illiquidity itself, complexity and the governance burden, which can all be managed in various ways.

Illiquid assets: Time to take notice

Francesca Fabrizi looks at why investing in illiquid assets should be on pension funds' radars more than ever and what the asset class can offer schemes given today's economic environment

Illiquid assets, such as private credit, infrastructure and real estate debt to name a few, have been getting their fair share of attention in recent years, with several initiatives not only aimed at boosting interest in such asset classes, but at finding ways to enable pension schemes to invest more, in particular in the defined contribution (DC) space.

In recent months, the government's '*Levelling Up the UK*' white paper showed its commitment to relaxing DC charge cap rules to help encourage greater levels of investment in such assets; while the government recently published its proposed next steps for encouraging pension schemes to invest in more illiquid assets, including disclosure requirements.

But why should pension schemes sit up and take notice now? What do they have to gain from investing in the illiquid assets arena?

"Illiquid assets can deliver value in a number of areas," says WTW global head of real assets manager research, Paul Jayasingha. "For schemes with a long-term horizon, they offer attractive long-term returns, benefits of diversification from public equity and bonds, as well as an important contribution to the climate transition."

For the more mature defined benefit (DB) fund, he says, illiquid assets are well positioned to deliver the characteristics that are needed – stable, inflation-linked, cash generative and societally positive assets; while the low-yield environment is another challenge that real assets can clearly solve, "as illiquid assets are able to provide an attractive and de-risked income stream at a time when bond income nears record lows".

On the DC front, Mercer investment consultant, Hannah Coleman, highlights four main benefits in using illiquid assets: To include greater return potential; diversification from other key asset classes; access to wider opportunities; and the long-term investment horizon of these funds.

In particular, she adds, the matching of time horizon between illiquid investments and most members' time in a DC arrangement is attractive, and can be challenging to achieve from more liquid asset classes.

Additionally, if DC members are looking for explicit inflation-linkage, says Aon partner, Chris Inman, many brownfield infrastructure projects and real estate assets can have this built into their contracts, supporting real long-term growth.

"The relatively high expected return potential from some private equity portfolios may also benefit members in their 'early career' stage," adds Inman. "They will typically have a higher risk tolerance and can take advantage of the opportunity to seek higher returns through illiquidity risk."

Superior downside protection is also on offer with illiquid assets, particularly relevant during times of market stress, comments Inman, while, unlike cash and fixed income, which are not providing meaningful income/yields, many illiquid assets have a natural income yield, which he explains can form a significant part of an investor's spending needs post-retirement.

Why illiquids today?

It is important to stress that, while illiquid assets have been attractive to pension funds for many years, today's economic environment in particular provides opportunities, argues Russell Investments head of strategic client solutions, David Rae: "Covid has accelerated many existing trends across data traffic, the role of renewable energy sources and transportation. At the same time, it has placed political pressure on fiscal spending. These both support the private funding of infrastructure assets.

"The triumvirate of return potential, volatility reduction and inflation protection can be really powerful in today's environment where market volatility and inflation fears dominate."

Private market investments, for example, can add significant value in today's unpredictable world, comments Aon associate partner, Jeff Malluck, in that they offer better risk-adjusted returns compared to their public counterparts. He adds: "Investments in private credit are predominantly floating rate, which provides protection in a rising rate environment, which we are currently entering; and investments in infrastructure and renewables, while providing attractive long-term returns, also provide strong ESG credentials as they are assisting the world in its energy transition."

All in all, against a backdrop of rich traditional betas, illiquid assets can allow investors to extract value in several ways, says Empira Group managing director, Edward Berry: "First through providing access to inherently illiquid assets such as real estate and infrastructure, which can add inflation hedging and income to the overall portfolio. Secondly, by allowing managers to deploy capital in a manner that requires time to extract maximum value.

"Background economic factors, including more limited bank intermediation since the global financial crisis, and the continued arrival of disruptive technology across many sectors, provide additional opportunities for those deploying long-term capital."

Finally, the important role real assets can play for pension funds seeking to fulfil their ESG requirements cannot be underestimated. "For example, investments in greenfield renewable energy assets and in the production and use of green hydrogen offer pension funds the opportunity to create positive environmental impact while pursuing their financial objectives," says KGAL head of international institutional business, Christian Schulte Eistrup. "In addition, real estate investments can increasingly provide ESG impact when the funds or projects are designed with sustainability at the fore. A key for pension funds is to look at how managers are implementing the rigorous requirements of Article 9 of the EU Sustainable Finance Disclosure Regulation (SFDR)."

The ideal allocation

But while illiquid assets clearly offer advantages, there are many other less liquid assets vying for the attention of pension fund trustees; so how prominent a role should illiquids play in pension portfolios today? "They can have a very important role to play," says Rae and, depending on the circumstances, could represent up to 30 per cent of the portfolio. In some cases, he says, the investments in illiquid investments will be the biggest contributor of returns relative to the pension liabilities.

Their role can indeed be key in both DB and DC schemes, Rae adds: "DB pension schemes tend to have long-dated liabilities but relatively short-dated investment horizons, looking to buyout or de-risk over the next few years. Even then, however, a well-crafted illiquids portfolio with exposure to private debt and infrastructure can be highly beneficial.

"DC investors tend to have longer investment horizons and higher return requirements providing even greater scope for illiquid investments."

Malluck agrees that illiquids can and should play a prominent role in DB pension portfolios, and that the exact size of any allocation needs to be balanced with the scheme's overall objective. "For example, a scheme with a longer-term time horizon can allow illiquids to play a prominent role in their portfolio, but for schemes with a buyout objective of less than five years, illiquids should form a very small portion, if any."

Jayasingha concurs that allocation sizes will vary for each scheme depending on their needs but, he argues, many pension funds aren't embracing illiquidity to the extent they could, given their liability profile.

In DC schemes, how prevalent a role illiquids should play is also not clear cut: "As with all DC investments," says Inman, "illiquid assets have to be viewed in the context of improving member outcomes. Their role and prevalence will depend on many factors, including what the DC scheme's investment objectives are, their level of expertise, membership profile, etc. If we look to more mature DC markets around the world, we generally see average allocations in the c.20-30 per cent range, but this average hides a wide variation that depends on the above mentioned factors."

All in all, says WTW head of DC, Paul Herbert, as DC schemes potentially have longer-time horizons, in theory illiquid assets should be playing a key role today; however, he explains, a combination of their origins that were focused on liquid assets, the subsequent development of an operational structure reliant upon liquidity, and the longevity uncertainty for some schemes in a consolidating market has led to illiquid assets playing a limited role.

Drawbacks of illiquids

While there are clear benefits to both DB and DC schemes of exploring what illiquid assets have to offer, no asset class is perfect, explains Cartwright senior investment consultant, Tom Hawthorn. "If cash is needed then other assets have to be sold, potentially at inopportune times and at discounted prices. Also, de-risking can concentrate a scheme's growth assets in illiquids that cannot be sold immediately. The remedy is not to overinvest in illiquid assets given a scheme's particular circumstances."

Malluck adds that, while there are drawbacks, these can and are being managed. "The drawbacks of investing in illiquids are mainly complexity, the illiquidity and governance burden. However, we would consider these to be more operational and can easily be overcome through trustee training, ensuring the illiquid investment timescales align with the scheme's time horizon and implementing via solutions which can ease any governance burden. These are all areas where we work with trustees, in particular helping them develop a solution to meet their requirements and ease the overall governance burden."

Additionally, argues Rae, illiquidity influences both the investment and deployment of capital as much as the realisation of assets to generate returns. Investors therefore need to be thoughtful about the illiquid asset classes and opportunity set and think about the dynamic deployment of capital over time. "This is particularly pertinent for DB schemes thinking about exploiting illiquidity over their remaining de-risking horizon," he says.

Secondary opportunities can be particularly valuable in accelerating commitments, he continues. "The higher level of fees and costs have often been seen as an impediment, but a focus on value for money and net of fee returns, not just headline fees, can mitigate this."

A key point here, stresses Berry, is that investors should only be prepared to lock up their assets if there is a good reason to do so. In other words, the lock-up/liquidity profile should match both the underlying assets and the approach of the manager, and the returns compensate for this illiquidity. "Examples where a manager's approach requires time are widespread, for example the fact it takes time to redevelop a large property or restructure a company's business. However, giving this time may generate excess returns without having to increase the leverage or reduce the credit quality of your investment and consequently improve the anticipated risk-reward of the aggregate portfolio."

Golding Capital Partners founder, Jeremy Golding, emphasises that illiquid investments simply require excellent risk management and strategies to stabilise cashflows over the investment period. "The infamous j-curve in private equity, for instance, can be managed quite effectively by tapping into the secondary market and diversifying not only across geography but also investment cycles. Each investor needs a bespoke cashflow profile tailored to their needs. The higher the illiquid allocation, the more crucial that becomes."

For pension schemes without in-house expertise in these alternative private market investments, he adds, it makes sense to partner up with specialised asset managers with long track records. "Illiquid strategies usually rely on deep market networks to gain access to prime opportunities in the first place. Fund-of-funds solutions can be an effective diversifying tool when starting out with illiquid asset classes. Later on, co-investments often make sense, too."

For DC schemes, one of the obvious drawbacks is the illiquidity of these types of assets, says Herbert, however, when these assets are integrated within a wider portfolio of assets in combination with effective liquidity managements processes, then schemes can extract the illiquidity premium associated with these assets without feeling these drawbacks.

Of course, in relation to DC, trustees may be nervous about being the 'first movers' in this area, says Inman. "This is a particular issue for DC schemes as members are directly impacted by investment performance and will hold trustees responsible for their decisions. Other DC schemes looking to consolidate in the near term may find the potential liquidity profile (or lack thereof) off-putting."

Coleman notes that it is also currently challenging for DC schemes to invest in illiquids in a cost effective way. "There are limitations to illiquid asset classes due to the lack of provision on many of the key platforms used by DC schemes, which means that schemes, particularly those smaller in assets under management, are unable to access these opportunities."

It can be challenging for many illiquid managers to gain access to these platforms due to the liquidity requirements imposed, she continues, "therefore, the industry needs to consider how liquid we actually need our asset classes to be for DC savers years from retirement".

The level of fees are a further barrier to investment, says Coleman, especially for more commercial master trust schemes that are facing challenges with continuing pressure on charges. "For those fund managers who would like to charge performance-based fees, there is a challenge to the fairness and transparency of these arrangements. In a recent consultation response, Mercer asked the regulator to consider making a performance fee calculation recommendation to help with this challenge."

Looking ahead, concludes Golding, the trend towards illiquid real assets in pension portfolios is no doubt likely to continue. "Investors have built up considerable expertise in asset classes such as private equity, infrastructure and private debt. Many pensions are much more familiar and comfortable with illiquids and appreciate the stabilising role in their portfolios. Private market alternatives have done much to anchor pension portfolios during recent spikes in volatility. Most pensions have not yet maxed out their regulatory limits for illiquids yet, so we expect further allocations going forward."

Written by Francesca Fabrizi

Looking over the fence

Summary
• Islamic finance involves investing according to Islamic principles, namely the exclusion of certain sectors and the inability to receive interest.
• Both the ethical investing and Islamic finance markets have grown significantly in recent years.
• Their similarities mean there is an opportunity for Shariah funds to target broader ethical investors but have yet to do so.
• Pension schemes should ensure they offer Shariah funds to not lock out Muslims from retirement saving. This diversity of fund choice could also meet the 'S' goal in ESG.
• The Islamic finance sector is starting to offer ESG-friendly Shariah funds.

Laura Blows explores how the separate worlds of ethical investing and Islamic finance are starting to converge

Ethical investing, incorporating environmental, social and governance (ESG) considerations into investment decisions, and divesting from fossil fuels to help carbon emissions eventually reach net zero have all grown significantly in importance for pension fund investors (and beyond) in recent years.

Just as ethical investing has grown, so too has another type of investing with many similarities – that of Islamic finance.

"The growth of ESG investing in pension funds has been significant in recent years across all types of investments, including passive screened funds, active integration of ESG principles, and impact strategies. In line with this, we have seen a growing interest in the HSBC Islamic Fund, especially with the UK DC schemes who offer this as a self-select option," HSBC UK institutional business development director, Jasvir Virk, says.

Like ethical investing, Islamic finance has its own rules and plethora of terminology.

In the context of finance, 'Islamic', 'Halal' or 'Sharia/h' investing are used somewhat interchangeably, with nuances between the terms. 'Islamic finance' is often the umbrella term for investment that complies with the values of Islam. Shariah funds have been screened by Islamic finance scholars to ensure the end portfolio is compliant with Shariah principles.

This involves the removal of non-Shariah-compliant sectors, such as alcohol, pork products, gambling, firearms, financial institutions and adult entertainment, with investments that provide interest (known in Islamic finance as 'riba') also not allowed. Investment opportunities also must not be overly uncertain or risky.

In recent years, the term 'Halal economy' or 'Halal finance' has also gained traction.

According to Options UK Personal Pensions director, Christine Hallett, in the context of finance, Halal is all about the ethical side of investing, which happens to also be Shariah compliant.

She notes that over the past 12-18 months, its Shariah-compliant fund offered within its master trust has increased focus on the Halal, 'ethical' aspect of not investing in drink or tobacco, for example, "so the message has changed".

Overlap

According to Bedford Row Capital CEO,

Scott Levy, by their very nature, Shariah/ Halal funds are ethical "because one of the basic principles of Islamic finance is to do no harm".

While Islamic finance is faith based, ethical investing integrates personal values and societal concerns with investors' financial needs and the impact on society as a whole.

"Both ESG and Shariah-compliant pensions aim to maximise returns for investors, but in a way that follows particular ethical or religious guidelines. Shariah-compliant pensions in particular are fundamentally driven by faith. Therefore, there are many additional faith-based restrictions that are used in Shariah-compliant pensions, such as prohibitions on interest being earned, that are not ordinarily found in ESG-compliant pensions," PensionBee CEO, Romi Savova, explains.

While Shariah funds may purely implement negative screening, ethical investing may also involve positive screening, where the fund chooses to invest in agreeable sectors, or may actively engage with 'unsuitable' companies to help it improve its ESG considerations.

According to Halal investment fintech firm Wahed's *Halal Investing vs. Ethical Investing* 2018 blog, both Halal and ethical investing focus on protection of natural and environmental resources, except for institutional financial sectors, and invest in the same economic sectors, "namely industrials, healthcare, consumer goods, utilities, consumer services and basic materials such as technology…. In a nutshell, Halal and ethical investing are closely related but are not similar. It is submitted that Shariah principles often go beyond the requirements of ethical investment…"

As demand for both types of investment increases, "there is an opportunity here for both sides of the equation to develop and grow", Simply Ethical CIO, Stuart Hutton, states.

Missed opportunity?

So, as Shariah funds can meet – or even go beyond – the criteria for ethical investing, an area of such interest and importance within 'conventional' investing, has the Islamic finance sector considered targeting its funds beyond its traditional market of Muslim investors?

According to Levy, it has not.

"This is the biggest missed opportunity right now," he says. "The Islamic finance industry has been very, very slow to recognise that opportunity.

"I've noticed in the last year a little bit of 'looking over the fence' to see what's going on, on the 'other side'. There are many more discussions about 'what are they doing over there'? 'What's happening in the conventional world and why are we not attracting the same inflows'?"

Therefore, the opportunity to appeal to ethical investors broadly has begun to be discussed, he adds, but "still lacks understanding of how strong ethical considerations are in the conventional pensions industry and therefore the potential for the application of Islamic products into the conventional ethical investing world".

To appeal to ethical investors, Levy recommends Islamic finance products "rewrite their pitch book" by slightly dialling down its Arabic terminology and instead highlighting its ethical credentials.

He notes the emergence of some new fintech UK companies doing this on their crowdfunding platforms, but "the problem is the biggest, typically Gulf-based, Islamic fund managers are not doing so".

Ethical investment interest in Islamic finance

There has not been much peering over the fence on the ethical investment side either. The reason why not, Levy says, is due to the relatively small number of Shariah funds available and their lack of representation in the UK.

Hutton agrees that Shariah funds are not considered by pension funds as another tool to meet their ethical investment goals.

"Pension funds have introduced Shariah-compliant funds primarily to meet the needs of Muslims who want to invest in pensions," he says, "but we cannot hide from the fact that it does offer the opportunity to see how you can invest in broad ESG and also meet your Shariah-compliance needs."

Underserved

Pension funds simply providing more Halal-based investment choices can meet some ESG goals in its own right, particularly on the 'social' side.

Despite the UK's first Islamic bank opening in 1982, there is still is not enough choice in the UK to meet the retirement saving investment needs of its Muslim population.

According to Levy, just one Shariah fund in the UK – the HSBC Amanah Global Equity Index Tracker – has 90 per cent of the market.

For those approaching retirement, having most, or even all, of their money in an equity index tracking fund "is the last place you should be", he says.

Hallett agrees there are a lack of diversified Shariah-compliant portfolios, and are instead "one-size-fits-all".

Currently most of the demand in the Islamic investment area has been in equity-based strategies, Virk notes, "but as the DC market matures and members approach retirement, we expect to see an increasing requirement for other, less risky alternatives. Examples would be

Sukuk (Islamic bonds) or multi-asset strategies".

Savova adds that "one-third of Muslims in the UK do not have a pension due to the lack of Shariah compliant options".

"We believe that the pensions industry should do more for Muslim consumers to prevent a large proportion of the Muslim population in the UK being left with no retirement options due to the majority of pension funds not taking account of religious considerations," she adds.

Broader appeal

Taking Muslim investor considerations into account is sure to increase as the UK Muslim population grows. According to Statista, as of 2016, there were 4.13 million Muslims in the UK; 6.3 per cent of the population. This is expected to grow to 17.2 per cent by 2050.

"Currently, the Islamic finance sector is growing at a rate of 15-25 per cent per year, with Islamic financial institutions managing assets worth over $2.2 trillion globally and expected to reach $4.94 trillion in 2025 according to Refinitiv," IslamicMarkets.com CEO, Shakeeb Saqlain says.

Shariah-compliant funds for the most part have performed in line with their unscreened peers despite the application of the exclusionary filters, Virk notes.

According to the UK's first Islamic finance compliant, peer-to-peer investment platform, Nester, because Islamic law insists on an avoidance of risk, portfolios are designed to deliver steady and reliable performance and are, therefore, less affected by extremes in market activity.

Therefore, it may not only be Muslim investors that see the appeal of Shariah-compliant funds.

"The underlying rationale of the [*Shariah*] fund is to promote profit and loss sharing to discourage the concentration of wealth in a few hands, in order to prevent greater inequality in society. This ethos may resonate with many people who have strong beliefs regarding such matters," Virk says.

Saqlain agrees that many non-Muslims have been investing in Shariah funds "not only for their ethical side but also for their stable returns in the long term and the limited downside during crises. Incorporating ESG and SRI criteria is predicted to attract more demand for [*Shariah*] funds, especially from sovereign institutional investors in Europe and North America," he says.

Ethical investing with Islamic finance

While the Islamic finance sector may not yet be trying to appeal to the general ethical investment market, efforts to make their own Shariah funds more ethically friendly have ramped up.

"There has been rapid evolution in the *[Shariah]* ESG investment space, especially as it has become more mainstream with investors having a greater awareness of how investments can be used to tackle key issues. As we see this evolution continue, we can expect there will also be demand from investors who are seeking Shariah-compliant investment versions of the same solutions, enabling them to align the principles of Islamic investing and ESG," Virk says.

Demand for ESG consideration within Islamic finance does seem to be increasing. For instance, Refinitiv states that $5.34 billion of ESG Sukuks was issued around the globe in 2021, more than any previous year, representing 3.2 per cent of the total Sukuks issued in 2021 globally.

In November 2021, the Islamic Finance Council UK (UKIFC) and HM Treasury, spearheaded the Global Islamic Finance SDG Taskforce to catalyse the engagement of Islamic finance with the UN's sustainable development goals (SDGs).

In August 2020, the research article *Exploring synergies and performance evaluation between Islamic funds and socially responsible investment (SRIs) in light of the SDGs*, found there was no statistically significant difference between the returns of Islamic funds and SRI funds, indicating that "embedding ESG/SDGs considerations into Islamic funds' investment decisions do not adversely affect their returns".

The research stated that Shariah-compliant SRIs would target a wider investor base, including both Shariah and impact investors, "which will support the achievement of the SDG agenda".

Gap closing

With the emergence of green shariah funds, the boundaries between Islamic finance and ethical investing are starting to blur.

"The convergence of Islamic investment and broader ethical investing has been going on for a while," Hutton says. "But we'll always have an element of clear differences as well, primarily because Islamic investing is there to meet the needs of one's faith, not just one's views on environmental and social impact.

"It's important for those with Islamic faith and other faiths to see the benefits of this investing in line with their beliefs. That's something we must not skip over," he adds.

Ethical investing and Islamic finance will never overlap as the two worlds are quite different, Levy says, "but I think they'll get close enough to be able to see each other across the other side of the fence".

Written by Laura Blows

A fresh approach

The North East Scotland Pension Fund (NESPF) has had a busy two years, to include the continued integration of ESG within its successful investment strategy, a rebrand, a new website, an administration review and a buy-in. Pension fund manager, Laura Colliss, tells Francesca Fabrizi what all this has meant for the fund

Please give a short introduction to the North East Scotland Pension Fund (NESPF).

The NESPF administers the Local Government Pension Scheme (LGPS) for employers located throughout the North and North East of Scotland.

The NESPF provides a pension for employees of three large public sector organisations – Aberdeen City Council, Aberdeenshire Council and The Moray Council, as well as approximately 45 other public or charitable bodies. The NESPF has a smaller secondary Transport Fund for employees of a single organisation.

We have an asset value of £6.1 billion with over 72,000 members, making us the third-largest LGPS fund in Scotland.

During 2020/21, you reported strong investment returns. Can you tell us about your investment strategy?

Our strategy is set out to ensure appropriate diversification is built into the fund; this way we can limit volatility and provide balanced returns through different cycles. Careful consideration is put into our portfolio construction considering return outlook, risk, actuarial funding level, liquidity and correlations of different asset classes. During 2020/21 and the unprecedented impact Covid-19 had on the market, it proved to be a great period for returns in risk assets. Our strategy was tilted towards risk assets, with listed growth equities in particular delivering strong returns. Private market allocations also helped to add value. Throughout the latter part of 2021, we focused on re-balancing and adding more assets with inherent inflation linkage.

Further to our financial performance, the continued integration of ESG has been a core focus. We have driven improvements in engagement reporting to ensure all objectives/engagement initiatives are bespoke to our directly held investments. We've also expanded our data processes associated to carbon foot-printing, to collate data on all listed asset holdings across numerous measures. We expect further disclosure of data in 2022 following positive dialogue with our private market managers. In addition to renewable allocations, implementing energy saving, clean energy solutions, or biodiversity improvements across other real assets such as our property portfolio benefits all stakeholders concerned. This is a great example of how ESG can be financially additive, as we all think about how we can lead more sustainable lives.

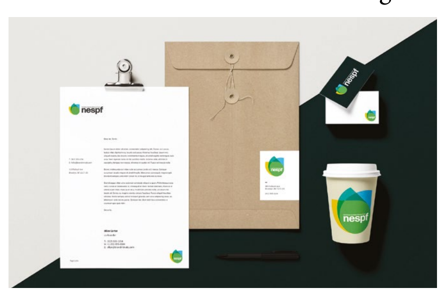
You recently went through a re-brand and redesigned your website. What was the aim of that and did it achieve your objectives?

Our previous website launched in 2010 and by 2020 it was really looking its age. As a fund, we've been moving towards more digital communications and services, through our online member platform and online benefits statements, but our website is the first port of call for members, and it simply wasn't delivering the kind of online experience that people expect these days.

Initially we were only focusing on redesigning the website; there was no intention to rebrand. However, during the early stages of the redevelopment, scoping exercises with the website developer raised some key questions around our objectives as a fund, our values, how we wanted to be perceived, and wider issues within the pensions industry.

It was through this process that we realised our current brand did not reflect our ideals and that keeping our existing branding would limit us, so we expanded the project to include a rebrand as well.

In terms of performance, our new website has exceeded our expectations and outperforms our old website on all key performance indicators from site visits and bounce rates, to downloads and calculations performed on the various tools on offer. We've really seen an up-take in interest in the site and its usage.



You also went through an effective administration review. Can you tell us a little more about this and its impact?
With workload increasing because of various regulation changes, and the challenges that Covid brought, we felt it was the right time to review our administration with the help of our actuary.

Following discussions, the review was to focus on four key areas:

1. Process – administration tasks were reviewed against specific criteria to assess how efficiently casework was processed.
2. Management information – a range of quantitative and qualitative information was provided for analysis.
3. People and culture – job roles, internal communications and related documentation were reviewed.
4. Capacity analysis – derived from data contained within task completed reports, task created reports and a list of estimated completed times to determine the resources we needed going forward.

The good thing about the review is that while it clearly shows what areas you've got to work on, it's also nice to see the areas that you are doing well in. For example, the review highlighted our data scores as being particularly strong, so it was good to be reminded of the positive work we've already achieved.

The review made 15 key recommendations made across the four areas. We've already delivered improvements identified for transfers out and online processing, and work is currently ongoing for leaver processes identified as being suitable for bulk processing. Plus, the capacity analysis resulted in three additional job posts for benefit administration that have already been filled.

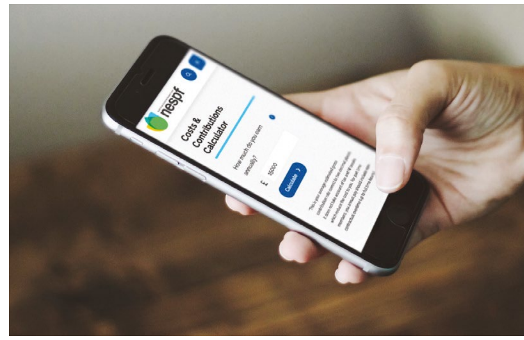
Obviously, there is still a way to go on the remaining recommendations – some are more complex or require system developments that will take longer to complete. We also have to factor in other work that we need to do; but the review has focused our attention, so we know what areas to work on to get the best results and to maximise our resources and efficiency.

In 2020, the fund successfully completed a buy-in policy – what were the challenges of this? What could others learn from your experience?
Yes, this was a huge undertaking for us and was the final step in a two year long project. It started when an employer was looking to reduce their risk exposure to the liabilities held in the LGPS and streamline their administration requirements. Before we could even get to the buy-in stage, there was the transfer of all assets and members into our own fund, which was a big task in itself.

But once the transfer was completed, we began the procurement process for the buy-in in early 2020. This was slight unfortunate timing as Covid-19 hit shortly afterwards. This caused several delays, not only due to everyone having to adapt to this new world, but the volatility of the financial markets following the initial outbreak meant it was impractical to proceed. Trying to get accurate values and pricing during such a time was impossible so the procurement process was paused until summer. The tender then resumed, and we finally entered a contract in November 2020.

A project of this scale required huge time and resource commitments. Every department across the fund was involved; add in multiple external parties and it could have become quite the logistical nightmare. However, overall, it has run very smoothly. Being aware of the work to be completed, setting realistic expectations and timescales before beginning made a significant difference.

With this type of insurance product, it's important to be aware of the ongoing work that will be required even after the buy-in is completed. As a LGPS fund, we are unable to buy out the liabilities held so a buy-in was the only suitable alternative. As such, we still carry out day-to-day



administration of these benefits and have additional ongoing duties to aid the insurer.

However, from a member and employer point of view, service, procedures and points of contact remain the same, so they don't have to get familiar with a new provider.

Collecting member information in advance of the procurement process, assessing the quality of the data held to ensure accurate pricing and committing to this long-term investment is a burden but the benefits that are provided in terms of risk management far outweigh this.

What are your aims for the fund going forward?
Moving forward, like everyone else we will be kept busy with McCloud, preparing for the pensions dashboards and any other surprises that pensions bring. But we'll be focusing on implementing the remaining recommendations from the administration review, and we are investigating more automation and the introduction of robotics. Related to this, we'll be updating our pensions administration strategy in line with new procedures and business insight data. Building upon the work we've already achieved with the rebrand and new website, we are also reviewing our communications and are looking at new ways to provide members with the information they need and want in more engaging ways.

Written by Francesca Fabrizi

The ups and downs of investing in cryptos

Cryptocurrencies are attracting North American institutional investor capital. But is it time for UK pension funds to make an allocation to this speculative asset class?

Summary
- The usual investor concerns around cryptos are consistently high volatility and potential bubbles.
- However, large investment managers and North American pension funds have started making allocations to cryptos recently.
- Beyond capital appreciation, cryptos can provide diversification and inflation hedging.
- However, UK trustees face regulatory hurdles that make it challenging to invest in cryptos.

Since the emergence of the world's first decentralised cryptocurrency 15 years ago, digital assets have attracted devoted advocates and many of them have rocketed in value in recent years.

Cryptocurrencies are a form of digital currency that use cryptography to secure transactions. There is no oversight by a centralised or regulated authority – instead, they use a decentralised system to record transactions and issue new units.

The first crypto to really catch on, Bitcoin, which uses public key cryptography to record, sign and send transactions over a blockchain, surged from almost $7,000 in 2020 to above $47,000 as of 29 March 2022. Its success has spawned many imitators; there are now more than 18,000 cryptos in existence.

Institutional interest

Retail investors and hedge funds have poured money into Bitcoin and other leading cryptos such as Ethereum, but the asset class had struggled to attract similarly large amounts of capital from institutional investors.

This is now changing. Several global investment managers have announced they are investing in cryptos, while large North American pension funds are also making allocations.

Nickel Asset Management founding partner and CEO, Anatoly Crachilov, whose company runs several strategies targeting digital assets, says his firm is having "a range of conversations with large wealth managers, university endowments and pension funds, which were not on the table three years ago".

Over the past 18 months, crypto has attracted the attention of large asset managers, and more recently pension funds in North America and Canada. In 2021, the Houston Firefighters' Relief and Retirement Fund became the first US pension fund to invest in cryptocurrencies, allocating $25 million to Bitcoin (0.5 per cent of its $5.3 billion portfolio).

The US is generally ahead of the adoption curve, with many institutions making or considering allocations, while European pension funds are lagging, Crachilov adds. So, should pension funds on this side of the pond also consider investing in cryptos?

Managing volatility

Institutional investors may be put off allocating to cryptos by their consistently high volatility and concern over bubbles forming.

However, WisdomTree head of digital assets for Europe, Jason Guthrie, says it is no longer in dispute whether cryptos is a real asset class and high volatility does not mean it lacks the potential to be a major market disruptor.

He says: "This is a real technology trend and it's here to stay. Having no exposure to it now really feels like a systematic bet against it. It is like saying you didn't want exposure to the internet in the 90s.

"We had a big market correction in the 90s around internet stocks. But the emergent business models from the companies that survived and thrived are worth multiples of what the sector was worth at its top in the 90s. And if you take a long-term view of things, which most institutional investors should be doing, the price right now and short- to medium-term volatility shouldn't be something to fear if you think about it on a risk-adjusted basis."

Crachilov predicts that cryptos will structurally appreciate over the long term. "Every subsequent year, Bitcoin's lowest point has been higher than the previous year. There is some volatility and uncertainty, but our longer-term view is this market will appreciate as cryptos become more widely adopted," he says.

He adds that volatility is likely to become more subdued over time, as wider adoption will facilitate better price discovery.

"Investors should not shy away from volatility – a small allocation makes sense because the rest of the portfolio would absorb this volatility," he adds, while pointing out that it is also possible to exploit high volatility to generate alpha.

Fundamental value

However, most UK pension consultancies are broadly against investing in cryptos.

For example, XPS Pensions chief investment officer, Simeon Willis, says his consultancy strongly suggests pension funds do not invest in them.

"People say that traditional institutional investors aren't investing because they don't understand it and they need to get with the times. But a lot of things that pension schemes do are for a very good reason – which is you can't take speculative risks with pension scheme members' retirement savings.

"Cryptocurrency is a classic example of people being drawn into something by the hope of a speculative gain. But, as a pension scheme investor, you've got to ask yourself: is there fundamental value in the investment, and what's the fundamental case for its value to increase?"

Willis does not think there is a particularly strong case for having a large amount of exposure to currencies in general and that the case for cryptocurrencies is even weaker.

He adds: "Even if these cryptos serve a useful purpose, that doesn't make them a good investment. We wouldn't tend to consider currencies in the main as an investment opportunity. Pension funds tend to use currencies to invest in assets."

Uncorrelated returns

However, cryptos provide another benefit beyond capital appreciation: Diversification. Bitcoin, for example, has been relatively uncorrelated with mainstream asset classes (although there is a partial correlation to tech shares).

"In multi-asset portfolios, the intention is to have diversified exposure. During a given period, some investments will go up and some will go down. It's very hard to justify a multi-asset portfolio that has no fixed income or commodities, for example," says Guthrie.

Having examined the effects of an allocation to Bitcoin on diversified portfolios, Nickel found that between 31 December 2012 and 31 December 2021, a standard portfolio of 60 per cent equities and 40 per cent bonds would have delivered a cumulative total return of 160 per cent with a standard deviation (a measure of volatility) of 9.8 per cent.

Reallocating just 1 per cent of equities to Bitcoin within the portfolio would have increased the return by 29 per cent to 189 per cent – without having a negative impact on the portfolio's standard deviation (9.8 per cent). It also found that by allocating 3 per cent to Bitcoin, the portfolio's cumulative total return would have been 255 per cent – an increase of 95 per cent.

Cryptocurrencies also have the potential to protect against inflation. Crachilov says it is certainly the case with Bitcoin, due to its scarcity and the fixed maximum number of coins that could ever be in circulation.

"There is a limited number of Bitcoins, which creates a scarcity element. This means we can draw a parallel with gold. The number of coins in circulation is clearly prescribed and 90 per cent already have already been released into circulation. The remaining 10 per cent will be issued over the next 119 years."

This is in stark contrast with the traditional fiat money system, "where the number of dollars in circulation is defined by one agency and no one has visibility into how many dollars are going to be thrown into circulation".

Regulatory issues

UK pension funds face regulatory hurdles that make it particularly challenging to invest in cryptos.

Osborne Clark UK associate director, James Saddler, notes that there are regulatory issues that are likely to prevent trustees from making allocations.

"Pension trustees must go through a decision-making process before making an investment decision. The first part of the decision is whether they are authorised to make this kind of investment.

"Do they have requisite power in their scheme governance documentation, and are there any statutory restrictions? There are quite a few statutory restrictions that would prevent pension schemes and pension trustees from investing in the first place, because of their 'regulated market' restriction."

UK trustees must ensure that their portfolios consist predominantly of investments that are traded on regulated markets.

Cryptocurrencies are not regulated by the Financial Conduct Authority. This means trustees could only currently allocate a relatively modest amount of their overall portfolio to direct investment in cryptos.

"If cryptocurrencies are not explicitly listed in the scheme's rules as an acceptable form of investment, trustees… *[may need to]* amend the rules to make the position clear. This would likely involve getting the agreement of the employer," says Saddler.

Another risk is that the pension fund could lose the private key, the passwords needed to access the account. If it did so, the cryptos could be lost forever. That said, institutional custody arrangements have started to appear that eliminates this risk. Another way forward is for schemes to invest in cryptocurrencies through exchange traded funds, which are listed on regulated markets.

Given this new asset class presents opportunities for pension funds in terms of capital appreciation, diversification and protection against rising inflation, it is unsurprising there is institutional interest. However, it is important to remain cautious, given the significant risks involved.

Written by Stephanie Baxter, a freelance journalist

Summary
• The gender pensions gap has been driven by a number of underlying issues, particularly around the division of domestic labour and the gender pay gap.
• The pandemic has exacerbated many of these underlying inequalities, although there are policy reforms that could help support savers currently 'locked out' of auto-enrolment.
• The solution cannot be addressed only within the pensions space and will take a collective effort from individuals, companies, and providers.

Bridging the gap

The gender pensions gap remains a concern, with the pandemic exacerbating underlying issues and calls for policy changes growing. Sophie Smith reports

The recent celebration of International Women's Day has once again brought with it an onslaught of fresh insights and research into the gender pay and pensions gaps. Research from HSBC, for instance, revealed that more than half (56 per cent) of women over 35 have saved less than £1,000 for retirement, and one in four women over the age of 35 have yet to save anything towards retirement.

But calls to tackle the gender pensions gap have been growing for some time, with PensionBee CEO, Romi Savova, arguing that "for too long the onus has been put on women to close the gender pension gap by changing their behaviour which is not fair or effective".

Mind the gap

Research from PensionBee estimates that there is an average gender pensions gap of 38 per cent in the UK, increasing to almost 60 per cent in some parts of the UK, driven by the gender pay gap and an unequal number of annual paid workers.

However, Pensions Policy Institute (PPI) senior policy researcher, Lauren Wilkinson, warns that not only are women saving less than men on average, they're also likely to need a higher amount of pension wealth in order to achieve the same retirement living standards as men due to higher life expectancies among women.

"Women generally live an average of 3.7 years longer than men," she says. "To draw the same pension income throughout their retirement, women would need to have saved around 5-7 per cent more than men by retirement age to allow for living longer." And pension policy is seemingly failing to narrow the gap, as Wilkinson points out that around 23 per cent of employed women do not meet the qualifying criteria for auto-enrolment (AE), compared to 12 per cent of male workers.

Whilst there are a range of factors underlying this, Wilkinson suggests these focus primarily around labour market inequalities that are heavily linked to gendered divisions of domestic labour.

"Women are less likely to be in paid work than men," she explains, "with an employment rate of 73 per cent compared to 82 per cent among men; they are more likely to work part time – 33 per cent compared to 9 per cent of male workers; and women's average annual earnings are equivalent to around 68 per cent of men's average annual earnings."

And the impact of working part time can be unexpectedly detrimental to pension saving. Aviva director of workplace savings & retirement, Emma Douglas, explains that whilst a person reducing their full-time working hours to three days a week might expect pension contributions to reduce by 40 per cent, the impact can be greater because of AE thresholds.

A broken system?

"A person earning £30,000 opting to reduce their hours by 40 per cent would see their pay reduce by 40 per cent," she continues. "However, because of the lower qualifying earnings threshold (LET) under AE, their pension contributions would reduce to around 50 per cent of their full-time value. A worker earning £20,000 would see their pension contributions reduce by over 58 per cent.

"So, although the gender pay gap does drive the gender pensions gap, it is women's working patterns that have the biggest impact leading to lower pension pots at retirement."

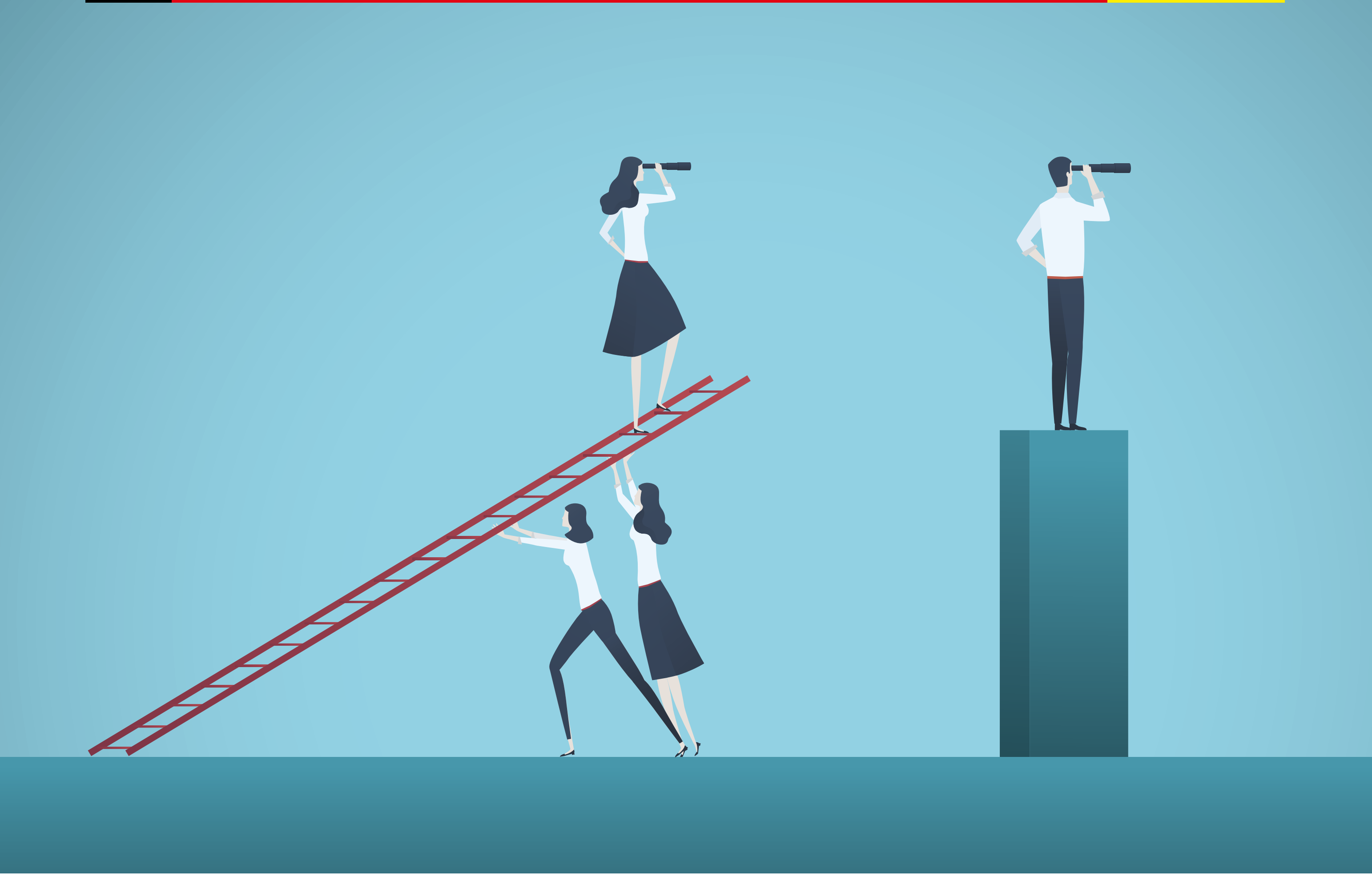
In light of this, Douglas argues that removing the LET has the potential for the biggest impact on closing the gender pension gap, as it would mean

What gets measured gets managed?

How wide the gender pensions gap actually is is hard to pin down, as Aviva director of workplace savings & retirement, Emma Douglas, explains that it is difficult to accurately gauge how big an issue the gender pension gap is because there are widely varying ways in the which it is measured.

"Estimates suggest that the gap could be as high as 35 per cent to 40 per cent. It would be useful to have a single methodology that measures the gender pension gap – like that prescribed by the Office for National Statistics for the gender pay gap."

"What we do know is the amount paid in contributions has a big impact on what is received at retirement," she adds, "and the difference between men and women's contribution rates is stark."



women in a pension scheme would get a contribution from the first pound earned and would not require further legislation.

"Abolishing the lower qualifying earnings threshold would increase pensionable pay by up to £6,240 per year and total pension contributions by £9.60 per week for everyone who earns more than £6,240 a year," she says. "This could mean up to an extra £115,700 in pension pots at retirement."

This is not the only area of AE policy under scrutiny, however, as analysis from PPI has revealed that around 77 per cent of workers who do not meet the qualifying criteria are locked out because they earn below the £10,000 earnings trigger, with women disproportionately represented in this group due to the flexibility part-time jobs can provide.

Yet analysis from the PPI suggested that if the income from both first and second jobs were considered when assessing eligibility, a further 80,000 people, 60,000 of them women, would earn enough to meet the qualifying criteria. Removing the £10,000 earnings threshold altogether, meanwhile, could increase eligibility by around 14 per cent.

Reducing the minimum age requirement for AE could also help narrow the gender gap, according to Savova, who says: "By automatically enrolling all workers at age 18 and reducing the earnings threshold from £10,000, the government could play an instrumental role in helping women to start saving from the beginning of their working life, and in roles where they tend to be lower earners, to build a more robust personal safety net in retirement."

Committed to change

The government has repeatedly committed to implementing a number of AE reforms, including the removal of the lower earnings threshold and lowering the minimum age, as recommended by the *2017 AE Review,* pledging to a 'mid-2020s' timeline.

Speaking to *Pensions Age*, a Department for Work and Pensions spokesperson says: "AE has helped millions more women save into a pension, with participation among eligible women in the private sector rising from 40 per cent in 2012 to 86 per cent in 2020 – equal to that of men.

"Our plans to remove the lower earnings limit for contributions and to reduce the eligible age of being automatically enrolled to 18 in the mid-2020s will enable even more women to save more and start saving earlier."

Growing pressure

However, Douglas warns that the "clock is ticking", stressing that the longer it takes for action, the less there will be in the pension pots of part-time working women.

"There is never a 'perfect time' to

increase pension contributions, but a phased approach should help to ease any sudden financial impact on employers and employees", she argues.

And changes to AE could be more urgent than before, with recent research from Now Pensions suggesting that the barriers facing women, particularly in relation to AE, are worsening.

The analysis found that over half (58 per cent) of single mothers are ineligible for AE, up from 45 per cent in 2020, with Now Pensions head of PR and campaigns, Samantha Gould, warning that single mothers are one of the worst hit groups amongst the three million women locked out of workplace pension saving.

"The reason that single mothers are so badly impacted is that, unlike coupled households, single parents need to act simultaneously as the sole earners and the sole carers in the household; so they're not able to shift-parent," Gould explains. "As a result, single mothers are more than twice as likely than the average person to work part time, a whopping 58 per cent compared to the national average of 21 per cent."

The pandemic has further exacerbated issues, with the analysis revealing that the average pension wealth for single mothers has dropped by 40 per cent since the start of the pandemic to just £11,000.

Yet, according to Gould, the removal of the earnings trigger could bring an additional 200,000 single mothers into workplace pension saving and improve their income in retirement by as much as 140 per cent.

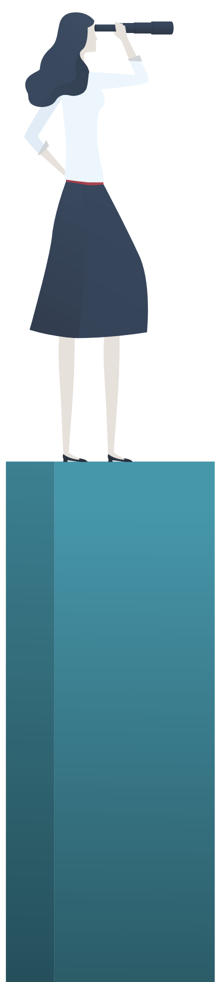
Everyone's problem to solve

However, it may fall to the industry and individuals to take action in the meantime, as Douglas emphasises that "solutions are far from exhaustive, and they don't lie in the hands of individuals, schemes, employers, or government alone – they sit with everyone".

"The gender pension gap is everyone's problem to solve," she says. "And if we are to make significant progress each needs to play their part."

In particular, Douglas suggests that providers could help women understand the implications that part-time working has for their pension pots, acknowledging that this is unlikely to be the first thing that springs to mind when starting a family. In addition to this, she emphasises the need to make sure that women understand the value of claiming child benefit – even if you pay it back – in order to get state pension credits, and the importance of sharing the pension on divorce as well as the physical assets.

"Employers have a role in encouraging a family-friendly culture, which is essential to avoid carers being held back," she adds. "The rise of remote working in a post pandemic world is an opportunity to help encourage a more flexible work-life balance for all parents."



Indeed, modelling by PensionBee has suggested that if men and women were to work the same hours at equal pay, with both working fewer hours to share childcare responsibilities during a child's early years before returning to full-time work, the gender pension gap could be eliminated.

However, she acknowledges that "currently, there is a lack of transparency around the parental support offered by major employers making it a difficult area for employees to navigate".

"By mandating that employers offer clear, supportive, gender-inclusive paid parental leave packages," Savova says, "employers can help employees share responsibilities from the very beginning of their roles as parents."

Adding to this, Wilkinson suggests that policies targeted at those not currently in paid work could play a significant role in reducing the gap.

"For example, a family carer top-up (such as a benefit paid as pension contributions based upon AE minimums on National Living Wage) could help to reduce the impact for women who miss out on pension accrual due to time spent out of the labour market looking after dependent children," she suggests. "However, this would be a costly policy to deliver in practice."

The financial services industry may also need to challenge expectations, as Savova calls for a shift away from the 'women have a lower risk appetite' narrative, urging the industry to instead consider the ways it may be an active participant in the suppression of women by not offering financial products that are tailored to their needs.

"Whether it's house prices that are out of reach for the average woman's salary, or pension guidance that doesn't account for career gaps, the financial services industry must work towards creating inclusive products," Savova emphasises.

Written by Sophie Smith

PENSIONS Age AWARDS 2022

WINNERS BROCHURE

23 February 2022 - Great Room, Grosvenor House, Park Lane, London

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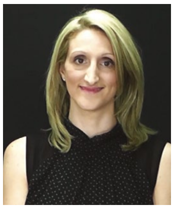

Introduction

The Pensions Age Awards this year were truly spectacular. Hosted in the Grosvenor Park Lane's magnificent Great Room, it was one of the first industry events where the numbers reached pre-pandemic norms, as those working in the UK pensions arena gathered excitedly to exchange stories and celebrate being together once again.

The awards were particularly pertinent this year, given the dramatic period the world has encountered of late, and were therefore a true celebration of the innovation, dedication and resilience of an industry not prepared to be beaten by any challenging environment. More than 30 companies from across the UK pensions market were awarded accolades from all areas of pension provision, from investment and administration, to risk management and diversity, and while perhaps the event lacked some of the drama of this year's Academy Awards, it was still a night to remember, and as always offered proof that excellence and fortitude continues to thrive in the UK pensions space, whatever happens in the world around it.

Congratulations to all the deserving winners.

Francesca Fabrizi, Editor in Chief

The judging panel

Robert Branagh
CEO
London Pension Fund Authority (LPFA)

Yvonne Braun
Director of Policy, Long Term Savings and Protection
ABI

David Butcher
Managing Director
Communications and Content

Michael Clark
Founder and owner
CBC Pension Services

Melanie Cusack
Client Director
PTL

Jerry Gandhi
Trustee Director, 20-20 Trustees;
Director, C A P Services Ltd

Alison Heppenstall
Managing Director, b2b, B2.Media;
Executive Director, Climate Action for Associations

Kiran Lamb
Pensions & Benefits Senior Manager
Sky

Vince Linnane
Chairman
Moorlands Human Capital

Julian Mund
Chief Executive
Pensions and Lifetime Savings Association

Richard Parkin
Retirement and Pensions Consultant & Non-Executive Director
Financial Services Compensation Scheme (FSCS)

Richard Poole
Legal Director, Pensions & Employee Benefits
Royal Mail Group

Matthew Swynnerton
Partner
DLA Piper

Stephen Wickham
Member Nominated Trustee
Molins UK Pension Fund

The Pensions Age Awards 2022: Celebrating a commitment to excellence in UK pension provision


Kingfisher Pension Scheme


BT Pension Scheme


Railpen


TPT Retirement Solutions


Aviva Staff Pension Scheme (ASPS)


Buck

DC Pension Scheme of the Year
WINNER: *Kingfisher Pension Scheme*

DB Pension Scheme of the Year
WINNER: *BT Pension Scheme*
Highly Commended: North East Scotland Pension Fund

Pension Scheme Communication Award
WINNER: *Railpen*

Pensions Administration Award
WINNER: *TPT Retirement Solutions*

Best Investment Strategy Award
WINNER: *Aviva Staff Pension Scheme (ASPS)*

Pensions Consultancy of the Year
WINNER: *Buck*

Pensions Provider of the Year
WINNER: *Scottish Widows*

Fiduciary Management Firm of the Year
WINNER: *Schroders Solutions*

Pensions Technology Firm of the Year
WINNER: *Smart*

At-retirement Solutions Provider of the Year
WINNER: *SEI*

Independent Trustee Firm of the Year
WINNER: *Dalriada Trustees*

Pensions Law Firm of the Year
WINNER: *Gowling WLG LLP*
Highly Commended: Squire Patton Boggs (UK) LLP

Pensions Accountancy Firm of the Year
WINNER: *Ensors Chartered Accountants*

Active Manager of the Year
WINNER: *Impax Asset Management*

Equities Manager of the Year
WINNER: *Artisan Partners*

Fixed Income Manager of the Year
WINNER: *LGIM*

Alternatives Manager of the Year
WINNER: *Greencoat Capital*

Emerging Markets Manager of the Year
WINNER: *Coronation Fund Managers*

Property Manager of the Year
WINNER: *Alpha Real Capital*

LDI Manager of the Year
WINNER: *BlackRock*


Scottish Widows


Schroders Solutions


Smart


SEI


Dalriada Trustees


Gowling WLG LLP

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Great Room, Grosvenor House
Park Lane, London


Ensors Chartered Accountants


Impax Asset Management


Artisan Partners


LGIM


Greencoat Capital


Coronation Fund Managers


Alpha Real Capital


BlackRock


Pictet Asset Management


Just


Quietroom


Cardano

Multi asset Manager / Provider of the Year
WINNER: *Pictet Asset Management*

Risk Management Provider of the Year
WINNER: *Just*

Pensions Communications Award
WINNER: *Quietroom*

Innovation Award
WINNER: *Cardano*

Innovation Award (Investment)
WINNER: *Nest*

Innovation Award (Technology)
WINNER: *Intellica*
Highly Commended: Tumelo

Administration Provider of the Year
WINNER: *Premier Pensions*

Master Trust Offering of the Year
WINNER: *Standard Life*

Sponsor Covenant Provider of the Year
WINNER: *Grant Thornton UK LLP*

Factor Investing Offering of the Year
WINNER: *Aon*

Sustainability Provider of the Year
WINNER: *AXA Investment Managers*

Diversity Award - sponsored by Phoenix Corporate Investment Services
WINNER: *PwC*

Cashflow Driven Investment Manager of the Year
WINNER: *abrdn*

Pensions Marketing Campaign of the Year
WINNER: *BNP Paribas Asset Management*

Pensions Age Thought Leadership Award
WINNER: *Punter Southall Aspire*

Personality of the Year
WINNER: *Chris Connelly*


Nest


Intellica


Premier Pensions


Standard Life


Grant Thornton UK LLP


Aon


AXA Investment Managers


PwC


abrdn


BNP Paribas Asset Management


Punter Southall Aspire


Chris Connelly

SAVING FOR YOUR FUTURE

DC Pension Scheme of the Year: **Kingfisher Pension Scheme**

The DC Pension Scheme of the Year award went to Kingfisher Pension Scheme. Receiving the award was Alina Susca. Lucie Fisher, European Pensions (right) and host Zoe Lyons (left) presented the award.

Defined contribution (DC) pension provision has evolved beyond recognition since its inception in the areas of investment, communication and scheme design. This award recognises those DC schemes that have developed their proposition with a clear focus on what really matters – meeting member needs.

The scheme that took home the award this year impressed the judges for several reasons – its attractive contribution rates, wide set of choices and low charges.

Congratulations to Kingfisher for its tremendous work and deserved win!

The Kingfisher Pension Scheme is a hybrid scheme, providing final salary benefits for employees who joined the scheme before 1 April 2004 up until the closure to future accrual on 30 June 2012, and money purchase benefits for all employees recruited on or after 1 April 2004.

The final salary assets currently stand at £3.66 billion; the money purchase assets stand at £525 million.

Kingfisher really stood out and earned its win as the scheme is continuously seeking to ensure it is fit for purpose, with the trustee board continuously looking to new and innovative ways to engage with members and ensure the right investment strategy is in place.

This past year's developments include the delivery of a bespoke virtual pensions week made available to about 40,000 employees and an ESG member engagement tool, enabling members to see the underlying individual companies in which their pension fund is invested.

Kingfisher also showcased its scheme's dedication to giving members value for money as the scheme offers three lifestyle investment options, as well as 10 self-select funds. The trustees are aware that the majority of members will remain within the default option, Lifestyle 5 Year Cash Target, which is climate tilted, however, do not wish to remove the choice from their members. For this reason, the trustees continue to review the range of funds available to meet member investment requirements and remain competitive.

The trustee also switched the Multi Asset Fund (which forms part of the default strategy) to the Future World Multi Asset Fund, which has further enhanced ESG (environmental, social and governance) integration features. This migration was completed by the end of May 2021. The trustees also ensure that the annual management charges for the various funds available to DC members are as competitive as they can be.

The scheme also automatically deducts contributions from a member's basic pay via the company's salary sacrifice arrangement, SMART. This allows members to not only obtain tax relief but also save on National Insurance. Members who fall below the Pay Protection Limit will automatically be excluded to ensure any state benefits are not impacted.

Congratulations again to Kingfisher Pension Scheme, this year's worthy winner!

BTPS

DB Pension Scheme of the Year:

BT Pension Scheme

The DB Pension Scheme of the Year award went to BT Pension Scheme. Receiving the award were Morten Nilsson and Wyn Francis, BT Pension Scheme. Amy Currie, Intellica (right) and host Zoe Lyons (left) presented the award.

Despite an increasing number of defined benefit (DB) scheme closures, DB provision still makes up a huge percentage of UK pension provision.

We award the DB scheme that has risen to the investment and regulatory challenges facing the DB pension space today and as such serves as an inspiration to other schemes in the pensions marketplace.

According to the judges, the DB Pension Scheme of the Year winner for 2022 stood out for their strong ESG focus and member satisfaction and truly set the bar high in the DB arena.

Congratulations to the deserved winner, BT Pension Scheme. The BT Pension Scheme is the largest company pension scheme in the UK and one of the largest pension funds in Europe with around 280,000 members and about £57 billion AUM.

It is a mature DB pension scheme for employees, former employees and dependants of BT Group plc and some of its associated companies.

The winner showed their devotion to member satisfaction as in May 2021 they transitioned to a new administration platform, IntelliPen.

It also launched a new website and member portal. The new portal has been designed to be clear, simple and easy to use, and allows members to access key information about their pension, model their benefits using the pension calculator, track requests they make online and securely update any personal information.

Since its launch highlights have included 89,000 member registrations, 350,000 distinct logins and 348,000 pension calculations on the portal.

The fruits of this labour were seen in January 2022 as it carried out the fourth of its annual member satisfaction surveys. The results showed another year-on year improvement in member satisfaction.

BT Pension Scheme also showcased huge amounts of dedication to ESG solutions and in 2020, they amended its core investment principle from ‘finance first’ to ‘sustainable, long-term value creation’. This was an evolution in its approach to responsible investment and one of the primary drivers has been the acceptance that climate change is a clear and present risk to the scheme, not a future risk.

In the latest assessment exercise by the PRI in 2020, the scheme achieved an overall A+ for its work on responsible investment and in 2021 it became a first wave signatory to the new FRC stewardship code.

It also garnered support from across the industry as, when it announced its net zero by 2035 goal, it was acknowledged that its approach was industry leading, with organisations such as ShareAction, Make My Money Matter, the Principles for Responsible Investment Institutional Investors Group on Climate Change making public statements of support.

Congratulations again to the worthy winner BT Pension Scheme!

Pensions administration with members in mind

Simon Langworthy highlights the BT Pension Scheme's dedication to put the member at the heart of its admin

Member engagement isn't something we've ever struggled with at the BT Pension Scheme. We have 275,000 members, of which 200,000 are pensioners, and when we ask for their opinion on what we're doing well and where we need to improve, they're not backward in coming forward!

For many, the payments they receive from the scheme make up the majority of their retirement benefits and, as a result, they care about it a great deal.

This 'voice of the member' has been at the centre of our improvement activities and over recent years we've transformed our member administration, truly putting members at the heart of everything we do. And we must be doing something right because our levels of member satisfaction are at an all-time high.

Getting to this point has taken time, investment, commitment and hard work. But we're reaping the rewards of this investment with happier members, more options to self-serve and more efficient processes significantly reducing our administration costs, a trend we expect to continue.

Our journey

In 2018, we took the decision to bring the outsourced scheme administration in-house, transforming our team in Chesterfield.

This was a bold decision that went against the industry trend at the time. But it enabled us to take control and move away from a traditional time-based SLA model. We developed our own key performance indicators based around service quality and member experience, helping us drive the 'member first' behaviours we want from our administration team.

The next step we took was to bring the member call centre onshore, which we did in 2019 in response to member feedback. The biggest advantage of having the call centre in Chesterfield was being able to integrate it into our main administration office, allowing our experienced admin staff who know our Scheme inside-out to work more closely with our front line staff. Having front office and back office teams working together has delivered all the benefits we expected and more.

While timeliness remains an important performance measure, we look at it through the lens of member expectation and experience, valuing accuracy and completeness just as highly as speed. Members are happier to have clear and accurate responses, delivered completely right first time, within a timeframe they have been promised than to have this jeopardised by trying to deliver the fastest response possible. We're also able to solicit direct feedback from members and adapt in an agile way to act on that feedback and continuously improve.

While these changes were delivering improvements in member satisfaction, one of the areas where members continued to tell us there was room for improvement was our online services. In May 2021, we introduced Procentia's pioneering IntelliPen pension administration system and launched a new scheme website and member portal.

The scheme's member portal is the culmination of more than two years work, developed using in-depth member research and digital best practice to understand member needs – particularly at the point of retirement. It's designed to be easy to navigate and is personalised to each member.

Unlike traditional member portals, Procentia's IntelliPen technology enables BTPS members to access advanced functionality previously only available to administrators, and make data changes that update directly onto the main database, in real time.

One of the system's key features is a pension calculator which enables members approaching retirement to model their benefits, helping them decide when to take their pension by showing them its value at different retirement dates as well as modelling all of the options available to them. A slider that moves between the minimum and maximum tax-free lump sum for an individual members shows them the impact changing their lump sum has on their annual pension, how they can use any AVCs and how that differs on any given date. A truly personalised retirement planner.

The portal also enables members to update personal information quickly, download their pension payslips and P60s and see the value of their pension each month and their payment dates.

In the eight months since launch, over a third of BTPS members have registered for the portal and 50 per cent of newly retired members have committed to confirming their retirement choice online.

Our focus is now on fully realising the benefits of the new Procentia administration system and continuously improving the service we provide built on firm foundations. We do this certain in the knowledge that if we get it wrong, our members will be quick to tell us!

BTPSM chief administration officer, Simon Langworthy

BTPS

tpt Retirement Solutions

Pensions Administration Award:
TPT Retirement Solutions

The Pensions Administration Award went to TPT Retirement Solutions. Receiving the award was Stewart Ireland, TPT Retirement Solutions. Robert Branagh, London Pension Fund Authority (right) and host Zoe Lyons (left) presented the award.

The importance of effective pensions administration cannot be underestimated, especially given the changes in UK pensions regulation in the past few years. Therefore, this category aims to award the pension scheme that continues to keep administration as a key consideration, proving it has the needs of the member at the heart of its offering.

The winner this year stood out to the judges through its impressive use of administrative innovation and technology to meet the needs of the market. Congratulations TPT Retirement Solutions!

In 1946, TPT pioneered the first-ever pension fund to protect social workers ineligible for a local government pension. So, in its 75th anniversary year, it continued to blaze a trail as one of the UK's only not-for-profit DB and DC master-trust providers.

At around 115,000 DB members and over 284,000 DC members, with £15 billion of AUM, TPT is able to deliver a high-quality, innovative service at low member costs.

During the Covid-19 pandemic, TPT rapidly adapted to remote working and still managed to deliver a seamless member service, with over 99 per cent of tasks completed within its service-level targets. Also, TPT's ongoing investment in systems, processes and technology did not diminish during this time.

For instance, 2021 saw TPT at the final stages of its 'DB Online' development journey, with the most recent addition being the ability for members to obtain transfer values and retirement benefits quotations directly through the system within 24-hours of request. As of 2021, it has 40,652 registered users, representing a 19.5 per cent year-on-year increase.

The past year saw TPT complete phase one of its multi-year DC-engagement initiative. This included the introduction of animated annual benefit statements – unique 90-second videos that guide members through all the key points from their benefit statement.

It also launched its educational microsite, covering each of the four key stages in a member's journey: Save, grow, plan and spend. To date, after watching their animated benefit statement, 65 per cent of members have clicked through to check their online Retirement Savings Account. This DC engagement drive has resulted in a 16 per cent year-on-year increase in account activations – with 18,453 activations between 2020-2021.

Promoting the portals to members was a top priority for TPT last year, with a number of targeted mailings to encourage activations and log-ins, resulting in it holding current email addresses for circa 75 per cent of active members.

However, for those less comfortable using technology, TPT provides members with named contacts and direct dial telephone numbers to still interact effortlessly.

To further enhance the member experience, TPT has also been overhauling all member communications; ensuring they are friendly, written in plain English and attractively presented.

With such member focus, TPT is a much-deserved winner. Well done!

SCOTTISH WIDOWS

Pensions Provider of the Year:
Scottish Widows

The Pensions Provider of the Year award went to Scottish Widows. Receiving the award was Louise Whyte, Scottish Widows. Stephen Wickham, Molins UK Pension Fund (right) and host Zoe Lyons (left) presented the award.

Growing technology and the introduction of auto-enrolment are just two factors that have contributed to a raising of standards in the UK pensions space, with UK pension providers forced to up their game in response. This award therefore aims to celebrate those providers that have moved with the times and risen to this challenge, displaying excellence in the area of pension provision, be that in the DB or DC space.

This year's winner was praised for its outstanding combination of default fund performance with digital transformation enhancing member access and engagement. Congratulations to Scottish Widows!

As part of Lloyd's Banking Group's commitment to Help Britain Foster, the group has ring-fenced £300 million of funding to continue developing market-leading propositions to help support savers.

This has already seen great strides, with the Lloyds banking app recently made available to all Scottish Widows workplace users, providing a single customer view of their finances in one place.

In fact, a Scottish Widows pension is now being viewed alongside a bank account 438,000 times per day, with this expected to have reached a total of 160 million for 2021.

The Scottish Widows app has also supported savers, with member logins rising to over 6,000 per week since it was first launched.

Alongside this, Scottish Widows has worked to enhance its broader digital journeys, with member pot consolidations increasing to over 900 per week via multiple digital journeys and the digitisation of nominating beneficiaries has seen applications rising from 20 per week to over 1,000.

Key initiatives have also been run to support savers, including a series of bite-sized films to explain key pension concepts and the 'meet your future self' tool, which forecasts financial outcomes based on current savings, and recently became a virtual experience at the Pensions Awareness Bus Tour.

The provider also made efforts to improve accessibility and ensure no member is left behind, ensuring AA Accessibility Standards for all journeys, Jaws Screen reader/contrast testing for sight impairments and dragon technology for voice commands.

Employers are not forgotten by this provider, however, and are also fully supported, as the firm offers a bespoke approach to the design, implementation and administration of schemes and ongoing support from a team of dedicated experts, including investment performance updates, governance meetings and scheme MI.

Scottish Widows has also reflected the growing trend towards sustainability in its investment commitments, targeting net zero across all investments by 2050 and plans to invest up to £25 billion in companies pro-actively tackling climate change, as well as launching a new fund range, including standalone ESG funds, and developing a Climate Transition Fund.

Congratulations again to the team at Scottish Widows!

DC providers – Are we all the same?

Graeme Bold highlights the importance of reviewing DC providers

While Scottish Widows is not currently using any B2B telemarketing companies to cold-call prospective clients, I do occasionally chat to people performing that function. In a recent conversation, I was made aware that the following drop-down option had been added to the call-handler script - “We have recently outsourced our pension scheme to a master -trust, so please take us off your list”.

This made me curious, what do you do when someone says that....and the reply was “We end the call”.

So there you have it, an employer’s issues relating to pensions, other than of course paying contributions, end with a move to an outsourced DC master trust (or presumably a modern contract-based plan).

But do they?

• Currently 20 per cent of British people aged 65-69 still work.
• Gender pay and pension gaps are nowhere near fixed.
• Auto-enrolled members are, according to most experts, not saving enough, especially considering increased longevity and long-term care.
• The ethical status of company and individual investment decisions has never been as highly scrutinised.
• And crucially, cyber security has never been a greater headache for any employer sending their employees’ data to a third party.

It is for reasons like this, deep issues for employers and trustees to consider, that I passionately believe the choice (and ongoing review) of a DC provider has never been more important. It may not always feel like it, but the contrast in DC provision can be significant, and here I look at a few examples of what that means for employers or trust boards considering change.

Cyber security

At time of writing events in the Ukraine are harrowing, and I can only hope for calmer times for those affected most. What that conflict will mean for cyber attacks is probably an increase from an all-time high. Scottish Widows benefits from Lloyds Banking Group’s protocols, systems and processes when it comes to security of member/customer data. In a recent cyber benchmarking exercise, LBG was assessed as being 12 per cent ahead of banking peers in this field, and 14 per cent ahead of insurance peers. In new business pitches we are regularly told that the margins can be wafer-thin between appointment and not, 14 per cent feels a pretty healthy margin.

Measuring ESG

Scottish Widows have created a unique ‘Find Your Impact’ tool that allows members to understand the ESG impact of their investment choices. Crucially, the tool will permit individual employers to bespoke questions and MI reporting to understand their own workforce on the aspects that matter to them. Competitors have access to similar tools, however they are not proprietary so don’t have the same opportunity to respond to individual scheme level requests.

Consolidating personal pensions for increased awareness

Our research tells us the number one question members have is ‘how do I transfer in old pension plans’. At Scottish Widows we created our first online transfer process back in 2016 and the demand for his service has grown. Last year our streamlined digital process saw £535 million transferred into workplace schemes.

But it’s not just pensions, savers today have a wider array of financial products. We call this decade the #connected20s, the decade when all your financial data will be connected through open banking, pension dashboard and open finance. We have already connected millions of peoples’ pensions to their bank account – so every time they log in to their banking app they’ll see their pension value too. We can then track the quality of an individual’s decision-making, and how this can benefit their retirement outcome.

Moving to a new, modern DC master trust or contract-based plan can be a great idea – I hope these thoughts help you consider the importance of how different providers will map to your needs.

Written by Scottish Widows workplace pensions director, Graeme Bold

SCOTTISH WIDOWS

Schroders solutions

Fiduciary Management Firm of the Year: **Schroders Solutions**

The Fiduciary Management Firm of the Year award went to Schroders Solutions. Receiving the award from Schroders Solutions were Ajeet Manjrekar, UK Head of Clients (centre left) and Ronan O'Riordan, Head of Fiduciary Management Business Development (centre right). Laura Blows, Pensions Age (right) and host Zoe Lyons (left) presented the award.

At its heart, the pensions business is about one thing: Securing the best financial outcomes for members. Fiduciary management services are now embedded in the UK pensions space, ensuring that trustees have the tools to meet this key goal. This category rewards the fiduciary management firms that truly add value to the pensions space, meeting the specific needs of their clients whilst displaying strong performance.

Schroders Solutions is the worthy winner of this year's Fiduciary Management Firm of the Year Award. Successfully navigating a challenging year for its clients, Schroders Solutions demonstrated its ability to innovate to drive performance and deliver market-leading governance technology to empower trustees.

The judges described Schroders Solutions as a leader in this arena that works hard to address the key issues facing pension schemes today with a true understanding of how to add value as a fiduciary manager.

Schroders Solutions proved it was the market leader in the fiduciary management space over the year, with all of its client composites ending the year significantly ahead of liability benchmark. This allowed many of the firm's clients to de-risk, including seven buy-ins. Furthermore, its interactive strategic and governance tools enabled a transformative shift to better transparency and more timely sharing of information with clients.

Despite the challenges posed by 2021, Schroders Solutions' clients reported their highest level of satisfaction since the biannual client satisfaction survey began, 97 per cent of its clients responded being satisfied to delighted with the firm's response to their changing needs and 96 per cent saying they would recommend its services. Furthermore, Schroders Solutions retained 90 per cent of fiduciary assets through the CMA process and won 10 clients in the year to 30 June 2021.

Schroders Solutions proved it is a worthy winner of this year's award through its continuing track record of helping trustees navigate towards their endgame. It also formed a Fiduciary Management Strategic Forum made up of leading industry practitioners and demonstrated its commitment to assisting trustees in their fiduciary duties through research projects. This helped share valuable knowledge with the industry, helping trustees plan and prioritise, while also helping Schroders Solutions to work with clients to develop solutions and services to match their evolving needs.

The firm showed its commitment through its investment in technology, allowing it to respond to the changing needs of fiduciary management clients. A suite of in-house asset-liability modelling tools were built by Schroders Solutions to use interactively with trustees to evaluate the interaction of return, risk, time horizon and scheme maturity.

This dashboard again demonstrated Schroders Solutions commitment to up-to-date solutions and developing market-leading technologies. Congratulations again to this year's worthy winners of the Fiduciary Management Firm of the Year!


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SEI New ways. New answers.®

At-Retirement Solutions Provider of the Year:
SEI

The At-retirement Solutions Provider of the Year award went to SEI. Receiving the award were Nicky Benstead, SEI and colleague. Jerry Gandhi, 20-20 Trustees (right) and host Zoe Lyons (left) presented the award.

The at-retirement marketplace has been neglected for many years – until now. This award aims to recognise those firms that have shown innovation and dedication to improving the retirement experience of their clients and have worked hard to help those entering the retirement phase to make the most of their pension pot.

The judges praised this year's winner for showcasing strong technical innovation and flexible retirement options, all designed to make life easier for pension savers. Congratulations to SEI, the At-Retirement Solutions Provider of the Year!

Members of the SEI Master Trust have benefitted from SEI's passion and dedication to creating innovative solutions to aid retirement planning. While the industry awaits the much-anticipated pensions dashboards, SEI is a step ahead, offering its members its open banking app. Designed in partnership with MoneyHub, the technology facilitates increased data-sharing between financial institutions. SEI's open banking app makes data from different providers accessible in one place and updated in real time.

Not only does it give members of the SEI Master Trust a holistic view of their finances, but it also allows them to see how they could put more money into their pension pots to fund their retirement. The app also puts members in touch with their money after retirement, helping them to make smart spending decisions within a budget that works for them and their pension pot.

Since the launch of the pension freedoms, pension members have had the freedom to take their pension how they want to. However, there is a risk that their funds could run out too soon if they take out too much. Creating a solution to this problem SEI's member website has a drawdown modeller. Based on the saver's money in their pension pot and their expected years in retirement, the modeller can calculate a sustainable drawdown rate for them and tell them what to take out.

Both this, and its open banking app, aid SEI's Flexible Retirement Options. In addition, members also have access to annual video statements and an annuity modeller. These innovations help members budget and plan their retirement. SEI lets members take money how and when they need it, whether it's monthly, in lump sums, or tax-free cash withdrawals, all at no additional cost.

The SEI Master Trust really puts members in control of their retirement and SEI has demonstrated its dedication and expertise in the at-retirement space, making it clear why it has been crowned this year's winner. Many congratulations to all at SEI!

Independent Trustee Firm of the Year:
Dalriada Trustees

The Independent Trustee Firm of the Year award went to Dalriada Trustees. Receiving the award was Tom Lukic, Dalriada Trustees. Vince Linnane, Moorlands Human Capital (right) and host Zoe Lyons (left) presented the award.

The pensions space has become a minefield for pension scheme trustees struggling to cope with changing regulation, governance pressures and investment challenges, which is why the role of the independent trustee firm has become key.

Therefore, this award gives recognition to those firms that truly assist the pension scheme trustee in managing their day-to-day challenges.

This year's winner impressed the judges with clear evidence of how it is helping raise standards of governance across the industry, as well as championing ESG and diversity and inclusion.

Congratulations to this year's winner, Dalriada Trustees!

Dalriada Trustees acts as a pension scheme trustee to all sizes of pension scheme and also specialises in the area of managing the transfer of schemes into the Pension Protection Fund when the employer has become insolvent.

Just some recent examples of this include Dalriada helping the Harland & Wolff Pension Scheme through a major restructuring exercise and assisting around 2,000 of its members to transition into the Pension Protection Fund (PPF).

It also helped to deliver a critical solution to put in place funding facilities for a key asset of the Kodak Pension Plan (No.2) to support members' benefits being safeguarded by the PPF.

Dalriada understands the vital importance of diversity within its organisation. Its team of over 200 pensions professionals encompasses a variety of personal, educational and professional backgrounds. Its professional trustees range in age from 23 to 70, with an almost 50/50 gender split, and include those of BAME heritage, those whose first language is not English, and those from the LGBTQIA+ community.

Recently, it has worked with an external D&I specialist to train its trustees to spot unconscious bias when making work decisions.

These efforts are also being applied to improve D&I across the industry, with one of Dalriada's directors chairing the APPT Diversity and Inclusion Group and three of its professional trustees on The Pensions Regulator's Diversity and Inclusion Working Group.

This community focus means that Dalriada also takes its responsibility towards the environment seriously.

It has reduced its carbon footprint by holding virtual meetings whenever possible, using its free-of-charge e-trustee meeting forum and e-governance software.

Dalriada was also the first firm of professional pension trustees to become a signatory to the UN Principles for Responsible Investment.

By 2025, for its sole trustee appointments, it aims to cut the carbon intensity of portfolio investments by 25 per cent, by 2030, to cut the carbon intensity of portfolio investments by 60 per cent, and by 2040 to have net-zero investments.

The results of these efforts speak for themselves. In 2021, Dalriada became the only trustee firm to be awarded gold standard accreditation by PASA and it achieved growth of 25 per cent, with 40 new business wins.

Congratulations again to an industry-leading firm.

If a system of governance isn't effective, what's the point?

Paul Tinslay considers what makes effective pension trustee board governance

The role of the trustee board is fundamentally straightforward: pay the right benefits to the right members at the right time. To meet these key performance indicators (KPIs), trustees need a system of governance in place. If any element of the system isn't effective, the risk of KPI failure is enabled.

Previously, trustees had to establish and operate internal controls, which were adequate (not even good) for the administration and management of the scheme and the safe custody and security of the assets. Now, trustees must establish and operate an effective system of governance (ESoG) including internal controls, which must be proportionate to the size, nature, scale and complexity of the activities of the scheme.

So, what's an ESoG?

Firstly, let's look at what an ESoG isn't. A gap analysis, the best Risk Register ever, and a list of written policies, don't in themselves make an ESoG. A remuneration policy covering the procurement, compensation, appointment term and performance assessment of your advisers should tick a compliance box, but the effectiveness lies in using the tools to meet your KPIs.

Effectively applying proportionality can be a challenge for lay trustees. Typically, they will serve on one trustee board, so can't place their scheme in context. Yes, professional trustees can help here and we are already seeing trustee boards seeking our assistance. However, with any recommendation you receive from your advisers, one key question can help with proportionality: how does this benefit my members? A question which brings us right back to our KPIs.

For the own risk assessment (ORA), trustees must establish how they'll assess the effectiveness of their risk-management system. If undertaking a gap analysis is part of your assessment, then it has merit. If not, it's a questionable expense. Your next questions are how do you apply proportionality to your gap analysis and what are you going to do about the gaps identified?

The good news is unlike, for example, an MOT, you can't fail an ORA. However, to evidence an EsoG you'll need to improve any unsatisfactory areas of governance identified. If subsequent ORAs evidence no improvement in the system of governance, they'll indicate one important point - that the trustee board isn't effective. This may be an insight into The Pensions Regulator's (TPR's) indicated preference for an annual ORA, rather than at intervals of not more than three years, as stated in the legislation.

How do you evidence effectiveness?

Aside from maintaining your KPIs, stress testing your system of governance and contingency plans will help. A simulated cyber security breach can be quite fun without a policy and response process in place, but ideally you need to stress test the policy and procedures.

Don't underestimate the time and work required. In TPR's words: "The ORA is a substantial process, and the governing body [trustee board] may need to expand its risk assessments to fulfil our expectations."

I argue that the ORA itself isn't necessarily a substantial process. Get your systems right and the ORA should be a push button process, reporting your evaluation of your system of governance. The hard work will be establishing the framework from which the report is produced when the button is pushed.

Your advisers can help, but are limited to their areas of expertise. Professional trustees see the whole system of governance across a number of schemes; we help prevent conflicts of interest and assist the trustee board with TKU. Most importantly, professional trustees approach the system of governance from a trustees' perspective.

Written by Dalriada Trustees professional trustee, Paul Tinslay

Dalriada.
A better way

Ensors Chartered Accountants

Pensions Accountancy Firm of the Year: **Ensors Chartered Accountants**

The Pensions Accountancy Firm of the Year award went to Ensors Chartered Accountants. Receiving the award were Barry Gostling and Zoe Plowman, Ensors Chartered Accountants. Matthew Swynnerton, DLA Piper (right) and host Zoe Lyons (left) presented the award.

The Pensions Accountancy Firm of the Year award was designed to give recognition to those pension scheme accountants that truly understand and recognise the needs of the pensions market and have tailored their services accordingly, with a focus on excellence.

This year's winner was Ensors Chartered Accountants – a firm that, commented the judges, is "dedicated to meeting the needs of even the smaller pension schemes, understands the pensions market well, cares about its people and importantly provided impressive client testimonials".

The Ensors pension team works hard to meet the needs of an important portion of the pensions market – those schemes with assets of up to £500,000,000 who don't have the benefit of an in-house support team, therefore use the services of third-party administrators (TPAs) to operate their scheme. While a TPA will ensure the smooth operation of the pension scheme, the lay trustees associated with the scheme may often need assistance with queries or concerns, which is where Ensors work hard to bridge an important gap, and said the judges, they do this with excellent care and attention.

For example, the Ensors team prides itself on delivering a service that is 'tailored but compliant', to give audit clearance on the statutory accounts; while also enhancing the trustee's experience by 'cutting through the jargon and providing clarity and a proactive approach on potential issues'.

This is achieved via the provision of a full range of pension specific services to include audit, preparation of statutory financial statements, pensioner payroll services and employer covenant reviews. Additionally, being part of a full-service chartered accountancy firm, they have immediate access to other specialist teams including tax, corporate finance and business recovery.

This year's judges were particularly impressed with the detailed, named client and TPA testimonials that were included in Ensors' submission, which hailed the pension team as highly professional, enthusiastic, efficient, and able to "provide a level of service and value which is not always available from larger firms".

Indeed, Ensors' solid relationships with key TPAs in the market helps it meet its pension client needs, all with the aim of ensuring the smooth running of the pension scheme audit, and related services, for the overriding benefit of the members and lay trustees. Meanwhile, a key component of maintaining this solid relationship is the consistency of staffing within the Ensors team.

The success of Ensors' professional and personal approach is also evident from its 2021 successes, during which they enjoyed significant client growth coupled with considerable fee income growth and importantly no client losses to competitors.

An excellent win for a company that is clearly passionate about what it does and plays an important role in the pensions space. Well done Ensors.

ARTISAN PARTNERS

Equities Manager of the Year:

Artisan Partners

The Equities Manager of the Year award went to Artisan Partners. Receiving the award was Katie King, Artisan Partners. Georgie Gifford, Perspective Publishing (right) and host Zoe Lyons (left) presented the award.

A key part of pension scheme investment strategies, equities form a vital pillar within any pension scheme's portfolio. The Equities Manager of the Year Award celebrates the firm that has proved itself as a leader in the equities space, both in terms of performance numbers and recognising the needs of their pension clients.

Congratulations to this year's worthy winner, Artisan Partners, which stood out from the crowd through its innovative model that allows individual portfolio managers to focus exclusively on their alpha maximisation responsibilities.

The judges said that they were impressed with the firm's passion and expertise in the equities space, new product development and commitment to education and thought leadership. Artisan Partners offered clients high value-added opportunities across asset classes through its differentiated strategies that share an unconstrained approach to investing in their specific universe.

The firm's innovative business model means that each investment team is able to pursue alpha based on its individual investment process. Artisan Partners also demonstrated its capabilities through new product development, including the launch of its Select Equity strategy, while its low portfolio manager turnover highlighted the firm's commitment to aligning the interests of its investment professionals with its clients through equity ownership. This encourages its teams to emphasise long-term results that seek to meek the investing goals of their clients.

Further demonstrating why the judges voted for Artisan Partners as the winner of this year's Equities Manager of the Year Award, the firm impressed with its focus on active, high value-added strategies where investment professionals can differentiate themselves from their peers and benchmarks through fundamental research and a disciplined investment process.

The firm has nine investment teams that manage 19 distinct active equity investment strategies. Its ability as a strong equity manager is clear through its growth, with the company registering a phenomenal 11 per cent increase in assets under management to $174.8 billion from December 2020 to December 2021.

A large part of this success can be attributed to the continued growth of Artisan Partners' European business, with non-US UCITS assets under management increasing 23 per cent in assets under management from December 2020 to December 2021. Over its 25-year history, Artisan has continued to innovate by launching new and compelling strategies to suit evolving market dynamics. Grouped together as Artisan's 'third-generation' strategies, Developing World, Global Discovery and Antero Peak US Equity have each generated 995 bps as of December 31, 2021.

Many congratulations to the deserved winner – Artisan Partners.

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Global Value Team

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Fixed Income Manager of the Year: **LGIM**

Pensions Age Awards 2022

Once a safe, sleepy asset class, fixed income has evolved into a dynamic and diverse option for UK pension funds today. This award therefore aims to recognise those firms that have not only displayed innovation to take advantage of the opportunities out there, but also have the performance numbers to prove their expertise in this increasingly competitive space.

The judges praised this year's winner for its demonstration of important innovations in fixed income management that go beyond simple environmental, social and governance (ESG) integration; instead managing portfolios that are genuinely focused on delivering meaningful change.

Well done to all at Legal & General Investment Management (LGIM)!

The past year has brought considerable investment performance for the group's clients, despite the recent difficult period, with significant innovation seen in across both its active and buy and maintain strategies, which offer clients access to the global corporate bond market.

In particular, the group has worked to support those pension schemes looking to make a real sustainable impact with their investments, creating two bespoke frameworks to manage portfolios to specific ESG objectives – improved alignment with the net zero climate goals, and alignment with the UN Sustainable Development Goals (SDGs).

LGIM has set an ambitious framework for net-zero aligned portfolios, identifying three key principles for these: net-zero targets, a decarbonisation mechanism, and engagement with companies and policymakers.

The provider also utilised its proprietary LGIM Destination@Risk climate toolkit to assess 'temperature alignment', a forward-looking measure used to align a portfolio with net-zero carbon emissions over time.

This allowed the group to compare to what extent the issuers of the bonds held in the portfolio are behaving in a way that is consistent with a net zero outcome by 2050.

Adapting to a growing focus on accountability, LGIM has also utilised an SDG framework to evaluate whether companies are aligned to the SDGs as a result of revenues from products that contribute to or detract from the goals, or from business practices that contribute to or detract from the goals.

Both the net-zero and SDG frameworks have been used across bespoke and pooled approaches, with over £1.5 billion (as at 30 September 2021) committed to strategies utilising these frameworks.

Working closely with the industry has also been a key focus, with the group hosting a range of regional trustee education seminars, roundtables, and thought pieces and research reports on key industry issues.

It was also selected as one of only three 2020 Greenwich Quality Leaders in UK Institutional Investment Management Service who 'distinguished themselves from competitors by delivering superior levels of client service that help institutional investors achieve their investment goals and objectives'.

Congratulations again to the team at LGIM for their continued innovation in this increasingly important field.

CORONATION
TRUST IS EARNED™

Emerging Markets Manager of the Year: **Coronation Fund Managers**

The Emerging Markets Manager of the Year award went to Coronation Fund Managers. Receiving the award was Iakovos Mekios, Coronation Fund Managers. Sophie Smith, Pensions Age (right) and host Zoe Lyons (left) presented the award.

Investing in emerging markets has become a popular option for pension funds, and for good reason given the value it can bring to a portfolio. Still, only those who truly understand the nuances of investing in these markets can take advantage of the compelling opportunities on offer, while simultaneously avoiding potential pitfalls. This is why the Emerging Markets Manager of the Year award is such a prestigious accolade and only the most sophisticated experts are sent home with the trophy.

This year's winner, Coronation Fund Managers, has a long and impressive history of investing in emerging markets. In a competitive category, Coronation stood out for its dedication to finding value in emerging markets for its pension fund clients, its strong long-term performance track record, and its hard work in both the stewardship and diversity arenas too.

A global investment manager based in Cape Town, South Africa, Coronation is an owner-managed company with an active, long-term and valuation-driven investment approach. Its focus on client delivery truly impressed the judges and is evidenced by the fact that over 95 per cent of institutional client assets, that have been with the firm for 10 years and longer, have outperformed since inception.

Coronation follows a bottom-up approach, allocating capital based on its assessment of long-term fair value. An important consideration for pension funds, this fund manager also integrates ESG risks into its valuations, and constructs portfolios on the basis of risk-adjusted upside to fair value – with risk management an integral part of the investment process.

Alongside performance delivery, Coronation sees the value in communicating with and educating its client base, providing insights from global thought-leaders and investment experts via its popular webinars, conferences, podcasts and articles. Following lockdown in 2020, the firm moved effectively to an online model, whilst increasing client interactions – as such, its latest client survey shows client loyalty above 90 per cent.

Additionally, as one of the largest managers in South Africa, Coronation is dedicated to making a difference where it can, for example by playing a part in strengthening the local financial services and pensions industry and supporting the communities in which it operates. In 2021, this included a Covid-19 relief response where it helped to mitigate the impact of the pandemic on the local economy. Coronation also sponsored education initiatives that reached learners through the education cycle.

All in all, this is a firm that boasts exceptional performance, an entrepreneurial flair, a focus on client service and a keen awareness of the importance of ESG when investing in emerging markets – all reasons why Coronation was rightly awarded the Emerging Markets Manager of the Year trophy from this year's judges.

Congratulations to a deserving winner.

LDI Manager of the Year: BlackRock

The LDI Manager of the Year award went to BlackRock. Receiving the award were Phil Smith (right), Dharmy Rai and Adam Baker from BlackRock. Laura Blows, Pensions Age (right) and host Zoe Lyons (left) presented the award.

Amid growing regulatory and social considerations, understanding what Liability-Driven Investment (LDI) really means and applying it for the benefit of pension clients requires true skill and understanding of pension funds' needs. This award therefore rewards the providers that excel in the LDI space despite these challenges, with this year's winner praised for its strong evidence of innovation in a well-established LDI offering that truly sets the bar high for the rest of the market.

Well done to all of the team at BlackRock on a very well-deserved win!

Despite the fast-paced changes in this space, BlackRock has worked hard to reflect the growing trend towards environmental, social and governance (ESG) considerations and increased demand for ESG-friendly portfolios, with the introduction of a number of innovations for LDI clients. This included its ESG Cash fund, the Liquid Environmentally Aware Fund (Leaf), which is the first-ever environmentally aware money market fund in the UK and is one of the largest ESG cash funds in the industry, with £5 billion in assets.

Also adapting to the launch of green gilts in the UK, BlackRock has introduced a new investment framework that allows clients to build strategic allocations to these bonds. In addition to this, it has further developed the counterparty screening of its trading partners, based on their ESG characteristics and the carbon impact of their lending books.

Sustainability is not the only area of focus though, as BlackRock has acted to provide new opportunities for asset owners to earn income from securities lending; acting as a significant player in facilitating this demand with a well-established securities lending programme that paces assets on loan from across its business, which is active in over 30 lending markets and has around $300 billion of securities.

This allowed the provider to offer some segregated LDI clients an opportunity to generate uncorrelated, low-risk return relative to traditional asset classes whilst offsetting LDI running costs and helping clients reach their objectives faster.

It's new buy and enhance LDI strategy will also leverage a diverse range of strategies to add incremental returns with minimum additional risk, including utilising efficient instrument selection without taking outright positions versus strategic hedging goals.

Looking to share this knowledge and learnings with the wider industry, 2021 also saw BlackRock launch a new research portal on its LDI site to provide greater insight into the pressing topics influencing the LDI markets.

Congratulations again to all at BlackRock!

JUST.
THE RETIREMENT SPECIALIST

Risk Management Provider of the Year: Just

The Risk Management Provider of the Year award went to Just. Receiving the award were Rob Mechem, Just, and colleagues. Camilla Capece, Pensions Age (right) and host Zoe Lyons (left) presented the award.

With risk management at the top of pension schemes' agendas, de-risking propositions have flooded the market. This accolade awards the provider that has provided innovative solutions to truly help pension schemes to manage, or remove, their risks.

According to the judges, this year's winner is "clearly passionate about assisting the pensions market to achieve its de-risking goals in a timely and accurate way", and importantly, "also works hard to meet the needs of smaller schemes".

Congratulations Just Group!

Just Group is a leader in the DB de-risking, lifetime mortgage and guaranteed income for life markets. Since entering the bulk annuity market in 2012, it has completed nearly 240 bulk annuity transactions, insuring £10 billion of pension scheme liabilities for over 40,000 members and policyholders.

Just's goal is to be the provider of choice for small to medium bulk annuity transactions and the past year saw some excellent examples of this.

For Severn Trent Water Mirror Image Pension Scheme, Just worked collaboratively with the scheme's adviser to actively track buy-in pricing against the price target to determine when a buy-in transaction was viable.

A competitive tender took place in 2020, but the trustees' price target was not met and so the transaction didn't proceed. Just agreed to monitor affordability by actively tracking pricing to determine when a buy-in transaction was viable.

The scheme's trustees met the team at Just to learn about their processes and member experience. After six months of monitoring, the target was met, the trustees locked into terms and moved to complete the transaction. This resulted in a £140 million buy-in insuring the defined benefit liabilities for all the members of the scheme.

Just also recently worked with the trustees of the Keysight Technologies UK Limited Retirement Benefits Plan to secure one of their larger transactions, a £250 million buy-in that insured most pensioners in payment and just under half the liabilities of the scheme.

Trustees benefited from a price lock that ensured the value of assets earmarked for the transaction moved in step with market conditions, protecting the scheme from market volatility.

Following a selection meeting, the trustees met the team at Just and completed financial due diligence. The result of this trustee engagement was that a relationship was already established between stakeholders when contracts were exchanged. The transition was a smooth process as trustees and their administrator were already prepared for data cleanse. In late 2021, a second buy-in was transacted with Just, demonstrating the strength of the relationship between Just and the trustees.

Showcasing its focus on small schemes, Just also completed a £12 million buy-in for the Melton Mowbray Building Society.

This transaction came to Just with data in excellent quality and a ready-to-use format. Details including marital status, information about spouses and latest addresses were verified for nearly all of the 36 members early in the process, resulting in the true-up being completed well ahead of schedule.

Just's excellent work over the past year has proved it a worthy winner. Well done!

Innovation Award (Investment):

Nest

The Innovation Award (Investment) award went to Nest. Receiving the award was Anders Lundgren, Nest. Georgie Gifford, Perspective Publishing (right) and host Zoe Lyons (left) presented the award.

Innovation has bloomed in the UK pensions space, especially in the area of investment. This award aims to reward those providers that have added value to the pensions space with their originality and innovation.

The judges praised this year's winner for its truly impressive focus on responsible investing, whilst also making infrastructure investing more accessible to the DC space.

Huge congratulations to this year's winner of the Innovation Award for Investment – Nest!

Nest has been leading the way with innovative investment solutions since its inception, having been one of the first providers to offer single target-date funds, which were not common in the UK DC space at the time.

With Nest, all UK savers can gain access to high-quality investments through a low-cost scheme, providing access to any asset class, private or otherwise. Its in-house team advises which asset classes to invest in and in what proportion. The team then assesses and picks best in class fund managers with the skills and track record to deliver strong investment returns. Nest continuously adds new asset classes to its portfolios, believing that with a little innovation no asset class is out of reach.

Nest has taken on the challenge to

"With Nest, all UK savers can gain access to high-quality investments through a low-cost scheme"

invest in infrastructure debt and equity. Nest illiquid mandates are selected and designed to be compatible both with the world of private markets but also DC. Its successful approach means that managers are not forced to offer daily dealing and pricing, instead, Nest has taken on the liquidity management challenge itself.

In addition, in another departure from traditional DC operations, Nest makes annual commitments to its infrastructure managers and then satisfies ad hoc capital calls against this commitment, rather than forcing money into the mandates on a regular cycle.

Nest is also the first UK DC scheme to invest directly into private infrastructure equity. It has appointed Octopus Renewables, CBRE Caledon Capital Management Inc. (CBRE Caledon), and GLIL Infrastructure to help it invest nearly £3 billion into infrastructure equity by the end of the decade, in the UK and around the world.

Nest has truly found a way to marry illiquid investments and DC without detriment or adverse compromise to either. It is clear to see why it is the winner of this year's award. Richly deserved!

intellica
CONSULT · IMPROVE · SUCCEED

Innovation Award (Technology): **Intellica**

The Innovation Award (Technology) award went to Intellica. Receiving the award was Brendan Doherty, CEO, Intellica. Francesca Fabrizi, European Pensions (right) and host Zoe Lyons (left) presented the award.

The past year has been a difficult one for the pensions industry to navigate as it looked to overcome challenges presenting by the Covid-19 pandemic and global economic disruptions. It has therefore never been more important to continue to innovate in a space that is constantly evolving. Congratulations to this year's winner in a competitive field – Intellica.

Innovation blossomed in the UK pensions space lately, be that in the area of investment, product design, de-risking or any other area. Therefore, this award aims to reward the provider that has truly added value to the pensions space with its originality and innovation, with Intellica standing out from the crowd in these areas.

The judges decided on Intellica as this year's winner as it has shown a true understanding of meeting a need in the pensions marketplace with an entry that showcases true innovation and success. The firm displayed these characteristics with its software application, Pyxis. Pyxis is Intellica's flexible data management solution that provides a comprehensive data audit solution for pension schemes.

Pension schemes' data quality is more important than ever with the forthcoming pensions dashboards and ongoing GMP equalisation exercises. Intellica's market-leading solution displayed innovation by making it simple for pension scheme to identify the data issues they have, how extensive they are and how seriously that could impact the trustees' scheme strategy.

Intellica has enhanced the solution extensively over the past year, and it now features a comprehensive suite of over 750 core data validations that are fully compliant with, and go far beyond, The Pensions Regulator's annual reporting requirements. Pyxis can report data issues down to an individual scheme member level, showing multiple data issues to be resolved at the same point, therefore enabling efficient and targeted data cleansing.

The judges were impressed by the solution's ability to address the primary concerns the industry is experiencing with data auditing through parameterised data validation checks; flexible, repeatable and comprehensive data audits; and dynamic dashboard reporting.

By embedding Pyxis alongside their administration system, a scheme's data quality can be reported on and visualised on demand – daily, weekly, or monthly. Its innovative design allows for comprehensive data validation checks that enable a holistic and more far-reaching assessment of data issues than has historically been possible, which allows scheme stakeholders to design a bespoke data quality improvement plan, ideally dovetailed with and helping to facilitate, the objectives of the scheme strategy.

Pyxis is the first true real-time data management solution allowing full transparency of how data is impacting every aspect of pension scheme management, again demonstrating why Intellica are such worthy winners of this year's Innovation Award (Technology). Congratulations!

premier

Administration Provider of the Year: **Premier Pensions**

The Administration Provider of the Year award went to Premier Pensions. Receiving the award was Girish Menezes, Premier Pensions. Tom Dunstan, Pensions Age (right) and host Zoe Lyons (left) presented the award.

High-quality administration is a key cog in the smooth running of any pension scheme, and those providers who offer strong administration services to the market are invaluable. Therefore, this award celebrates those providers who bring excellence and accuracy to this vital role.

For 2022, the judges awarded this accolade to the firm they described as "having a passion for delivering excellence in pensions administration and importantly showcased how putting employee wellbeing first can translate into exceptional client satisfaction rates".

Congratulations to Premier Pensions!

Premier is an employee benefit and wealth management company that prides itself on its core values of integrity, innovation, efficiency, trust and fun. It helps employers and trustees with all aspects of their employee benefit arrangements in a practical, cost effective and truly bespoke manner.

These values shone through during the pandemic, as Premier realised that putting its employees first would, in turn, result in better customer outcomes.

To ensure its staff were engaged and motivated during the lockdowns and that everyone had the chance to relax still with their colleagues, Premier held a variety of events, competitions and challenges.

This included twice-weekly yoga personal trainer sessions, Friday Zoom chats over drinks and photography competitions. Families were involved too, with a weekly Premier video conference cookout, which staff attended with their families, and weekly children's bingo.

Beyond the fun, Premier conducted both qualitative and quantitative research to make sure its staff could work comfortably at home, including licencing a mobile phone app from The Positive Group, to allow individuals to track their 'positivity' over time, for Premier to be fed back anonymised data on possible issues.

Both staff and scheme members were at risk of increased loneliness during the pandemic, and Premier saw an uptick in calls from scheme members who were distressed and sometimes in need of help for depression or even suicidal thoughts.

Therefore, Premier partnered with the Samaritans to train its staff to handle more difficult calls and provided skills training in areas like bereavement handling.

This dedication to staff and member welfare bore excellent results. It achieved a 91 per cent employee engagement score, as measured by People Metrics, along with a 96 per cent positive employee feedback score on its support to employees through the pandemic.

The statistics for its customer service were just as impressive. Premier met its service-level agreements of 99 per cent for its clients and achieved a 9.2 out of 10 member satisfaction score.

On a business level, the pension administration business grew 15 per cent and is 5 per cent ahead of budget in terms of revenue and 108 per cent ahead in terms of profit.

Well done to Premier for its much-deserved win.

isio.

Pensions are complicated. We’re not.

Isio is a leading independent UK provider of actuarial consulting, pensions administration, investment advisory, reward & benefits and wealth advisory services.

A national team of 800 relentlessly curious and diverse minds across nine regional hubs. We are committed to promoting financial wellbeing for everyone, working with companies, trustees and individuals to help them make informed decisions to protect their future savings.

- Actuarial and Consulting
- Pensions Administration
- Reward and Benefits
- Investment Advisory
- Wealth Advisory

Isio aims to deliver clearer, simpler advice in a more personal way, backed by technical expertise and underpinned by proprietary technology. Isio was launched in 2020 from KPMG’s UK Pensions Practice. This year, we acquired Premier enhancing and extending our service offering to clients.

Standard Life
There's a lot to look forward to

Master Trust Offering of the Year:
Standard Life

The Master Trust Offering of the Year award went to Standard Life. Receiving the award was Gail Izat, Standard Life. Olivia Richardson, Perspective Publishing (right) and host Zoe Lyons (left) presented the award.

As the industry continues to consolidate, master trusts have taken the UK market by storm as pension funds continue to look for ways to control their costs without compromising on quality and governance. This firm has continued to show that they are ahead of the game in this ever-changing space, winning the Master Trust Offering of the Year Award for the second year in a row! Many congratulations to Standard Life.

Standard Life has demonstrated its ability to innovate, adapt and provide market-leading services. The judges said that the firm showcased brilliant innovation and a real passion for evolving their offering to make it one of the best in the marketplace. It did not rest on its laurels after last year's win, embarking on a mission to help reshape and the lead the sector in tackling some of the challenges facing members, from the growing savings gap to financial vulnerability.

Standard Life proved its commitment to sustainability over the year, setting the most ambitious targets in the sector and investing in a catalogue of tools, services and interventions, including six sector firsts that now come as standard as part of the firm's master trust membership and are delivering lifetime value. Its multi-asset ESG default fund features 64 per cent ESG componentry, moving to around 80 per cent, delivering returns exceeding its previous default funds. Standard Life also introduced several self-select funds to represent the key themes that matter most to its members, including ethical and sustainability funds.

With 250,000 master trust members, Standard Life realised the importance of continual evolution through pioneering research, demonstrating the firm's ambition to deliver the best possible outcomes for members. These projects included research studies on cultural diversity and how best to engage with members based on the findings, a sector-first study on what influences young peoples' savings abilities and habits, and a large-scale customer base survey to understand what matter most to them.

Standard Life continued to demonstrate its ability to innovate through the launch of its financial wellness proposition using Open Finance capability.

The online tool allows members to get a holistic view of their finances by pulling all of their financial accounts & assets into one place. They can set budgets, monitor incoming and outgoing expenditure, and, with automated and personalised nudge technology, can help them achieve a life of possibilities.

The firm's customer satisfaction levels continued to increase in 2021, while its engagement rate was 25 percentage points above the UK average. Standard Life showed strong returns and responsible investment can go hand-in-hand, with a 12-month growth rate of 18.4 per cent in its new ESG solution. Many congratulations to worthy winners, Standard Life!

Sustainability Provider of the Year 2022: **AXA Investment Managers**

The Sustainability Provider of the Year award went to AXA Investment Managers. Receiving the award was Rachel Basarab-Horwath, AXA Investment Managers. Jess Williams, Phoenix Corporate Investment Services (right) and host Zoe Lyons (left) presented the award.

Pension funds are becoming increasingly aware of the important role sustainability plays today, with sustainability considerations switching from a 'nice to have' to a 'must have'. Against this backdrop, this award aims to recognise those providers who are leading the way in this crucial and increasingly sophisticated field.

This year's winner was praised for not only paving the way in this area, but for setting the bar high in a truly competitive space. Congratulations, for the second year in a row, to AXA Investment Managers (AXA IM)!

A strategic commitment of AXA IM since 1998, AXA IM has continued to pave the way through its market leading solutions and innovation, and as the global economy works towards a more sustainable model with unprecedented momentum, this company has worked to be an active partner for the pension schemes it serves.

The past year saw the group rank as the top European asset manager committed to responsible investing, for the third year running, as well as the presentation of its inaugural €100,000 Climate Transition Award for research in the fight against climate change.

AXA IM has made ambitious commitments to the transition, pledging to become a net-zero asset manager and reach net-zero greenhouse gas emissions in its investment portfolios by 2050, at the latest.

The group is working hard to deliver on these commitments, with 41 per cent of its eligible assets are *already* in line with the net zero asset managers initiative 2050.

AXA IM has also worked to innovate in climate-aware fixed income investing - launching the Climate Transition Buy and Maintain credit strategy to equip schemes with the tools to implement climate-related targets, investment strategies and reporting.

It has also worked to reflect mainstream trends, and incorporate the growing influence of engagement and dialogue, by strengthening its approach with a new 'three strikes and you're out' approach.

This is alongside bolstered oil and gas policies, being one of the first 125 successful signatories to the revised UK Stewardship Code, and a €32 billion active green investment programme, which includes €16 billion in green and social bonds.

The positive impact of these policies is already being felt, as the provider's TCFD reporting revealed that carbon footprint of investments was down 8 per cent between 2018-2020.

AXA IM has also strengthened its position as a leader in driving the green agenda in the real estate space, as around 45 per cent of its €73 billion direct property portfolio has obtained a third-party certification, an increase of €2.4 billion in 2021, now covering 5.6m million sqm of real estate, with the objective to reach 75 per cent by 2030.

In an increasingly vital area, this company has set an agenda of innovation and change, leading the way on sustainable investments and taking action to prove commitments genuine.

Congratulations again to the team at AXA Investment Managers on another well-deserved win!

Focus on biodiversity

Hans Stoter explains why COP27 must take on plastic and waste to strike a blow for biodiversity

Many of the commitments made during the 2021 COP26 meeting were meaningful, and the promise of more aggressive policy action encouraging. The next meeting, later this year, should seize the opportunity to properly address broader environmental concerns. Decarbonisation is critical, but we have to ask – what kind of planet do we want to save?

The final Glasgow Climate Pact did help accelerate the pace of climate action – governments must now deliver updated Nationally Determined Contributions for decarbonisation by the time of COP27 this November. The pact also included a useful, if watered down, plan to reduce the use of fossil fuels, but there were larger frustrations over the lack of some key formal commitments to achieve net zero by 2050. And for us, there was another glaring oversight.

Not enough attention, in our view, was paid to wider environmental concerns – in short, COP26 yielded no international commitment on biodiversity. While a limited pledge to end deforestation by 2030 was a start, we believe that preserving natural habitats more broadly, including oceans, is key to managing carbon in the atmosphere.

The lack of progress was a major disappointment. Issues like food waste (which squanders water, land and fuel), plastic pollution and waste management are critical.

The facts are stark. According to a study from the European Parliament the weight of plastic in the ocean could surpass that of fish by 2050.[1] Plastic waste is not only ingested by marine life – according to a study commissioned by WWF, an average person could be eating the equivalent of a credit card each week. Meanwhile, the build-up of used plastic is contributing to the hundreds of thousands of deaths per year from mismanaged waste, according to the charity Tearfund.[2 3]

It is no exaggeration to say that plastic pollution could eventually become as important as the emission of carbon. Yet it attracts nothing like the same attention.

This is partly because it is viewed as a far-horizon issue, less pressing than climate change. It is not a vote-winner. When was the last time you heard a politician discussing ocean pollution? The chances are it related to an oil spill – a response to distressing images of fuel-soaked wildlife and spoiled beaches. The need to act would have been obvious, immediate, and driven by intense media scrutiny.

These, however, are fleeting moments that shed little light on the true scale of the problem. Every year plastic inflicts €13 billion of damage on global marine ecosystems, and €630 million of losses on EU tourism and coastal communities, according to the European Commission.[4]

This will only get worse. The World Bank expects global municipal solid waste to rise by 70 per cent over 2016-2050. Single-use plastics will be among the biggest culprits.[5]

It is time for COP to take a more holistic approach and address these wider environmental concerns. Our gathering commitment to keep global heating to below +1.5°C must also embrace the protection of biodiversity, including fighting the rise of plastic waste.

Widening the ambition in this way must not be left to far-off conferences. COP27 will have the scale, global reach and long-term vision to make meaningful progress on these long-neglected issues. Biodiversity and waste reduction need to be an essential part of the conversation right now, or another year might tick past to leave our oceans and waterways progressively more contaminated and dangerous to life on earth.

Written by global head of AXA IM Core Investments, Hans Stoter

[1] Plastic in the ocean: the facts, effects and new EU rules; European Parliament; 26 March 2021; europarl.europa.eu
[2] Could you be eating a credit card a week?; WWF; 12 June 2019; panda.org
[3] NO TIME TO WASTE - Tackling the plastic pollution crisis before it's too late; Tearfund; 2019; learn.tearfund.org/
[4] Turning the tide on single-use plastics; Publications Office of the EU; 13 January 2020; op.europa.eu
[5] Solid Waste Management; The World Bank; 11 February 2022; worldbank.org

Diversity Award:
PwC

The Diversity Award went to PwC. Receiving the award was Matthew Gilbey, PwC. Melanie Cusack, PTL (right) and host Zoe Lyons (left) presented the award.

This award goes to the pension provider that has shown a true understanding of the importance of diversity in today's climate, either in the way it has shaped its business, its product offering or otherwise.

The judges were particularly impressed that this year's winner provided evidence of excellent progress in the diversity arena, ongoing development and leading by example through sharing with the broader community.

Congratulations to PwC for receiving the 2022 Diversity Award!

PwC is a multinational professional services firm operating in 156 countries. Its pensions covenant team benefits greatly from PwC's wide range of services and it regularly draws on wider expertise from across the firm to help solve its clients' most difficult problems. Its purpose focuses on how it contributes to society and how its business decisions can contribute to greater trust and solving important problems. PwC as a firm has made a long-standing commitment to creating a diverse and inclusive work environment. This commitment is a driving force across all parts of the business.

PwC showcased its dedication to diversity within its own team with 43 per cent of their employees being female and 34 per cent of their employees coming from an ethnic minority background.

PwC's ultimate goal is to be a team that fosters an environmental where each person is valued for being and bringing their full self everyday. In order to make and sustain this change PwC set out a five-point plan to promote diversity and inclusivity across the firm, with its steps including creating an inclusive culture, fair work allocation, utilising progression coaches, senior level accountability and recruitment activity. This formed the foundation for it to ensure that diversity remained high on the list across the market and their clients.

The company has also implemented a number of new initiatives with the aim of encouraging diversity and inclusivity, such as portfolio reviews with all staff to better understand the work people are interested in, their aspirations and having representation actively in mind when resourcing jobs, launching a Visibility of Leaders initiative to look at the ways it can improve accessibility and visibility of leaders from diverse backgrounds and deploying listening groups to foster safe and constructive spaces to discuss issues of diversity.

PwC have also refined existing diversity initiatives, such as conducting an annual survey to ask for opinions from all staff anonymously to understand what it is doing well and how it can improve, voluntarily publishing their gender pay gap, an initiative that has been in place since 2014, and keeping the conversation going through their 12 People networks.

Congratulations once again to the much-deserved Diversity Award recipient for 2022, PwC!

Cashflow Driven Investment Manager of the Year:

abrdn

The Cashflow Driven Investment Manager of the Year award went to abrdn. Receiving the award was Antony John, abrdn. Camilla Capece, Pensions Age (right) and host Zoe Lyons (left) presented the award.

Cashflow driven investment (CDI) has gained greater prominence than ever in the UK pensions space. This award recognises those firms that are leading the way with this key investment strategy and are truly making a difference to pension schemes today.

The judges praised this year's winner for understanding the important role CDI plays in the pensions space. The winning firm's use of innovation and environmental, social and governance (ESG) integration results in a leading offering. Well done, abrdn!

It comes as no surprise to see abrdn win such an award, as it believes that CDI funds are an integral part of a holistic pooled fund offering. Their benefits are clear to see, offering credit exposure, interest rate duration sensitivity and a relatively predictable series of cashflows.

abrdn offers pooled fund ranges, which provide a unique offering. Its Liability Aware CDI fund range consists of four three-year 'buckets' of sterling corporate bonds, alongside a wider range of longer-dated credit and gilt-based (leveraged and unleveraged) profile funds, allowing UK pension schemes to tailor their holdings to meet their sterling cashflow requirements.

Furthermore, its Liability Aware Credit funds are a pair of longer-dated buy and maintain credit funds, which invest in both sterling and non-sterling corporate bonds and offer a nominal and real version, providing fixed and inflation-linked cashflows, respectively. This fund range also offers inflation-linked cashflows – a unique and compelling solution for clients looking to also hedge inflation risk.

The pooled structure of the funds offers a low-governance solution, with a minimum investment amount that allows even the smallest schemes to access these strategies. Meanwhile, a high average credit rating (A) and a sufficient degree of diversification aims to ensure that risk of defaults and downgrades is minimised, providing greater predictability of delivering the desired outcome.

In addition to such a diverse offering, abrdn takes ESG integration very seriously, with ESG factors deeply embedded into its fund range. For example, macro research helps it understand the long-term prospects of particular industries and sectors, evolution of customer preference and many other underlying changes ultimately impacting individual companies including globalisation, digitisation and automation. Company specific research also helps abrdn's team understand how the company is governed and any plans to future-proof the organisation.

Behind every successful fund offering is the team that makes it a success. abrdn's credit team has a consistent track record of managing credit on a buy and maintain basis, mitigating the impact of defaults and downgrades, while embedding ESG factors throughout the investment process. Congratulations again to the team at abrdn!

Liability-aware CDI funds

abrdn solutions manager – pensions, Timea Varga, looks at a tailored approach to cashflow-driven investment

Closed to new members, a growing number of defined benefit (DB) schemes are paying out more each year to members than income from contributions and investments.

This threat of turning 'cashflow negative' means a change of focus. Schemes are increasingly adopting a cashflow-driven approach. This means selecting assets that provide a contractual income which, as far as possible, match the scheme's future cashflow requirements.

Predictable and stable cashflow for your pension scheme

Small- to medium-sized pension schemes are likely to seek out a pooled solution (unlike larger schemes which, targeting self-sufficiency, are likely to adopt a segregated approach).

We've created our Liability Aware CDI fund range with these schemes in mind, creating a bespoke cashflow payment profile that fits your scheme's future cashflow requirements after allowing for contributions and income from other assets such as private debt or real estate.

About our pooled Liability Aware Buy & Maintain Credit range

Our fund range consists of four three-year 'buckets', allowing your pension scheme to tailor its holdings to meet its cashflow requirements. We also have a wider range of longer-dated credit and gilt-based (leveraged and unleveraged) profile funds.

Liability Aware CDI

Through the design of our Liability Aware CDI funds, we aim to provide your scheme a relatively predictable series of cashflow from a series of maturity dated cashflow funds. Managed on a buy & maintain basis, your portfolio consists of nominal corporate bonds, with coupons and redemption proceeds paid out over time.

The funds are mainly invested in nominal GBP corporate bonds, targeting an average credit quality of A. The funds can also hold gilts and derivatives (including credit default swaps) and overseas bonds if these become appropriate to manage the portfolio efficiently.

Liability Aware Credit

The Liability Aware Credit funds are a pair of longer-dated buy & maintain credit funds, which invest in both Sterling and non-Sterling corporate bonds and offer a nominal and real version, providing fixed and inflation linked cashflows, respectively.

The Liability Aware Real Credit fund offers inflation-linked cashflows – a unique and compelling solution for clients looking to also hedge inflation risk. This inflation exposure is accessed through inflation swaps and is supported by the same collateral pool used to support the hedging of overseas exposure within the fund. Relative to the traditional method of allocating to separate credit and "inflation only" swap funds, this is a very efficient method of achieving inflation protection.

Partners

Our dedicated Pension Solutions team works in partnership with you and your advisers to meet your evolving needs as you de-risk and target your long term objectives

Heritage and experience

We leverage abrdn's insurance heritage to bring you credible CDI solutions. We manage £31.3 billion in buy & maintain credit mandates

A highly regarded credit team

Our strong track record of avoiding downgrades and defaults means we're able to give you more reassurance on your cashflow stability

ESG integration

As a fundamental ingredient in understanding the risks of a company, ESG factors are deeply embedded within credit analysis within our funds

Our wider asset capabilities

We draw on abrdn's expansive business, including access to illiquid credit and other assets, offering alternative sources of income

Written by abrdn solutions manager – pensions, Timea Varga

abrdn

BNP PARIBAS ASSET MANAGEMENT

Pensions Marketing Campaign of the Year: **BNP Paribas Asset Management**

The Pensions Marketing Campaign of the Year award went to BNP Paribas Asset Management. Receiving the award was Melissa Moody, from Pensions Age, accepting on behalf of BNP Paribas. Jack Gray, Pensions Age (right) and host Zoe Lyons (left) presented the award.

The Pensions Marketing Campaign of the Year category offers the perfect platform to showcase the true flair, creativity and thought-leadership that the UK pensions sector has to offer, and this year was no different. This year's deserving winner, BNP Paribas Asset Management (BNPP AM), was awarded the accolade for an effective marketing campaign that, commented the judges, was well designed, relevant, achieved impressive results and boosted engagement among its target market.

BNPP AM is the investment arm of BNP Paribas, a leading banking group in Europe, which aims to generate long-term sustainable investment returns for its clients.

The judges were impressed however that BNPP AM, despite its size and success, refuses to rest on its laurels but rather continually strives to grow its business by improving its brand awareness and is ever keen to establish and maintain strong engagement with its varied client base via effective marketing strategies.

The firm's entry this year centred around a marketing campaign named, 'The Great Instability', which formed part of a wider campaign launched two years ago aimed at cementing and growing the firm's third-party wholesale businesses by improving communication via its marketing efforts.

'The Great Instability' allowed BNPP AM to target investors with topics relevant to them – the objectives being to increase awareness and engagement with its content, to achieve an increase in brand favourability and ranking, and to create a deeper understanding of the firm's suite of capabilities, highlighting how these can be structured to meet clients' needs.

'The Great Instability' was also one of the key themes identified at the firm's Investment Forum, an annual event which brings its investment professionals and economists together to establish and discuss the long-term secular themes impacting the global economy and investments; and was identified as being of particular relevance given the uncertain climate brought on by the global pandemic.

No marketing strategy can be deemed successful however unless it produces results, and BNPP AM's entry showcased effectively how the campaign has and continues to yield results by increasing both awareness and engagement.

It has enabled BNPP AM to keep close to its clients and demonstrates that, as a firm, it understands the challenges facing its clients, whilst also raising awareness of the tools and products it has on offer to help clients best navigate these challenges.

Additionally, the campaign also led to BNPP AM improving its positioning in the annual Fund Brand 50 report, moving it from #38 in the 2019 to #26 in 2021. Yet further evidence of why BNPP AM deserved to go home with this year's Pensions Marketing Campaign of the Year trophy. Congratulations to a strong player in the pensions investment space.


PENSIONS Age
AWARDS
2022
AWARDS BROCHURE & MENU
Gala Dinner and Ceremony: 23 February 2022
Great Room, Grosvenor House, Park Lane, London
www.pensionsage.com/awards


PENSIONS Age
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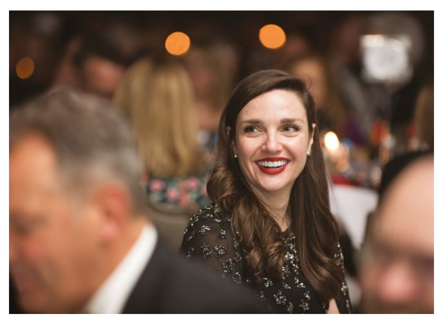
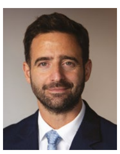


Looking at alternatives

As the Russia/Ukraine conflict, and rising prices, highlight the issue of access to gas/oil sources, *Pensions Age* asks whether this may accelerate pension funds' efforts to invest in alternative energy sources?



We believe the conflict in Ukraine will accelerate global efforts to reduce our dependence on fossil fuels. The human cost of the crisis, the scarcity of supply and rising energy prices highlight the true cost of fossil fuel-based energy and increase our demand for alternatives.

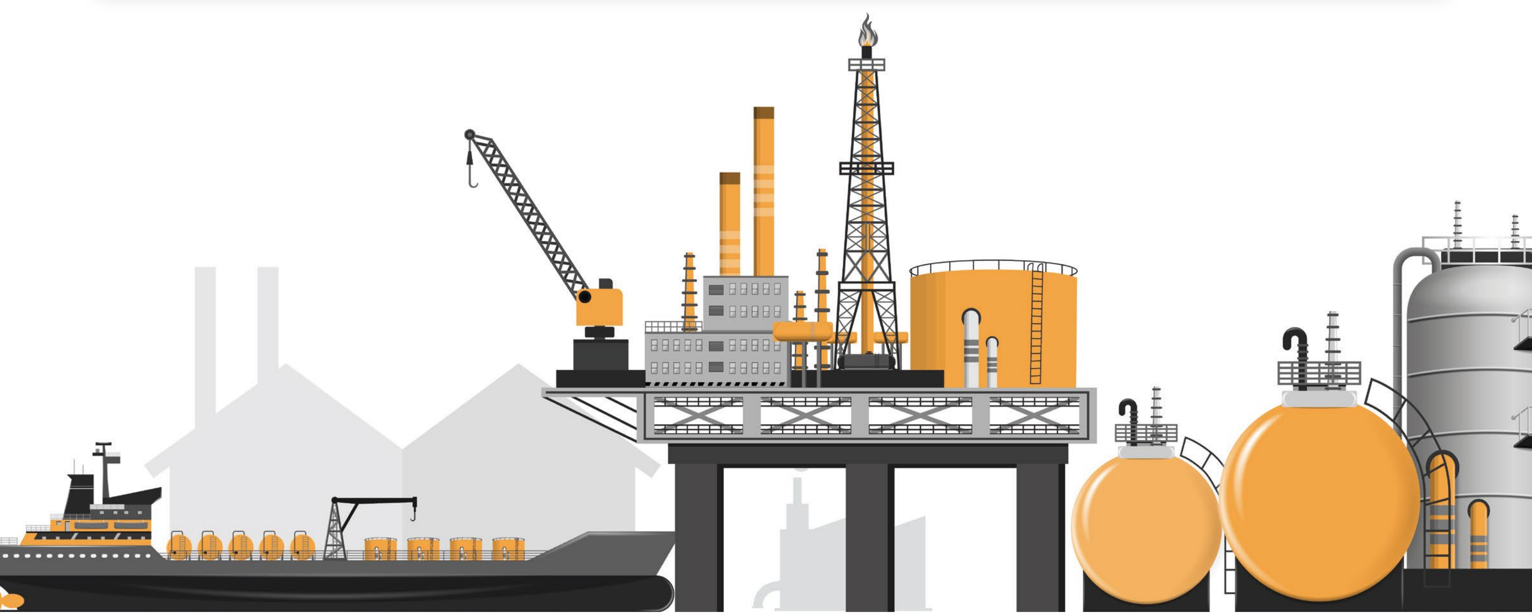
The transition to sustainable energy has been underway for years, but this conflict highlights both the business case and the need to protect the most vulnerable through difficult times.

We see governments intervening through a range of measures, including using the proceeds of fossil fuel taxation to protect the vulnerable from high prices and investing in the grid and renewable infrastructure.

For investors, this strengthens the business case for everything from electric vehicles through renewable generation to energy-efficient technologies. In recent years the crowding in of investors into a relatively few clean energy names have created diversification and, latterly valuation issues.

There is an opportunity in 2022 to accelerate our investments in a just transition away from fossil fuels. We can protect society from risks associated with our use of fossil fuels through investing in a much broader, more diversified range of alternative energy companies ultimately strengthened by these very difficult times.

GIB Asset Management head of equities, Neil Brown



This year may prove to be pivotal in the transition from fossil fuels to renewables. Technological advancements and the economics of scale have reduced and, in some cases, eliminated the cost difference between renewable energy solutions and conventional technologies. We believe the energy transition is creating attractive opportunities across the risk/reward spectrum. To benefit, investors must focus on active managers with specialised industry skills that are attuned to a broad set of dynamics, including technological trends and socio-political winds. Among available opportunities, clean tech stands out, while evolving regulated carbon markets offer attractive return prospects and diversification characteristics.

Cambridge Associates chief investment strategist, Celia Dallas

There is no established playbook for the collision of an energy transition with a commodity supply shock, which explains some of the extraordinary price action and volatility we have witnessed over the past month. By stress-testing the potential and in some cases real removal of Russian oil and gas supply, we can see in sharp relief that there are profound implications for prices of oil, gas and coal. This highlights that despite the tremendous growth in global installation of renewable energy over the past decade we are still overwhelmingly reliant on fossil fuels in the global energy system. This should not come as a surprise; previous energy transitions show us that emerging new sources of energy supply overlap with the existing sources and that these transitions take many decades.

So how can we expect the global energy system to recalibrate, and what does this mean for long-term investors? In the short term we expect to see increased demand for thermal coal for power generation in both Europe and Asia, as well as a heightened risk premium in European natural gas prices. But looking further out, we anticipate a sustained acceleration towards renewable energy, which becomes economically more attractive for the long term than overinflated and volatile hydrocarbon energy. Also noteworthy – and sometimes overlooked – is the role that metals and materials such as copper, nickel, zinc, lithium, aluminium and steel will play in electrification, battery composition, electric vehicles and renewable energy technology and installation. This will require significant investment in these transition materials – which creates a different but related investment opportunity.

Ninety One co-head of thematic equity, Tom Nelson

Pensions history

The fundamentals of pension fund investment

18 April 1979 saw George Ross Goobey addressing the National Association of Pension Fund's investment seminar on the fundamentals of pension fund investment.

He outlined the choice that the pension fund investment manager was offered by way of investment, namely: Fixed interest securities, Stock Exchange equities, property and cash on deposit.

He found that one of the most important items of discussion that trustees and their investment manager should consider at their early meetings was what proportions of the funds should be invested in each of the main categories. He had always taken the view that these percentages were only rough guides and that they should be altered in line with the markets when at times, certain of the groups became very dear compared with the others, or another group cheaper, compared with the others. "I think we have an example today where because of the popularity of property as a pension fund investment and the shortness of the supply of good property, prices have reached relatively high proportions or to put it the other way round, initial yields and anticipated yields are far too low," Goobey said.

However, he hoped that the investment clause in delegates' trust deeds gave the trustees power to invest in property and agricultural property as property was particularly suitable for pension funds because it was a long-term investment.

Most of the larger pension funds had been investing direct in property for many years assisted in their choice by leading firms of surveyors. For the smaller funds the size of the investments had been a problem. To meet this difficulty a number of property unit trusts for pension funds had been set up.

The full text of the talk can be found in the George Ross Goobey collection at: www.pensionsarchive.org.uk/our-collections

The Pensions Archive Trust chairman, Alan Herbert

Fun and games

Wordsearch

T	P	A	N	N	U	I	T	I	E	S	Y	I	E
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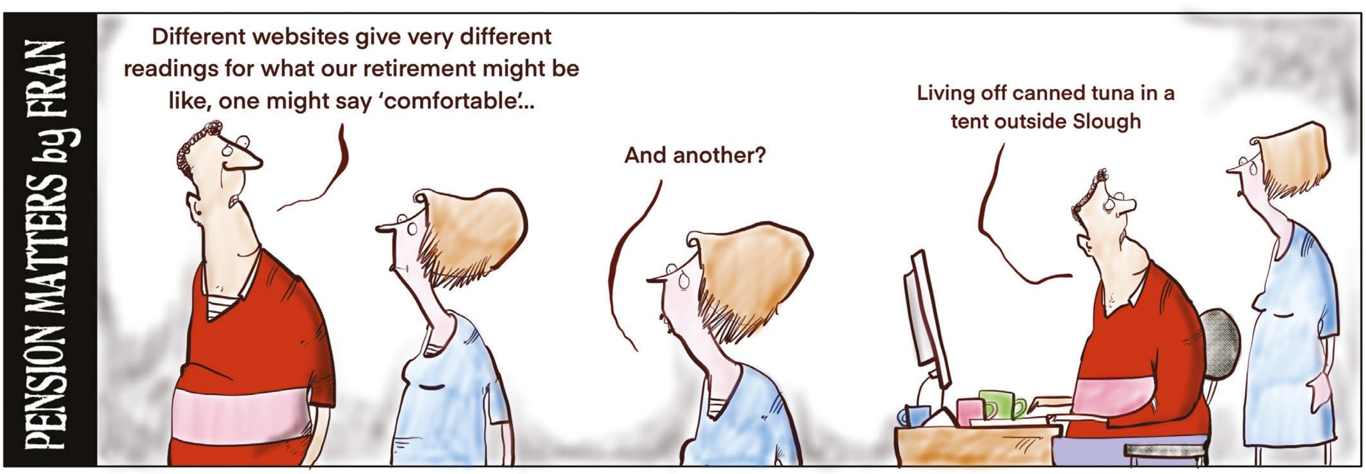
ANNUITIES
CONSOLIDATION
COVENANT
CURRENCIES
GENDER GAP
ILLIQUID ASSETS
ISLAMIC FINANCE
ONLINE SAFETY
SURPLUS
SUSTAINABILITY

I know that face...

Answer at bottom of page



I know that face... Answer: LCP partner, Steve Webb

Pensions & Admin Support, 1 Year — C. £70k
2 days Home Working / 3 days Surrey — DB15320
In this one-year contract you will have more than one role. Components to include acting as Pension Administration Manager, support to Trustee Board and STTT, help with communications exercises, and work on various projects from DB scheme events and wind-ups to GMP equalisation.

In-house Pensions Manager — Up to £55k
4 days Home Working / 1 day London — DB15327
As the new Pensions Manager to this medium-sized in-house pension scheme (outsourced administration) you will be the go to pension's specialist, from basic pensions for members to technical and legal guidance to the Trustee Board.

Client Relationship Manager — £DOE
Can be based at various UK offices — TD15343
An excellent opportunity where you will play a key part in the overall success of this Pensions Consultancy. You will be required to act as the lead for administration in both joint service and administration only new business tenders and presentations.

Pensions Specialist — C. £45k
3 days Home Working / 2 days London — DB15274
In this one-year contract, you will provide day-to-day admin support, dealing with a wide range of tasks including the calculation of members' benefits, as well as checking other pension administrators' work, for this in-house scheme.

Actuarial Analyst — £DOE
Surrey — TD14863
You will be supporting the Scheme Actuary on a diverse client base of pension schemes with assets of between £1m to over £900m. You will be involved in the production of valuation results, member calculations, spreadsheet development, drafting reports and other communications.

Client Director — £DOE
Flexible Working — CE15170
Working for this well-respected independent pension's management firm you will provide governance services to a portfolio of clients, as well as work with your colleagues on project-related pension scheme events. PMI, Actuarial or Legal qualifications would be ideal.

EMEA Benefits Analyst — £DOE
London or Birmingham — CE15184
Your chance to work for a global financial institution working within their Pensions and Benefits team. You will focus on day-to-day admin of the various benefit programmes, including renewals, MI and to maximise the employee experience.

Senior Pensions Administrator — £Excellent
Leeds / Essex with Home Working — TD15330
You will have expert knowledge of occupational pensions, be experienced in all areas of administration and be familiar with complex pension's cases and calculations and all types of member events. You will use your own initiative and offer advice and guidance to less experienced administrators.

Scheme Managers—All levels — Up to £100k
Berkshire / Home working — TD15332
We have exciting new opportunities from Trainee level through to Senior Scheme Managers. You will be responsible for a portfolio of clients where you will be delivering a variety of trustee executive secretarial & project and consulting services.

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Full Home Working on offer — CE15307
You will initially be working within an Implementation and Client Projects team ultimately ensuring the service provided to scheme members and trustee boards is at the high level expected. Strong pension's technical administration experience required.

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