

► **Fixed income**

Why the asset class is back in the spotlight again

► **Diversity**

How the industry can make much-needed improvements in this area

► **Trade finance**

An exciting tool that should be considered by pension funds today

PENSIONSAge

The leading pensions magazine

► **Engagement and technology:** Are the new high-tech bells and whistles really paying off?

► **Value for money measurements:** Why the TPR and FCA are working together to provide clarity on VFM in DC

Unlikely allies?



► **Can trustees, sponsors and unions work together in the interest of members?**



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Editorial Comment

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

We all have the basic need for human interaction. So it was a pleasure to return to the PLSA's recent Investment Conference in person again, particularly as this event seems to bookend

the pandemic – the last time it was held in 2020 being the final major industry event before lockdown began, and this year's heralding the return of some kind of normality after the Covid-19 crisis.

I believe catching up with so many friendly faces was just as important to the attendees as the presentations themselves, insightful though they were [*see page 10 for our conference news highlights and visit pensionsage.com for in-depth news from the event*].

While we were unable to get together, technology did the job, although the rise in loneliness reported during the lockdowns and the 'Zoom fatigue' many experienced suggests that technology alone can never be a replacement for 'real' interaction.

The pensions industry is well aware of this and has long said that pension communications need to be available in a variety of formats. To that end, growing numbers of providers and schemes are putting more resources into digital technologies to improve engagement, our feature on page 66 finds.

When we talk about pensions and engagement, we tend to speak of it in terms of encouraging members to increase saving at accumulation, or to make the 'best' choices at retirement. But engagement is also simply establishing meaningful connections, be it in person or online.

Pension savers with grievances need to feel from the sector that their concerns are appreciated. Finding mutually palatable solutions to whatever problems there may be is the tricky part, but made all the harder when one side considers themselves not being listened to, causing anger and frustration.

One result of this, as we explore in our cover story about union interaction on page 30, is strikes being instigated as an extreme form of trying to get messages heard. As I write, upcoming union strikes, partly about pensions, have been announced for this month, threatening to shut down the country's railway network.

'But people don't want to talk about pensions,' I hear the industry once again cry. That may have been the case, but things change. Until recently, investors (those within the pensions sector included) were generally not interested in helping tackle climate change or ESG considerations, but now these concerns are vital to many, especially the young [*see page 38 for more details*].

Politics is often considered another 'dull' subject, yet the government's surprising penchant for partying has got many previously unengaged tongues wagging about the latest parliamentary developments. Maybe the pensions sector shouldn't embrace Boris and co's rule-breaking lead to pique people's interest though....

Another, more positive, party recently engaging people was the Queen's Platinum Jubilee, commemorating 70 years on the throne. Whether you were cheering Her Majesty on her balcony, attending a street party or simply taking advantage of the long weekend, the celebrations caught the attention of us all.

It reminded me of a seminar discussion I had studying history at university many (many, many) years ago. The conversation debated that one of the reasons the British monarchy has managed to survive so long and not be (lastingly) overthrown, unlike others, was that our royals had been particularly adept at agreeing to concessions and changing its ways just enough to appease any would-be overthrows from taking the trouble to do so.

The UK pensions sector – itself also a long-standing institution – is currently in the midst of its own evolution, especially since auto-enrolment and freedom and choice. A key part of that change is listening to what people want and need, hence our focus on engagement this issue.

If the industry continues to listen to all stakeholder views, and act upon them, as it evolves, its platinum work helping people achieve decent retirements will be celebrated too. Expecting street parties for this may be wishful thinking though.



 **Laura Blows, Editor**

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Unlikely allies?

Following a number of high-profile disputes, Sophie Smith explores how pension scheme trustees, sponsoring employers and unions can work together in the interest of members



TPR and FCA confirm development of common VFM measurements

Following the launch of a discussion paper, TPR and the FCA have announced that they will be developing common measurements to help both industry professionals and scheme members compare the value for money of DC pension schemes



Fixed income focus: Back in the limelight

Whether fixed income is on trustees' agendas, amidst so many other pressures, and the role fixed income can play in the current environment within a pension scheme portfolio

The journey to endgame

CSM Limited (UK) Pension Scheme trustee and 20-20 Trustees trustee director, Becky Wood, discusses the scheme's recent buy-in with Just Group, its plan to eventually secure a buyout, and the key factors in successfully completing a (relatively) small scheme de-risking deal

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Trade finance needs are rising, driven by recent supply chain disruptions and a tightening of bank funding, so pension funds are looking at trade finance as an alternative for diversification

Pushing the right buttons

In an ever-more digital and mobile-enabled world, it makes sense for pension providers, schemes and sponsoring employers to use these technologies to improve saver/member engagement. But are the investments being made in these technologies achieving the desired results and ensuring more people have better retirement incomes? David Adams investigates

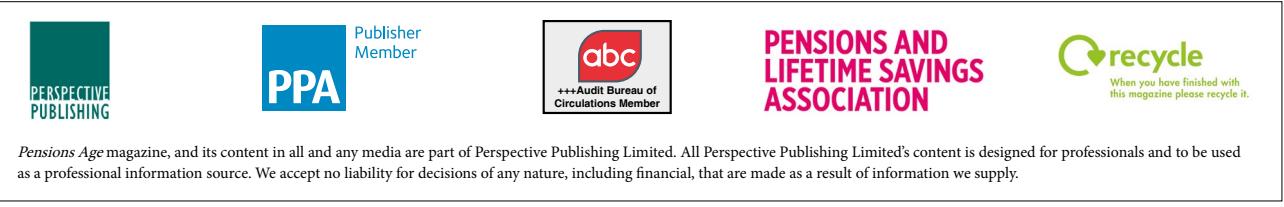
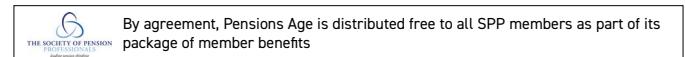
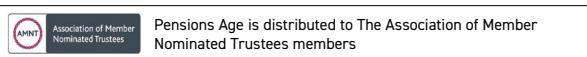
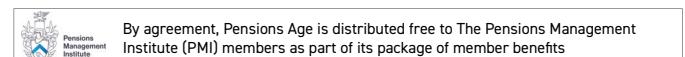
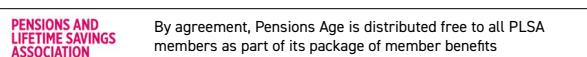
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Trade finance focus: A tool for today's investor

Trade finance needs are rising, driven by recent supply chain disruptions and a tightening of bank funding, so pension funds are looking at trade finance as an alternative for diversification

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Pushing the right buttons

In an ever-more digital and mobile-enabled world, it makes sense for pension providers, schemes and sponsoring employers to use these technologies to improve saver/member engagement. But are the investments being made in these technologies achieving the desired results and ensuring more people have better retirement incomes? David Adams investigates

A slow burner

The pensions industry has taken large steps towards making itself more diverse and inclusive. But progress has been slow. Marek Handzel asks if this is set to change any time soon

Striking the right balance

The industry has been striving for years to engage members with their pensions, but it's important to take the right approach, or risk pushing members away, argues Maggie Williams

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Publisher

John Woods
Tel: 020 7562 2421

Editor-in-Chief

Francesca Fabrizi
Tel: 020 7562 2409

Editor

Laura Blows
Tel: 020 7562 2408

Associate Editor

Natalie Tuck
Tel: 020 7562 2407

News Editor

Jack Gray
Tel: 020 7562 2437

Senior Reporter

Sophie Smith
Tel: 020 7562 2425

Reporter

Tom Dunstan
Tel: 020 7562 4380

Design & Production

Jason Tucker
Tel: 0207 562 2404

Accounts

Marilou Tait
Tel: 020 7562 2432

Commercial

John Woods
Tel: 020 7562 2421

Camilla Capece

Tel: 020 7562 2438

Lucie Fisher

Tel: 020 7562 4382

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Managing Director
John Woods

Publishing Director
Mark Evans

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



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Dateline - May 2022

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

► **4 May** The Pensions Regulator (TPR) launches a consultation on its new consolidated draft enforcement policy and an updated prosecution policy. The regulator says the new and updated policies aim to help those facing or affected by enforcement action to understand the approach taken by TPR. It proposes that the enforcement policy consolidates previous policies for defined benefit (DB), hybrid, public sector and defined contribution (DC) pension schemes. Furthermore, both policies have been updated to include the new powers that were granted to TPR in the Pensions Schemes Act 2021 and to "reflect its experience" from using its existing enforcement powers. TPR states that the new powers from the act strengthen its regulatory framework so it can gather evidence more efficiently and respond to events or conduct that could impact schemes.

► **4 May** The Pensions Administration Standards Association (Pasa) publishes its good practice guidance on DB transfers, following delays amid Covid-19 and changing legislation. The guidance, which was initially planned to be a code of practice, experienced delays after Pasa's initial industry consultation was interrupted by the coronavirus pandemic and further impacted by the fundamental changes to transfers that arose from the 2021 Transfer Regulations.



► **9 May** The Financial Conduct Authority (FCA) fines five directors of financial advice firms a total of over £1m and prohibits them from

working in financial services after they caused "significant" losses to pension customers. The Upper Tribunal finds Andrew Page, Thomas Ward, Aiden Henderson, Robert Ward and Tristan Freer had failed to act with integrity having either acted dishonestly or recklessly.

► **10 May** The McColl's Pension Schemes are to continue to receive support under the terms of Morrisons' acquisition of the retail group. A

spokesperson for the McColl's Pension Schemes says the trustees welcome the announcement and will continue to engage with all stakeholders.

► **11 May** The pensions sector welcomes the inclusion of the Online Safety Bill, Data Reform Bill and Financial Services Bill in the **Queen's Speech**, and calls for collaboration between the government, regulators and industry to protect saver outcomes. The Queen's Speech does not include an announcement on enacting measures outlined in the 2017 auto-enrolment review, which recommended expanding coverage of auto-enrolment in the mid-2020s.



► **11 May** ITV receives a warning notice from TPR in relation to the Box

Clever Group Pension Scheme for the amount of £133m, the television network's Q1 2022 trading update reveals. In March 2020, ITV lost a legal challenge against TPR over the regulator's use of anti-avoidance powers and was given a six-month deadline to put financial support in place for the Box Clever scheme. ITV submitted an initial offer of £31m to TPR in August 2020 to reach a settlement, then increased its provision to £52m.

In its 2021 annual report, ITV notes that if TPR did not accept the increased provision then it may issue a warning notice, which has now been issued. The most recent estimate of the Box Clever Group Pension Scheme deficit was £110m.

► **13 May** The High Court confirms that the trustees of two charitable trusts are permitted to implement a Paris-aligned investment strategy, despite the potential short-term financial detriment, in what is highlighted as a "significant" judgment for pension schemes. The two trusts are both part of the Sainsbury Family Charitable Trusts network, with charitable objectives that include environmental protection and improvement and the relief of poverty.

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

► **17 May** The perception of TPR's performance quality is found to be lower in 2021 than in 2020, according to the regulator's *Perceptions of TPR* report on the 2021 Perceptions Tracker survey. The report shows that 69 per cent of respondents provide the regulator with a good or very good rating, a 6 percentage point drop from 75 per cent the year before. Covid-19 performance is found to have continued to have affected perception in 2021, as 18 per cent identified this as a reason for providing a good or very good rating. The report also highlights that ratings for TPR's effectiveness on its statutory duties, core roles and activities were generally consistent with the 2020 survey.

► **16 May** Nearly two-fifths (39 per cent) of 'amber flags' raised by pension trustees of a transferring pension scheme were due to overseas investments, according to a Freedom of Information (FOI) request by **Quilter**. The FOI data from the Money and Pensions Service (Maps) shows that 134 amber flags were raised and the related pension transfers therefore put on hold due to overseas investments between the end of November 2021 and the end of March 2022.

► **20 May** Calls for auto-enrolment reform continue to grow after research from **Now Pensions** and the **Pensions Policy Institute** (PPI) reveals that people with disabilities have a pension wealth of just 36 per cent of the average UK pension. The research finds that people with a disability who are approaching retirement age have an average pension wealth of £47,980, compared to the average UK pot size of £130,928, marking an almost £83,000 difference.



► **20 May** The trustees of the **Water Companies Pension Scheme** stand behind the decision to transfer the remaining Bristol Water Section surplus to the employer, after member concerns were raised by the Work and Pensions Committee (WPC). The WPC previously wrote to the trustees of the scheme to query the decision,

after scheme members cited concerns that the trustees decided to transfer the remaining surplus to the employer "without adequate consultation or explanation".



► **24 May** TPR and the FCA confirm plans to develop common measurements to help compare the value for money (VFM) of DC pension schemes.

The proposed common approach across the industry aims to allow access to consistent data on investment performance, costs and charges, and service standards. The regulators hope that the measurements will allow both industry professionals and pension savers to better compare DC schemes so they can see which offers better VFM. Over time, this increased transparency should improve competition, which will encourage schemes to improve the value they provide and help deliver more secure retirements for savers, according to the regulators. TPR and the FCA launched a discussion paper last year to establish how best to measure VFM, with the regulators noting that it was hard to consistently compare fees and charges, investment performance and quality of service, making it hard to gauge whether savers are receiving value for money.

► **27 May** The **Financial Services Compensation Scheme** (FSCS) calls for a review of the £85,000 limit it is able to pay out to people making pension claims, stating that it believes it should be higher. In its publication *The balancing act of compensation*, the FSCS notes that while it believes the current compensation limits remain appropriate for most products and activities covered by FSCS protection, pensions is an "important exception".

► **30 May** An estimated 61 per cent of DB pension schemes with valuation dates between 22 September 2021 and 21 September 2022 (tranche 17) were in surplus on a technical provisions basis on 31 March 2022, according to **TPR**. Nearly a third (31 per cent) moved from a deficit to a surplus and 38 per cent of schemes remained in deficit, while 1 per cent fell from a surplus to a deficit.

News focus

TPR and FCA confirm development of common VFM measurements

Following the launch of a discussion paper, TPR and the FCA have announced that they will be developing common measurements to help both industry professionals and scheme members compare the value for money of DC pension schemes



The Pensions Regulator (TPR) and the Financial Conduct Authority (FCA) have confirmed plans to develop common measurements to help compare the value for money (VFM) of defined contribution (DC) pension schemes.

The proposed common approach across the industry aims to allow access to consistent data on investment performance, costs and charges, and service standards.

The regulators hope that the measurements will allow both industry professionals and pension savers to

better compare DC schemes so they can see which offers better VFM.

Over time, this increased transparency should improve competition, which will encourage schemes to improve the value they provide and help deliver more secure retirements for savers, according to the regulators.

TPR and the FCA launched a discussion paper last year to establish how best to measure VFM, with the regulators noting that it was "hard" to consistently compare fees and charges, investment performance and quality

of service, making it difficult to gauge whether savers are receiving value for money.

They added that responses to the paper demonstrated "clear support" from across the industry for a consistent approach to the issue.

However, the regulators noted that further work was needed on what should be disclosed and how, as respondents also highlighted complex questions about how to achieve the common metrics.

They will continue to engage with the industry and consumer groups over the coming months on the disclosures and measurements.

TPR, the FCA and the Department for Work and Pensions will work together to publish a consultation "towards the end of 2022", setting out the proposals.

Commenting on the announcement, Pensions Minister, Guy Opperman, said: "Ensuring value for money for the record number of Brits now saving for retirement is one of my key priorities.

"While cost continues to dominate decision-making, this does not always lead to the best member outcomes.

We want those making choices about where people save their money to take into account more than just price, and I look forward to progressing this work alongside TPR, the FCA and industry."

Speaking at the PLSA Investment Conference 2022, TPR lead consultant, Fred Berry, noted that "yes there is a consolidation agenda out there but this VFM project is not about consolidation, which seems to be happening quite nicely anyway".

FCA executive director for markets, Sarah Pritchard, also reassured that the VFM common measurements plan



VIEW FROM TPR

Providing savers with the right information to enable them to make the best decisions is essential to ensuring good pensions outcomes. To that end, we are again reminding trustees that from this month (June 2022), they have a legal duty to ensure savers receive the information they need before accessing their pension.

From 1 June, trustees must offer to book their members an appointment with Pension Wise when they apply to access their flexible benefits. Pension Wise, a government service from MoneyHelper run by The Money and Pensions Service (Maps), provides savers with free and impartial guidance about the options for accessing their DC pension savings.

Earlier this year, we published guidance detailing what trustees must do. Trustees are required to offer to book members a Pension Wise appointment, or give them details of how to do so. If they decline the offer or are unable to book a convenient appointment, they must provide an opt-out confirmation. Trustees will need to inform members that they cannot progress their application without this, or confirmation they have received guidance. Trustees must also record whether a member has either received guidance or opted out. As long as certain criteria are met, trustees can choose which forms of communication best suit.

Since the introduction of pension freedoms in 2015, savers have had far greater flexibility to decide how and when to access their DC savings. These choices can be complex, so it's crucial trustees ensure savers receive the right guidance, at the right time.

TPR executive director of regulatory policy, analysis and advice, David Fairs

is not intended to replace the role of Independent Governance Committees (IGCs), "but what we have heard is a consistent framework to assess VFM would be useful for those that are making decisions around schemes and pensions generally".

Both Berry and Pritchard highlighted that the focus of the VFM common measurement plan was "all about retirement outcomes".

In other news, TPR has launched a consultation on its new consolidated draft enforcement policy and an updated prosecution policy.

The regulator said the new and updated policies aim to help those facing or affected by enforcement action to understand the approach taken by TPR.

It has proposed that the enforcement policy consolidates previous policies for defined benefit, hybrid, public sector and DC pension schemes.

Furthermore, both policies have been updated to include the new powers that were granted to TPR in the Pensions Schemes Act 2021 and to "reflect its experience" from using its existing enforcement powers.

TPR stated that the new powers from the act strengthen its regulatory framework so it can gather evidence more efficiently and respond to events or conduct that could impact schemes.

The Pension Schemes Act 2021 also introduced a number of sanctions and deterrents against actions that could result in members' pensions being put at risk or impede the regulator's investigations.

TPR noted that while it was developing policies to explain its approach to the new powers, it found that it needed to be clearer about all its enforcement powers through more

streamlined policy documents.

The regulator's existing enforcement policies for auto-enrolment, master trust authorisation and upcoming collective defined contribution schemes were not included in the draft policies being consulted on.

Meanwhile, the perception of TPR's performance quality was found to be lower in 2021 than in 2020, according to the regulator's *Perceptions of TPR* report on the 2021 Perceptions Tracker survey.

The report showed that 69 per cent of respondents provided the regulator with a good or very good rating, a 6 percentage point drop from 75 per cent the year before.

Covid-19 performance was found to have continued to have affected perception in 2021, as 18 per cent identified this as a reason for providing a good or very good rating. The report also showed that ratings for TPR's effectiveness on its statutory duties, core roles and activities were generally consistent with the 2020 survey.

One highlighted change in the ratings compared to the 2020 survey was the proportion that rated TPR as effective at protecting the benefits of DC members, which fell from 85 per cent to 75 per cent, returning to a more similar level to that seen in 2019/20 (71 per cent).

More than nine in 10 (92 per cent) believed that TPR was trustworthy, while 79 per cent felt it was clear and 78 per cent believed it was risk based.

Just over a third (34 per cent) agreed TPR was bold, 35 per cent believed it was innovative and 40 per cent felt the regulator was flexible.

Written by Jack Gray, Laura Blows and Tom Dunstan



The cost of complying with the Task Force on Climate-related Financial Disclosures (TCFD) is “significant”, according to Universities Superannuation Scheme (USS) Investment Management head of responsible investment, David Russell.

Speaking on a panel on the management of investment reporting for TCFD at the PLSA Investment Conference 2022, Russell expressed his concern with the cost of compliance.

“Where I have a concern is that the cost of compliance with the regulation is significant because you want to comply with the regulation,” he said.

“We don’t really know what The Pensions Regulator (TPR) is going to do with the reports when they start falling on its desk over the next few months and how it is going to assess whether we are complying with the regulations or not.”

Russell hopes that TPR and the Department for Work and Pensions will learn from the experience of the larger schemes going through the regulations first, then for the next tier down the regulators come up with something that is “a bit less burdensome for smaller schemes” and make an amendment to the regulations.

“Expecting smaller schemes to have to comply with what we have had to go through is, I think, beyond most, or is not worth the value they’d have to sink in to do it for the benefit they will get out. Hopefully, there will be a lot of learning from the regulators from this first tranche, so that it can be made easier.”

Schemes with more than £1bn of assets will become subject to the new reporting requirements from 1 October 2022, following on from the introduction of the same requirements for schemes with £5bn or more in assets in October 2021.

Under the new requirements, trustees must have a system of climate governance in place by 1 October,

PLSA IC: Cost of complying with TCFD ‘significant’ – USS

During the PLSA Investment Conference, concerns were raised about the cost of compliance with TCFD regulations, along with the risk of leaving members to fend for themselves during decumulation



whilst managers will be required to start identifying and collecting the right metrics ahead of the scheme end on 31 March 2023 and before the full report is submitted on 31 October 2023.

Concerns have also been raised, however, on the quality of the data available. Redington head of stewardship and sustainable investment strategy, Paul Lee, who also spoke during the session, said the data in relation to TCFD was “terrible”.

Also speaking at the PLSA Investment Conference, Smart Pension director of policy and communication, Darren Philp, warned that trustees are ‘at risk’ if they do not take steps to ensure their members make ‘good’ decumulation decisions.

Philp stated that although trustees “have done a great job on the accumulation side” with improving standards of governance, “quite often trustees think it is ok at decumulation to do the bare minimum, to minimise their risk”.

“I want to flip that on its head. I think you’re at risk if you’re not helping people at retirement. If you’re not finding good decumulation solutions, if you’re not properly providing guidance or signposting to guidance, then members

will say ‘why didn’t you help me, why didn’t you support me?’”

Philp acknowledged the difficulty trustees face navigating the advice/guidance boundary “but I think there is still a lot more that we need to do”.

Also speaking on the panel, PLSA head of DC, master trusts and lifetime savings, Alyshia Harrington-Clark, agreed that “the risk needs to be higher [with trustees] for not doing something than doing something. I strongly believe that we need to be in that place where it’s risky to just leave people”.

A ‘default’ solution at retirement was suggested by Philp, “to make sure people aren’t doing things like taking their tax-free cash and putting the rest of it into a cash ISA”.

As so many people would take the default “you have to be pretty convinced that the default is a good option”, Harrington-Clark warned.

She suggested a ‘soft default, bordering on moderate’ featuring a blend of solutions “that put people in a better place than were they to do nothing” while still giving them the choice to make active decisions if they wish.

Written by Natalie Tuck and Laura Blows



VIEW FROM THE PPI

Industry welcomes Queen's Speech bills; calls for collaboration

Although an update on the government's work on implementing the 2017 Auto-enrolment Review was lacking in the Queen's Speech, the industry welcomed several included bills that could impact the pensions sector, while also calling for more collaboration between the government, industry and regulators



The pensions sector has welcomed the inclusion of the Online Safety Bill, Data Reform Bill and Financial Services Bill in the Queen's Speech, and called for collaboration between the government, regulators and industry to protect saver outcomes.

The Queen's Speech, which was presented by Prince Charles, did not include an announcement on enacting measures outlined in the 2017 Auto-enrolment Review, which recommended expanding coverage of auto-enrolment in the mid-2020s.

However, PLSA director of policy and advocacy, Nigel Peaple, acknowledged that, due to the short-term challenges faced by the country, it was understandable that the government did not include measures to implement auto-enrolment (AE) reforms in the Queen's Speech.

"The government has committed to introduce these measures from the 'mid-2020s' and, as employers need time to prepare, it would be good to put this on the statute book now with a gradual and clear timetable for the

introduction of the measures," he commented.

"The PLSA believes that it would also be desirable for automatic pension saving to be increased further, but not before the end of this decade, and for automatic enrolment pensions to be 'levelled up' so that employers pay the same as employees."

Scottish Widows head of policy, pensions and investments, Pete Glancy, stated that a new pensions bill could have been the "perfect way" for the government to mark and build on the success of AE.

"We continue to head towards a long-term savings crisis with too many people saving far below what is needed for a comfortable retirement," he said.

"At the same time, parts of the workforce are missing out on the benefits of AE all together, including the lowest paid in society."

Fieldfisher pensions partner, Jeremy Harris, noted there was "very little" in the Queen's Speech relating to pensions, although he highlighted two areas of potential relevance: "The government has reiterated its intention to promote investment in infrastructure by UK pension schemes and other institutional investors, and announced its intention to introduce a Data Reform Bill to reduce the burden of the General Data Protection Regulation (GDPR) on UK businesses."

Written by Jack Gray

While there has been significant pensions policy and demographic change in the UK over the past two decades, one impediment to progress has remained in the form of a lack of robust data and evidence on the financial experiences and behaviour of people from ethnic minority groups.

We know there are labour market and wealth inequalities that result in poorer average retirement outcomes for Pakistani, Bangladeshi and Black African/Caribbean people and others. However, within this data, there are generally insufficient sample sizes for further breakdowns by age, gender, or income level, which would allow analysis of how experiences vary between people with different characteristics.

This lack of consistent, national level evidence is a barrier to a deeper understanding of all the different elements effecting poorer outcomes, and creates difficulties for the design and execution of policies which aim to reduce inequalities in later life. The PPI, sponsored by *Which?*, is conducting research into how national surveys could better cover the experiences of people from all ethnic backgrounds. But the work should not stop there. The government and the financial services industry will need to engage in ongoing conversations, supported by consistent, reliable data, about how the experience (for many) of intergenerational disadvantage can be interrupted, and ways of enabling better later life outcomes instituted in their place.

PPI head of policy research,
Daniela Silcock

PENSIONS POLICY INSTITUTE
PPI



VIEW FROM THE PLSA

We may have only just got ourselves past our first in-person PLSA conference since before the pandemic, but the next instalment is already upon us.

Following on from our Investment Conference 2022 in Edinburgh at the end of May, we are now rolling full steam ahead into our Local Authority Conference 2022 in the middle of June in the Cotswolds. And, like most years, there is a lot to speak about!

The LGPS holds huge influence on the world stage. How efficiently the scheme is run and how well money is invested has huge ramifications, not just for the scheme's more than six million members, but the global economy.

This year looks set to be another major year for the LGPS, with new climate-related reporting requirements likely on the horizon, Covid-19's long-term impact on scheme finances yet to be fully realised, and the government's invitation to fuel an investment 'big bang' pending.

The programme will look at a wide range of subjects including responsible investment, asset pooling in the LGPS, results of the PLSA's own local authority research project, and pensions dashboards.

The PLSA's Local Authority Conference takes place between Monday 13 June and Wednesday 15 June 2022.

**PLSA director policy & advocacy,
Nigel Peaple**

**PENSIONS AND
LIFETIME SAVINGS
ASSOCIATION**

Short-term financial detriment not a barrier to Paris-alignment

✓ In a case centred around two charities, the High Court ruled that the trustees were permitted to implement a Paris-aligned investment strategy, despite the potential short-term detriment, in what has been highlighted as a potentially significant ruling for the pensions sector



The High Court has confirmed that the trustees of two charitable trusts are permitted to implement a Paris-aligned investment strategy, despite the potential short-term financial detriment, in what has been highlighted as a "significant" judgment for pension schemes.

The two trusts are both part of the Sainsburys Family Charitable Trusts network, with charitable objectives that include environmental protection and improvement and the relief of poverty.

Following concerns that the trusts' investments could conflict with these charitable purposes, the trustees worked with investment advisers and assets managers to develop an investment portfolio that seeks to ensure that the charities' investments are aligned with the goals of the Paris Agreement and thereby avoid direct conflict.

However, both the Charity Commission and the Attorney General challenged the adoption of the proposed investment strategy, raising concerns that they had not adequately balanced the potential financial detriment to the

trusts with the conflict to the charitable purposes.

The High Court has since dismissed this and approved the proposed investment strategy on the basis that the trustees had followed a proper decision-making process in which they had correctly balanced the trusts' charitable objectives against the potential financial detriment.

Whilst the ruling was given in a charitable trust context, Herbert Smith Freehills pensions partner, Michael Aherne, suggested that the fact that the judge held that the short-term financial detriment of adopting a Paris-aligned investment strategy was not a barrier for the trustees, is "significant".

He explained: "In a pensions context, trustees of defined benefit schemes looking to implement ambitious net-zero or TCFD-related targets may seek to argue that similar short-term financial impacts do not prevent them from adopting investment strategies aligned to such targets provided they are satisfied that the anticipated long term financial returns are acceptable in the context of the scheme's funding and covenant position.

"This decision adds to the growing case law in this area and it wouldn't be surprising to see a similar case arise in a pensions context in the coming years as trustees, sponsors and members become more focused on the carbon transition and Paris-alignment."

Written by Sophie Smith



VIEW FROM AMNT

ITV receives £133m warning notice from TPR

TPR has issued a £133m warning notice to ITV in relation to the Box Clever Group Pension Scheme, in what is the latest in a long-running enforcement campaign after ITV lost a legal challenge over the regulator's use of anti-avoidance powers

ITV has received a warning notice from The Pensions Regulator (TPR) in relation to the Box Clever Group Pension Scheme for the amount of £133m, the television network's Q1 2022 trading update has revealed.

In March 2020, ITV lost a legal challenge against TPR over the regulator's use of anti-avoidance powers and was given a six-month deadline to put financial support in place for the Box Clever scheme.

ITV submitted an initial offer of £31m to TPR in August 2020 to reach a settlement, then increased its provision to £52m.

In its 2021 annual report, ITV noted that if TPR did not accept the increased provision then it may issue a warning notice, which has now been issued.

The most recent estimate of the Box Clever Group Pension Scheme deficit was £110m on a buyout basis, as at 30 April 2020, while the scheme was estimated to have had a deficit on a buyout basis of £25m in 2003.

ITV said its view on the matter remained the same as its 2021 annual report, which stated: "Both of these valuations were of the whole scheme, encompassing liabilities in respect of former employees of Granada's joint venture partner, Thorn, as well as former employees of the group.

"Given the significant number of undecided issues as to the quantum and form of financial support, the group will strongly contest any attempt to impose



Making workplace pensions work

liability in an amount the directors consider unreasonable.

"The directors continue to believe there are many important factors, that need to be taken into account in any decision, and therefore there remains a great deal of uncertainty around the quantum and form of financial support to be provided."

In its Q1 2022 update, ITV said that it will continue to engage with TPR to resolve the matter.

A TPR spokesperson commented: "The deadline we set ITV to provide reasonable financial support for the Box Clever Pension Scheme in response to the Financial Support Directions issued to them passed on 17 September 2020. Whilst they did submit an offer, we rejected it because we did not consider it provided reasonable support to the scheme.

"We have now issued a Warning Notice seeking Contribution Notices against ITV and four related entities. These Contribution Notices would see cash paid into the scheme to pay member benefits.

"We will not be commenting further on the matter at the moment."

Written by Jack Gray

In 1776, Adam Smith said: "People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices."

Although Adam Smith may have been commenting on the business practices of his day, the quote has a certain resonance today. Business ethics applies to all aspects of business conduct and is relevant to the conduct of individuals and entire organisations. These ethics originate from individuals, organisational statements or the legal system. These norms, values and ethical practices are the principles that guide a business.

Pension trustees particularly recognise the need to act in an ethical manner and also to invest accordingly. However, until recently, in investment decisions they have been constrained by the Scargill ruling. This is no longer the case, leaving trustees to make decisions that not only ensure members' pensions are secured, but also that investments reflect the changed ethical landscape.

The problem is gauging the ethical stand point of the members. In some pension funds this is more straightforward than others, but it is imperative that an ethical framework is developed and, importantly, made known to the fund members.

AMNT member, Stephen Fallowell



Association of Member Nominated Trustees

NEWS IN BRIEF

► The trustees of the **Water Companies Pension Scheme** have stood behind the decision to transfer the remaining Bristol Water Section surplus to the employer, after member concerns were raised by the Work and Pensions Committee. Trustee chair, David Sankey, stated that the trustees believe they have provided adequate notification and extensive explanation to members as part of its consultation exercise.

► The second **British Steel Pension Scheme** has completed two buy-ins with Legal & General, covering just under 30 per cent of liabilities. The trustee completed the first buy-in at the end of 2021, covering around 5 per cent of liabilities, while the second covered around 25 per cent of liabilities.

► The aggregate defined benefit pension scheme surplus increased by £60bn to £190bn in May, according to the PwC Pension Trustee Funding Index. The funding ratio increased from 108 per cent at the end of April to 113 per cent at the end of May. Liabilities fell by £110bn to £1,450bn over the month, while asset values declined from £1,690bn to £1,640bn.

► The **M&S Pension Scheme**, the Co-op pension scheme 'Pace', and the **Royal Mail Pension Plan** have committed to halving the emissions of their investments by 2030 at the latest, in line with the Paris Climate Agreement. The M&S Pension Scheme made the most ambitious pledge, aiming to reach net zero across its portfolio by 2040, whilst Royal Mail Pension Plan and Pace have committed to Paris-aligned 2050 targets.

McColl's pension schemes to be protected under acquisition

► **Morrisons has confirmed that the pension schemes sponsored by McColl's will receive support under the terms of its acquisition of the retail group, following concerns from the trustees that the schemes would not be supported in a potential acquisition when the company went into administration in early May**

The McColl's pension schemes are to continue to receive support under the terms of Morrisons' acquisition of the retail group.

A spokesperson for the McColl's pension schemes said: "The trustees welcome the announcement that Morrisons will continue to support the schemes following its acquisition of the McColl's business.

"The trustees will continue to engage with all stakeholders to ensure that members' benefits are protected following the completion of the transaction."

Trustees for the schemes recently urged one of the leading bidders, EG Group, to engage with the scheme trustees to help protect member benefits, having also previously emphasised the need for any bidders to respect the pension promises previously made.

The company has two pension schemes, the TM Pension Plan (TMPP) with 915 members and the TM Group Pension Scheme (TMGPS) with 1,170 members, appointed administrators last week.

The TMGPS is fully funded on a statutory ongoing funding basis and does not need any deficit recovery contributions, while the TMPP is expected to be fully funded on the same basis next year, with the current £1.75m annual deficit recovery contributions then expected to stop.

The TMGPS has a Section 75 deficit of less than £1m, while the TMPP has a



Section 75 deficit of £15m.

The news was also welcomed by the Pension Protection Fund (PPF), which commented: "We hope this deal will provide clarity to scheme members after what must have been an unsettling time.

"PPF compensation provides a significant level of protection to the schemes we cover and the McColl's scheme members can be reassured by our ongoing protection."

When the McColl's Retail Group fell into administration on 6 May, the trustees urged any potential bidders to respect the pension promises made to members and to not seek to break the link between the schemes and the company.

They also wrote to the Department for Work and Pensions and the Department for Business, Energy and Industrial Strategy, asking the government to use whatever levers it can to ensure that members' benefits were protected.

► Written by Sophie Smith and Jack Gray



VIEW FROM THE PMI



Market commentary: An indecisive outlook

Markets may have seen a bit of a comeback in recent weeks, but AJ Bell head of investment analysis, Laith Khalaf, warned there are some indicators that the recent wobble might not be over.

“Clearly the lifting of Covid restrictions in China is a major boost for the global economy, but the world is still beset by energy and food price inflation,” he said. “At the same time, central banks are raising interest rates, which is leading to a tectonic repricing of risk.”

These concerns were echoed by DWS chief investment officer, Stefan Kreuzkamp, who agreed that it is hard to know whether the worst is already over for the markets.

“What we can predict now is that volatility will presumably stay high on equity markets, that corporate bonds will remain under pressure for the time being and that headwinds will continue to hit emerging markets for a couple of months,” he added.

Adding to this, Khalaf suggested that whilst the market is “a bit fearful”, it is “certainly not as panicky as the spikes in the index we saw at the onset of the pandemic and during the financial crisis”.

And this is reflected in the performance of major indices, as Khalaf points out that there has been a correction in the US and European markets, and amongst the mid and small cap companies on the London Stock Exchange, although this has been “a retreat rather than wholesale capitulation”.

Opportunities are also arising amid the volatility, as analysis from Bowmore Asset Management suggested that investors may be able to find stocks in the tech sector that offer value; research revealed that around 48 companies in the FTSE 350 have seen their stock market value fall by at least a third since the Ukraine war, with tech companies suffering some of the biggest falls.

Indeed, Khalaf noted that investors have sold down the big tech names that previously thrived during the pandemic, partly as a result of investors moving away



from growth shares amid rising interest rates, and partly due to disappointing results from the likes of Meta and Snap.

“But while share price falls in 2022 have been quite savage, looking back a whole year many of these stocks are still in strongly positive territory,” he clarified. “This trend becomes even more extreme as we zoom out two years, or look back to the pre-pandemic period. So while share price falls in the tech sector have been quite extreme this year, so were share price rises at the back end of last year, and indeed, since the pandemic began.”

Oil & gas and mining companies, in contrast, come out as the biggest stock market winners since the Ukraine crisis, with Bowmore’s research revealing that five of the top 10 risers on the FTSE 350 being oil and gas companies.

However, Hargreaves Lansdown senior investment and markets analyst, Susannah Streeter, pointed out the oil price has “caught another rollercoaster ride”, dipping sharply after a rapid climb upwards as expectations of supply in the market fluctuate.

Streeter also clarified that whilst the dip in the oil price will come as a relief following the seemingly relentless rises in past weeks, “red hot inflation is still front and centre”.

“After Eurozone inflation hit another record high in May, expectation is growing that the European Central Bank will have to take on a more aggressive stance when it comes to monetary policy and interest rate increases and that’s pushed up yields on government debt,” she added.

Written by Sophie Smith

Recent months have seen remarkable comebacks by phenomena closely associated with the seventies. Earlier this year saw the return of ABBA. More recently, we have experienced the return of runaway inflation.

Over the past 30 years, there has only been one year in which the annual inflation rate exceeded 5 per cent. With the Bank of England projecting inflation to reach 10 per cent by the end of this year, it is worth considering the impact that such an increase would have on UK pension provision.

The unexpected impacts of the pandemic and the war in Ukraine, combined with the more predictable consequences of hard Brexit, have combined to create inflation on a scale not seen since the era of flares!

With many schemes poised to seek buyout in the near future, trustees have been forced to reconsider their asset mix to be more closely aligned with changing annuity rates.

With statutory pension increases pegged at 2.5 per cent, this development will only exacerbate problems experienced by pensioners already struggling. Trustees will also find themselves under pressure to consider discretionary pension increases. Of course, in many cases, older pensioners will also find themselves ineligible for any increase following a Pension Increase Exchange (PIE) exercise. Serious changes are required!

PMI director of policy and external affairs, Tim Middleton

Appointments, moves and mandates



Kathryn Graham

➤ **The Pension SuperFund (PSF)** has announced the appointment of eight non-executive directors/board members as it applies for assessment from The Pensions Regulator to operate as a defined benefit superfund.

Aviva UK Life ex-CEO and former ABI Retirement and Savings Committee chair, David Barral, has been appointed, alongside Scottish Building Society and Chartered Banker Institute non-executive director, Sheila Gunn, and Lloyds Banking Group Pension Trustees trustee director, Jocelyn Blackwell.

Universities Superannuation Scheme (USS) ex-head of strategy coordination, Kathryn Graham, former Nest director, Samantha Durrant, former Shell Pensions Trust Investment Committee director and chair, Clive Hopkins, DHL Foundation Investment Committee member, Helen Copinger-Symes and former Railpen managing director, investments, Frank Johnson, have also been appointed to the board.



Sam Burden

➤ **PTL** has named Sam Burden as a client director in its Birmingham office. Burden is an associate of the Pensions Management Institute and has 25 years in the pension industry. Before joining PTL, he had held senior roles at WTW and KPMG. “Sam is a highly experienced pensions professional and has worked with a wide range of sponsors and trustees”, commented PTL managing director, Richard Butcher.



Vicki Hayter

➤ **XPS Pensions Group**

has promoted four new partners, Vicki Hayter, Sameena Malik, Simon Reddish and Ash Williams. Hayter is head of trustee governance services and leads a team of 40 consultants, Malik leads the facilities management and procurement function, Reddish heads up the corporate pension accounting team and accounting service development, and Williams is leading on over £1bn of transactions in the insurance market.



Emily McGuire

➤ **Isio** has appointed Emily McGuire, a new partner, into its investment advisory team.

McGuire will play a ‘key role’ in delivering Isio’s growth plans.

For this, she will be focusing on team development, client leadership and exploring growth opportunities within pensions and other institutional investors, bringing with her 23 years of experience from her previous position at Aon.



Graeme Griffiths

➤ **Independent Trustee Services (ITS)** has appointed Graeme Griffiths as director. Griffiths joins from the UN-supported sustainable investment initiative Principles for Responsible Investment (PRI), where he was chief operating officer, bringing 40 years’ experience in asset management, ESG and corporate finance. ITS executive chair, Chris Martin, commented: “It is great to welcome Graeme to the ITS team.”



Steven Taylor

➤ **The Association of Consulting Actuaries (ACA)** has elected Steven Taylor as its new chair. A partner and corporate pensions advisor at Lane Clark and Peacock, he took office on 1 June 2022, succeeding Patrick Bloomfield.

Ahead of his appointment, Taylor has highlighted the key objectives for the ACA over the next two years, emphasising the ACA’s goal to deliver an intergenerationally coherent savings environment, to balance responsible stewardship of defined benefit schemes with promoting joined-up policies that will help future generations save adequately for their retirement.

Commenting on his appointment, Taylor said: “I’m honoured to have been elected by my fellow actuaries as chair of the association. I believe actuaries are equipped to make a huge difference to some of the biggest challenges we face as a society... I’m looking forward to working closely with our industry to contribute the views of actuaries to emerging UK policy.”



Mandy Clarke

➤ **The Pensions Regulator (TPR)** has announced the appointments of Mandy Clarke and George Walker as non-executive directors to its board by Work and Pensions Secretary, Thérèse Coffey.

They fill the vacancies left by David Martin and Robert Herga and their appointments will last for five years. Meanwhile, Kirstin Baker has been reappointed to TPR’s Board from 1 June for four years.



VIEW FROM THE SPP

I recently attended a webinar looking at the DB consolidation spectrum. Sub-optimal governance models and restricted investment opportunity sets are often associated with small DB schemes. Furthermore, with annual expenses often running in excess of £1,000 per member and forthcoming regulations likely only to increase per member costs, it seems the discussion on consolidation will continue to gather momentum.

The increasing number of consolidation options will inevitably have an increasing role to play in the ongoing management of small schemes. Some will opt for trustee consolidation, others a fiduciary approach. The final form of consolidation before separation from employer covenant might be a master trust.

And what about the options to move the pension scheme off balance sheet? We await the successor to the interim regulatory regime for superfunds and the outcome on BPA pricing of the current live HMT consultation on Solvency II review. Will this make writing new business more capital efficient? Can consolidation increase the options and ultimately improve the transition to endgame?

It will be exciting to see how the DB consolidation market develops and hopefully improve the outcome for all involved with small schemes.

SPP council member, Mark Foster



THE SOCIETY OF PENSION
PROFESSIONALS

leading pension thinking

Diary: June 2022 and beyond

► European Pensions Awards

7 July 2022

London Marriott Hotel, Grosvenor Square, London

Now celebrating their 15th year, the European Pensions Awards are a celebration of the hard work and dedication displayed by pension schemes and providers from across Europe. The evening gala, to be held at the prestigious London Marriott Hotel, will honour the investment firms, consultancies and providers from across Europe who have displayed excellence, innovation, and a genuine passion in everything they do.

For more information, visit:
europeanpensions.net/awards

► Pensions Age Autumn Conference

15 September 2022

The Waldorf Hilton, London

This conference will offer delegates the up-to-date knowledge and guidance they need to help them run their pension schemes and meet their members' needs. With the past 24 months having thrown up an unprecedented set of challenges, this event will be an opportunity to reflect on how well the industry has risen to the challenges and learn from those funds and providers that adapted successfully.

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

Visit www.pensionsage.com for more diary listings

Month in numbers

£12.5bn

▲ The Universities Superannuation Scheme (USS) deficit has dropped by £12.5bn since the last valuation, falling from £14.1bn in March 2020 to £1.6bn as at 31 March 2022, according to the latest interim monitoring report from the scheme trustee.

500,000

▲ Around 15 per cent of disabled people in work, representing 500,000 workers, do not qualify for auto-enrolment, according to research from Now Pensions and the Pensions Policy Institute.

► PLSA Annual Conference 2022

12-13 October 2022

Liverpool

Held across two days, this event will bring together more than 1,000 pension professionals for a programme of world-class keynotes, roundtable discussions, educational sessions and key topic deep-dives. Returning to Liverpool in-person for the first time since before the pandemic, delegates will also be able to once again take advantage of crucial face-to-face networking opportunities, such as the drinks reception and conference dinner.

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

► Irish Pensions Awards 2022

3 November 2022

5* Shelbourne Hotel Dublin

Entering their 11th successful year, the Irish Pensions Awards continue to go from strength to strength, giving well-deserved recognition to those pension funds, pension providers, advisers and pension professionals who strive to maintain the highest standards of excellence and professionalism in everything they do, despite the challenging economic and political landscape they find themselves operating in.

For more information, visit:
europeanpensions.net/irishawards

61%

▲ An estimated 61 per cent of DB pension schemes with valuation dates between 22 September 2021 and 21 September 2022 (tranche 17) were in surplus on a technical provisions basis on 31 March 2022, according to The Pensions Regulator (TPR). Nearly a third (31 per cent) moved from a deficit to a surplus and 38 per cent remained in deficit, while 1 per cent fell from a surplus to a deficit. TPR said the scheme experience varied "significantly", with 5 per cent of December 2021 valuation schemes seeing their funding levels fall by 2 per cent.



VIEW FROM THE ABI

The FRC's consultation on revision of AS TM1 pointed to a long-existing issue in customer communications – inconsistent projections assumptions.

The assumptions are inconsistent not only because AS TM1 allows providers to set their own growth rates, but also because the industry has to follow different projection regimes, including the FCA's COBS13. Pensions dashboards and simpler benefit statements will encourage customers to compare the projections they receive, creating an urgent need to consider a unified projection regime for all pension communications.

The work we have seen so far unfortunately focuses heavily on consistency between providers rather than tackling the structural issue. The DWP's consultation earlier suggested that all income projections for DC pensions will be based on AS TM1. However, dated projections from previous statements will unlikely fulfil customer expectations for digital propositions like dashboards. User research has already demonstrated a demand for interactive projections that cater to individual circumstances. Therefore, static projections from AS TM1 can at most be an interim solution. In the long run, dashboards should be responsible for calculating real-time and adjustable projections, and pension value data should be exportable to retirement planning tools to provide further insights.

ABI senior policy adviser, long term savings, Evey Tang



In my opinion



On the introduction of pension freedoms in 2015

“The speed with which pension freedoms were introduced in 2015 gave rise to a very big execution challenge for everybody: trustees, The Pensions Regulator, the Financial Conduct Authority (FCA) and the Money and Pensions Service, or Pension Wise, as it then was. The policies and procedures necessary to mitigate the potential harm to consumers from the pension freedoms were still being retrofitted six years later. With hindsight, more could have been done to protect people from risks introduced by the pension freedoms policy, particularly if more time had been given to prepare. It's clear from the steps taken since 2015 that the policy itself and the broader system to implement it were found wanting.”

Former FCA chair, Charles Randell

On the aggregate DB pension scheme surplus increasing £60bn in May

“Pension schemes remain well funded based on their own assessments for funding purposes, improving again this month in aggregate. This includes a prudent allowance for potential life expectancy improvements that have not yet happened. It's natural for pension funds to make conservative assumptions, but they should understand the size of these reserves as part of their planning. Otherwise their decisions around risk management might be out of kilter. Advisers should be challenged to explain matters in practical terms and real-life scenarios.”

PwC global head of pensions, Raj Mody

On the need for more data on the annuity market to help future retirees

“There is no doubt that guaranteed retirement income products will continue to play a role in the retirement landscape, but their significance and use will change. This represents a challenge and an opportunity

for industry; as pot sizes increase and people may become more engaged with their workplace pensions, new products and options could be developed and more widely used. In order for the market to respond well, more understanding of how factors including gender, ethnicity, family and housing determine people's attitudes and behaviours will be necessary, as we currently have very little evidence as to the roles that these factors play.”

Pensions Policy Institute senior policy researcher, Mark Baker

On calls for more DB pension scheme trustees to commit to net-zero targets

“Over the past year, we have woken savers up to the power of their pension and seen more than £1.2trn committed to tackling the climate crisis. However, there is still a long way to go and the hard work starts now. Older schemes may face additional challenges in reaching net zero, but that doesn't mean they can't do it. M&S, Royal Mail and Co-op are showing the rest of the sector that it can be done. We are calling on all remaining schemes to follow in their footsteps so that no pension holder is forced to invest in the very industries that will destroy our future.”

Make My Money Matter co-founder, Richard Curtis

On plans for a potential merger of the Lothian Pension Fund and Falkirk Council Pension Fund

“Falkirk Council Pension Fund and Lothian Pension Fund are exploring an innovative approach to local authority pension fund management, which has the potential to improve the operation and resilience of the funds. The two funds have worked effectively together for over 10 years and the potential merger looks to build on that successful partnership. As ever, our focus is on doing the right thing to safeguard the interests of our scheme members.”

Falkirk Council Pension Fund chief finance officer, Amanda Templeman

Benefits of multi asset investing in times of inflation

✓ An active multi asset approach offers investors the flexibility to adjust to changing inflation dynamics and generate positive real returns

Inflation is one of today's top concerns for investors globally. There is a lot of debate: is it transitory/cyclical, or is it more structural? I don't think we can say for sure yet. One thing is certain though – inflation is likely to be more volatile than it has been in recent memory. For financial markets, that means a less stable real rate, and a less stable bond market in general. That in turn will lead to a more volatile cost of capital, which will impact equities. For asset managers, there is ever more need to be agile and flexible.

An active and unconstrained multi asset approach gives you the tool kit to respond to the changing environment and the potential to still deliver positive real returns – which will become more elusive for more passive portfolios in a world of financial repression.

How does that work in practice? It's not as simple as making one set of investments and then sitting it out until inflation calms again. Negative real bond yields coupled with an unstable correlation between bonds and equities will likely keep markets volatile, and investors will need to respond.

While we've been concerned about inflation for at least the past 12 months, our allocation has shifted significantly over that time. Last year's theme was rising inflation expectations, so we focused on commodities, real assets, inflation-linked bonds, and more value-

orientated equities, including some exposure to the economic cycle.

Today, it is clear that global central banks have finally decided to act in a bid to limit the price rises before their credibility is more seriously questioned. Whether they succeed or not, that creates a very different environment to one where authorities are sitting on the side-lines at best or continuing to stimulate growth at worst, as was the case for much of 2021.

Real yields are now rising in response to central bank tightening and inflation-linked bonds no longer offer the benefits they did a few months ago – and often come with the disadvantage of a longer duration.

So, we have moved away from inflation-linked bonds and cut duration overall. We've also become more conscious about the risk to economic growth – not only from monetary tightening but also from higher prices damaging consumer demand.

If central banks are telling the world that inflation is now the centre of their attention, one can only conjecture that less economic growth is the price they are prepared to pay. We therefore prefer to be slightly less cyclical – avoiding the more expensive growth stocks and shifting more towards a value bias in our portfolio. Where we have equity exposure, we prefer to focus on those companies that have excess cashflow available to shareholders.

Beware of growth

For 14 years – up until 2021 – growth had outperformed value as an equity style. This has inevitably led to a skew in global stock market indices and therefore is where many passive, index-tracking investors may be wrong-footed.

In a volatile inflation world, where central bank actions raise question marks over the strength of economic expansion and the cost of capital, there will likely be increasing periods when value outperforms growth. We have already seen this over the past twelve months. Having the flexibility to shift between the two styles will be particularly helpful.

Away from the traditional bond/equities/cash type asset allocation, today a global multi asset manager has a lot more scope to add value – given the right freedom and flexibility. But that means being prepared to make meaningful changes in asset allocation. Our allocation to equities, for example, has ranged roughly from 15 to 75 per cent over the past five years. And we're also experienced in looking far and wide for opportunities. So, while the past year has generally been very tough for fixed income markets, our returns were propped up by an allocation to Japanese inflation-linked bonds. These mispriced inflation at the outset and their prices have thus risen over the past 12 months.

The volatile inflation backdrop will provide even more tactical asset allocation opportunities. We believe our unconstrained multi asset portfolio has the flexibility and the experience to make the most of them in order to maximise risk-adjusted returns for our investors.



► Written by Andrew Cole,
head of Multi Asset London,
Pictet Asset Management

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VIEW FROM THE ACA

I'm honoured to have been elected as chair of the association.

I believe actuaries are equipped to make a huge difference to some of the biggest challenges we face as a society: Helping the next generation build up adequate savings for retirement; responsibly stewarding DB schemes through a new economic and regulatory landscape; and understanding the longer-term impacts of the pandemic on life expectancies. I'm looking forward to working with our industry to contribute the views of actuaries to emerging UK policy.

The ACA's overall goal is to help deliver an intergenerationally coherent savings environment: balancing responsible stewardship of DB schemes with promoting joined-up policies that will help future generations save adequately for their retirements.

Squaring this circle requires incremental increases to auto-enrolment contributions, but also increased flexibility to allow saving to be used when and where needed. Finding ways to help encourage today's savers to put enough aside for their own retirements, despite a hugely difficult economic backdrop, is a significant challenge.

We also look forward to working closely with TPR to help ensure that a new funding code is put in place that delivers for all stakeholders – providing strong reassurance to members and trustees, but also clarity to sponsors on the cost of their pensions promises.

ACA chair, Steven Taylor



ASSOCIATION OF CONSULTING ACTUARIES

Soapbox: Weighing up the great leap forwards

Cryptocurrency has been difficult to ignore over the past few years, grabbing headlines, dominating dinner party conversations and steering online discussions – an impressive feat considering its exact nature still remains a mystery to many.

Over this period, the technology has produced success stories, such as the reports of people on the brink of poverty becoming millionaires in a matter of years thanks to their purchase of Bitcoin, and some horror stories, such as the recent catastrophic collapse of LUNA coin that saw the currency lose 99.9 per cent of its value, which have called the effectiveness of the technology into question.

This uncertainty creates an atmosphere in which the pensions industry currently finds itself, showing hesitancy and caution when looking at the new technology. Still, it is moving closer and closer to its adoption with some industry professionals coming out in favour of cryptocurrency integration, applauding its innovation and future possibilities. Something that has puzzled me, however, is its adoption in the face of its environmental impact.

The pensions industry at the moment seems to have a laser focus on environmental matters. Every day, new stories come out about companies committing to net zero or setting environmental targets or even just recognising the importance of the environment in their practices. The conferences I have attended recently have echoed the same ideas, pressing upon the importance of acting soon as the environmental point of no return creeps ever closer. It has been comforting for me to see such a serious topic handled with the gravity it deserves by the most important people in the industry, and yet the flirtation the industry is showing towards cryptocurrency seems to be

running counter to this effort.

Many reports have pointed out the large carbon footprint that comes as a result of cryptocurrency, as the running of several massive supercomputers that are used for the currency's mining require huge amounts of energy to keep going. Just one transaction for Bitcoin is estimated to use 2,159 kilowatt-hours of electricity – the same amount of energy the average American family uses in 74 days, according to an estimate by Digiconomist.

As the industry becomes more and more concerned with environmental impacts, the interest in cryptocurrency becomes less and less understandable for me.

There seems to be a fear that, if the industry does not invest in emerging technologies, it risks being left behind as the rest of the world evolves. This is a fear that can seem reasonable, but there is a detrimental impact of the technology that I rarely see mentioned by people in the pensions industry.

I don't see much wrong with innovation per se, but I do believe that innovation to the detriment of the environment, especially given the emphasis that many in the industry have placed on protecting the environment recently, is questionable.

I do also believe that cryptocurrency could still have a place in the industry, possibly representing the future of digital finance and assisting people with their pension, the environmental cost being offset through other means. However, it is the lack of conversation around the environmental impact that concerns me the most as, without careful planning, this technology could do permanent and substantial damage to our planet.



► Written by Tom Dunstan

DC consultation – illiquid assets, master trusts, performance fees and DC consolidation

► Matthew Swynnerton comments on a consultation relating to several key issues facing pension schemes today

The DWP has recently published a consultation in relation to (i) the accessibility of illiquid assets for DC occupational pension schemes and (ii) employer-related investments in respect of master trusts. The consultation also outlines the government's response to two other recent consultations.

Illiquid assets

The consultation sets out two policy proposals. The first is a requirement for trustees of DC schemes to include an explanatory statement on their policy on investment in illiquid assets in their Statement of Investment Principles. This would apply to default arrangements of DC schemes and the DC section of hybrid schemes. The consultation sets out two options for defining illiquid assets for these purposes: (i) at the fund/vehicle level; or (ii) at the more granular asset level. It also provides that the statements should include reference to: (i) what illiquid assets are; (ii) whether the trustees choose to invest in illiquid assets; (iii) which members will be invested in illiquid assets; and (iv) why the trustees decided to make an allocation to illiquid assets.

The second proposal is a requirement for trustees of schemes with over £100 million in assets under management, and who are required to produce a chair's annual statement, to disclose their default asset class allocation in the chair's annual statement. The trustees will have to disclose the percentage of assets allocated in the default arrangement to each of seven asset classes: cash; bonds; listed equities; private equity; property;

infrastructure; and private debt.

The DWP states that the policy proposals attempt to break down some of the systemic barriers to illiquid investment and give the opportunity for trustees to consider investment in private markets but that, "it must still be the responsibility of trustees to decide where they invest".

Master trusts and employer-related investments (ERI)

The consultation also proposes draft regulations amending existing legislation in relation to ERI made by DC master trusts. The DWP notes that existing legislation reflects an outdated assumption about the structure of DC master trusts; it is now much more common for master trusts to include a large number of unconnected participating employers. The DWP also notes the government's wider objective of opening up all asset classes to DC schemes and states that it believes a change here should make it easier for master trusts to access private credit markets.

The proposals include that: (i) the changes will apply to authorised master trust schemes with 500 or more active participating employers; (ii) for hybrid master trust schemes, the change will only apply to the DC part of the scheme; and (iii) for schemes in scope of the changes, restrictions on ERI will only apply in relation to investment in the scheme funder, the scheme strategist, or a person who is connected or associated with them. It is proposed that the regulations will come into force on 1 October 2022.

Performance fees – government response

In November 2021, the DWP published a consultation, which sought views on proposals to add "well-designed performance fees that are paid when an asset manager exceeds pre-determined performance targets" to the list of charges currently out of the scope of the charge cap. The government has responded by noting the mixed reaction to its proposal and stating that it will explore how it might address concerns in the future design of the policy.

DC consolidation – government response

In June 2021, the DWP published a call for evidence in relation to: (i) how to build on the new value for members assessment and further accelerate the pace of consolidation for schemes with assets under £100 million; and (ii) the barriers to, and opportunities for, greater consolidation of schemes with between £100 million and £5 billion of assets under management.

The government noted that the consensus was for it to slow down the process of consolidation and wait to see the impact of the new value for members assessments undertaken by small schemes. The government also said that it is encouraged by the healthy pace of consolidation and, therefore, would not be introducing any new regulatory requirements with the sole purpose of consolidating the market in 2022.



► Written by DLA Piper pensions partner, Matthew Swynnerton

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ESG and data: The need for consistency

► We examine the urgent need for greater consistency and definitive guidelines when assessing sustainable investments

As responsible investors, we need to have confidence in the public statements and reports published by the companies we invest in. If anything, as sustainable investing grows, the reliance on data is becoming increasingly evident, as is the need for that data to be consistent and of high quality.

As an industry, we must be conscious of the methodologies data providers use and ensure that we are aligned with them, should we use them. We anticipate that data providers should soon expect to receive increased regulatory attention as more and more capital is directed into specific sustainable and ESG-related strategies off the back of third-party ESG ratings providers.

At Newton, while we are cognisant of third-party ratings, we think it prudent to focus more on the raw data provided by companies, where this is available and accessible. This data is often either audited or assured and reported directly by the companies themselves.

That is not to say that we don't believe that third-party ESG data can be a useful tool; it is important to understand where third-party data providers' and rating agencies' current thinking is, as part of a holistic approach to assessing the sustainability and ESG credentials of companies. We believe it is also important to understand and be comfortable with the methodology one is choosing to rate investments from a sustainability or ESG perspective.

Take the tackling of climate change, for example. While this is still a nascent

area, examining the temperature alignment of a portfolio to see if it is consistent with the goal of minimising global warming is among the most developed in terms of ESG analysis. Again, the need for consistency comes to the fore. At Newton, we have taken a random portfolio from our investment universe and undertaken a temperature alignment analysis using three different methodologies: one came out showing it to be aligned with a 1.5-degree Celsius rise, the second methodology indicated a 2.5-degree Celsius rise, and the third revealed a rise of 4 degrees Celsius.

Given this significant disparity, the natural tendency would be to pick the one with the lowest temperature increase, but because this is a nascent space where methodologies are changing frequently, it is not a question of simply selecting the one that gives the best results. Instead, providing a consistent methodology so investors can make an effective comparison between different strategies and companies' ESG credentials is paramount.

Once the correct approach has been determined, it needs to be maintained and widely adopted, but we are yet to reach the point at which the best approach has been determined and adopted across all industries, including the investment industry.

There are frameworks being developed to this end, notably from CDP (formerly the Carbon Disclosure Project), which has been reporting for over a decade, and which is providing some consistency because it requires companies to report

against its framework. However, the CDP framework is not being reported in a uniform way across different jurisdictions – a requirement for most global investors.

At the United Nations Climate Change Conference (COP26) last November, the International Sustainability Standards Board (ISSB) was created to work alongside the longstanding International Financial Reporting Standards (IFRS) on accounting standards. The ISSB will be convening soon to establish a board which should start producing a framework and methodologies over the next 18 months, so that companies can be provided with a useful structure and guide rails to determine the qualitative factors needed for consistent ESG data reporting.

Accounting frameworks and standards have been in place for over a century, and while there are no agreed accounting standards for ESG considerations as yet, we believe a shift in momentum is finally under way. As a member of the IFRS Advisory Council, I see first-hand how various parts of the accounting standards framework are under constant and thorough scrutiny and review to find the path of best fit across the multitude of stakeholders. We believe the ISSB will ultimately follow a similar model, using stakeholder inclusion to arrive at the best possible framework to ensure a level of consistency for the global ESG rating of individual companies.



► Written by Ian Burger, Head of responsible investment, Newton Investment Management

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All systems go

✓ What does the path to \$5 trillion look like for bond ETFs?

Twenty years ago, computerised stock trading was reshaping the unseen market plumbing that connects buyers with sellers. Pit-style trading floors were going digital, and global stock exchanges were becoming electronic. These advances were delivering greater convenience and efficiency to the world of investing.

For fixed income, the creation of the first bond ETFs by iShares in the summer of 2002 revolutionised this market generally perceived as cumbersome and opaque¹. Over 20 years, bond ETFs have become fundamental to fixed income investing and removed many barriers to market participants.

In fact, bond ETFs connected the

fragmented fixed income markets with transparent and liquid on-exchange trading, creating an entirely new class of building blocks for assembling fixed income portfolios. For the first time, all investors could buy a portfolio of bonds, with the click of a button, for a known bid-ask spread and relatively low fee.

It was a point of no return. A movement that started with four iShares bond ETFs has now grown to USD 1.7 trillion in assets under management (AUM) and more than 1,400 products around the world². Global investor assets in bond ETFs have grown by 23% annually—double the growth of open-end bond mutual funds and triple the growth of the global market for bonds itself.³

Bond ETFs simplified how investors all over the globe access fixed income markets. Twenty years ago, it would have been difficult if not impossible to even imagine instantaneously buying or selling thousands of bonds in a single trade at a transparent price—exactly what bond ETFs have empowered investors to do. Bond ETFs have brought transparency, access, liquidity, and efficiency to millions of fixed income investors.

Today, millions of individuals and financial advisers use ETFs for convenient, low-cost exposure to thousands of global bonds, while large discretionary wealth managers, asset managers, and asset owners use a broad array of bond ETFs to make specialised calibrations to their multibillion-dollar portfolios. The convenience of bond ETFs makes them prime candidates for use in strategies that seek to take investment losses to offset taxable gains.

Furthermore, the adoption of bond ETFs has been accelerated by

the dynamics of the pandemic, which exposed longstanding inefficiencies in fixed income markets. Bond ETF growth persists even in the face of mounting inflation and rising rates as investors around the world look for better ways to access fixed income returns.

For these reasons we are upgrading our projections for global bond ETF AUM, forecasting that the size of the industry will nearly triple and reach USD 5 trillion (or 5% of the total bond market) by the end of 2030.

We believe that tripling global AUM is achievable this decade, and the acceleration in bond ETF adoption will be fuelled by four powerful trends that broaden and deepen their usage:

1 - Building blocks in evolved 60/40 portfolios: More investors are blending bond ETFs with active strategies that seek to meet investment objectives and avoid unwanted risks.

2 - Catalysts for modernising bond markets: Bond ETFs are reshaping fixed

income market structure by helping to drive electronification, algorithmic bond pricing, and portfolio-oriented trading.

3 - Increasingly precise sources of potential returns: New bond ETFs are providing more precise fixed income exposures that allow investors to build increasingly customisable portfolios, hedge risks, and capture opportunities.

4 - Tools for seeking active returns: Institutional investors including active asset managers are turning to bond ETFs for transparency, access, liquidity, and portfolio efficiency.

The future looks bright for the growth of bond ETFs because they help all types of investors take on the thorniest problems in fixed income. In fact, we think that the current challenges associated with high inflation and rising interest rates will attract more first-time ETF investors and prompt existing investors to find new ways to use these versatile investment tools.



To learn more about BlackRock's index solutions for UK pension schemes, please contact Justin Wheeler, Head of UK Asset Owners at BlackRock – Justin.Wheeler@blackrock.com and visit our website at www.blackrock.com/uk/professionals/solutions/index-investing

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¹ iShares launched the first bond ETFs in the U.S. in July 2002.

² BlackRock, Bloomberg, Morningstar (as of March 31, 2022).

³ Sifmap for U.S. MFs (as of December, 2021), Broadridge for non-US MFs (as of November, 2021), BlackRock GBI iShares for global ETFs (as of December, 2021), Bank of International Settlements and Securities Industry and Financial Markets Association for global bond market (as of July, 2021). Bond ETF average annualised growth rate of 23.4% compares with open-end mutual fund growth rate of 9.5% in the five years ended December 31, 2021. Per BIS and SIFMA, the value of the outstanding global bond market grew 7.3% annually in the five years ended December 31, 2020, the most recent data available.

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Flying high

► PwC partner, Raj Mody, talks helicopters, national paper slip-ups, and driving sheep across London Bridge

Institute of Actuaries, along with several apologies, but personally I didn't mind and was busy celebrating.

► If you did not work in pensions, what sector do you think you would be in instead?

I enjoy communicating, getting to the nub of complex matters and demystifying jargon – so something in education, broadcasting or writing.



► What was your dream job as a child?

I grew up in the era of the Boeing 747, Concorde and the Space Shuttle, and dreamed about flying one of those.

► What do you like to do in your spare time?

I'm a trustee of a charity that inspires young/disadvantaged people to fulfil their potential in aviation and space. I also fly helicopters.

► Do you have any hidden skills or talents?

I have a private pilot's licence, which is handy for what I do in my spare time. I have once driven sheep across London Bridge, which I suppose required a certain kind of hidden skill.

► Is there a particular sport/team that you follow?

I've never followed particular teams, but enjoy the atmosphere from watching a variety of live sports. I'm looking forward to Major League Baseball in London next year.

► If you had to choose one favourite book, which would you recommend people read?

I recently reread *To Kill a Mockingbird* ahead of going to see Aaron Sorkin's new play in the West End, which was excellent. It left me with a renewed appreciation of the subtlety of the book.

► And what film/boxset should people see?

Classics would be *Homeland* and *Breaking Bad*. For something more current I recommend *The Morning Show*, *Better Call Saul*, *The Marvelous Mrs Maisel* and *Ozark*.



► Is there any particular music/band that you enjoy?

My children are in charge of the household Spotify and Sonos, so I'm learning to enjoy some very up-to-date playlists. There's nostalgia in the covers and remixes, though.

► Who would be your dream dinner party guests?

I like to understand how the world really works, behind the scenes, so I would invite a collection of heads of intelligence services. Obviously I don't know all of their names, and couldn't tell you even if I did.

► Is there an inspirational quote/saying you particularly like?

"Consistency beats intensity". I also like:

"Wherever you go, there you are."

► Written by Francesca Fabrizi

► What's your favourite memory of working in the pensions sector?

Discovering I had qualified as an actuary was an important career milestone. I found out the news a day earlier than expected, because *The Times* published the qualifiers list on the wrong day by accident. Some high-level conversations were had between the paper and the



PENSIONSAge

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➤ Summary

- Disputes around pension provisions are often driven by a difference in motivation, but engaging all parties early on and listening to concerns can help prevent escalating conflict.
- Unions can offer valuable insight into member views and can also help to communicate complex pension changes with affected members.
- Pension investments are of increasing interest to trade unions, but pension scheme trustees must remain mindful of their fiduciary duties.

Unlikely allies?

➤ Following a number of high-profile disputes, Sophie Smith explores how pension scheme trustees, sponsoring employers and unions can work together in the interest of members



Pensions as a topic does not often make national headlines, but when it does, it rarely seems to be portrayed in a positive light.

The Universities Superannuation Scheme (USS), for instance, has made headlines multiple times over the past year, shouldered with part of the blame for the disruption faced by thousands of students amid ongoing strike action.

At the heart of this dispute lies a shift away from the DB structure of years past. The USS is the latest in a string of schemes to reduce their DB offering, with just 11 per cent of DB schemes still open, according to the PPF's *Purple Book* data.

But that does not make the news any easier for members to swallow, and it may be that this 11 per cent proves much harder to shift.

"If you've got a DB scheme now, that means you've got a strong union," says TUC policy and campaigns support officer, Jack Jones, explaining that industries that did not have union recognition were the first to get rid of their DB schemes.

Jones suggests that a greater

knowledge of what has been lost by those that have been moved away from DB is now prompting an increase in disputes, along with greater awareness of the shortcomings around the schemes that replaced DB structures, which Jones warns can be a case of "very significant downgrading".

Any financial cuts are also of increasing concern amid the current backdrop, as 20-20 Trustees trustee director, Stuart Walters, emphasises that "in today's fast-paced, pressurised and increasingly complex working environment, protection for workers facing harsh and uncertain workplace treatment and conditions has never been more important".

"With many businesses experiencing financial stress in the current climate, some are unfortunately facing the prospect of redundancies, changes in business ownership and amendments to employee terms and conditions," he says, stressing that "pensions is a very emotive subject".

Necessary evil or opportunistic cuts?

Finding middle ground

There are a number of approaches that parties can take when engaging on pension issues. Unite Union's spokesperson, for instance, suggests that parties look to pre-existing collective bargaining arrangements, as well as pension consultative committees or negotiating committees.

Perhaps the most notable of these would be the Joint Negotiating Committee established by the Universities Superannuation Scheme (USS), University & College Union (UCU) and Universities UK (UUK), although Unite points out that this does not currently include all trade unions who represent USS scheme members, and "it should".

Mercer chief actuary, Charles Cowling, also suggests that whilst this is a good approach in this particular case, as USS is in a unique situation, being a very large open scheme with very many different employers, it may not be applicable to other schemes.

"There are few other trustees that have such a significant role in determining future benefit provision to employees," he says. "And probably that is a good thing. The trustees' primary duty is to look after the benefits that have already been promised to employees and are secured by the pension scheme. Trustees generally don't (and probably shouldn't) get too involved in determining future benefit provision to employees. This is generally a matter between employers and employees/unions."

This emotion means that changes to pension provision can often be viewed through a very different lens by different parties. A Unite Union spokesperson, for instance, argues that some employers have made "opportunistic proposals" to change members pension provision when their covenant strength and levels of profitability haven't warranted it.

Unions are also quick to dispel the theory that they might not understand the pension landscape, as Unite argues that trade unions are "fully aware and understand key pension developments".

Despite the complexities, Unite says that employers and pension scheme trustees should "rightly expect challenge to their decisions" from unions; "especially when you consider that the First Actuarial Best-estimate Index shows the financial position of the UK's 5,318 DB pension funds on a long-term basis, allowing for realistic future investment returns, has a combined £350 billion surplus as at 31 March 2022".

Underlying motivation is perhaps the most dividing tension. Unite's spokesperson argues that whilst unions provide members with front-line support to defend and shape better pension outcomes, "most employers' focus is normally around increasing and protecting profits and their employees' cost-of-living struggle and future pension poverty is normally a by-product".

"Disagreements arise because both parties have different needs and stakeholders," adds former Society of Pension Professionals president, James Riley. "Pensions change is a significant issue for all parties and there will inevitably be disagreements given the different parties' responsibilities. Disputes have therefore always been a part of pension change and will remain so."

Whilst Riley highlights this tension as reason for open dialogue, some pension scheme trustees and sponsoring employers may be questioning why they should engage with unions at all.

However, according to Gowling

WLG principal associate, Liz Wood, in many situations where changes are made to pension provision, there will be an obligation to consult with representatives of the affected scheme members for a

minimum of 60 days.

“Where a trade union is recognised by the employer, such representatives will include the trade union, to the extent that the union’s collective bargaining

agreement is in respect of the affected scheme members,” she explains.

Despite this, Wood acknowledges that there can be a reluctance to engage with the union by employers, regardless of whether there is a legal requirement to do so or not.

“Some employers are worried about their proposed pension scheme change consultation being hijacked by a militant union response,” she says, clarifying however, that in the vast majority of cases, involving unions “reaps its own rewards”.

Focusing on the fiduciary

Unions are increasingly turning their attention to pension scheme investments, whether this is in relation to overarching environmental, social and governance (ESG) concerns, or more scheme specific concerns, as in the case of the App Drivers and Couriers Union and Uber, which raised concerns over the lack of a Sharia-compliant option for drivers.

Gowling WLG principle associate, Liz Wood, confirms that a pension scheme’s investment strategy is primarily an issue for the trustees, with unions technically having no ‘right’ to input into the investment strategy, just as the sponsor has no ‘right’ to do so, other than through the required statutory consultation on investment strategy.

However, she acknowledges that trustees are nonetheless increasingly taking a more holistic approach to their investment strategy, and some trustees are looking to understand their members’ views on investment strategy, with an engaged trade union potentially a “useful source of information” that can act as a “conduit for views of the members”.

Yet caution is needed, as Wood explains: “In the investment context, regardless of how strongly the union and/or members feel about how/where the scheme’s assets should be invested, this is ultimately a decision for the trustees, taking into account their fiduciary duties. Some trustees (and employers) are concerned that involving the union in questions of investment strategy – even if only as an effective way of gathering member views – can create a precedent that the union will be consulted with in future on investment decisions. A measured and careful approach should be taken to any attempts to gauge the union/members’ thoughts on investment strategy. In particular, it may be challenging to understand clearly how representative of the whole membership any views gathered by unions are.”

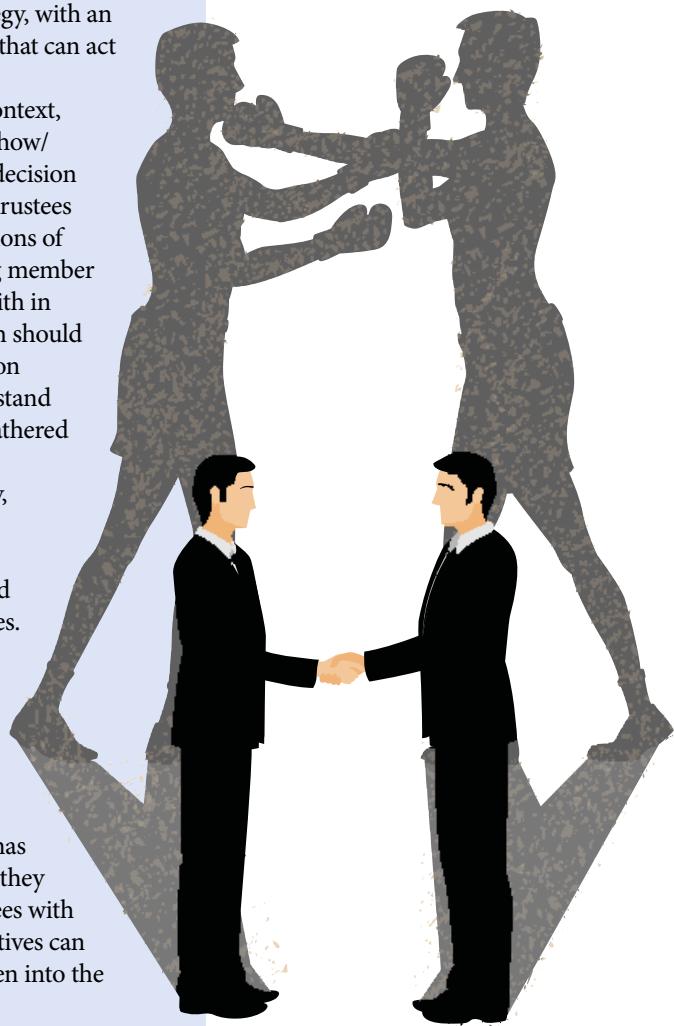
This sentiment is echoed by former SPP president, James Riley, who emphasises that whilst unions nevertheless represent “an excellent opportunity for employers and trustees to engage with and understand their members”, it is important to understand and respect the role and responsibilities of the pension scheme trustees.

Trustees may need to be prepared for an increased interest in this area though, as a spokesperson for Unite says that whilst the union has already established shareholder resolutions in pursuit of a wide range of change on behalf of its members, “this is likely to continue to grow”.

“Having 50 per cent member-nominated trustees on your DB board is a good start. In the DC space the move to master trusts has divorced many members from the governance of their schemes,” they state. “Employers should establish pension consultative committees with trade unions, so that trade union member-nominated representatives can fill the void that has been created and keep members rightly woven into the ESG investments in their pension schemes.”

Two sides of the same coin

“Representatives can explain the changes to members and, ideally, be supportive of the proposals, either from an early



stage, or confirm their support during the consultation period, which is more likely to result in a positive outcome and better member engagement,” she says. “In many cases, this can offer a valuable boost to the employer’s consultation process, because the trade union/staff representative can offer help to affected members in understanding the changes, and feedback members’ questions and comments.”

Indeed, Jones suggests that unions’ pension expertise can help level the playing field a bit, stressing that “it’s really important for the members to have somebody in that process whose main interest is looking out for their interests”.

Yet, despite these benefits, there are clear concerns around the process, particularly as to whether employers are engaging in these consultations in good faith.

“There is a requirement for employers to consult in good faith, but as far as I can tell, there’s no actual kind of enforcement,” Jones says, arguing that some employers may not be properly engaging with any member feedback.

Agreeing, Walters stresses that effective consultation involves taking account of, as well as listening to, the views of employees and representatives and must therefore take place before decisions are made. “Making a pretence

of consulting on issues that have already been decided is unproductive and engenders suspicion and mistrust about the process amongst staff,” he warns.

Commenting in response to these concerns, however, a spokesperson for The Pensions Regulator (TPR), states: “TPR’s responsibility is to ensure that the framework is adhered to. We have powers to direct employers to remedy any failures to comply with the duty to consult and to fine them where appropriate.”

Even where there is a good faith consultation though, Jones warns that the statutory obligation period is “relatively short” and fails to leave enough time to fully consider proposal changes and develop countermeasures.

This is a concern shared by Unite, which argues that earlier engagement with trade unions and the scheme members they represent is “vital” to give the time that is necessary to allow meaningful consultation to take place.

Going further, it argues: “An extended consultation beyond the minimum or an additional pre-informal consultation stage isn’t sufficient because more often than not then sponsoring employers and trustees have already determined their chosen route. Trade unions and the scheme members they represent should be part of the conversation around the potential problems/difficulties that may

exist and what the possible solutions could be, rather than being delivered with a fait accompli.”

Putting aside differences

Wood agrees that it is better to bring the union along from the outset, rather than having to deal with a union that has not been properly briefed or is involved late in the day, and so is immediately placed on the back foot in discussions and more likely to create challenges.

The position is more nuanced for pension scheme trustees, however, as Wood explains that in most cases, changes to a pension scheme are employer-led.

“The trustees usually have a more passive role in the process, and there would be no obvious reason for the trustees to engage directly with the trade union or staff representatives,” she says, clarifying however, that if trustees are concerned that a consultation process led by the employer isn’t having sufficient regard for certain staff representatives, be that the trade union or others, it makes sense for the trustees to check with the employer.”

Adding to this, Walters emphasises the need to understand the psychology, process and behaviours of the negotiating process, arguing that this can have long-reaching benefits for workers and management alike.

“It will bring the negotiation to a successful conclusion, avoid issues which can escalate into costly industrial action and work towards building a long-term relationship and unity,” he says.

“The best pension decision-makers are those who understand the dynamics and challenges of all stakeholders, have a clear view of where they are going and can articulate in the debate. Even better when the scheme has a professional trustee who also understands first-hand the rules of engagement required to get the best outcomes.”

Written by Sophie Smith

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PODCAST



Royal London Asset Management senior fund manager, multi asset credit, Khuram Sharif

Multi asset credit

► **Pensions Age editor, Laura Blows, discusses various developments in multi asset credit with Royal London Asset Management senior fund manager, Khuram Sharif**

The Covid crisis highlighted three key investment issues, Royal London Asset Management multi asset credit senior fund manager, Khuram Sharif, notes in the latest *Pensions Age* podcast, *Multi asset credit*. These are the importance of positioning, the understanding of risk and being agile, he states.

As RLAM was positioned for the late stage of the credit cycle through investments in higher-quality credit, more defensive credit, and bonds that were more liquid, it received downside protection “but also when the market rallied these bonds rallied first, enabling us, from a market perspective, with the opportunity to recycle these into some undervalued assets at that point of time”.

Understanding the risks was particularly important during the sell-off, he adds, as certain parts of RLAM’s credit portfolio were trading at recovery levels, “which enabled us to outperform when the market rebounded... as a result, being proactive is key in making decisions during that period of time.”

The Covid crisis also saw the advent of new risks, he adds, particularly with supply chain uncertainties and elements of deglobalisation.

Two other market issues are also affecting supply chains, Sharif adds – the war in Ukraine, and the concerns regarding rates and inflation.

In addition to the tragic human toll of the Ukraine war, Sharif states it has also generated rising energy costs and broader input costs such as fertilisers,

feed, basic industries, and metals, along with uncertainty in the labour market, which is impacting pricing through the supply chain.

The supply chain volatility, tight labour markets and shortages “has really exacerbated inflation”, Sharif says.

“We think central banks are going to be quite hawkish on this basis and they’re going to look to tame inflation to the extent they can, and we expect further rate hikes to help mitigate the effect of inflation. This in turn will effectively reduce financial flexibility both for consumers and corporates, which will ultimately impact the global economy,” he adds.

Looking at the credit cycle specifically, the current trends in rates and defaults “really suggest that we’re in the midst of, if not already in, the late stage of the credit cycle”, Sharif suggests.

“The rise in rates we have experienced since the second half of 2021 has effects both from a fundamental corporate perspective but also at the asset class level. As rates have increased and yield curve has shifted, this has meant that longer-dated bonds have been most at risk and have performed poorly as a result,” he says.

“Therefore, longer-duration assets which are more sensitive to rates such as investment-grade bonds and long-dated government bonds have suffered and sometimes this risk is really underappreciated. The recent volatility just shows how sensitive investment-grade bonds are to rates and this also

illustrates the importance of income-earning assets, which provide cushions during periods of volatility and represent a key component of total return. This can be seen really in the return profiles of high-yield, investment-grade, and loans in both 2021 and the first quarter of 2022. Where loans, which is generally a higher income-producing asset class with limited interest rate risk, performed the best while high-yield bond asset class income component helped to offset the capital losses resulting from increasing government bond yields. By contrast, investment-grade bonds with limited income component and total return resulted in negative returns for capital losses as bond yields increased,” Sharif explains.

Looking at the current high-yield market right now, Sharif states that it is yielding over 6 per cent with a duration of four years, while investment-grade offers a yield of approximately 3.25 per cent and a duration of seven years.

“This further demonstrates how little headroom there is within investment-grade to protect against interest rates, and this is likely to be a concern given the uncertainty over the coming months. Really, this makes the story for short-duration, high-yield particularly compelling,” he explains.

Sharif continues: “With the shift in yield and credit curve, the frontend of the curve is looking very attractive and as a function of that we found some great opportunities in short-duration, high-yield. That asset class really is an all-weather solution for us because it is able to mitigate these concerns that we believe we have in the near-to-medium term but also works through the credit cycle.”

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



Passing the torch

► Ahead of his retirement, Aries Insight co-founder, Ian Neale, sits down with Sophie Smith to discuss his more than 30 years in the pensions industry

of the review recommendations", particularly as they were widely accepted.

Room for improvement

Despite the accumulation improvements brought in by AE, Neale says that decumulation remains a "major challenge", as savers must decide how to convert their defined contribution (DC) pension pot into a sustainable pension in retirement, which can be a particular concern amid the decline in defined benefit (DB) pension provision.

"Unless you purchase an annuity, you're not going to get an assured income stream for the rest of your life," he says, explaining that for many savers with just a few thousand pounds saved, cashing out may be the only sensible option, as they won't be able to buy a worthwhile annuity.

"It's just not going to last, with many people drawing down about 8 per cent a year, that's not sustainable," he says.

In an ideal world, Neale says he could see "real signs of hope for a renaissance of the pooling principle that underpins all of human societies - and, in my view, all genuine pension schemes whose purpose is to provide an income in retirement."

"This principle is embedded in DB schemes, but very few in the private sector are still open. Instead, most workers today, if they are saving at all, are in a money purchase scheme and simply accumulating an individual pot

of money. After they cease working, they're faced with the challenge of converting their capital into income, without knowing how long it will need to last. Pooling this longevity risk, for example via collective money purchase arrangements, is the way forward."

There have also been missed opportunities to improve the landscape, particularly the failure to include provisions in drafting the bill that became the Pensions Act 1995 to abolish contracting-out, which Neale describes as "a failed experiment that for 60 years has cast a long shadow over the UK pensions landscape".

"The idea should have been strangled at birth in 1961," he says. "Instead, contracting-out limped on to 2016, and while the protected rights route introduced in 1988 was abolished altogether in 2012, of course the legacy of GMPs is very much an ongoing burden today."

Pressing restart?

Despite the missed opportunities and unintended consequences of past legislative changes, Neale clarifies that, in pensions, it is not really possible to 'rip it up and start again', no matter how tempting this may be.

"Simplification has been the holy grail for over 20 years, at least since Alan Pickering's report in July 2002, and yet we despair," he says. "A fundamental limitation, more significant for

After more than 30 years in the pensions industry, Ian Neale has built a reputation as a key figure and spokesperson, helping pension professionals understand one complex legislative change after another. According to Neale however, auto-enrolment (AE) ranks as the number one improvement in his time in the industry.

"Many criticisms can be made of the 12-year delay in full implementation, from the Pension Commission's final recommendations in November 2005; and of all the complexity introduced along the way," he acknowledges, noting that compliance is also not a simple exercise at all, for any employer.

However, Neale clarifies that that has to be set against the fact that, before AE, no private sector employer had to pay a penny into a pension for any worker.

He also points out that there are other pressures on savers amid rising inflation, stressing that "the last thing people would welcome" is a requirement to, in a way, reduce their monthly income.

Yet he says that it is "a little bit harder to understand the government's delay in setting a firm date for implementation

pensions than many other areas of law, is that retrospective effect is normally unacceptable: accrued pension rights are property rights subject to the rules in force at the time.

"Any attempt at genuine simplification, such as the original objective behind the Finance Act 2004, is bedevilled by the perceived need to load it with provisions to protect accrued rights.

"The starting point here should be to recognise the sources of the problem, ie primarily lawmakers and regulators, and their inability to plan for the long term," Neale states. "That is where the greatest need for education lies. Pension professionals who have to wrestle with this expanding morass have my sympathy".



Instead, Neale argues that it would be better to "stop tinkering with pensions legislation and take a considered long-term view of what the requirements of people are in later life", emphasising that "politicians can't see past the next election" five years away.

In light of this, Neale suggests that, perhaps the best hope for simplification might lie in a completely new, perhaps parallel, way of saving for later life.

Looking to the long term

"This might, for example, integrate retirement provision and state benefits with funding for social care and transition from one form of housing to others," he explains, suggesting that oversight should be taken out of the hands of politicians and vested in a "later life commission".

"I think we need real long-term vision that is not constrained by the Treasury and that's why we need what I've called a later-life commission to look at this kind of integration, and that of course also means integration with the state benefit system," he adds.

Indeed, Neale highlights the limited take-up of pension credit as an example of how the "state benefit system is and always has been inordinately complicated" and a "nightmare" for savers, emphasising that "it's no surprise that so many people are reluctant to jump through the hoops".

However, Neale says that whilst the pensions industry would likely be willing to work with other sectors to tackle these issues in the remit of a later life commission, which would be "wider-ranging and more ambitious" than a pensions commission, he warns that other "unremitting" pressures on the industry show no signs of slowdown.

Helping others to help themselves

Despite these challenges, Neale encourages those just starting out in the pensions industry to "stick at it", emphasising that it's one of the very few

industries where you can still talk about the possibility of having a career, as well as offering genuine job satisfaction as, almost by definition, you are helping others.

"That's what we're here for", he stresses, "fundamentally, if we're not actually helping others, then why are we here? No one is completely self-sufficient, and we all have different abilities and talents so we must work together, and that's what pension provision and administration is all about."

Looking back on his career, Neale adds: "First and foremost, it has been an honour and a privilege to have served in such a vital sphere of life, and to have contributed to making a difference in building the Aries Pensions System. The recognition we have received has been the reward of which I am most proud. All that I know about pensions I have learned from colleagues and the many experts, past and present, with whom I have worked since 1988. Like Isaac Newton, I have been standing on the shoulders of giants (although I would never claim to have emulated his foresight)."

Looking ahead meanwhile, armed with his own pension savings and having just moved to Scotland, Neale is looking forward to working on his new home, helping his large extended family with their own projects, and most importantly, reading something other than pensions legislation!

"I'm looking forward to actually reading some of the books that I bought over the past 50 years, always thinking that's an important book that I must read, but never got around to it," he says.

That's not to say that pensions will be forgotten though, as Neale stresses that "for so long as I retain the intellectual capacity, I shall retain an interest in the vibrant future that the pensions industry potentially should have".

Written by Sophie Smith

ESG: Cutting through the noise



■ Summary

- In recent years, the amount of talk and corresponding information on ESG and sustainability has been ever increasing.
- Trustees on the whole are coping, although the small- to mid-size schemes may be feeling somewhat overwhelmed.
- Trustees are encouraged to take a step back and think about what is right for their particular scheme, especially in the race to net zero.

5 June 2022 was World Environment Day, a United Nations day aimed at encouraging worldwide awareness and action for the protection of the environment. Using the hashtag #OnlyOneEarth, the campaign called for "collective, transformative action on a global scale to celebrate, protect and restore" the planet.

However, pension trustees, as gatekeepers for billions of assets under management, do not need a special day to remind them of their role in protecting the planet. There has been a deluge of information, guidance, regulation and some might say pressure thrown at them about what they should be doing, particularly around environmental issues in recent years, and not only in relation to the 'E' in ESG, but the social

■ The topics of ESG and sustainability are dominating pension agendas for all the right reasons, but are pension schemes coping with the overwhelming amount of pressure this is putting on them? Francesca Fabrizi asks

and governance aspects too. But has it all been too much?

"There has been a lot for pension funds to consider with regards to ESG and sustainability," says PLSA deputy director of policy, Joe Dabrowski, "and there has been a lot of change over quite a short period of time – updated regulations, updated guidance, updated codes in combination with better data and more analysis."

"We've seen changes to the stewardship code; changes in guidance from both The Pensions Regulator and the Financial Conduct Authority; plus regulatory changes with the Pension Schemes Act. We've had in-depth (and helpful) information from groups like the Institutional Investors Group on Climate Change (IIGCC). There have been implementation statements. There have been updates on the PRI code, and so much more, so a lot in a really concentrated period of time."

The past two years, he continues, have

been particularly extreme. "It's always busy in pensions. There are always lots of things happening, but it feels like a lot of big things happened in an overlapping period – partly because of legislation, partly because of the pandemic, partly because of COP26."

"If we look back even at the last year, for example, there were probably close to 70 to 100 consultations on issues affecting pension funds, in one way or another, from admin through to investments and member communications. That's a lot for pension funds to have to deal with."

On a positive note, he adds, by and large, pension schemes are coping well with all of that.

One reason for this, argues PTL managing director, Richard Butcher, is that schemes finally understand what ESG and sustainability are all about, what it means for their schemes, and they are keen to get on board.

"ESG is about mitigating long-term financial risks. Sustainability is about

mitigating long-term financial risks. Quite often, that's all consistent with making sure that we've got a world that is a better place.

"When we explain that to our co-trustees or committee members, generally they get it. They're more than happy to use the influence that we've got on a particular board to try to make the world a better place.

"So, we're all on board with the concept of investing in a better way, managing those long-term financial risks, thinking about the climate, trying to do good, trying to do well, and insofar as it doesn't conflict with our fiduciary responsibility, that's what we'll do."

The challenge hits, he continues, when it comes to dealing with all of the statutory and regulatory requirements. "We have to have statements of intent, statements of investment principles. We have to set out our policies and philosophies. We have to set out implementation statements. We have to set out TCFD reports, with huge amounts of information, huge amounts of reporting, and with the best will in the world, these things, although they're aimed at the member, are rubbish communication materials."

Striving to do more

So while most pension funds understand what ESG and sustainability is all about, and are on board with the reasons behind it, there will always be some that are doing it better than others.

Aon co-head of responsible investment, Tim Manuel, explains: "I work with a lot of different pension schemes and a lot of different trustees and I've seen the full spectrum.

"There are three characteristics I see in schemes that are coping well – the first one is that they understand their role as trustees and the significant part they can play in all of this."

Not all trustees, he continues, fully appreciate the influence and the power that they have. "Trustees are at the top of

this enormous decision-making pyramid, and those who have a good appreciation of that deal with this best. Any decision that trustees make can have a huge knock-on effect as it essentially trickles down that pyramid.

"So, actually their role is about directing what happens in that pyramid beneath – which means setting the right tone, asking the right questions, but also acknowledging that most of this work is going to get done by others. The best trustee boards are ones that are acting strategically, acting like a proper board, trying to understand the issues, asking the right questions to identify who can help and they are setting clear goals and expectations."

Having the right attitude and approach, and wanting to add value, is the second characteristic of schemes that are doing well, argues Manuel.

"Regulation has of course been a catalyst to having lots of discussions around ESG and climate that would never have happened before. But I've seen a mix of approaches to that – some trustees just want to comply. With that approach, though, you get costs, but you get no value because all you're doing is ticking a box, and not really engaging with it.

"The better approach is where trustees seek to get some value from it. They know they've got to do this but, given that they're incurring these costs, they feel they might as well see what value they can get from it. They therefore engage with the process, and normally those initial conversations and discussions turn into something more."

Finally, it is the schemes that are more willing to work differently, says Manuel, that are finding it easier to adapt.

"Part of this is about raising the bar in terms of expectations. There's lots of support out there for trustees, lots of different ways they can work with that support. The trustees and pension schemes that are more open and more willing to working differently are the ones that are finding it easier to adapt, whereas

those that are a bit more fixed on the old ways of working are finding it more challenging when it comes to adapting."

What trustees have to do is pretty clear, claims Manuel, but when they look at what else they could do, that is when the possibilities open up. "I can understand how some trustees find that quite overwhelming, but there is a lot of support out there for them. Most pension funds operate with an investment consultant and a variety of other advisers that should be on top of all of this. They normally work with a whole load of fund managers and while it can be sometimes a challenge to cut through some of the high-level messaging that comes from fund managers, those fund managers have a huge amount of resource behind them.

"So, if the trustees are asking the right questions of the right people and directing them in the right way, then they can get all these different parties working on their behalf to support them."

Taking a step back

There is no doubt a wealth of resources available on the whole spectrum of ESG. The PLSA, for example, even has an ESG hub on its website intended to be a one-stop-shop for PLSA members looking for resources and information on all things related to responsible investment. Dabrowski comments: "We have put out simple guides for trustees, introductions to ESG, more specific and technical guidance on things like implementation statements and the CET tracker. We published our stewardship and voting guidelines earlier in the year and, when we talk to our members, a lot of them embed that in their work."

But as important and useful all the information out there is, says Sackers partner, Stuart O'Brien, even that can be overwhelming for trustees. "Every day there's another guide, publication or report on the topic of sustainability so trustees are possibly feeling a little overwhelmed, particularly the small-

and mid-size schemes. The very large schemes have in-house teams and the ability of trustee boards to delegate lots of activities. Small- and mid-size schemes, perhaps less so – there might be a single pensions manager who's expected to do everything."

It can feel, he warns, for a lot of small- to mid-size schemes, that there's a lot out there and they do not really know where to start. "Therefore trustees occasionally need to take a step back and look at what's important to their scheme in particular."

There's a lot of clamouring, for example, for schemes to make net-zero commitments, with big names such as the M&S Pension Scheme making ambitious pledges to reach net zero across their portfolios in the years ahead.

"That may be something that trustee boards want to do, of course. But I don't think any trustee board should feel bound into taking a particular set of actions – they should look at what's right for their scheme and what's right for the time horizon of their scheme as well," says O'Brien.

For example, there are plenty of mid-sized DB schemes that are planning to be fully bought out with an insurance company in the next five years or so. "So, for them, their priorities are going to be slightly different – they're probably already very well-funded, and heavily de-risked. Yes, they may have to take certain actions to comply with the latest bits of legislation, but the important thing is that they do what's appropriate and proportionate for their scheme."

"Then there are other schemes with longer time horizons, including DC schemes, that will, in many cases, want to think about their long-term investment priorities and might feel that net zero is something that could be key."

To assist schemes in this area, Sackers have produced a *Getting to net zero* guide for trustees, the objective of which is to support pension scheme trustees in understanding the legal and practical issues that need to be considered as they

address the question of whether or not, or how and when, to get to net zero.

"Not another guide, you might say, but there are lots of people talking about what a net-zero commitment might look like and how you should go about doing it, but we didn't think there was very much on what to think about before deciding whether to make a commitment at all," says O'Brien.

"Some of the questions we see trustees wrestling with include: Can we make this sort of commitment to decarbonise our portfolio? Is that consistent with our fiduciary duties? How does that fit with the latest climate regulations? If we want to do it, what does that look like in practice? What have other schemes experienced when deciding when to make the commitment?"

"This guide looks at some of these questions, includes some legal commentary, and importantly includes some client experience, with HSBC and TfL commenting on what they've done in practice to put in place net-zero commitments."

Commonality and working together

Looking ahead, it does not appear that the noise around ESG and sustainable investing is likely to lessen any time soon, according to Manuel. "I don't think it's going to get any less intense in the coming years. The UK pension fund management industry has been a bit of an early mover in this space, and it is going to be continually adapting to get better and better and evolve."

RisCura head of research, Faisal Rafi, concurs. "It is likely that schemes are overwhelmed; and it is uncertain but we anticipate demands on schemes will continue to increase in the short term as beneficiaries, regulators and other stakeholders require more information. The schemes are reliant on their asset managers for this information and there is a large degree of variability within the industry. There is currently no standardisation of disclosures."

This standardisation and commonality, argues Butcher, is key to making lives easier for trustees going forward: "We need some common objectives. There's no commonality yet and, as a consequence, everybody's running around slightly confused about what it is that they've got to do."

"We are all on board with the underlying principle of investing in a risk-aware way, specifically in relation to ESG and climate. We want to do good, we want to do better, but on the reporting stuff, there is too much of it, and importantly there is no consistency. So it just absorbs a huge amount of time, and money, and actually distracts us from the main substance of what we're trying to achieve."

Dabrowski agrees that there are "gremlins in the system" that could be overcome with some level of consistency: "Because of the pace of change between some of the regulatory changes, things aren't always as consistent as they could be; or not all happening quite in sync that you might like them to. For example, for an end owner, it would be a lot easier if some of the obligations might have been on companies and others to disclose. If you're disclosing and the person you need to get the information from hasn't yet got a legal obligation to do so and is only doing it on a voluntary basis, or hasn't got a standardised way to produce or give the information to you, then that makes your life harder."

But all in all, he concludes, people are committed avidly to finding ways of doing everything smarter going forward, because any wasted effort is largely going to be paid for, in one way or another, by the scheme member. "There's much more awareness of some of the issues, and people are really trying to tackle them. We are in a really interesting place for sustainability."



Written by Francesca Fabrizi

Going for gold as a diversifier in DC portfolios

Faced with higher inflation, hawkish central banks and record-low bond yields, DC investors face a dilemma when selecting effective diversifiers that reduce portfolio volatility and enhance risk adjusted returns of members. But a new white paper suggests how an allocation to gold could play a supportive role in DC asset allocation

The uncorrelated returns generated by equities and bonds have been a feature of markets for the past 15 years, as central banks maintained ultra-low interest rates and quantitative easing continued unabated.

This has meant, historically, that government bonds have been used by defined contribution (DC) investors as a diversifier alongside an allocation to riskier assets, such as equities. However, a new white paper published by the World Gold Council argues that, given a combination of macroeconomic factors, investors should rethink this traditional diversification mix and consider including an allocation to gold in DC portfolios.

The threat posed by inflation

For context, high-quality government bonds – such as UK gilts – earned their place in retirement portfolios as a defensive asset that compensated investors generously, given the bull market in sovereign bonds.

But the macroeconomic backdrop against which DC portfolios are invested today is in stark contrast, the World Gold Council warns. Persistent inflation and growing geopolitical threats have prompted central banks, including the US Federal Reserve and Bank of England, to adopt a more hawkish stance and both have plotted several interest rate rises for this year. Yet, bond yields remain low in real terms compared to historical levels.

Perhaps the key finding for DC investors in the white paper is that when inflation is below 2%, global equities and global treasuries are negatively correlated, providing that much-needed diversification mix in portfolios. However, at inflation levels above 2%, this relationship “starts to break down”.

In other words, government bonds are no longer the so-called ‘safe-haven’ asset they once were.

Gold – onto a winner?

Yet, DC investors still need to achieve the right mix of asset classes to create a well-balanced portfolio that will see their scheme members through accumulation, up to retirement, and beyond.

This, the World Gold Council explains, is where gold comes in, given that it acts as both an effective diversifier and a hedge against inflation, currency depreciation and systemic risk.

Among the precious metal’s other key features is its ability to act as a store of wealth, deliver positive returns and provide liquidity during periods of market stress. A key point made in the white paper’s analysis highlights that, as the sell-off in equities and other risk assets increases with market uncertainty, gold’s negative correlation to those assets increases concurrently.

So far, so good – gold seems to have all the characteristics that investors require from a diversifier and at a time when these are “sometimes hard to find”. But the inflationary environment is

creating a more acute issue for those DC members in the decumulation phase of their journey. Inflation left unchecked will quickly erode the real value of members’ savings and may affect their investment goals and retirement plans.

Here, too, gold can play a role, as the data shows that the precious metal delivered an annualised nominal return of 9.1% in sterling terms over the past 50 years, outpacing both the UK and world consumer price indices, which measure the prices of goods and services.

In a case study, the World Gold Council sets out at what part of the DC investing journey an allocation to gold can be most beneficial – typically, at the ‘consolidation’ and ‘retirement’ phases, when members are more risk averse.

Their case study analysis used long-term asset class forecasts and assumptions around starting salary, salary increases and contributions to project a range of potential pension outcomes for a glidepath with and without gold. These forward-looking projections provided the following key insight: a 5% allocation throughout retirement could provide a more secure income in retirement as a portfolio following a glidepath with gold will exhaust its assets after a portfolio without gold. Ultimately, the white paper concludes that adding gold to traditional portfolios comprising allocations to equities and bonds is likely to appeal to DC investors. As they and their members brace for further risks on the horizon, gold alongside other effective diversifiers could help provide resilience to portfolios by providing diversification that works, protection against high and extreme inflation and enhancing risk-adjusted returns.

To view the paper, please visit www.gold.org/goldhub/research/market-update/case-gold-dc-asset-allocations

In association with





► Congratulations on your new role as managing director of Capital Cranfield. What is your background in pensions, and did you always want to work in the sector?

Thank you. I can definitely say that a career in pensions was not top of the list when I was a teenager thinking about what I wanted to do in life. Actually, opening the bowling for Surrey was certainly my number one priority at that age. However, after leaving university with my cricketing dreams behind me and no clear life plans, I took a three month “get me through to Christmas” job in pensions. It turned into a 25-year career and I do not regret one day. My pensions career has been diverse.

Bowled over

► Delighted to have taken on the role of managing director at Capital Cranfield, Harus Rai tells Francesca Fabrizi how he went from his cricketing dreams to working in pensions, what his plans for the business are, and what he believes are the key challenges for the pensions world today

I started my working life in pensions administration before moving into consultancy, pensions research and eventually trusteeship. In 2017, I was given the opportunity to join Capital Cranfield to oversee one of our fastest growing offerings, sole trusteeship and, as they say, the rest is history.

► How do you think your previous role as head of sole trusteeship at Capital Cranfield has prepared you for this new role?

Sole trusteeship is a very different way of operating a trustee board. For some schemes under a sole trustee the board and the scheme can become more “business like” and, having worked exclusively in this space with that mindset, I hope that these skills will support me in my new role.

Over the past five years, I have gained a full understanding of our people, our business, our culture and the market.

I understand where we have been successful and where we have not. As a company, we are a little different and this in-depth understanding gives me a great head start.

My work developing, and improving, our sole trustee offering has shown me what it takes to build and get traction for a proposition in the current marketplace. We will not stand still.

► What are your plans for the business/main goals going forward?

The next few years are really exciting for us. When I look at the calibre of our trustees and the teams that support them, I know we are well placed for future growth. That strength is testament to, and a function of, our culture of independence and integrity, as well as the hard work that we have put in over many years to drive our business forward and become one of the largest professional trustee firms in the UK.





For me it is important not to become complacent, so I hope to use my energy and commitment to this business to build on the skills of my colleagues.

My goal is to strengthen our firm even further, to remain successful in an environment where there are now more professional trustee firms and the competition is getting stronger.

One of my colleagues reminded me that, when we first met, I warned him that I'd be full of ideas and for every ten I came up with, maybe two would be viable. Having known me for a few years now, he is adamant that two was an overestimate, but that he never expected there to be so many from which to choose.

But seriously, while nothing is off the table, I see more evolution than revolution in our future. As someone once said, change is inevitable, but maintaining the culture which is so important to us at Capital Cranfield, while continuing to adapt to a changing marketplace, will be critical.

► What do you think are the main challenges facing pension trustees today?

There are going to be many challenges

for pension trustees both now and in the near-future. Schemes are already seeing budgets and resources stretched with the work around GMP rectification and equalisation. To that mix can be added TCFD reporting, changes in investment strategies due to ESG, work around the single code, the new funding code and pension dashboards. Against a background of rising inflation, the effects of the Ukraine-Russia War and the pandemic, it is clear to see that we may be in for a bumpy ride over the next few years.

What does the industry need in order to excel?

I always think about these types of questions in relation to smaller schemes and those with limited budgets that live in a world of 'must haves' rather than 'nice to haves'. It is important that for those schemes that absolutely want to comply with the new regulations, there is greater clarity and proportionality. I can tell you that such schemes have to use their limited funds wisely and therefore must identify their priorities carefully. The more help that we, as an industry, can give them to prioritise, the more chance they have of meeting the key

requirements.

If you wanted a facetious one word answer I would opt for simplification, but we had that in 2006.

► What keeps you busy outside of the office?

For my sins I am a downtrodden and frustrated Everton football fan (please let's not talk about this season). Apart from watching my team struggle each week, I am kept very busy by our new puppy, an American Cocker Spaniel called Tallulah, who within a very short period of time has come to run our household.

Aside from the football and dog walking, I'm also a radio presenter outside of work. I've been presenting radio shows since 2009, starting that career at my local hospital. For a while, I also presented on a FM radio station, a weekly Hip Hop/R&B show to West Sussex, Kent and Surrey. I gave up that show a little while back and now just concentrate on the weekly show at East Surrey Hospital. Shameless plug – you can hear me every Wednesday at 7pm on Radio Redhill.

► Written by Francesca Fabrizi



ESG & DC – creating the right tools

► **Francesca Fabrizi meets Manuela Sperandeo, Head of Sustainable Indexing, EMEA, BlackRock and Mark Guirey, Executive Director, MSCI to discuss how innovative developments in sustainable index investment is helping enable DC schemes to meet their ever-evolving ESG goals**

The environmental, social and governance (“ESG”) considerations discussed herein may affect an investment team’s decision to invest in certain companies or industries from time to time. Results may differ from portfolios that do not apply similar ESG considerations to their investment process.

► **The adoption of ESG investment has been rapid and wide-reaching in DC since 2019. What trends are you seeing?**

Sperandeo: There have been several interesting trends that have come about, if we focus on DC in particular. First of all, the fast-moving regulatory landscape has encouraged the whole industry to take a serious look at ESG considerations when building portfolios. Within that, index solutions have been a key enabler because, over the past few years, we have seen incredible growth in ESG indexing, availability of different ESG solutions, better data, but also advancements in indexing technology which lend themselves to having a stronghold at the core, for example, of the default offering.

So, the interplay between the regulatory trends and the rise of ESG indexing has been key – trustee boards are keen to execute on some strong commitments that they’ve made to sustainability, but also member demand is there. Industry surveys indicate that a vast majority of members want to have meaningful and measurable sustainability considerations in their pension portfolios.

Guirey: I agree the evolving regulatory environment has helped influence the adoption of ESG and the integration of ESG into DC funds. But there’s clearly an awareness that many members of a DC fund will go with the default option.

Whilst the vast majority of DC pension arrangements have incorporated

some form of ESG, they’ve done so more on a self-select basis and the trend has largely been that members don’t self-select, they don’t feel confident enough to self-select and, ultimately, they go with the default. So a big portion of the discussion has been: how do we put sustainability in default funds?

► **Why should schemes consider sustainable index investing?**

Sperandeo: There are multiple reasons. First of all, the traditional benefits of index funds remain as relevant as ever: transparency, efficiency and scalability – these are characteristics which have enabled the adoption of index strategies in defaults more broadly. In the context of ESG, when we look at integrating sustainability characteristics, the transparency point is particularly important, given the role ESG data plays in the security selection and portfolio weighting.

A lot of the concerns and anxieties that arise when you talk about sustainability relate to the different interpretations that are out there. Our experience has shown that, by having very clearly articulated and transparent index construction rules, investors can also ascertain what to expect from an investment perspective.

This is very much a default conversation, so it is actually an investment conversation that we are

having with our largest pension investors.

The level of transparency that indexing provides means predictability. There is clearly a consideration around the consistency of the methodology that you can apply across different exposures. Increasingly, it’s multi-asset in nature – the first developments took place in equity but are now actually expanding to the fixed income universe.

Guirey: Manuela touched on several interesting points there – relating to data, relating to it being about more than just equities but rather across the portfolio; that is all absolutely front and centre of where we are today. That plays to thoughts around how MSCI will look to ensure that the data is available, that it’s across different asset classes, that it is through the lens of environmental, social and governance.

We are looking at climate as a material, potential impact. Of course, many schemes are now making commitments on how they’ll deal with climate change or being required to from a regulatory framework. So, the development of solutions that deal with those aspects is very important in order for us to step forward.

► **In indexing, a number of alternative benchmarks have emerged. How can DC schemes navigate the options?**

Guirey: Part of this is knowing where you are today, so taking a bearing, how is the scheme positioned? What is it that

we as a scheme, if you're talking in the scheme context, want to do? How do we present as a company? What do our members want? Doing that analysis and taking a bearing is an important aspect.

How you then step forward into selection can somewhat be driven by that, because if you are clear where you are today, and you know where you might want to go, then the assessment of available solutions somewhat falls into place from there.

Sperandeo: A lot of the index insights that MSCI provides us feed into some of the portfolio consulting activities that we carry out, especially with pension funds. So, it's about measuring where you are today, and understanding the objectives. For example, with regards to net zero, we know that a lot of schemes have made net zero commitments, but there are different ways in which they can fulfil those.

So, having clarity around this – whether it's about decarbonisation, whether it's about weighting in favour of companies that are better prepared, or whether it's about excluding some companies – is key. There are different options and based on that you can simulate different scenarios.

We also, as a firm, have invested heavily in a whole portfolio solution mindset and, to do that, we have made available our climate-aware market assumptions. Investors have been using our market assumptions for many years, we make them publicly available, and now we think, given how meaningful climate risk is as an investment risk, we also need to account for that, so also have the option to calibrate market assumptions and expectations based on climate scenarios.

► There has been an increased focus on the 'E' pillar of ESG. Can you comment on the trends you are seeing in terms of strategy design in this space? Is now really the best time to be avoiding assets like oil and gas?

Sperandeo: This is a huge topic, given

market conditions and this is where the concept of choice that the different approaches provides is key.

There is a lot of focus on transition. Today we have the advantage of being able to collaborate with index providers and offer portfolios that are more transition oriented. Some of these may also align with existing regulatory labels and related recommendations, such as the EU Climate Transition Benchmark or Paris Aligned Benchmark.

So, we have a have a useful framework to help us build benchmarks that enable this transition. As part of that, a lot of these benchmarks also have constraints with regards to proximity to the parent universe in terms of active risk targets or sector and country deviation.

This is very much an investment consideration, so it needs to be evaluated in the context of the fiduciary duty. Indexing technology allows us to also keep the risk considerations at the centre, whilst promoting the transition for example by remaining broadly invested in high climate impact sectors but allocating within them to companies that are making progress.

Guirey: Climate change is a really important aspect and as we get to a point where commitments are being made and investors are aligning themselves to different frameworks – the IGCC, the Net Zero Asset Owner Alliance – they need to try to invest in order to achieve their alignment.

Therefore, consideration as to how to integrate environmental into being beyond just the rating of a company, but thinking about a company's impact on climate change, and climate change's impact on a company, is very important.

Therefore, real world decarbonisation goes way beyond consideration to just decarbonisation of your own portfolio – it's actually about what the real world impact of your actions are. Our journey towards net zero will be beholden on all of us ensuring that the appropriate

solutions and appropriate data is in place to enable that real world decarbonisation.

► Do you have any forecasts of how much ESG will make up of a standard UK DC portfolio?

Sperandeo: What we're witnessing is that there are some schemes which are offering sustainable portfolios as an option. Others are being more ambitious and are transitioning the default.

Some of the work we've been doing as part of our portfolio consulting activity demonstrates that if we look at portfolios broadly, at the European level, penetration is still quite limited. Last year, it was around 17%, it's now about 21%, so it's growing. We believe it will continue on an upwards trajectory in terms of adoption because of all the trends that we have been discussing today.

This year is going to be pivotal - the TCFD reporting requirements are likely to be a huge catalyst here, so I expect this percentage to increase.

Guirey: I agree – we spoke about regulation earlier and the impact that it has, and the requirement for schemes to report on a TCFD basis, and the limit on which they have to report moving from £5 billion down to £1 billion in terms of assets, the expectation is that £1.3 trillion of pension assets will be measured by the end of this year in terms of climate implications. Now of course once you start measuring something, you will ultimately start to think about how you can solve it. Therefore, that will become a big part of what we're seeing, it will become a big part of adaption of full solutions, and it will become part of everything that we do from here on.

BlackRock

► To view the full video, please visit www.pensionsage.com



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► **Time for trustees to re-think fixed income?** There is always a lot on trustees' agendas. Funding levels, covenant risk, ESG issues, endgame planning and more are undoubtedly keeping schemes busy. But is fixed income asset allocation opportunity on the agenda? p48

► **The evolution of fixed income: where are the opportunities now?** Georgie Lee looks at the role fixed income can play today, given the current environment p50

Fixed income: Back in the limelight



► **Benoit Anne, Director,
Investment Solutions Group,
MFS Investment Management**





Time for trustees to rethink fixed income?

There is always a lot on trustees' agendas. Funding levels, covenant risk, ESG issues, endgame planning and more are undoubtedly keeping schemes busy. But is fixed income asset allocation opportunity on the agenda?

In our view, now is the time to put fixed income back on the trustee agenda.

In recent years, record low interest rates have left investors feeling there is no alternative (TINA) to investing in risky assets such as equities in the search for yield and growth. However, TINA may be falling out of

fashion as an asset allocation strategy.

For underfunded pension schemes, increasing equity exposure to generate returns has tended to be the preferred route to help close the funding gap. However, we think now is the time for UK pension schemes to revisit fixed income allocations, with fixed income offering improved returns compared

to recent years while equity investors appear more and more concerned about higher inflation and slowing growth impacting company earnings.

Stagflation risks abound

Until recently, the case for equities was overwhelmingly strong, following the TINA narrative. Significantly higher inflation across the globe and the recovery in growth since the pandemic have driven central banks to tighten monetary policy. Good news for scheme liabilities (depending on hedge ratios, of course) but how long might this last?

Inflation is high across the board with the United States, Europe and emerging markets also facing significantly rising prices. But the story is different for each of these cases when you look at what is actually driving inflation. In the US, it's a classic story

of domestic demand pressures after the pandemic, wage pressures spilling over into the broader economy, a financing gap that has to be closed and oil prices rising significantly.

In Europe, however, it looks more like a classic supply-side shock. The output gap is still not closed but there are few signs of wage pressures hitting the broader inflation picture despite the spectacular rise in energy prices. Perhaps that is why the European Central Bank appears less hawkish than its US counterpart.

For the UK, stagflation risks abound, as noted in May's Monetary Policy Committee meeting. Despite voting through a 0.25% hike (with a third voting for 0.50%), the committee warned of 10% inflation rates and potential for a UK recession by the end of the year. Stagflation, sadly, is a central bank's worst-case scenario and the Bank is already struggling with two conflicting dynamics – fighting high inflation but also coping with worsening growth. Right now, the Bank of England is targeting inflation, but it could end up switching focus to growth sooner than the market expects.

Fixed income may benefit

In better news, we believe there are three main reasons for fixed income investors to remain positive.

First, while rate normalisation has been brutal and volatile, it could prove to be a positive long-term development. Long-term investors needed this rise in rates to make fixed income attractive again. One of the big constraints they faced was that yields were way too low, resulting in shifts into riskier assets to generate the returns required to meet scheme funding objectives.

Second, the market has already priced in a lot of future hikes, with some 150 bps of further tightening currently

factored in over the next year. With the growth outlook becoming more uncertain and markets more volatile, it is increasingly questionable whether the Bank can deliver this level of hikes.

Third, some of the inflation spike caused by Covid-19 disruptions may prove to be temporary. With a slowdown of inflation coming through the removal of temporary shocks, there is a case to argue that some of those rate hikes are going to be priced out. While inflation is likely to get worse before it gets better, the impact of the disruptions will eventually recede. How long this takes will strongly influence the pace and size of future tightening. At some point, we may see the Bank switching from an inflation-fighting strategy to a growth-inducing one.

What does this mean for asset allocation? At the time of writing, for the first time in years, bond yields have risen above equity dividend yields in the US. We are not there yet in the UK, but the gap is closing. Alongside the lower volatility of bond returns, this may make fixed income more attractive than equity on a risk-adjusted basis. Given the higher allocation to equities compared to history, rebalancing portfolios favours a higher fixed income allocation which would likely help to manage portfolio volatility. This is good news for maturing schemes looking to de-risk their portfolios, whether they have an insurance or self-sufficiency endgame.

Attractive entry point?

From an asset allocation perspective, no longer is there no alternative to equities, as value is being restored in fixed income.

In our view, we believe now is a good time to consider (re)allocating to fixed income. Fixed income valuations have improved materially and are likely viewed as attractive for long-term

investors. For instance, yields on UK investment grade corporate bonds have not been as high since early 2016. In addition, we believe the probability for further UK interest rates increases is lower than it was earlier in the year given the growing concerns over stagflation. Once we see some stability in interest rates, we may see the market adjust their expectations on future interest rates, which may benefit the fixed income total return outlook.

Of course, while pension scheme liabilities have benefitted from higher rates, the asset side for schemes with a significant equity allocation is likely to have deteriorated due to the recent drop in equity prices. That said, if the stagflation environment worsens, it may well prove to be more detrimental to equities than fixed income now that rates have risen well above their lows. For schemes that have been tactically overweight equities, it could be worth looking into rebalancing into fixed income.

Where do we see value from a return-generating perspective? European fixed income has been particularly hard hit, with value starting to appear across investment grade and high yield. Emerging market debt also shows some attractiveness, although prices have already come back to some extent.

It's been a busy year already and there's a lot on trustees' agendas. Is it worth adding fixed income to that agenda as we are starting to see 'income' returning to fixed income?



Written by Benoit Anne,
Director, Investment Solutions
Group, MFS Investment
Management

In association with





The evolution of pension fixed income: Where are the opportunities now?

► Georgie Lee looks at the role fixed income can play today, given the current environment

There has been a significant increase in levels of fixed income exposure in pension portfolios over the past decade. Contractual cashflows and secure income are attractive to pension investors and trustees, particularly those managing default risk who want clarity around the amount being paid out to pensioners.

As investors began looking beyond the sterling corporate bond market to find returns, trustees were tasked with weighing up the merits of diversification, against foreign currency risk. Large pension funds were more inclined to hold US and European bond investments, with or without hedging rates or currency, Dalriada Trustees director, David Fogarty, tells *Pensions Age*.

According to Fogarty, the UK approach to tackling narrowing credit spreads after the financial crisis was to look beyond standard AA bonds, and into high yield multi-asset credit and private debt. “This obviously has its challenges,” says Fogarty. “Investment consultants have been active in pursuing those different strategies and there has been a significant explosion in the number of products available in this space.

“We have been living in a very benign credit environment up until three months

ago, and so those risks have paid off. There have been very limited defaults, even throughout Covid-19. But there might be pain to come. If we go into a recession, corporates will default, and various bonds will default.”

The return of income

Inflation is climbing to rates not seen in 40 years and hit 9 per cent in April. The price of energy and tradeable goods is also rapidly increasing. The UK labour market is tightening, with the number of vacancies now outpacing the number of unemployed, while consumer confidence has plunged to record lows, sparking concerns around slowing growth.

According to MFS Investment Management managing director for UK & Ireland institutional sales, Kelly Tran, all eyes are on central banks and how much they can reasonably raise interest rates. Tran says this is an important moment for maturing defined benefit pension funds, which tend to be natural buyers of fixed income.

As these pension funds mature and de-risk, they tend to move into fixed income, says Tran, buying gilts and corporate bonds which have historically meant buying into an expensive and low/negative yields asset class.

► Summary

- There has been significant exposure to fixed income in pension portfolios over the past decade.
- Pension scheme funding positions may improve during high inflation.
- The income element is now coming back to fixed income.
- Market volatility for bonds is creating an entry point that pension fund investors have been looking for.

Until recently, many investors struggled to find the “income” element in bonds when looking for income assets for their portfolios. The amount of negative-yielding debt globally rose to a peak of \$18 trillion in 2020 (according to Bloomberg). But in the space of just over a year, it reduced to \$4 trillion in light of the current market sell-off, which can only be encouraging for an asset class that investors are drawn to, amongst other reasons, for the positive income stream it offers.

“That income element is now coming back to fixed income,” says Tran. “And that has not happened in a long time. While inflation is still a concern for pension funds, it depends on how high it rises. A scheme’s funding position could potentially improve in a period of high inflation. This is because rising inflation, from already high levels, may have only a limited impact on liabilities due to caps on pension increases and deferred revaluation.

Tran explains that as gilt yields are

likely to increase as the market adjusts to sustained higher inflation, it can reduce pension liabilities, depending on a scheme's hedging strategy. She adds that government bonds are currently yielding 1.9 per cent, levels not seen since 2015.

"Fixed income is now a cheaper asset class for pension schemes as they de-risk. This is a pivotal moment as market volatility for bonds is creating an entry point that pension fund investors have been looking for."

Pension funds have always used fixed income, both for liability matching and return-seeking. According to WTW global head of credit and manager research, Kate Hollis, UK pension funds have for years hedged rates and inflation exposure via LDI funds, and that has not changed. She explains that from this perspective, rate and inflation movements should not impact them directly. "However, the pandemic fundamentally changed the shape of the economy," she says. "The path out of this on a global basis is very different from country to country and from industry to industry. The Ukraine war has had enormous effects on the price of energy, food, and potentially, the supply of food. All these things need to be factored in when you are looking at credit."

According to Hollis, as inflation rises in developed economies, credits previously able to pass price rises on to customers are no longer able to. "This will have knock-on effects for credit qualities across all sectors," she says.

Another factor to consider, according to Hollis, is that high yield credits have, for a while, been easily able to refinance themselves. Now, it will become more difficult, as highly-leveraged companies struggling to refinance their debt enter tricky waters. On the consumer credit side, the fact that consumers are now being squeezed means some consumer credit may also become riskier.

Advantages for DB and DC schemes

There has been an evolution in markets

over the last few years, with investors now viewing fixed income as a safe growth asset, and pension funds using it as a matching asset.

According to Broadstone head of investment consulting, Marc Devereux, the majority of closed DB schemes now chasing end game or runoff are targeting lower-risk investment.

"The direction of travel is relatively clear," he says, "that schemes will aim to increase their allocations to lower-risk fixed income assets, and in particular investment grade corporate bonds". The focus on high quality and predictable cashflows from these assets, he adds, and the link to insurer pricing for potential buyouts, means that demand for these assets is likely to increase.

Devereux explains alternative forms of high yielding fixed income will increasingly feature as part of a diversified portfolio.

Though the size and governance budget of a scheme will be a factor here, allocations to fixed income can be structured as part of a multi-asset credit strategy, or "tailored with several strategies" by specialist managers, he says. For schemes with longer investment time horizons, there could also be a shift towards illiquid private credit covering direct lending, property, and infrastructure.

"The risk-return profile of these assets can be attractive relative to more liquid fixed income markets. We continue to see investment managers expanding their solutions, and in particular opening up access for smaller clients to invest," says Devereux.

According to Buck chief investment officer, Carl Hitchman, DB investors have been increasingly looking to buy and maintain credibility as an asset class for the flexibility they provide in deviating from benchmark allocations amid inflationary concerns.

As yields began to rise this year, and credit spreads widened, pension schemes that were not fully hedged found there

were benefits for their funding level, he says. "There may be an opportunity for schemes to potentially de-risk by switching out of some of the growth assets into fixed income. We see this as potentially attractive, not only for reducing risk but because it changes the dynamics of some pension funds."

He explains that cashflow-driven investment is used as a province for well-funded schemes that can afford to switch into gilts and credit. But in current market conditions, for schemes that still have a way to go on their journey plan and need growth assets, they can invest in buy and maintain credit strategies to match cashflows in the next five or 10 years.

"Those funds can leave their residual growth assets to carry out their function and exploit the upside volatility without worrying so much about downside risk. This provides a lot more flexibility," says Hitchman. "Whilst the current environment is clearly very uncertain, because of the sad events going on around the world, it is throwing up some potential opportunities."

He adds that while both equities and credit currently look risky, the reality is, that there are opportunities for pension funds to do things to "lock in an improved funding position".

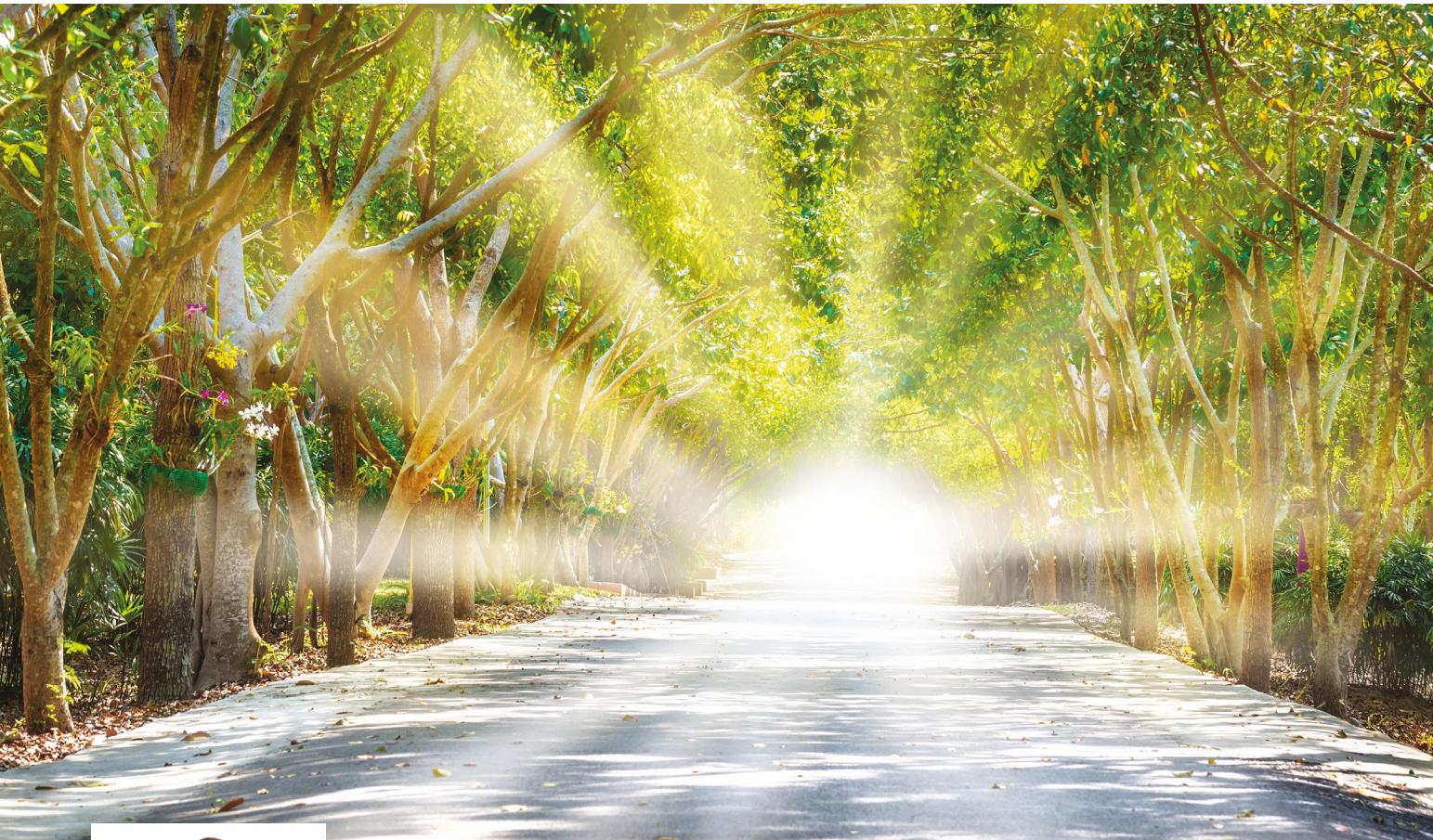
According to Hitchman, in the DC space, a lot of funds will have been structured to have 25 per cent cash and a large allocation to long-dated bonds.

Since pension freedoms came into being, more and more people have been using the drawdown option. For pension funds that have not changed their default strategy and still have long-dated bonds in their portfolio, they may want to re-examine their position as rates continue to rise, he says.

 Written by Georgie Lee, a freelance journalist

In association with





The journey to endgame

CSM Limited (UK) Pension Scheme trustee and 20-20 Trustees trustee director, Becky Wood, discusses the scheme's recent buy-in with Just Group, its plan to eventually secure a buyout, and the key factors in successfully completing a (relatively) small scheme de-risking deal

Can you describe the makeup of the scheme and what it was about that makeup that led to the decision to de-risk?

The scheme is approximately 80 per

cent deferred and 20 per cent pensioners. What made this buy-in notable is the fact that it was such a deferred heavy population. It was an around £86 million-sized deal.

As part of the valuation in 2019, we agreed with the company a long-term target to buyout the scheme with an insurer. As part of this, we negotiated material company contributions to be paid to the scheme. This also included a bullet payment to be paid once the scheme came within a certain proximity of buyout.

What work did you do with your advisers/sponsor and how did this help progress the deal?

We set up a joint working group with the aim to accelerate the journey to buyout. This gave the company and the trustees the ability to make decisions quickly and to take advantage of market opportunities. The joint working group consisted of myself on behalf of the trustees, the joint working group advisers, and a representative from the



company.

I feel the joint working group was particularly important given the company was based overseas – it kept all parties focused and ensured a collaborative approach, and so it was really key in driving forwards the strategy and ultimately enabling us to transact.

One of the first things we did once the joint working group had been set up was to carry out a feasibility study at end of 2019. We did this by providing insurers with cashflows which they could apply their pricing to. At the time buyout wasn't possible, but the feasibility study enabled us to set out the strategy.

What did you do to

prepare the scheme?

Over the course of the next 12 to 18 months we did several things.

We carried out a member options exercise in September 2020. This entailed writing to all deferred members in the scheme, both under and over 55s, detailing their benefit options, and providing them with the opportunity to take paid financial advice. This was a company-led exercise, with the ultimate aim to bring buyout pricing closer to address the funding gap. However, as it meant that members would receive education about their benefits and be able to make informed decisions, the trustees were supportive.

We received a very high engagement rate from members with the member options exercise, and I believe the key in this was our early, quality communications with the members.

Before we carried out the member options exercise, we wrote to the whole membership with an ambition letter, setting out the aim of the company and trustees to target buyout, and also the intention of the company to carry out the member options exercise.

While the member options exercise did bring buyout pricing closer, the funding gap was still too large to be bridged by the bullet payment I mentioned earlier – and so at this point we continued to monitor pricing monthly.

In May 2021, the monthly monitoring showed that buyout pricing had moved within the required range and in June 2021, we agreed to formally approach the market which we did in August 2021.

The full scheme buy-in was completed with Just in December 2021.

In addition to the member options and monitoring of the pricing, we also ensured the scheme was fully prepared to approach the market over this 12 to 18 month period.

We reviewed the requirements of the scheme's rules and produced a clear and concise benefit specification. The scheme's legal advisers also produced a codified dispositions summary.

Once we had completed the member options exercise, we also carried out a marital status write out to members – asking the members to update their marital status and personal details. In respect of those members that did not respond, we carried out an electronic trace.

What are the key factors in concluding a pension de-risking deal of this size?

It is really important to make sure the scheme data is as clean as possible before approaching the market. Post buy-in, if a data issue is found during the data cleansing period, this could result in additional premium being due from the company, and this is a risk that it is important to mitigate as much as possible.

In my view, and based on my experience, the three themes that were key to the successful transaction were a collaborative plan – working in collaboration with the company to agree and execute the strategy as part of the joint working group; effective communications – both with the insurers and the members; and solid foundations – so ensuring that the scheme was fully prepared to approach the market, enabling us to take advantage of market opportunities. Preparing a scheme for buyout does take a lot of work – there are no shortcuts.

I don't feel there is anything wrong with approaching insurers for estimates of the cost to buyout, if it's an approach that is light touch and light on insurer resource. Trustees need to be mindful that insurers are very busy and so careful thought should be given as to when to approach insurers, for example – has an agreement been reached with the company regards the amount it will pay to cover any funding gap?

We are now in the process of transitioning the buy-in to a buyout, and our aim is to do this within the next six to 12 months. We are in the process of finalising guaranteed minimum pension equalisation. Prior to the buy-in, we didn't make a decision regarding the equalisation method, as we realised that different insurers have different views on this. We therefore felt it was important to choose the insurer, and then make the decision on the method. We are also completing any required data cleansing.

A number of my other schemes are on a two to five year path to buy-in. The key is preparation. Buyout pricing can move towards you very quickly, and it is important to make sure that the scheme is prepared, attractive to insurers and you are in a position to take advantage of market opportunities – this is probably even more important for small schemes.

 Written by Jack Gray

Getting the message across



Following the announcement of the PLSA and ABI's cross-industry engagement campaign earlier in the year, Tom Dunstan investigates its details, aims and methodology

Inspiring interest in pensions is a daunting task; convincing people to focus on the end of their working lives by saving money today being a tough sell.

This is an issue that the Pensions and Lifetime Savings Association's (PLSA) and Association of British Insurers' (ABI) recently announced cross-industry pension engagement campaign will seek to address, with support to date from 15 different providers and pension schemes,

representing a total 41.5 million savers and customers.

The campaign, aimed at boosting people's understanding and engagement with their pensions, already has grand ambitions. It is expected to reach and help tens of millions of savers, but with details not in abundance yet, it is reasonable to ask how it intends to do so.

Importance and objectives

The campaign's formation stems from its organisers recognising the importance of pensions engagement. The pension schemes involved have also noted demand for improved engagement from their members.

"Everyone realises the importance of engagement," Aviva managing director, Emma Douglas, comments. "A survey we conducted with our master trust members found that 60 per cent of people just don't feel at all knowledgeable about pensions."

The importance of engagement is a

Summary

- The PLSA and ABI are leading a co-ordinated industry campaign to boost understanding and engagement with pensions.
- It is hoped that 30 million pension savers will be supported by the industry campaign.
- Fifteen providers and schemes have committed to support the campaign.
- While the details are still to be ironed out, the campaign is gaining more relevance as the cost-of-living crisis deepens.

sentiment echoed by Legal & General Investment Management (LGIM) co-head of DC, Stuart Murphy: "When it comes to member communication, build it and they might well not come. So, you can build great engagement tools, but you need to get them there, you need to get the members to engage with them."

Although there are high ambitions for the campaign, "it's still being worked on at the moment", Douglas says. PLSA deputy director of policy, Joe Dabrowski adds that the campaign is "not quite at the phase yet" where more information

can be divulged.

The campaign had, however, been in the works for some months before its official announcement. "There was a lot of industry discussion over the course of last year when we were looking at the question of engagement and statement season," Dabrowski explains. "There was a lot of support for an industry-led engagement season and, from there, the genesis of this idea came."

Methodology and demand

The campaign will seek to drive engagement by providing basic detail for savers to more easily understand their pensions. Douglas explains: "The aim of it is really to get some basic information about pensions out there and get people a little more comfortable with their pensions."

Douglas also emphasises the importance of providing the right amount of information: "People have got an appetite to understand a bit more about pensions. They don't want shedloads of detail, but they do want to know some basic facts and I think that is at the very heart of this campaign."

To achieve this, Dabrowski says he hopes the campaign will result in everybody pushing "simple messages at the same time together" and that a "concerted effort will make a big difference".

This could provide a solution to an issue of inconsistency within the industry.

Standard Life chief marketing officer, Sangita Chawla, highlights the issue: "Providers have their own way of communicating. We can send information out to our members at any time we want, but information goes out to people in different formats with different words and that could be confusing to the end customer."

This aim will be no doubt supported by the huge number of the campaign's sponsors, including Legal and General, Standard Life, Aviva, Scottish Widows and Nest, to name a few.

The campaign will also support the existing work of the Department for Work and Pensions. Pensions Minister Guy Opperman, back in April, welcomed the announcement of the launch, saying: "We are committed to bringing about a step change for engagement in pensions and I am looking forward to working with the ABI and PLSA – and with other industry partners – to boost saver engagement."

Dashboards and cost of living crisis

As well as providing simple, digestible pieces of pension information for savers, the campaign will also seek to prepare people for the upcoming pensions dashboards.

Those involved in the campaign emphasise the importance of getting people ready for their launch, as Murphy comments: "Pensions dashboards in particular are going to be a great source of information for members, but we've got to get members directed towards it."

Dabrowski elaborates on how this could be done, emphasising the power of simple preparations. "Just people being a bit more familiar with their pension schemes, with their pension data, will help people a little bit with dashboards," he says.

The original announcement indicated that the campaign would be run in autumn or winter of this year, but Dabrowski has since clarified that the campaign will run through the autumn "probably from September to November".

Whilst the early plans for the campaign can have their origins traced back to last year, it has taken on new importance given the recent economic conditions. "As the cost-of-living crisis starts to take hold, making informed financial decisions is more important than ever," ABI director of long-term savings policy, Yvonne Braun, states.

And while those involved in the campaign are happy to discuss the aims and ambitions of the campaign, they are less keen to make any absolute statements on how these ideas may manifest

themselves and in what format they may appear.

Chawla suggests that this vagueness surrounding the campaign will benefit it in the long run: "I think if we're too early with information regarding this, the public might forget about it. It may not mean anything to people because it is too far away, but we will be getting the excitement going a bit closer to the time."

The industry reaction to the campaign's announcement has been positive, with many involved seeing it as a valuable asset to increasing pension engagement. Indeed, Murphy describes it as "a really great tool in the armoury".

Murphy also points to the campaign's ability to build on previous engagement tools, such as video pension statements, as a potential example of how it could prove to be a success.

There may not be that long a wait until more information is revealed, as Douglas says: "Given that we want to run this campaign in the autumn, it needs to have its features decided relatively quickly."

Whilst the lack of concrete details surrounding the campaign may make it difficult to ascertain how it will be rolled out, there is plenty to be positive about. Whatever the details turn out to be, the unification of so many providers and schemes behind a single goal shows the seriousness with which the engagement challenge is being tackled.



Written by Tom Dunstan

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Trade finance focus: A tool for today's investor



► **David Newman, CIO, Global High Yield,
Allianz Global Investors**

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Navigating uncertainty through trade finance

Trade finance needs are rising, driven by recent supply chain disruptions and a tightening of bank funding

The scale of disruption caused to global trade over the past two years – including the impact of Covid-19 and geopolitical tensions – means there's significant demand for this financing mechanism, which bridges the gap between the delivery of products and payment. According to the most recent estimate by the Asian Development Bank, the global trade finance gap widened to USD 1.7 trillion in 2020.

Small and medium-sized businesses are most in need of help as some banks, the traditional key suppliers of trade finance, scaled back availability of funding in the aftermath of the pandemic.

The impact of trade disruption can fall disproportionately on the world's poorest people, given the vital role trade plays in reducing poverty by creating jobs and stimulating economic growth.

Institutional investors in search of diversified assets can help by investing in trade finance. In return, they can gain access to the complexity premium that the asset class offers.

How does trade finance work?

Trade finance is similar to a line of credit from a third-party financier that helps companies fund the buying and selling of goods. For example, it enables suppliers to receive money straight away, despite their buyers not needing to pay until sometime in the future. Trade finance can be divided into four main categories:

1. Payable finance – supports a buyer by facilitating payments to its suppliers when invoices are raised.
2. Receivable finance – provides money to a single supplier in advance of its receiving invoice payments from several customers.
3. Working capital facilities –

provide loans to one supplier repaid by receivables from several customers.

4. Documentary credits – common instruments used by companies to finance specific trade flows and payments under commercial contracts, including letters of credit, bills of exchange and trade loans.

Why is trade finance a potentially attractive option for institutional investors?

In an environment of heightened geopolitical tensions, volatile bond yields and rising inflation, trade finance can offer the flexibility and potential returns to help investors navigate the uncertain global outlook.

Its short-term maturity profile – typically, transactions have a life cycle of between 60 and 120 days – and potentially low correlation to other asset classes can help investors manage a rising interest rate environment. Investments in trade finance can help investors manage downside risks as it tends to exhibit low volatility, as was the case during the most recent turbulence roiling public markets.

The asset class can also help investors meet long-term sustainability goals. Since international trade is an engine for inclusive economic growth and poverty reduction, trade finance can be an important tool in achieving the UN Sustainable Development Goals.

At the same time, structural changes are paving the way for institutional investors to enter the market. Banks are looking for partners to fulfil their clients' needs as they struggle to keep up with growing demand due to regulatory capital requirements.

Meanwhile, financial technology companies have brought innovation to the field, reducing unit costs and making small financing volumes economical.

How can trade finance fit within a pension portfolio?

As pension fund investors look beyond the main asset classes to diversify return

streams in a low-yield environment, trade finance can offer an attractive diversification option:

- The asset class can act as an alternative to traditional credit assets such as asset-backed securities (ABS) and short-dated investment-grade bonds due to a potentially increased yield helped by a complexity premium.

- Equally, trade finance may replace government bonds holdings as it offers the possibility of stable returns and low sensitivity to rate changes.

- Finally, trade finance can also act as a strategic cash position. Its semi-liquid structure gives investors the ability to shift or re-allocate portfolios. That ensures trade finance can provide a potential funding source for private market capital calls.

While this is a relatively new and complex asset class, with the right partner it is possible to take advantage of the potential benefits trade finance offers.

To find out how Allianz Global Investors' trade finance offering can benefit institutional investment portfolios, visit: <https://uk.allianzgi.com/en-gb/institutional/our-strategies/trade-finance>



Written by David Newman,
CIO, Global High Yield, Allianz Global Investors

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TRADE FINANCE – HOW TO INVEST IN THE ENGINE OF FUTURE GROWTH

We believe there is a huge demand for trade finance in the foreseeable future.

Institutional investors can play a vital role in bridging the financing gap. In today's environment of uncertain geopolitics, volatile bond yields and rising inflation, trade finance can provide attractive returns, by harvesting a complexity premium, offering a short maturity profile and exhibiting low volatility and low correlation to other asset classes. Importantly, it can also provide portfolio diversification and downside mitigation in times of market stress. In addition, trade finance could help achieve the UN Sustainable Development Goals by supporting international trade: a key engine for inclusive economic growth and poverty reduction.

The strongest link? Trade finance as an option for pension funds

With stock markets in turmoil and bond yields depleting, some pension funds are looking at trade finance as an alternative for diversification, writes Christopher Marchant

Summary

- Trade finance is seen as a potential for diversification.
- It is arguably less susceptible to negative impact from global events than some other options.
- It can also fulfil the ESG angle pension funds are looking for.
- The issue of complexity needs to be addressed.

Put simply, trade finance is a line of credit from a third-party financier, which seeks to assist companies in funding the buying and selling of goods. Its access to quick cash can enable buyers to pay their suppliers straight away, while paying back the credit facility over time. From a funder's perspective, a key advantage of trade finance is the short length of contracts, with those offering trade finance rarely locked into contracts longer than 180 days, and therefore allowing a high level of agility and responsiveness.

David Newman manages global high yield and multi-asset credit strategies within the global fixed income team at Allianz Global Investors (AllianzGI), having previously led an equivalent team at another firm for eight years. Of this nimble advantage trade finance poses, he says: "If a major geopolitical event happens such as Covid or the Russian invasion of Ukraine and you want to

change your portfolio, at the end of the typical 90 day contract you can stop financing and can change the shape of your portfolio with great speed."

Trade finance does not just bring agility with it, but also increased opportunities for profitability. Investors are in search of yields above comparable benchmarks, and trade finance regularly pays above the risk commensurate yield level.

According to Christoph Gugelmann, chief executive at Tradeteq, a software provider active in turning trade finance into a liquid asset, this area of debt has all the components investors are looking for.

"It is a multi-trillion-dollar asset class based on the flow of physical goods and services, making it less susceptible to financial market volatility," he says. "Default rates for trade finance products are generally lower and the time to recovery in case of default tends to be shorter than for other credit products."

Despite these benefits, there are aspects that may be holding back some pension funds. Most notably is the level of complexity associated with trade finance. However, Gugelmann is keen to stress that trade finance infrastructure now exists to enable end-to-end straight-through-processing of hundreds of thousands of instruments in a low-cost way.

Of the complexity considerations, Newman says: "It's a question of



education. Clearly, trade finance is not as simple as other forms of investment. There are other risks you need to understand within trade finance such as delay risk, dilution risk, and fraud.

"So, you have to do your due diligence and know how you mitigate those risks. The best way to mitigate fraud properly is to do strong due diligence on your supplier, the buyer, and the seller, and to be really diversified."

The Greensill elephant in the room

There of course can be no discussion of trade finance without acknowledging the

collapse of supply chain finance provider Greensill Capital in 2021. The implosion of the firm led to losses and lawsuits across Europe and the US, as well as valid questioning as to whether the risk inherent to trade finance itself was greater than its worth.

Lane Clark & Peacock (LCP) partner, Zuhair Mohammed, sees the whole sorry saga as an important learning opportunity for those pension funds considering utilising trade finance: "The bad news that was associated with Greensill is something that would frighten, and often requires some training to explain exactly what did and didn't happen and therefore what not to look for in a trade finance package."

This sentiment is echoed by Newman who actually regards Greensill as "very good" for the industry, in how the individuals and firms involved worked out what went wrong, and this showcased how to do it right.

For the fund manager, the affair also validated the AllianzGI model that showed that a very broad open architecture diversification model was "the way to go." He also pointed out that the Greensill collapse brought about a change in US accounting standards, carrying the potential to bring more trade finance on the balance sheet for companies. Despite these silver linings though, the shadow cast by Greensill has still created critics.

"At present advisers are not familiar with the product, which will naturally hinder access," is the frank assessment by Ross Trustees trustee director, Pavan Bhardwaj.

"As well as this, most funds will not need the incremental returns offered by trade finance. There have also been some high-profile failures of commodity and trade finance firms, leading to many to ask whether there is questionable oversight over their practices."

Yet with these lessons learned and efforts underway to raise the profile of trade finance, it can still be focused on

in terms of its agility, profitability, and perhaps sustainability as well. With international trade acting as an engine for inclusive economic growth and poverty reduction, trade finance can also be seen as a tool in achieving the UN Sustainable Development Goals (UN SDGs) one and eight.

Fulfilling a growing need

According to the most recent estimate by the Asian Development Bank, the global trade finance gap, which is measured through the difference between requests and approvals for financing to support imports and exports, widened to \$1.7 trillion in 2020. SMEs are in particular need of trade finance as some banks, the traditional key suppliers, scaled back availability of their funding in the aftermath of the Covid-19 pandemic. Furthermore, female-led SMEs have found it particularly difficult to get finance, with a reported 70 per cent of their applications totally or partially rejected.

Engagement on trade finance can also provide an opportunity for responsible consumption and production, UN SDG 12. Of this area, Newman says: "AllianzGI is helping businesses finance themselves in a cheaper way using the credit of the buyer. Then of course you can decide who you are financing and what you are financing.

"A lot of this business is going to be throwaway fashion. There are issues here with regard to labour practices, accessibility markets, and you can choose not to finance those companies which don't use child labour for example."

Trade finance can clearly act as a boon to global SMEs, as well as the aforementioned diversification option for pension funds. On the risk aspect of trade finance, Hymans Robertson senior investment research consultant, Penny Cochrane, says: "Default probability is less than that of longer-term credit

ratings and previous defaults suggest that companies that are a going concern continue to pay their working capital obligations even when in financial difficulty. This equates to a low expected loss."

Given these benefits, how can pension funds best access trade finance?

AllianzGI is seeing an uptick in approaches from pensions for trade finance. Newman says: "When we have pension funds coming into our main fund, the challenges are getting over the initial complexity and setting the stage for trustees. The good thing is a lot of the pension funds we see are from companies which do trade themselves, so a lot of pension fund trustees will understand what trade finance is in certain ways."

Despite this uptick, Bhardwaj says trade finance is still on the periphery for most DB pension funds, and typically, clients would prefer a complexity premium to come from secured income asset backed securities. However, Newman observes that AllianzGI recently hosted a session for pension providers, in which half of attendees had considered trade finance in their portfolios. Five years ago, Newman believes this would have only been 20-30 per cent.

Despite this progress, the fund manager says there is still more to be done on this front for trade finance to become embraced as an asset for pension fund portfolios. Newman says: "There are those in the investment world that are pushing this asset class quite a lot, and consultants are starting to see this. While trade finance may be moving away from the niche and into the mainstream, it's not quite there yet."

 Written by Christopher Marchant, a freelance journalist

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■ Summary

- Certain studies suggest that younger pension holders are more interested in sustainable and responsible investing than older age cohorts.
- Utilising this interest could be vital in improving pension engagement among younger people.
- A variety of communications can be used to target younger savers, but the industry may need to modernise to take advantage of them.
- Some believe that engagement might not be the best way forward and that playing off inertia could be more effective in improving retirement outcomes.

Pension holders are increasingly aware of the link between environmental and social factors and their pensions working for

The power of youth

■ **Jack Gray investigates how the pensions industry can utilise younger people's interest in ESG-related issues to increase their engagement with their pensions**

the benefit of people and the planet. A recent study by Make My Money Matter found that awareness of the link between pensions and climate change increased by around 85 per cent in 2021/22, with a growing number of savers tempted by green pension options as a result.

While 16 per cent of respondents said they planned to switch to a sustainable pension over the next 12 months, this figure more than doubled amongst people under the age of 34, to 36 per cent, with 67 per cent of under-34s saying they would choose a green pension fund if offered one by their provider.

Conflicting findings

Legal & General Investment Management (LGIM) also conducted a study that showed younger people were particularly interested in sustainable and responsible pensions, as its co-head of defined contribution (DC), Stuart Murphy, explains: "While climate and social issues can help drive engagement across all generations, our latest annual ESG research across 4,500 pension savers demonstrated that younger generations are driving the ESG agenda the hardest.

"A good example of this is that 81 per cent of Generation Z said they would



be willing to pay more for a net-zero pension, compared with less than half of those in older generations. We have the Tumelo ESG tool embedded into our member journey and are approaching 20,000 votes made by members – the highest percentage of those interacting with Tumelo are under the age of 35."

However, Aon consultant, Kath Patel, notes that there have been several member surveys with "conflicting evidence" on how different age cohorts feel about responsible investment.

"There is a growing body of evidence that members of all ages care about ESG matters and expect them to be taken into account in the management of their pension assets," she states.

"For example, in our 2021 DC survey, we found that only 4 per cent of members had checked to see where their pension was invested to see if they are comfortable with this from an environmental and ethical standpoint and only 5 per cent planned to do so in the next 12 months.

"Interestingly, older individuals are just as likely to have checked as younger ones, so this not a 'Millennials only' issue – no significant difference exists between younger and older members."

Patel adds that it could be inferred that members of all ages are likely to engage more with their retirement savings if ESG issues related to their investments are brought to their attention, not necessarily just younger members.

Capitalisation

Whether or not younger people have stronger feelings towards sustainable

pensions than older people, it seems imperative to capitalise on the interest in environmental and social issues to engage with traditionally disinterested younger people.

"The argument that positioning your pensions to do environmental and social good is beneficial, both for the planet and your pocket, is strongest among the younger generations," says Redington senior vice president, DC and financial wellbeing, Russell Wright.

"Still, even the most effective engagement campaign on climate and social issues won't encourage younger people to save if they can't afford it or see saving for retirement as a hopeless task."

Wright argues that the first step is to ensure that people understand why saving for retirement should be high up on their priority list, and that contributing even a small amount can make a big difference.

"Once this hurdle is overcome, emphasising how investments can have a positive impact on the issues that matter to them should help to build engagement and encourage increased savings," he adds.

Wright warns that some of the methods that may have worked in encouraging older people to save into their pensions will not necessarily work on younger people, as they are more interested in a pension provider's purpose and social/environmental impact than their "centuries-long heritage".

"Some of the issues young people are most passionate about, such as racial justice and climate change, don't always feature positively in the history of some of our most established financial

institutions," he notes.

Murphy argues that to engage younger people through the use of sustainable practices, the industry needs to start with the basics: "Bring to life for members that their pensions invest in real companies, how their pension providers are using the ownership of those companies to flex their muscles and influence positive change when it comes to climate and social issues.

"This needs to be regularly communicated to members. Members in our research said that if these messages were regularly communicated they would feel more positive about their pension provider, with over 50 per cent of all those surveyed saying they would take more of an interest in their pension."

Patel notes that there is no 'one-size-fits-all' approach and schemes should take care when selecting their ESG approach and communicating about ESG that the views of the majority of the membership are taken into account.

"It's not necessarily appropriate to reflect very specific member views that may not be shared by the majority," she says. "We suggest DC schemes keep their communications on the matter clear, concise, consistent, frequent and relevant, as opposed to just doing big, annual updates that may be missed by members."

Keep it modern

It's one thing to identify what message needs to be communicated to younger pension savers, and another to understand how to convey the message most effectively. Although it has long



been reliant on the postal service, the pensions industry is beginning to modernise with digital communications, which is likely to be more akin to what younger people are used to in their everyday lives.

“Consider using a variety of approaches – videos, emails, tv screens around the office or even as part of broader financial wellbeing campaigns,” urges Patel. “Be consistent – pensions is a historically paper heavy industry, which can seem contradictory when communicating on environmental and wider ESG issues.

“Again, there is no one-size-fits-all solution. Trustees need to think about what best suits their scheme’s specific membership, what issues will matter and resonate with them and the most effective method of reaching their members.”

She says that while lots of information has to be publicly available due to regulations, such as Chair’s Statements and Statements of Investment Principles, the industry needs to think about how the disclosures in these documents can be best communicated to younger members.

Another method of communication that appears to resonate with younger people is case studies, as Murphy explains: “Our ESG research suggests that using real ESG case studies could be a powerful method. Case studies bring to life how members’ pension contributions can be used to drive positive change.

“After reading the case studies we showed members in our research, 77 per cent of Generation Z felt better about

LGIM – this has more than tripled from 25 per cent in the previous year’s survey. We believe this is a result of increased public awareness of climate and social issues and media coverage of COP26.”

Wright argues that it is not only the way in which younger pension holders are communicated with, but the language that is used within those communications.

“Young people are pretty used to using abbreviation sand jargon – so pensions should be right up their street,” he continues. “But we know that unfamiliar terms and lazy language puts people off pensions and investing generally. So it’s important that pension communications use accessible language that doesn’t patronise younger members.”

To engage or not to engage?

Some in the sector have made the argument that the industry’s attempts at engaging young people with their pensions is futile and the best way to improve retirement outcomes is to utilise their apathy, much like auto-enrolment does.

However, Murphy believes that engagement is “absolutely the right way to go”, warning that not to do so is tantamount to the industry “burying its head in the sand”.

“Members care about climate and social issues and will increasingly want to have their say,” he notes. “They will expect their trustees and providers to be taking their views into account. Our research showed that younger generations are very influenced by the media and social media when it comes

to these matters – we have a duty as an industry to engage with members and present them with specific information relevant to their pension savings.”

Wright adds that, while apathy towards pensions was used to great effect through auto-enrolment, it is not sustainable and at some point everyone needs to actively engage to make decisions at retirement.

“With younger people, who generally have competing priorities like getting on the housing ladder, a desire to buy the latest technology or just making ends meet, this apathy can result in minimal or no saving for retirement at a time when compounding means it would have the greatest impact,” he says.

“Educating people that their pension can be invested to have a positive impact on the world around them, or at least invested with environmental, social and governance factors considered, can encourage young people to take more of an interest in their pension. This can only be a good outcome.”

Engagement can really add value by getting members to think about their pensions earlier so they are planning appropriately before it is too late for them to start building savings for retirement, according to Patel.

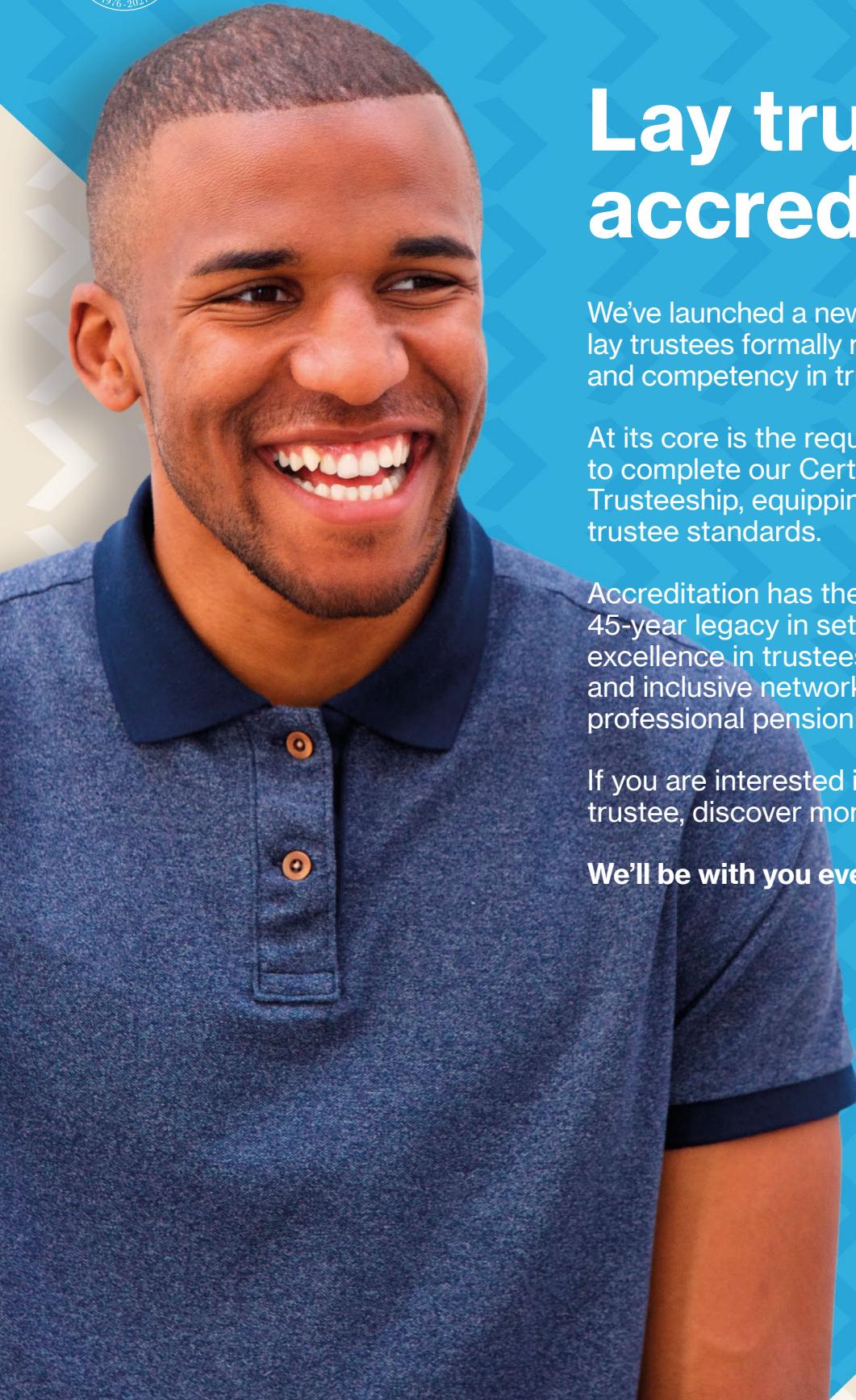
“ESG communications can be a tool to help make that connection but again, it needs to be done mindfully with the scheme-specific beliefs in mind and with care to avoid turning members ‘off’, she concludes.

 Written by Jack Gray





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Pushing the right buttons

► In an ever-more digital and mobile-enabled world, it makes sense for pension providers, schemes and sponsoring employers to use these technologies to improve saver/member engagement. But are the investments being made in these technologies achieving the desired results and ensuring more people have better retirement incomes? David Adams investigates

► Summary

- The need to improve engagement with pensions is ever-more important in a DC-dominated pensions landscape and growing numbers of providers and schemes are starting to put more resources into digital technologies to improve engagement.
- Where they are in use, these tools do seem to be improving engagement, as well as improving accuracy and offering opportunities for more flexibility and personalisation.
- The pandemic has helped to boost familiarity with these technologies and expectations of the services they can provide, across all age groups.
- Further innovations from fintech should help to stimulate further development and investment in these tools during the next few years, even among slower moving players.

Every year, too many people reach retirement age either without having put enough into their pensions to enjoy a comfortable retirement, or without having considered what to do with the

assets they have accumulated. One key reason for both these issues is a failure by employers, pension schemes or pension providers to engage with members/savers adequately during the accumulation phase. In a pensions landscape set to be



dominated by DC pensions, the need to improve engagement becomes more urgent every day.

The situation has improved in recent years, as more schemes and providers have invested in technologies to improve engagement, by making dealing with your pension more like banking online, or even more like interacting with online retailers or entertainment services, which have increased consumers' expectations for the speed and effectiveness of online interactions.

While digital technologies and services come with a price tag, they also offer cost savings and greater accuracy, flexibility and personalisation than paper-based processes. They offer greater accessibility for people with disabilities; and an ability to gather data about the effectiveness of interactions with members/savers.

Examples include Aviva's MyAviva portal, used by its insurance customers and shareholders as well as pension

savers; and MyWorkplace, used by corporates to serve pension scheme members. Both can be accessed via websites or apps, using fingerprint or facial recognition biometrics to verify identity; and supported by a helpdesk, live chat and WhatsApp style messaging.

Aviva head of proposition workplace savings and retirement, Suzanne Rose, says apps are the dominant access method for both platforms, with use of the full screen web-based interface often reserved for more complex interactions, such as income comparisons between annuities and drawdown products.

In January 2022 Aviva also launched a feature called Pension Snapshot, which works like an annual summary you might get with a fitness app, or a Spotify Wrap, analysing a year's worth of data to tell individual savers where their saving and investment activity has taken them on their journey towards retirement.

MyAviva and MyWorkplace now have about 2.2 million users between them – a figure that has increased by almost 20 per cent since the start of 2021. Aviva categorises 20 per cent of users as 'heavily engaged' – those who log in at least six times per year. A further 40 per cent are 'engaged', logging in between one and five times per year. "That's a lot of engagement for something like a pension that is generally quite static," Rose argues. "And the number of disengaged users is shrinking all the time."

She says the one question that pension trustees, employers and advisers all want to know is whether having access to these tools changes member behaviour – and the answer, she claims, is an unequivocal yes: "People are engaged and coming back."

Simpler, easier, faster

Elsewhere, Concert, a Buck company and a communications and engagement specialist, provides pensions and employee communications services to more than three million employees of its clients, which tend to be bigger

organisations with large pension schemes, such as the Royal Bank of Scotland's Group Pension Fund.

Concert's approach is based on the idea that it is competing with every other digital interaction users may have, so has to cut through using methods that are genuinely "entertaining and engaging". Its head of digital, Dylan Hughes, dismisses the assumption that older people don't like using digital technologies to engage with pensions. Besides the fact that many people aged 60 or above have used computers for more than 30 years and mobile phones for at least 20, many others have become more digitally active and literate during the pandemic. "There is more take-up of these services among younger people, but the disparity's not huge and shrinking all the time," he says.

Concert has also worked with the BT Pension Scheme, which built a new online portal for its members after bringing administration of the scheme back in-house. BT Pension Scheme Management (BTPSM) chief administration officer, Simon Langworthy, says its strategy was informed by in-depth research with its users. "What it boiled down to is that members want 'Simpler, Easier, Faster,'" he says. "The average age of our members is 68 so it's busted any myth that it's only younger members wanting digital services. It's been a 50/50 split between deferred and pensioners signing up. Take-up has been astonishing: we've had nearly 100,000 members register and 455,000 portal log-ins."

An online pension calculator allows members to model different options, altering retirement dates and tax-free lump sum amounts to see what impact this would have on their retirement income. They can also access fund valuations, switch between funds online and track investment performance. Pensioners can use the solution to access P60s and monthly pay information. The portal uses the scheme's administration database, so members' changes can

be made in real time. "Over 40,000 individual data amends have been made by members online," says Langworthy. "Our data is now practically self-cleaning."

Engagement can also be boosted by encouraging members or savers to engage in relation to specific issues of importance or interest, such as those grouped under environmental, social and governance (ESG).

Another service provider, Tumelo, provides technology that shows individual scheme members in which companies their money is invested. "It starts to help people connect their pension to the real world," says Tumelo CEO, Georgia Stewart. "We're asking people for their opinions about companies that they are invested in. That's a good first step for a user who's not very engaged."

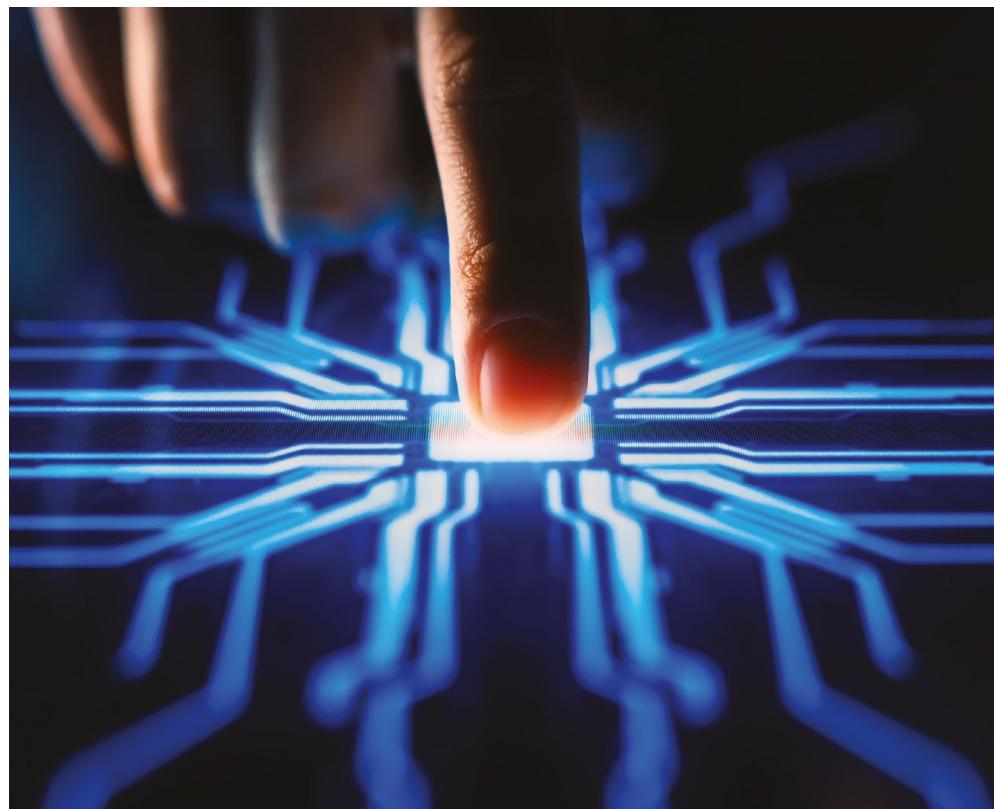
Earlier this year, LGIM co-head of DC, Rita Butler-Jones, told *Pensions Age* that Tumelo's technology had enabled "a breakthrough for bringing early savers into their pension journey". Stewart says Tumelo also appeals to employers who want to help employees gain a better understanding of, and control over, their overall financial position.

Another technology-led market entrant is Penfold, which provides a direct-to-consumer SIPP and a workplace SIPP for corporates. Co-founder, Pete Hykin, emphasises the importance of supporting user-friendly systems with the capability to gather and manage large volumes of data.

"The reason some of the industry is bad at doing front-end stuff is because they've been so bogged down by painful back end processes," he says. "You can't provide a 24/7 balance for someone if you don't have the systems behind the scenes to do that."

Changing engagement

While statistics shared by providers or schemes to show increased engagement look good, they are also unique to each



scheme's own circumstances. But their success is certainly providing a strong proof of concept. Hykin says plenty of people in the pensions industry are keen to use digital to improve engagement processes, but that some incumbent pension providers have been slow to act.

"Innovation has been pretty slow in the pensions industry when you compare it to other areas of fintech," he notes. "But now you are seeing more challengers like us and the incumbents are starting to take a little bit more notice. That's going to drive progress."

Langworthy points out that end-user expectations have changed in a more mobile-centric world. "The pandemic, and two years of lockdown, have accelerated digital adoption among all segments of the population," he says. "The public now expect an easy online consumer journey. The pensions industry is getting better at using and measuring the benefits of this, but there's a long way to go."

Stewart is optimistic. "The people we're dealing with clearly care about this and it's high on their agenda," she says. "We've started doing our first proper embedded integrations with pension providers. That will open up an opportunity to build a connected platform that allows someone to access their pension and connect it to other parts of their personal finances. That's going to change the way people engage with pensions."

Rose makes one more important point to justify her own optimism. "This is improving the way that people feel about their pensions," she says.

"The fact we are finding ways of encouraging people to engage with their retirement savings is a really great start on a long journey, as an industry."

If she is right about that, this is good news for everyone.

 Written by David Adams



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Summary

- There is still much to do to make the pensions industry “more diverse and inclusive”.
- Although various individual diversity, equity and inclusion (DEI) projects are welcome, developing common ground across the pensions landscape is vital.
- Progress could remain slow and patience will be needed.

► The pensions industry has taken large steps towards making itself more diverse and inclusive. But progress has been slow. Marek Handzel asks if this is set to change any time soon

It was at the tail end of last year when The Pensions Regulator (TPR) executive director of regulatory policy, analysis and advice, David Fairs, stated that there was “a huge amount to do” to make the pensions industry “more diverse and inclusive”.

His assessment, published on a TPR blog, seemed a little harsh, or even negative, given the various efforts made by the financial services sector in general to adopt diversity, equity and inclusion (DEI) policies. But the facts speak for themselves. Research conducted in 2016, cited in the PLSA’s *2020 Diversity &*

A slow burner

Inclusion Made Simple guide, showed that 83 per cent of scheme trustees were male, 2.5 per cent of scheme trustees were under 30 and 5 per cent of trustee boards had more than 50 per cent female trustees, while 50 per cent of chairs of trustee boards were over 60 years old.

Some six years on, as many professional trustees and consultants will attest, not much has changed. In a January 2021 report on pension trustee decision making, the Institute and Faculty of Actuaries (IFoA) highlighted that there remained a major gender imbalance and lack of age and ethnic diversity in the composition of pension boards across the UK.

As LCP partner, Jill Ampleford, points out, the need to have more DEI is not about gesture politics. Poorly represented trustee boards are subject to ‘blind spots’. These result from trustees not being in tune with the circumstances or values of the members they represent, thereby exposing them to the danger of being led by unconscious or implicit biases in their communications and decisions. And in his blog post, Fairs asserted that creating an environment

where trustee chairs would have a hard time building consensus would lead to better governance “even though it won’t feel as straightforward as when everyone just nods decisions through”.

Citing the evident changes that have increased senior level buy-in to DEI, both in business and people strategy, Ampleford believes that good progress is being made. However, she acknowledges that there is still work to do to improve diverse representation across the industry, particularly in more senior positions. “We are continuing to focus our efforts on this going forward,” she says.

Industry initiatives

In recognition of a need to accelerate DEI practice, The Pensions Policy Institute (PPI) announced that it had signed a Memorandum of Understanding with NextGen Pensions, the DEI special interest group, in April.

The PPI’s move added to efforts by TPR and the PLSA to improve DEI. In the former case, the watchdog outlined four workstreams that its diversity working group was examining in its aim to improve diversity on trustee boards back in December, at the time TPR published Fairs’ blog. The workstreams — covering best practice, data, tools and engagement — will help TPR to share its findings with other organisations in a quest to create more diverse trustee boards.

Last August, a number of schemes also took a large step in testing the commitment of their investment managers to the cause. The Asset Owner Diversity Working Group, representing £125 billion in AUM through schemes such as Nest, RPMI Railpen and the West Midlands Pension Fund, announced the launch of a new Diversity Charter for fund managers. Signatories to the charter will be required to commit to taking account of diversity and inclusion (D&I) records from fund managers when choosing new partners, with diversity questions to form part of the overall

assessment scores for each bidder.

This bid to extend DEI responsibilities is important, says Aon partner, Lynda Whitney. "TPR has focused on diversity within the trustee board whereas I would argue it goes much wider than that. You can also apply diversity, equity and inclusion principles in everything from member communication, to discretionary decision making, to investment strategy."

Although various individual DEI projects are welcome, Ampleford cautions that developing common ground, as well as best practice, are the overriding priorities. "This is a very nuanced area that can be difficult to get right," she warns. "This can only be done by us working together across the industry, engaging with our clients and collaborating with our regulators. It's encouraging to see TPR running its Diversity & Inclusion Industry Working Group with representatives across the pensions industry, government and other regulators.

"But it's important to realise that this is a fast-moving area and that visible improvements can take time. It's vital that we keep working together towards a common goal and sharing best practice so that we do create meaningful change."

Practical steps

For Nest diversity and inclusion lead, chief financial officer, Richard Lockwood, there is plenty more that can be done to expand the pool of talent working within pensions. He argues in favour of inclusive recruitment practices, which can be carried out in all manner of ways. To improve its DEI, Nest has joined both the Diversity Project (the investment industry's DEI lobby group) and the 30% Club (the campaign aimed at boosting the number of women on business board seats), while also participating in the 10,000 Black Interns initiative, which seeks to offer living-wage paid internships to young Black talent. And as well as looking inwards, the pension fund is also mindful of the impact it can have

outside its own four walls.

"As shareholders we challenge companies to embrace diversity and inclusion as we recognise it can improve company performance and reputation as well as enhancing socio-economic conditions for many people," says Lockwood.

XPS Pensions senior consultant, Charlotte Jones, says that the group is using similar methods to drive DEI. These involve using blind CVs, avoiding degree classifications and having diverse interview panels during the recruitment process. "Attracting more ethnic minorities into the sector is a priority for us, so we work with recruitment companies that have a more diverse candidate database and advertise via a range of channels," she notes.

In the specific case of trustee boards, Aon partner, Lynda Whitney, suggests that improving engagement with a membership pool can be done with some basic tweaks in messaging. "Just because I am a woman doesn't mean I represent all women," she says. "To get more diversity on trustee boards, some simple actions can help. Say you are seeking diverse viewpoints; use language to describe the role that is less stereotypically one gender; and focus on the willingness to learn – rather than the existing knowledge a trustee is bringing."

It's a message that translates across the entire pensions landscape.

Patience

Nevertheless, no matter how many initiatives or procedures to improve DEI are put in place by organisations, the truth is that the industry needs patience.

As PPF chief people officer, Katherine Easter, reveals, the PPF remains frustrated at the lack of diversity it sees from applicants to its roles – as do many financial services companies. For the PPF, this gap is most notable in investment, risk and IT.

"Despite all the positive work being done to address this imbalance, it's an issue that will take many years to

overcome," says Easter.

"This means, at the PPF, that we're trying to think longer term and doing what we can to fill this gap at an earlier stage. We're also investing in our own talent, and providing them with specialist training, coaching and opportunities so they can professionally develop into these roles."

Lockwood adds that culture change cannot be something that falls solely onto the shoulders of HR departments either. "It's important organisations act and put in place new policies – bringing about sustained change is not something that happens overnight. But it requires a commitment from all staff to increase opportunities for people from different backgrounds and create an environment where they can succeed."

Leaders, in particular, have a crucial role to play in fostering a culture where people want to work and feel that they belong, says Jones. By bringing their voices to the fore, and focusing on developing an inclusive culture and fair processes, top executives can develop a level playing field, where everyone has equal opportunities, while feeling comfortable and supported at the same time. "By focusing on inclusive culture, fair processes, equality of opportunity and our role in society we have a huge opportunity to raise the aspirations and successes of many talented individuals," she adds.

"It's no surprise to many that the pensions space, like the wider financial services industry, has historically suffered from a lack of diversity," concludes Ampleford.

"However, in recent years, the DEI efforts of many pensions firms have seriously ramped up. And whilst these efforts can take time to show progress, I think we're already seeing a more accessible and welcoming industry where people of all backgrounds have the opportunity to succeed."

Written by Marek Handzel



Summary

- Effective engagement is about appropriate messaging and timing.
- Schemes shouldn't shy away from sharing difficult news, but put it in context.
- Think about support for wider financial wellbeing as well as pensions.

Over-engaged members are rarely a problem in the pensions industry. Anecdotal tales of DB members who request a transfer value every month, or DC members who switch funds like they change clothes, are the outliers.

More common are the stories of how rarely members log into websites to check their savings, or do not take up financial guidance when it is on offer.

Just Group's group communications director, Stephen Lowe, says part of the challenge is the diversity of the target audience. "A few will keenly scan every page of a document while others will be too disinterested to even open the envelope. Most of us are somewhere between those two extremes, but how to hit that Goldilocks zone for a wide variety of members is a tough challenge."

Opportunities to communicate and engage with members now extend far beyond traditional paper-based benefits statements. Apps, personalised videos, virtual advice and other technology are widening the ways and means of supporting members. More choice and variety should help schemes connect with their members in ways that suit different preferences and lifestyles. But do those opportunities come with the risk that schemes over-engage with members?

Cushon CEO, Ben Pollard, does not think so. "Engagement levels are generally so low that I don't think having too much engagement is something we need to be concerned about right now. The risk of members not being engaged is far greater."

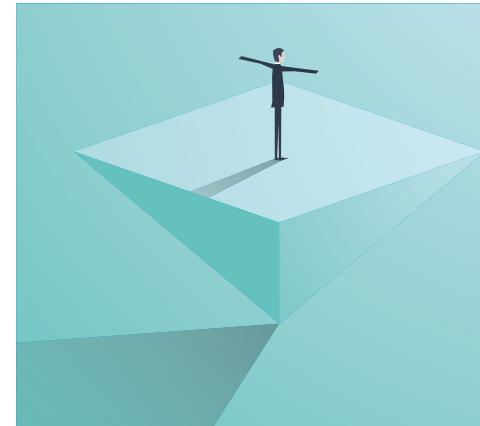
Striking the right balance

The industry has been striving for years to engage members with their pensions, but it's important to take the right approach, or risk pushing members away, argues Maggie Williams

Pollard's view is backed up by findings elsewhere: Aon's *DC Pensions and Financial Wellbeing survey 2021* found that just 7 per cent of pension savers checked the performance of their investments even during the market volatility of 2020. With take-up of Pension Wise and financial advice so low that the Department for Work and Pensions (DWP) is intervening [see boxout], it's clear that there is room for more effective and impactful engagement.

However, simply increasing the volume of communications is not the answer, cautions Equiniti market engagement director, Des Hogan. "You can have too much engagement if the result is quantity over quality. If we bombard members with engagement for engagement's sake, then we risk turning them off or that they ignore the message in its entirety."

Cardano director of insights, Stefan Lundbergh, agrees that effectiveness should be the key factor when deciding when and how to engage with members. "For every piece of communication, schemes need to ask, 'does this put my members in a better position and help them make better decisions?' If the answer is yes, reach out and engage with them."



However, he adds: "Don't engage if you have nothing to say or if it's based on a misguided ambition to increase the number of clicks on a website. And be aware that if your message is always that people should pay more into their pension, they will switch off. It just becomes a sales pitch."

Bearer of bad news

With a cost-of-living crisis limiting members' ability to pay into their pension, and the war in Ukraine taking a heavy toll on market performance, DC members in particular need help from those managing their schemes. This could be the ideal time to engage with effective, appropriate messages.

"A greater risk than members engaging too much is that they engage through the wrong nudge without adequate information," says Pollard. "Situations like [the war in Ukraine] risk members panicking and making the wrong investment decisions. It's then a panic nudge."

Pollard recommends "pre-emptive communications" that explain the long-term nature of investments, at the point that members can actually change their investments. "Then, at least they really consider the situation before taking any action."

Helping members to understand the context in which they are making choices is also important, says Lowe. He says members currently in the accumulation phase “may need understanding of how to balance their own investment hopes

and fears to manage volatile markets. Where there is a danger that members may make bad choices – panicking and switching to cash if markets slump, for example – the context needs to demonstrate why it may not be the best choice.”

■ Engagement by default?

Schemes mostly decide when and how to engage with their members. The Pensions Regulator, Department for Work and Pensions, and other industry bodies are working on initiatives that could help streamline engagement and make it more consistent. Could we see ‘engagement by default’ in the future?

Simpler annual statements – from October 2022, DC auto-enrolment schemes must create annual statements that are no more than two sides of A4. There is statutory guidance to help scheme trustees design the new-style statements and decide what information they should contain.

Will it help? The biggest engagement challenge is encouraging members to open a statement and read it. But presenting information in a more accessible and meaningful way will help members to better understand their savings and how that equates to saving effectively for retirement.

Pensions dashboards – over the next two years, most DB and DC schemes will meet staging deadlines for providing data to the pensions dashboards. The DWP hasn’t decided when the first dashboards will be available to members, but it could be late 2023.

Will it help? While dashboards are unlikely to provide everything that everyone needs from the start, the principle of the initiative, which is to help members keep track of their pensions and understand the total value of their retirement savings, should help everyone engage with their retirement savings.

Stronger nudges at retirement – just 14 per cent of DC savers accessing their pot for the first time use Pension Wise for guidance. This is part of a wider concern that members are making major retirement decisions without any guidance or advice. From 1 June, trustees must offer to make an appointment with Pension Wise for members about to access their pot and keep closer track of whether members seek help.

Will it help? With DC pots becoming a more significant proportion of individuals’ retirement savings, encouraging members to engage as they approach retirement is crucial. It will definitely help – but won’t replace the need for other engagement throughout members’ saving journeys.

Statement season – in 2021, Pensions Minister Guy Opperman MP suggested that statements for all auto-enrolment pensions should be sent out at the same time, to help members get a clearer view of their pension savings at once.

Will it help? Both the pensions industry and government are divided on the effectiveness of introducing a statement season. At the beginning of the year, the Work and Pensions Committee voiced doubts about the value to members of a statement season, and the industry has concerns over fraud, administration load and effectiveness of issuing all statements at once.

Honesty is the best policy

Lundbergh says that schemes should not shy away from being honest about difficult circumstances. “In periods of crisis people might be really worried. It’s in members’ interest to understand what’s happening and good to communicate that. Most people know that bad things will happen, and if you don’t treat them like adults and give them information, they are stumbling in the dark.”

However, Hogan warns that schemes may need to tread carefully in the current cost-of-living crisis. He advises reassuring members that the scheme is well-run and their money is well looked after, as well as reminding members of the merits of pension saving. “We should try to be aware of the issues that our members may be experiencing. Encouraging higher contributions right now could be perceived as tone deaf.”

Pollard agrees: “We shouldn’t discourage engagement, but increasing understanding and making sure that any messaging is sympathetic to the financial pressures that people face is important. We can’t take the approach of scaring people about not paying enough into their pension when they’re struggling to pay their bills today.”

He suggests that putting pensions in the wider context of financial wellbeing will help with engagement in the long term. “We should provide wider financial education that helps people manage their budgets and shows them ways that can save them money on everyday expenses, all of which helps reduce the need for people to think about cutting their pension contributions.”

“In every case, engagement should be personalised, targeted, short and easy to understand,” concludes Hogan. Those factors, together with relevance, sensitivity and openness should ensure that schemes get the engagement balance right.

 Written by Maggie Williams



Master trust choices

► Pensions Age asks: Pension scheme sponsors and trustees have been urged to pay attention to master trust investment returns when choosing which one to use, according to Lane Clark & Peacock. How else can scheme sponsors and trustees navigate the maze when choosing the right master trust for them?



For trustees contemplating a transfer to a master trust, the range of investment options (and therefore the ability of members to diversify risk) will be just as, if not more, important than investment returns (which by definition will be historic so may not be repeated). What members end up paying for master trust fund options is also vital: members should not be disadvantaged or penalised by moving. This means looking at investment and administration charges – if those are paid under the current scheme separately by the sponsor, it needs to check what it would be paying under the new trust. Both transferring trustees and sponsors also need to be satisfied about administration and the quality of members' experience in the new scheme – is it member-friendly to use and are the communications easy for what might be a varied workforce to understand?

► Squire Patton Boggs partner in the pensions practice, Clifford Sims



Scheme sponsors and trustees should consider investment returns, but also choice and range of investment strategies to match the needs and ethos of their membership. Charges will always be important, but so is value for money.

Other things to consider are service and administration, making it a smoother, easier ride for the employer and members. And finally, the magic dust to achieving good outcomes is communications and member engagement. Finding inventive, interesting ways to help members connect with their pension, and to understand what they have to do to get the income they want in retirement, can make a big difference to their later life.

► AJ Bell head of policy development, Rachel Vahey



All that glitters is not gold – so assuming one aspect of a master trust is a panacea is short-sighted and misguided. If we are talking investment, it is key to understand a host of factors, such as risk, volatility, strategy, cost, ESG principles and returns. Dumbing down to one factor and one we all know is backward looking is naive. That does not mean ignore it, it needs to be considered, just not as a standalone. Trustees and employers do, to be fair, probably get this.

So the maze needs to be navigated – but how? Consider your key criteria and weight these accordingly. These may include investment default, value for money for the service, payroll integration, decumulation options, and member engagement, amongst others. Each area can be broken down further in the selection process. It is a big decision – so make sure sufficient time and resource are available to get the new master trust that suits in place.

► PAN Trustees independent trustee and PMI Advisory Council member, Raymonde Nathan



Typically employers who are choosing a master trust are looking for providers who have a strong reputation in the marketplace for providing good service. How they measure that service and how it matches up to the needs of the employer tends to be a subjective process. What one employer values – say, a desire for whizzy digital communications perhaps – might be different to another employer who wants to focus on the level of support given to members at retirement.

Investment returns clearly play a part, although you can't see in advance what investment returns will be, so other things need to be considered in the mix too. The weightings differ from one employer to another, and that might depend on things like the age of their members, their pot sizes and the choice over different investment options.

► Sackers partner, Helen Ball



In the current master trust market, low-cost rules. Most buyers seem more interested in the lowest price and latest app, rather than focusing on what matters most – the level of contributions paid in and how that money is invested. The question of value rather than price seems to have been almost completely overlooked, with the market seemingly unwilling to pay for more sophisticated investment strategies that may deliver better member outcomes over the long term. Whilst the difference between a 0.50 per cent and a 0.30 per cent annual management charge may look large on paper, the most important factor for most scheme sponsors when choosing a master trust is to consider net investment returns, and the level of risk taken to achieve them. The dispersion of returns among master trusts can be startling, with independent surveys highlighting differences of several thousand pounds in members' pots when investment returns are considered over longer-time periods. So, they have to be able to find a master trust that offers the right level of service for the sponsor and its employees, but critically has an investment strategy that can deliver strong risk adjusted long-term returns.

► TPT Retirement Solutions DC director, Philip Smith



Assets under management are key for master trust longevity due to the regulator's focus on illiquid assets and market consolidation. My long list would be limited to providers that have scale and a track record of winning competitive new appointments to avoid selecting a provider that is subsequently taken over.

Member experience is critical – members are so disengaged from pensions that the ability to grab and retain members' attention through engaging tools and communications is a real differentiator.

Value is more important than another 0.01 per cent charge reduction. Instead, understand the broader proposition and consider questions such as: What support will the employer receive? Is the administration platform modern or creaking? Is the governance structure completely independent of the provider? What is the investment strategy?

Finally, make sure you do your due diligence and test providers' promises. We see too many provider commitments at selection meetings, which can only be delivered via manual intervention or where implementation is painful because providers have over reached.

► PTL client director, Sam Burden



There are a whole range of services offered by master trusts that will influence member outcomes, from admin and governance, investment strategy and returns to options at retirement, engagement, communications and digital capability. To focus on the best possible outcomes, sponsors/trustees need to select a master trust that has diverse and independent governance to ensure that these services are well governed, and decisions are consistently made in the best interest of members. A good master trust will focus on educating and engaging members to make their own decisions; ensuring that members understand and are confident with their role in their pension and are supported with education and tools to make informed decisions. A master trust should also be committed to the future by investing in growth.

► Legal & General Investment Management (LGIM) head of master trust and IGC, Nicola Lonergan



Aside from investment returns, the following issues are key:

- Quality administration is a big issue. Some of the weaker master trusts that have failed have left behind admin issues that are burdening those master trusts that have taken on their assets. There is also a variation in how master trusts handle significant events, as seen from the impact of Covid.

- Member engagement is key to ensuring members maximise their contributions when they are young and have the right guidance available to make decisions that are in their best interest, particularly at retirement. The quality of member communications varies significantly between providers.

- One of the strengths of a master trust should be the governance applied by the trustee board. Most boards now are fully independent of the underlying provider.

- Moving a scheme's assets to master trust will be one of the last actions of the outgoing trustee board. It is therefore crucial that trustees have full confidence that the assets will be transferred and invested in the master trust as directed and without error.

- One of the major benefits of a master trust is the ability for members to take benefits in the scheme. This is a new area for many providers with some still developing the member journey.

- Volatility is important when members are far from retirement as it can boost returns and 'pound cost averaging' means members contributions go further. Master trusts take a range of different approaches to managing risk, including ESG risk.

► Lane Clark & Peacock partner, Nigel Dunn



Pensions history

Inflation in 1975

Inflation was the topic that attracted attention from George Ross Goobey when he commented on it in proposing the vote of thanks to the president, officers and staff of the Institute of Actuaries at the Institute's annual general meeting on 9 June 1975.

"In a period of galloping inflation, we must express our special sympathy with the Treasurer, but we must acknowledge the fact that the accounts put before us this evening would have been very much worse had it not been for the voluntary labours of so many of our members included in this vote of thanks," Ross Goobey said.

Inflation had brought its special problems to the actuarial profession, particularly to those actuaries in the pensions world and this had thrown additional work on the council. Twenty-five years ago, actuaries had a reputation for being over-cautious. Today there was a feeling that actuarial reports and valuations might not reflect sufficiently the erosive effect of inflation, and this has given rise to concern by the Professional Conduct Committee.

Ross Goobey confessed that he was one of those who in the past had been critical of the over-caution of the profession but he was sure members would all agree that a reputation for caution was far better than any hint of irresponsibility.

Reading the report of the council, one can appreciate what a busy year it had been for the council, particularly on the legislation front. The new Insurance Companies Act, the new Social Security Act and even the Occupational Pensions Board had brought their additional labours and there was, the as yet, unresolved problem of inflation accounting and pension fund accounting.

The full text of his speech can be found in the George Ross Goobey collection at: www.pensionsarchive.org.uk/our-collections

► **The Pensions Archive Trust chairman, Alan Herbert**

Wordsearch

R	M	I	T	L	R	O	Y	L	T	J	D	C
E	Y	W	L	A	A	B	M	S	E	Y	A	
N	Y	G	L	V	U	M	E	I	C	R	P	M
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Fun and games

BALANCE
CAMPAIGN
DIVERSITY
ENGAGEMENT
ESG
INTERACTION
INTEREST
TECHNOLOGY
UNIONS
YOUTH

I know that face...



Answer at bottom of page

PENSION MATTERS by FRAN

The cost of living is rising DAILY, working out an investment strategy for 30 years down the line is a NIGHTMARE



Now we just need to figure out what order to put them in

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456	1	789			
1123	6	7143			
236	8	9142			
355	1	6523			
976	2	7253			
132	3	6721			

I know that face... Answer: PwC partner, Raf Molday

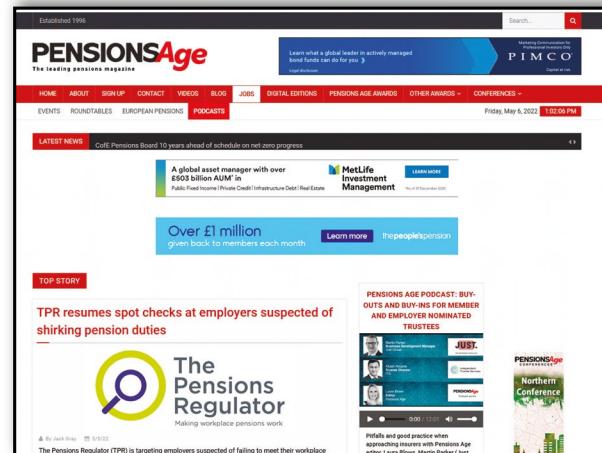
PENSIONSAge

The leading pensions magazine

FOR:

- Breaking news
- Exclusive stories
- Information on the latest industry developments
- Virtual conferences
- Webinars
- Podcasts
- Video interviews with key industry figures
- Features delving into the heart of pensions issues

- Latest sector appointments
- Comment pieces on the subjects you're talking about



The screenshot shows the PENSIONSAge website homepage. The header includes the magazine's name and a search bar. Below the header, there are several news articles, including one about the TPR resuming spot checks at employers suspected of shirking pension duties. A sidebar for the 'PENSIONS AGE PODCAST' is also visible.

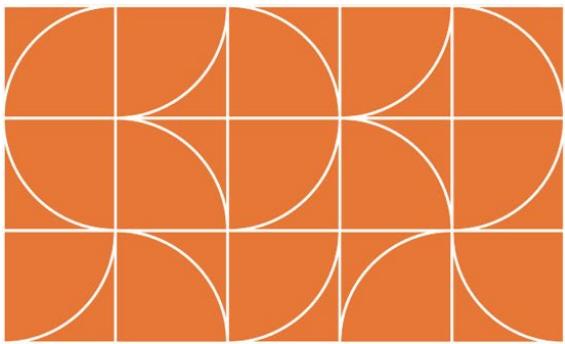
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The screenshot shows the PENSIONSAge website news alert page. It features a news article about DC adequacy, a sidebar for the Northern Conference, and a jobs section. The jobs section includes a list of roles such as Business Development Manager, Financial Services Director, and Editions Editor.



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Trustee Consultant

South-East/very flex working

£excellent

Niche Consultancy looking for pensions professionals to provide Trustee services and to manage governance projects for a growing portfolio of clients. Ref: 1374423 BC

Pensions Manager, in-house

Herts/hybrid

£attractive package

Superb in-house career- move as part of a collaborative team supporting delivery of the company's various complex DB and DC pension plans. Ref: 1377682 SB

Senior Pensions Accountant

Various/home-working options

£competitive

Varied opportunity for a skilled Pension Scheme Accountant, take on your own portfolio of clients whilst developing and mentoring a small team. Ref: 1377304 SB

Operations Manager

Remote working

£superb

Outstanding opportunity to join a growing admin practice and make a real difference in terms of delivery, oversee structure and ensure growth plans are met. Ref: 1377778 BC

Pensions Specialist

Warks/Bucks/Hybrid

to £50,000 per annum

Newly created in-house role to assist the Reward & Pensions Manager in the day to day operations of the DB and DC pension arrangement. Ref: 1377680 JW

Senior Pensions Specialist

Kent/hybrid/work from home

up to £45,000 per annum

Support the Pensions Manager in ensuring the smooth running of the day to day administration of the Pensions Schemes and management of key projects. Ref: 1377399 JW

Pensions Analyst

Hertfordshire

£competitive

Excellent opportunity to join a growing independent Pensions consultancy, develop a career within pensions whilst providing first class pensions services. Ref: 1371295 NMJ

GMP Administrators

Nationwide

to £35,000 per annum

Excellent opportunity to join this successful, growing consultancy, offering a flexible working environment. Ref: 1376602 NMJ

Pensions Projects Consultant

UK/hybrid

£competitive

An exciting and fulfilling career move with an award-winning Pensions Consultancy, join a projects team at a senior level during an exciting period of growth. Ref: 1377410 NMJ

Pensions Administrator

Work from home

up to £30,000 per annum

Large in-house Pensions team is seeking to expand and recruit 5 Pensions Administrators to join their busy team. The roles can be worked from home and offer a flexible working pattern. Ref: 1377010 JW

Pensions Admin Support Analyst

London/Hampshire/hybrid

£in line with experience

Work at the heart of this leading consultancy, providing vital support to client teams by performing key systems related tasks, ensuring clients receive the best possible service. Ref: 1376428 NMJ

ESG Responsible Investment Manager, in-house

London/hybrid

£attractive

Newly created role with this £bn+ pension fund to ensure delivery and communication of the Responsible Investment strategy. Ref: 1377720 SB

Professional Trustee &/or Trustee Governance Exec

Remote

£competitive

Progressive career move within the professional pension trustee sector as you support growth of the business across London and the South West. Ref: 1376102 SB

Trustee Services Manager

Hybrid/London

£attractive

Key senior role as part of the in-house pensions team as you take the lead supporting the trustees of this £multibillion pension fund, driving forward a robust governance framework. Ref: 1365553 SB

Senior/Pensions Consultants DB & DC

Locations Countrywide

£in line with experience

Develop and push your career forward within this growing Pensions consultancy, works across an enviable portfolio of clients delivering Trustee Governance and Secretarial support. Ref: 1377192 BC

Technology Consultant

Locations Countrywide

£excellent

Excellent opportunity for an IT driven Pension expert to join a leading Consultancy and be involved in strategic data management programmes, great growth potential. Ref: 1377653 BC

Compliance Manager, Pensions Administration

Herts/hybrid

£competitive

Varied, rewarding newly created in-house role where you'll drive forward a robust regulatory and legislative compliant framework for pensions administration, systems and scheme finance. Ref: 1377729 SB

Senior Transition Manager, DB Pension Scheme

London/hybrid/remote

£superb

Exceptional opportunity with this industry leader as you manage the transition of Defined Benefit pension schemes administration as part of derisking projects. Ref: 1377691 SB

In-house Technical Specialist

Hybrid/South East

£excellent package

Exceptional opportunity for a technically astute Pensions professional with this global industry leader's in-house pension team. Ref: 1377598 SB

DB Trustee Governance Manager, in-house

Hybrid/South East

£superb package

Wide-ranging role with this large in-house pension team utilising your pension scheme secretarial and governance skills. Ref: 1377633 SB

Operations Manager, Leading Reinsurer

Hybrid/London

£excellent

I'm keen to speak with skilled Third-Party Administration Managers seeking a new area to develop their career long-term. Ref: 1371814 SB

Senior/Communications Consultant

Home-based role

£in line with experience

Work with this Pensions Communications specialist to deliver the right outcomes for Scheme members. Manage a portfolio of clients, co-ordinating the services provided. Ref: 1375707 BC

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Pensions Project Manager

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Yes, a pensions project specialist permanent role! You will be busy for the next decade and beyond with all the exciting major projects this very large in-house pension department has planned for you!

Pensions Data Analyst

2 days on site only in Surrey

Working for one of the largest in-house pension departments in the UK, as part of a 5-strong data team, you will be a critical hire at this exciting time. You will love data and know how to handle large volumes of it.

Client Relationship Manager

Can be based at various UK offices

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 Tech. Specialist x 2

2 days on site only in Surrey

Our client is seeking a Senior Technical Consultant and Technical Consultant to join their 5-strong team, for a very large in-house pension department, where your services will be in constant demand.

Pensions + Governance Adstr.

Office, 1 day only, choice of 3 sites

5 days per week or part-time, just 2-3 days per week job share option. Our client is seeking someone with a solid pension's grounding in administration to take up a wider role helping the Manager of an outsourced pension scheme.

Project Manager

Home-based

This leading pensions administration provider is seeking an experienced Project Manager. You will be responsible for managing complex and sometimes larger projects for a variety of key clients. Projects to include de-risking & benefit changes.

Contact Craig English (CE)
craig@abenefit2u.com
07884 493 361

£DOE

DB15370

Client Director

Flexible Working

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.

Pensions Business Analyst

Full Home Working on offer

£DOE

CE15170

pension's

Pensions Administrators

Leeds / Harrogate / Belfast / Essex

£40-£45k

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 admin exp. required.

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 and project & consulting services.

EMEA Benefits Analyst

London or Birmingham

£DOE

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.

Pension Consultants

£Competitive

UK-wide

TD15283

You will have previous experience of providing secretarial support to Trustees. You will be involved in various governance projects so really broad and varied roles for people who are keen to work across all areas of DB pension's consultancy.

Contact Dianne Beer (DB)
dianne@abenefit2u.com
0207 243 3201 / 07747 800 740

Contact Tasha Davidson (TD)
tasha@abenefit2u.com
0208 274 2842 / 07958 958 626

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