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October 2019

PENSIONS Age

The leading pensions magazine

START YOUR IRM JOURNEY WITH THE BEST GUIDE

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As part of our House of IRM Series, we give you tools, resources and ideas to help you successfully navigate through key phases of your scheme's journey.

"Paying the promised benefits is the key objective for all schemes. This requires schemes to look ahead and set clear plans for how the objective will be delivered."
The Pensions Regulator, 2019

Plan the Journey

Schemes are often over-exposed to the fate of a handful of business lines in their covenant and/or the volatile returns of their investments. Getting to a place where less reliance is placed on these factors is crucial – this is a long journey for many schemes and requires careful planning.

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Biological age The impact of knowing members' biological ages on pension schemes

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October 2019

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Self-employed: *The industry's advice to encourage the self-employed to save for retirement*

Automation: *Will technology get to the stage where human intervention isn't needed within pensions admin and advice?*

Is there anybody there?

Is parliament still listening to the needs of the pensions industry?

Supplement: Sustainability Guide 2019

Editorial Comment

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

Be careful what you wish for.

It wasn't long ago when the pensions industry was begging the government to stop tinkering with pensions, to give them a break and allow the significant reforms of this decade to bed in.

To be fair, the government did exactly what was asked. Faster than you can say 'Brexit', parliament's interest in the pensions system – and seemingly anything that didn't directly involve the EU negotiations or in-party squabbling – decreased. Soon it was back to the conveyor belt of Pensions Ministers passing through without enough time to make an impact, with even the horrifying whispers that the role itself had been demoted by government.

Come back, we said, lavish attention on us once again. There's so many things we didn't get to do together. A 'band-aid baby' was created in the joint government/industry pensions dashboard project, but it wasn't enough. The project soon became 'industry-led, government-supported' rather than an equal partnership. And then, silence.

But, the end of parliament having its head turned with Brexit, at the time of writing at least, is finally in sight. Deal or no deal *[who knew UK politics lately would bear so much resemblance to Noel Edmond's TV career - including Noel's House Party and Mr Blobby]* or extension, place your bets now.

Along with the pensions dashboard, there's the Lifetime Allowance, Annual Allowance, tax relief, superfunds, self-employed, collective DC – the pension sector's list of issues for the government to address looks as long as the letters many over-excited young children are already penning to Santa now.

Indeed, the industry is hoping Christmas will come early, with the long-awaited Pensions Bill expected to be included in the Queen's Speech, currently scheduled for 14 October.

Assuming attention finally turns back towards pensions, how many issues will be ticked off the wishlist? Our cover feature *[page 54]* reveals scepticism that parliament will address everything desired, with some thornier issues, such as tax relief, potentially kicked into the long grass once again. And, judging by our party conferences round-up on page 57, they are right to be concerned, with pensions barely a mention across the three main political parties.

Yet, even if the Pensions Bill has everything hoped for, is that still a good enough sign that the government is truly engaged with pensions?

We've seen before the problems that occur when politicians take a sudden, superficial interest in pension reform as a quick vote-winner – yes I'm looking at you George Osborne – without fully considering the consequences of the changes made.

While Osborne's freedom and choice reforms freed people from the requirement to purchase an annuity, it gave that freedom before many were prepared to deal with the choice available. For instance, the FCA recently announced that more than half of all pots accessed in 2018/19 were completely emptied, and more generally, there has been an explosion of scam artists ready to relieve people of their pension savings.

The many changes made, in quick succession, to the Lifetime and Annual Allowances, saw a chaos-theory, butterfly-wing flapping, effect on doctors' workloads, with shifts being turned down and surgeries cancelled as a result of staff fearing to go over the allowance limits and reaping a large tax bill.

This summer saw confirmation that the government's changes to judges' and firefighters' pensions were discriminatory on the grounds of age, and that the ruling applies to all public-sector schemes, with rectification to cost an estimated £4 billion.

Luckily for the government, it has just avoided a potential bill of £181.4 billion between now and 2025/26, as the Backto60 campaign lost its court case, which claimed that rises to the state pension age for women born in the 1950s were discriminatory.

The grievances of the Backto60 group, along with the Women Against State Pension Inequality (Waspi) date back to the 1995 Pensions Act – nearly 25 years ago. A long viewpoint needs to be taken when considering adjusting retirement provision.

That is why I was pleased to hear Pensions Minister Guy Opperman recently announce his support for the creation of a new Pensions Commission; something *Pensions Age* has long advocated for. He stated it is necessary to bring together political parties to form long-term retirement policy, and that it is something that the Department for Work and Pensions is looking into.

So while the Pensions Bill finally being delivered may be many a pension professional's wish, the government taking a cross-party, long-term view of the country's retirement provision really would be a dream come true.

Laura Blows, Editor


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through the complexities of pension investment
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COVER FEATURE

Theme: Looking ahead

Highlighted features

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** Pensions Age named WTW Media Awards Pensions Publication of the Year 2019 – as determined by industry vote*

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News, views & regulars

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Pensions Age now has its new circulation - figure from the Audit Bureau of Circulations (ABC). 15,000 (July –June 2018) print distribution this is 100% requested and/or copies sent as a member benefit (PLSA, PMI, SPC, AMNT). Pensions Age is also sent as a Tablet Edition to our 25,000+ online subscribers (source: Publishers Statement Sept 18). Our print circulation is nearly 300% higher than other titles in the market.

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Dateline - September 2019

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

2 September UK expats in EU countries will continue to have their state pensions uprated in a no-deal Brexit scenario, the government reveals. However, the uprating of their state pensions has only been guaranteed until March 2023.

3 September Ecroignard Trustees is wound up after Manchester High Court finds it had mismanaged £14m worth of members' savings across two pension schemes. Ecroignard acted as the trustee of The Uniway Systems Retirement Benefits Scheme and the Genwick Retirement Benefits Scheme.

4 September Annuity rates for a 65 year old have fallen by 14 per cent since the start of 2019, in what has been described as a "horror show" by **Hargreaves Lansdown** senior analyst Nathan Long. Annuity rates have only ever spent nine weeks at a lower level. £100,000 pension now buys a 65 year old £4,654, which is £759 less than at the beginning of the year.

5 September Melrose Industries' defined benefit pension schemes ended June 2019 with a total deficit of £1.33bn, its half-year report reveals. The firm, which specialises in buying and improving businesses, saw its deficit reduce slightly in six months, after closing December 2018 with a £1.41bn deficit.

6 September The Pensions Regulator bans three professional trustees from acting as trustees for workplace pension schemes for attempting to make employer-related investments without the required legal and investment advice.

8 September Thérèse Coffey is appointed as Work and Pensions Secretary following the resignation of Amber Rudd. Coffey is the MP for Suffolk Coastal and was elected at the 2010 General Election. She was previously Minister of State at the Department for Environment, Food and Rural Affairs between July 2019 and September 2019.

9 September The Financial Ombudsman Service orders JLT Actuaries and Consultants to pay Mr W around £150,000, after advising him to opt out of a final salary workplace pension scheme in 1997. JLT advised Mr W to transfer the value of his pension benefits to join a new group personal pension set up by his employer. However, Mr W argued that he would have remained in the final salary scheme had it not been for JLT's advice, and he wished to be compensated for any losses he incurred.

10 September The government launches a consultation asking whether independent schools should be able to opt out of the **Teachers' Pension Scheme** while allowing existing staff to remain as active members. It hopes to gather views on whether independent schoolteachers in England and Wales should be offered greater flexibility on their pensions.

11 September Workers aged 60 and over who are opting out of their workplace pension schemes could be collectively throwing away up to £1.75bn in savings, **Royal London** says. Over-60s on the insurer's auto-enrolment book have the highest opt-out rates among pension scheme members, with one in four (23 per cent) choosing to opt out.

Editorial credit: Sorbis / Shutterstock.com

13 September The Work and Pensions Select Committee writes to The Pensions Regulator (TPR) over concerns that the plan to rescue the Arcadia Group pension scheme will fail. In the letter to TPR chief executive Charles Counsell, Work and Pensions Select Committee chair Frank Field says that due to the uncertainty facing Arcadia owner Taveta Investments, it seemed likely that the plan will fail.

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

17 September The pension industry needs greater stability in the position of Work and Pensions (W&P) Secretary to drive initiative and investment, Altus principal consultant, **Will Watling,** says. Speaking to *Pensions Age*, Watling explains that a long-standing W&P Secretary has the time to grasp the necessary understanding in pensions to give the industry the confidence to innovate.

16 September The Local Government Pension Scheme (LGPS) says it is facing pressure from the government to stop using active fund managers, following the Woodford scandal. An executive of the UK's largest public-sector pension scheme tells the *Financial Times* that analysis from Hymans Robertson in 2013 finds that the scheme could save up to £230m a year in investment fees and £190m in transaction costs if it dropped active managers.

18 September The **Kingfisher Group**'s UK defined benefit scheme's net surplus increased by £93m in six months to £413m, according to the company's half-year report for 2019. The home improvement firm says that the UK scheme's healthy position is down to it generating good returns from its assets, which have more than offset the actuarial losses on its liabilities.

BasPhoto / Shutterstock.com

19 September Legal & General completes a £930m full buy-in for members of the Tate & Lyle pension scheme. The deal means that all 6,700 members of the DB scheme are now covered by Legal & General, following on from a buy-in transaction that took place in 2012 for £347m.

20 September The **Pensions Management Institute** (PMI) says that mandatory accreditation for professional trustees should be introduced within the next five years. The call has come in response to The Pensions Regulator's consultation on the future of trusteeship and governance.

23 September The proportion of workers who believe that Brexit will have a negative impact on the value of their pension savings has remained almost unchanged compared to two years ago, increasing slightly to 42 per cent. **Aegon**'s bi-annual *Retirement Confidence Survey* has shown that 42 per cent of individuals believe that Brexit will adversely affect their pension pots, an almost identical share of those surveyed in 2017 (41 per cent) who expressed the same fear.

24 September Nearly half (44 per cent) of UK pension trustee boards are not assessing their performance, research from **Punter Southall** reveals. Of the schemes assessing performance, 31 per cent felt that their review process was not very effective.

30 September State pension payments are expected to rise by 4 per cent from April 2020, due to an increase in earnings growth. Aegon says figures from the **Office for National Statistics** show that earnings growth for the year to July stood at 4 per cent, well above the other measures used to calculate state pension increases under the UK's 'triple lock' calculation system.

News focus

More than half of accessed pension pots emptied out

The Financial Conduct Authority has also warned that pension scam victims are being caught out by fraudsters when exercising their pension freedoms, when it may not be in their best interests

More than half (54 per cent) of all pension schemes that were accessed in 2018/19 were completely emptied of all savings, the Financial Conduct Authority (FCA) has revealed.

In its *Retirement income market data 2018/19* report, the FCA found that, of the 645,000 pension pots that were accessed, 350,000 were fully withdrawn at the first time of access.

Around 90 per cent of the withdrawals were from pots with less than £30,000 in, with the average size being nearly £13,000. Four in 10 pots accessed had a value of less than £10,000.

Just Group group communications director, Stephen Lowe, said that the data showing over half of accessed pots were emptied "raises concerns".

He continued: "More than 350,000 pensions were fully withdrawn, with an average size of nearly £13,000, so these are by no means insignificant pensions. Even where pension money is left invested and regular sums taken, the withdrawal rates are far higher than most experts would consider sustainable for a long-term investment such as a pension."

Lowe emphasised his concerns about the number of drawdown customers withdrawing too much per year.

He continued: "The FCA figures show that four in 10 drawdown customers took more than 8 per cent of the fund value a year, although for those with funds of less than £50,000 this rises to nearly two-thirds (63 per cent). Overall 74 per cent of people are taking more than 4 per cent of the fund value each year."

The Institute of Faculty of Actuaries has suggested a 3.5 per cent drawdown rate for 65 year olds and 3 per cent for 65 year olds.

However, AJ Bell senior analyst, Tom Selby, did not share Lowe's concerns, saying: "While on the face of it the fact more than half of pots accessed are being fully withdrawn could be a cause for concern, the bulk of these are small pots and so there is less risk of people being hit with huge unnecessary tax bills.

"Equally, it is encouraging that as pension funds get larger and the tax impact of significant withdrawals becomes potentially greater, fewer people are taking 8 per cent or more from their fund."

Nearly half (48 per cent) of the pension pots were accessed without advice, while 37 per cent were accessed by holders who took regulated advice and 15 per cent who received Pension Wise guidance.

FCA's figures also pointed to a shift from annuities to drawdown, with 190,000 plans entering drawdown and only 74,000 annuities being purchased.

Commenting on the findings, Selby, said: "These figures demonstrate the enduring popularity of the pension freedoms, with almost three people taking a regular income through drawdown for every one person buying an annuity. This represents a monumental shift in retirement behaviour, the impact of which will be felt across the UK economy.

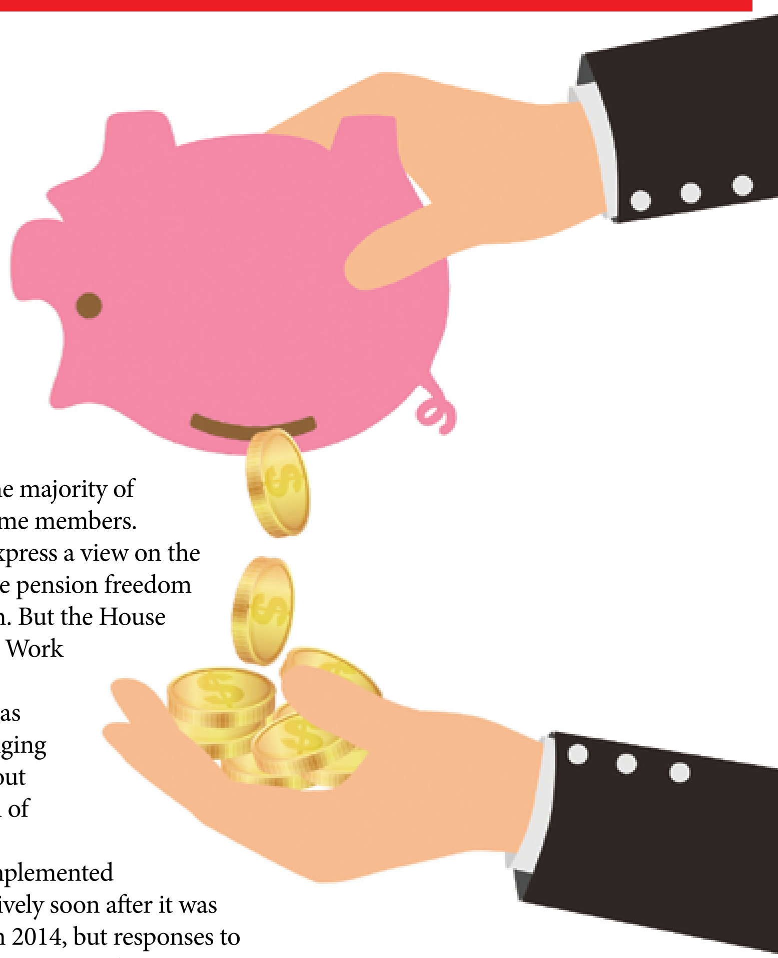
"However, far too few people are seeking advice or guidance about crucial retirement decisions across the board, and boosting these numbers needs to be a priority for the regulator.

"The nature of the pension freedoms means while some will use their newfound flexibility responsibly, others risk sleepwalking into disaster. Increasing take-up of advice and guidance is crucial to help mitigate this risk."

In addition, the FCA has said that pension scam victims are being caught out by fraudsters when exercising their pension freedoms when it may not be in their best interest. Speaking at the Cambridge Economic Crime Symposium, FCA chair, Charles Randell, said that a number of skimming and scamming victims had been persuaded to make poor decisions when transferring out of a defined benefit scheme.

Although Randell admitted the regulator did not know exactly how many people had been scammed into transferring their savings to fraudsters, "it is clear that it could be a large number".

He continued: "Exercising this *[pension]* freedom is unlikely to be in the



interests of the majority of pension scheme members.

"I don't express a view on the wisdom of the pension freedom policy as such. But the House of Commons Work and Pensions Committee has asked challenging questions about the execution of this policy.

"It was implemented in 2015, relatively soon after it was announced in 2014, but responses to the risk of skimming and scamming are continuing to be developed."

Randell added that policymakers, including the FCA need to learn "lessons for the future" from their experiences with pension freedoms, and that similar major changes to policy need a lengthy period of planning and testing, so safeguards against scamming can be implemented before it is launched.

Since the ban on cold-calling came into effect earlier this year, the number of reported scams has decreased but reports of other scams, such as crypto and forex investment scams, are "rapidly increasing", according to Randell.

He also warned that unsuitable self-invested pension plan (Sipp) investments were on the rise.

"We've made it clear that the providers of Sipp wrappers need to exercise due diligence on the investments accepted into the plans," he added.

"But I believe it's right to question why the taxpayer should foot part of the bill for these investments through pension tax relief.

"This is intended to reduce the burden on future generations of caring for current savers, but it may mean that current savers can be persuaded to invest in high-risk, unregulated investments."

Written by Jack Gray

NEWS IN BRIEF

Dalriada Trustees has become the first professional trustee firm in the UK to sign up to United Nations' Principles for Responsible Investment (PRI) network. Signatories to the PRI commit to six principles designed to embed environmental, social and governance (ESG) considerations into investment and ownership decisions.

Legal & General is to begin offering annuities to Prudential pension savers from 1 November as part of a new 'introducer' deal it has struck with its insurance rival. Legal & General will provide annuities to Prudential customers with guaranteed annuity rates and has also promised to assist retirees in obtaining a better rate should a market comparison come up with one.

Barnett Waddingham has hired over 50 graduates and apprentices in its annual intake. The graduates have joined in several sectors, including actuarial, insurance, investment and longevity consulting across Barnett Waddingham's eight UK offices. Of the new apprenticeship intake, 21 have taken up roles in Barnett Waddingham's pension administration department and four in the IT department, representing a significant increase on the seven openings available in 2018.

Aviva Investors had launched a new fund to support the transition to a low-carbon economy. The Aviva Investors Climate Transition European Equity Fund is supported by a €100m seed investment from Aviva France and aims to outperform European equity markets.

VIEW FROM THE PLSA

People in the UK are conducting an increasing amount of their day-to-day activities online. Whether it is checking bank accounts, purchasing products and services, or accessing government benefits, online services are steadily (in some cases rapidly!) replacing paper-based approaches. Digitisation of services offers a whole range of economic and social opportunities to consumers. But, it also presents risks, especially when it comes to the security of individual identification processes. Clearly, the need to produce copies of physical documents as part of the process of identity assurance is somewhat anachronistic in the modern world. Equally, the fact that existing digital identification processes tend to be related to a single service only (and non-transferrable) creates security concerns, as people tend to respond to the need to memorise multiple log-in details by selecting weak passwords.

These issues point to the need for a secure digital ID that can be used to access multiple services. It is good to see that DCMS has recognised this and is leading the way with its recent call for evidence. Of course, the pensions sector stands to benefit from the development of a portable digital ID market. To maximise the communication and engagement benefits of the pensions dashboard project, we need to avoid the appearance of layers of log in requirements. A single, portable digital ID will solve this issue.

The PLSA looks forward to taking part in further discussions on the development of a digital ID market and how the pensions sector can help to facilitate it.

PLSA policy lead lifetime savings George Currie

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

Trust-based DC schemes more likely to consider ESG in defaults - WTW

WTW survey finds 69 per cent of contract-based schemes do not focus on ESG in their default funds

Trust-based DC schemes are far more likely to be considering implementing ESG filters in their default funds than their contract-based counterparts, according to Willis Towers Watson (WTW).

WTW's 14th *FTSE DC Pension Scheme Survey* has shown that 69 per cent of contract-based schemes do not focus on ESG in their default funds, as opposed to 33 per cent of master trusts and 18 per cent of trust-based schemes.

Fifty per cent of trust-based schemes see ESG as an emerging focus, and a further 32 per cent see it as either a continuing focus, or an issue that is already at the forefront of their thinking.

Only 19 per cent of contract-based schemes view ESG as an emerging focus and only 12 per cent treat is as either a continuing or established focus.

The consultant's latest examination of DC provision has also discovered that just over half of DC pension schemes are looking to incorporate (or are continuing to include) ESG into their default strategy in the near future.

Furthermore, 46 per cent are considering adding it as a self-select option, bringing the share of schemes offering ESG as a self-select option to two-thirds of the UK's DC universe.

WTW senior director of investments, Anne Swift, said that the study shows that significant change has occurred, or is being considered, in relation to ESG investment strategies.

"This is being driven by both the expectation of better investment outcomes and the demand from DC pension members to reflect these factors in their retirement savings,"

explained Swift.

The findings follow recent research from Sackers, showing that less than a fifth of pension trustees and managers believe that DC trustees are doing enough to take ESG factors into account when considering appropriate investment options for members.

The WTW report also stated that 54 per cent of DC schemes plan to review their general default investment approach in the next two years.

As default investment strategies continue to evolve, equities dominate in the early stages of the growth phase with a 65 per cent allocation.

Ten years out from retirement age this reduces to 40 per cent on average, but at retirement, there is still a 15 per cent allocation to equities.

Fewer than 20 per cent of schemes now target annuity purchase as the default retirement outcome, with two-thirds having replaced that with an income-drawdown or universal target.

"With 98 per cent of FTSE350 companies offering defined contribution pensions to new entrants, employers are clearly more focused than ever on reviewing and diversifying the design and delivery of their DC schemes," added Swift.

Written by Marek Handzel

VIEW FROM TPR

Our transformation into a clearer, quicker and tougher regulator began in 2017. We are now at a point where we can see the impact this work is having, and the signs are positive.

We are proactively supervising significantly more schemes, including targeting hundreds more schemes through new initiatives across a broad range of areas.

Our latest quarterly compliance and enforcement bulletin highlights an example of a scheme that has been through the process of 'relationship supervision'. Initially, the chair of trustees and pensions director of the scheme were wary when they were selected for supervision.

It is an attitude we have heard from some schemes concerned about the scrutiny, control and additional workload it may bring. But they have since told us that it has been a positive learning experience.

We found that the DC scheme was well run, however we were able to offer a different view on a number of issues, such as suggesting succession planning for the chair of trustees.

We will give clear direction about the standards that schemes are expected to meet and what the consequences of failing to meet those standards could be.

We have used more of our powers, more often, but we are not an enforcement-led regulator. We would much rather those we regulate worked within the law, within our guidelines and with us.

TPR chief executive Charles Counsell

The Pensions Regulator
Making workplace pensions work

Contribution levels have 'most significant' impact on pensions

PPI report finds that, while charging structures play a significant role, it is contributions that have the greatest impact on pot sizes

Pension contribution levels commonly have the "most significant" impact on retirement outcomes, the Pension Policy Institute (PPI) has said.

Charging structures and levels also have an important role to play in determining retirement outcomes but are "not necessarily" the most important factor.

In its report, *Pension charging structures and beyond; an outcomes-focused analysis*, the PPI said that charges and contribution levels need to considered alongside other factors, including member communications and experience, investment strategies, the strength of governance, and the impact of having multiple pension pots.

It noted that a low charge does not necessarily guarantee good value, as those with multiple pots are likely to be worse off than those with a single pot, while the charges do not necessarily reflect the costs incurred in running a pension scheme.

The PPI highlighted that there may only be small differences between different charging structures that meet the government's charge cap and points to the need to develop a common framework to give savers the understanding to assess whether the scheme represents good value for money.

Greater transparency on default strategies would allow for a greater understanding but may not produce the data that members or employers can use effectively, according to the report.

The PPI also warned against having multiple pension pots, and that the introduction of auto-enrolment could see an uptick in their occurrence, as savers can lose out by paying multiple charges across

the accumulation period.

It found that an individual with a single pot is better placed to get good retirement outcomes, but that it depends on the scheme that the individual is first enrolled into.

PPI senior policy researcher, Mark Baker, added: "Charging structures and levels do have an important role to play in determining savers' retirement outcomes, but they should be understood alongside a number of other factors.

"A charging structure that appears to offer a low charge for savers does not guarantee good value, as other factors, particularly investment performance, increased personal contributions and member engagement will affect outcomes.

"There are potential approaches that can assist savers optimise the value of their pensions, such as retaining the same pension throughout their working lives or taking their pot with them when they move between employers.

"However, none of these strategies will guarantee better outcomes alone."

Written by Jack Gray

VIEW FROM THE PMI

The introduction of stakeholder pensions a generation ago marked the government's first attempt to introduce inexpensive pension provision via the workplace.

Employers with five or more employees were, with some exceptions, required to designate a stakeholder pension arrangement. The initiative was ultimately unsuccessful. Many employers designated schemes that were never used – others simply never bothered to select a scheme at all. The government of the day made little attempt at enforcement.

The experience of the stakeholder pension led many to wonder if automatic enrolment might suffer similar problems. For the first time, this was a workplace pensions policy that would apply to every single employer in the country and would represent an enforcement challenge that was without precedent in UK pensions history.

However, as we have seen, The Pensions Regulator (TPR) has taken its enforcement responsibilities extremely seriously. TPR has been thorough and consistent in its dealings with rogue employers, and its policy of naming and shaming has seen a succession of stories in the pensions media of prosecutions and other measures.

To be credible, automatic enrolment must be available to all employees who meet the relevant criteria. Additionally, unscrupulous employers must not be permitted to achieve any degree of commercial advantage through deliberate non-compliance. TPR is to be congratulated for its enforcement work, which is vital if automatic enrolment is to continue to succeed.

PMI technical consultant Tim Middleton

MPs seek answers over future of Thomas Cook pension scheme

The PPF has said that it is ready to step in and safeguard the scheme's 13,500 members

The Work and Pensions Select Committee has written to the Thomas Cook pension scheme seeking answers about its future, following the collapse of its sponsoring employer.

Committee chair Frank Field wrote to the scheme, as well as The Pensions Regulator and the Pension Protection Fund (PPF), asking why the trustees had asked for £25m ongoing annual funding for the scheme despite its strong funding position.

The Thomas Cook UK Pension Scheme's latest annual accounts showed a large surplus for the scheme and its most recent triennial valuation, in 2017, showed a "significant improvement" in funding levels.

The future of the pension scheme is currently uncertain following the collapse of its sponsoring employer, Thomas Cook, on 23 September 2019.

The PPF has said that it was ready to step in and safeguard the scheme's 13,500 members and it is set to undergo funding assessments to establish whether the scheme will enter the PPF.

Field also queried the Thomas Cook scheme chair of trustees, Steve Southern, as to whether the scheme has enough assets to secure member benefits in full or at a level above that of the PPF.

Finally, the MP asked how the trustees would communicate with members about the long-term future of the scheme, to ensure that they are aware of the current situation surrounding their savings.

Following the collapse of Thomas Cook, a PPF spokesperson said: "We want to assure members of Thomas Cook's DB pension schemes that their benefits remain protected by the PPF at what must be a worrying time for all concerned."

The company had four DB pension schemes, which are expected to enter the PPF, with it ready to protect the 13,500 scheme member's benefits.

The PPF assessment period usually lasts for 18-24 months and during this time the true funding level for the scheme will be realised. This will determine if the schemes will have sufficient assets to allow them to buy out benefits with an insurer or if they will transfer into the PPF.

There are also around 3,000 retirement members of its scheme that could continue to have their pensions paid in full by the PPF.

Unretired Thomas Cook staff in the schemes could be paid 90 per cent of their promised benefits, up to £40,000, while members with larger pensions may receive a minimum of half of their pension savings.

Written by Jack Gray

NEWS IN BRIEF

Salvus Master Trust's assets under management have surpassed £200m. It said that the growth reflects the firm's continued commitment to the master trust market and its focus on providing a robust and technology-led service, built on strong governance and 'easy to use' administration systems. Salvus Master Trust head of sales Bill Finch commented: "We are delighted to have hit this milestone. This is testament to the hard work of the team and to the loyalty of our clients."

Braintree District Council, Epping Forest District Council and **Colchester Borough Council** have partnered with MHR Analytics to manage their pensions return processes. The councils hope that the approach will reduce the time and money the authorities spend on identifying and collating employee pension returns, eradicating the risk of financial penalties for inaccurate or late returns. MHR plans to deliver simplified and accurate monthly and annual data submissions for the three local authorities.

AJ Bell has launched its Retirement Portfolio Service to help financial advisers manage clients taking income in retirement. It will be relevant for any clients requiring a sustainable income in later life and is available via Sipp, ISA or general investment account. It could be particularly attractive to those drawing an income under the pension freedoms. The service combines four strategies designed to prolong the longevity of portfolios in decumulation, whilst minimising sequencing risk.

Addison Lee accused of 'pulling the wool' over TPR's eyes

Elsewhere, Telent has completed a £4.7bn buyout, and Kingfisher Group has seen its DB surplus increase by £93m

Addison Lee has been accused of "pulling the wool" over The Pensions Regulator's (TPR) eyes regarding outstanding pension contributions it owes to its employees.

The union GMB has called on the firm to clarify when Project Tristar employees will receive the contributions, which the firm failed to deposit into employee pensions for seven months between February and August 2019.

GMB regional organiser, Steve Garelick, said that Addison Lee, which owns Project Tristar, were "pulling the wool over the eyes of their employees and TPR".

Nest has reported Project Tristar to the regulator three times, following several reminders to the company that they either have not paid contributions to Nest on time or they failed to notify them that contributions weren't due to be paid, breaching their legal duty as an employer.

The owed contributions now total a minimum of £1,000 for each employee.

Responding at the time, an Addison Lee spokesperson said: "Addison Lee Group apologises for any concern caused to its Tristar drivers as a result of any delayed pension contributions.

"We are working with our pension provider and The Pensions Regulator to ensure this will be resolved by the end of September. We are keeping drivers informed of the situation."

Addison Lee reportedly tried to reassure members in July that the failed payments were due to administrative delay by Nest and that the payments would be made imminently.

However, only one month's worth of payments has been paid since then, despite board members of Addison Lee assuring that this issue is their number one priority.

In other news, Telent and the trustees of its GEC 1972 defined benefit pension scheme have completed a full buyout with Rothesay Life, worth a record £4.7bn. The deal secured the benefits of all 39,000 members, including 11,000 deferred members, and consists of two parts, as the buyout will be preceded by a buy-in.

The buy-in will see the transfer of assets from the scheme to Rothesay Life in exchange for an insurance policy, which will provide the funds for the scheme's current administrator to continue paying members' benefits in full.

The buyout is expected to be completed before the end of 2022 and will see members receive individual pension contracts or annuities with Rothesay Life who will at that time take responsibility for paying members their benefits.

It will be the largest full scheme buyout concluded in the UK, with the second largest being the Rolls-Royce buyout deal with Legal & General that was completed in June 2019 for £4.6bn.

And finally, the Kingfisher Group's UK defined benefit scheme's net surplus increased by £93m in six months to £413m, according to the company's half-year report for 2019. The home improvement firm has said that the UK scheme's healthy position is down to it generating good returns from its assets, which have more than offset the actuarial losses on its liabilities.

Written by Jack Gray and Marek Handzel

Appointments, mandates and moves


David Richardson

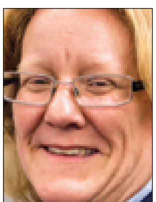
Just Group has appointed David Richardson as its group chief executive officer.

Richardson will also be CEO of the group's insurance subsidiaries, Just Retirement and Partnership Life Assurance Company. He will retain his roles as interim group chief financial officer and managing director of UK corporate business. Prior to joining Just in 2013, Richardson was group chief actuary of Phoenix Group.

Commenting on the appointment, Just Group chairman, Chris Gibson Smith, said: "David's leadership is already transforming the group, and making his interim CEO role permanent is a natural step for us to take. Together with Andy Parsons' arrival as chief financial officer in the New Year this means we will have a first-class team in place to lead the group forward."

Richardson added: "I am delighted to have been offered this opportunity, and I'd like to thank the directors for appointing me at this crucial time. My job is to maximise shareholder value, with no options excluded."

The Pension Protection Fund has appointed three non-executive directors to its board – Rodney Norman, Nailesh Rambhai and Anna Troup. Norman has extensive financial experience having worked for HM Treasury and National Savings and Investments. Rambhai has worked closely with trustees and is currently a senior executive for a Fortune 50 business, and Troup is a qualified lawyer who brings over 20 years' experience in financial services, asset management, investment banking, governance and operational risk to her role.


Kirsty Worgan

Smart Pension has named Kirsty Worgan as its chief commercial officer. Worgan will become the company's first chief commercial officer and has previously held roles at Bravura Solutions and GBST EMEA. While at Bravura, Worgan helped the Australian wealth management and funds administration technology provider win a number of high-profile UK clients, as well as in the wider EMEA area.


Rash Bhabra

Willis Towers Watson has announced the appointment of Rash Bhabra as head of retirement in Great Britain. In his new role, Bhabra will be responsible for overseeing the growth of Willis Towers Watson's retirement and pensions consultancy business. He joined the firm 20 years ago and has held a variety of leadership positions, including head of financial services group and head of corporate consulting.


Pin-Nee Tang

Law Debenture has named Pin-Nee Tang as director of its subsidiary company Pegasus. Tang bring over 20 years of experience in pensions to her new role. She has held a number of senior positions across banking, in-house and consultancy roles. Most recently, she was director of corporate pensions at Lloyds Banking Group. Prior to Lloyds, she was head of pensions at Aviva, where she managed its financial risk exposure.

Citrus DB Master Trust has named Peter Thompson as its chair of trustees. Thompson, who is a qualified actuary and client director at Capital Cranfield, has 15 years of experience as a professional trustee, dealing with a range of schemes, including several with assets in excess of £1bn. He has also handled a regulated apportionment arrangement, several buyouts and a company voluntary arrangement. Thompson has been chairman of the PLSA and master of the Worshipful Company of Actuaries.


Mike Holliday-Williams

Aegon UK has appointed Mike Holliday-Williams as its chief executive officer.

The appointment took effect on 1 October 2019. He replaces Adrian Grace, who has spent 10 years at the company. Holliday-Williams was previously managing director of Direct Line and will also be joining Aegon's management board, subject to regulatory approval. Holliday-Williams joined Direct Line in 2014 as personal lines MD before being appointed as an executive director to its board in 2017.

Commenting on his appointment, Holliday-Williams, said: "I am delighted to be joining Aegon at this pivotal time in our industry. I look forward to working with advisers to develop new solutions to enhance their relationships with their clients."

Aegon CEO, Alex Wynaendts, added: "Mike brings extensive experience in the financial industry and a strong track record in focusing on customer solutions. I look forward to working with him."

Mortality Screening from The National Fraud Initiative (NFI)

National Fraud Initiative

Mortality screening allows you to quickly detect benefits and services that are still being claimed by others following a bereavement

At a time of devastation and upheaval following the death of a family member, errors can sometimes occur but there is also a risk that individuals intend to commit fraud.

Individuals entrusted with dealing with the administration of the estate and probate etc. may overlook some aspects resulting in overpayments. However, there may be more malicious reasons why a death isn't reported, such as using the deceased's identification for unlawful purposes.

Don't get caught out! Mortality Screening from the NFI allows you to easily identify cases where benefits and services are continuing to be paid to individuals either purposely or accidentally after death. This enables you to stop the payments and potentially recover thousands in overpayments.

Fraud and error as a result of death continues to be the largest single area of fraud identified by the NFI year on year.

Starting from £350 for up to 10,000 records, mortality screening provided by the NFI is cost effective. We are experts at providing access to accurate and robust mortality data from both the Department for Work and Pensions and Disclosure of Death Registration information. Providing one of the most accurate and comprehensive views of deceased individuals in the UK.

By using the NFI mortality screening service you can identify those deceased individuals within your customer database who may still be receiving benefits, pension payments, etc. as well as new applications for services where a fraudster is assuming the identity of a deceased person. This could include:

— Pension payments

— Concessionary travel passes or blue badge parking permits

— Social housing tenancies

— Payments to private care home for residential care

The requirement for good quality, regularly updated data is crucial as part of a robust customer management process and none more so for organisations who need to protect themselves from fraud.

Access to this service is affordable and easy to use. We recommend data screening is performed every 6 months to detect uninformed deaths and limit the overpayments of benefits or cost of services. This allows you to take positive action supporting families who have innocently forgotten to inform you of changes as well as identifying and stopping fraudulent activity.

The Benefits

UNIQUE AND FLEXIBLE

— Our data source is enhanced to include National Insurance numbers and the records of deaths of UK citizens abroad;

— This unique data is exclusively available through the NFI mortality screening service;

— Using sophisticated matching techniques, we ensure you receive accurate and comprehensive results;

— The screening is available every 6 months (with data submission in June and November)

PROVEN

— Pension schemes taking part in previous NFI mortality screenings have cumulatively detected and prevented over £554 million of fraud and overpayments

— The NFI has been undertaking mortality screening for over 20 years and already provides a service to major public sector and blue-chip company pension schemes

COST EFFECTIVE

— We are able to provide a flexible and affordable solution for all organisations no matter the size

— The NFI fee scale is transparent and based on the number records you wish to screen

— The NFI uses advanced data matching techniques that can replace the time, expense and uncertainty involved in sending life certification forms to verify the existence of an individual

For further information on how our Mortality Screening services can benefit your organisation, including associated fees, please email: **helpdesk@nfi.gov.uk**

Further information is also available from this website: **www.gov.uk/government/collections/national-fraud-initiative**

HM Government

VIEW FROM THE PPI

The DC landscape has experienced profound changes over the past decade. These changes have led to concerns about contribution levels, charging structures, investment strategies, and small schemes, among other things.

The year's PPI *DC Future Book*, in association with Columbia Threadneedle Investments, explores how moves to address these above concerns could, if carefully managed, increase the size of the pension pot of a hypothetical individual, Sam, who contributes 8 per cent of salary between age 22 and state pension age.

For example, using less volatile assets to allow similar returns to equities and reduce the need to de-risk significantly before retirement, could increase Sam's pension pot in retirement by 3 per cent. Sam's pot could increase by 2-3 per cent through investment in illiquids or ESG funds. A drop in charges, arising from scheme growth or consolidation could see Sam's pot increase by between 6-8 per cent. And increasing contribution levels and/or longer working could increase Sam's pot size by 13 per cent and 5 per cent respectively.

While making the above advancements in governance and investment management might be tricky; industry, government and support bodies are currently working hard to ensure that people achieve the best possible outcomes from pension saving.

PPI head of policy research Daniela Silcock

PENSIONS POLICY INSTITUTE
PPI

Market commentary: A looming recession

Recession is the phrase at the forefront of economists' minds at the moment. Some are sure that one is just around the corner, others remain unconvinced, but they are in agreement that the global economy does not look in good shape.

Unigestion head of macro research for the Cross Asset Solutions team, Florian Ielpo, notes that after a year and a half of economic slowdown, "the first real signs of alarming macro conditions are starting to surface".

"Worried investors now have plenty of evidence to sustain their bearishness. Yield curves are inverted or flat, industrial surveys are at low levels and even the mighty Germany has had a quarter of negative GDP. Is a global recession already here? We do not think so," he says.

Describing the global economy as being in a "tricky spot", T Rowe Price senior portfolio manager Ken Orchard, notes that its two biggest players, the US and China, are engaged in an on-again, off-again trade war that is slowing growth in both economies, aided by the lingering impact of past policy tightening. But, as Cardano investment strategist, Carl Jones, says "recessions are inherently hard to predict, and it is even harder to pinpoint the exact timing of their occurrence". Nonetheless, Cardano's research suggests the economic cycle has moved to the slowdown phase.

"However, compared to previous recessions, the imbalances in global economies do not seem to be as excessive…we believe that if a recession were to occur over the next 12 months it would be relatively shallow," he notes.

Royal London director of policy, Steve Webb, explains that in the UK a technical recession is when the country has negative growth for two successive quarters. Quarter two came in at -0.2 per cent, although this could be revised, and with quarter three's figure expected in November, an answer is not far away.

But what does that mean for pension funds? "There is no doubt that healthy pensions depend on a healthy economy, so the current sluggish state of the UK economy is a concern," he says. However, he states that the days when pensions of most UK workers were invested in the UK stock market are long gone. "Pension fund investments cover a range of markets and a range of assets and so a UK downturn in isolation will have a limited effect. In many ways a greater concern might be the state of the global economy and, for example, the risk of a trade war."

Despite this, Jones recommends that funds ensure liabilities are well hedged on both interest rates and inflation. The firm believes that schemes should continue to tilt their growth portfolio towards an economic outlook that continues to slow, which means that a meaningful allocation to government bonds remains appropriate. "However, we don't want to ignore the possibility that policymakers, or a deal between the US and China on trade, can extend this cycle. We therefore advocate investors retain equity exposure but do so selectively and through the use of options," he adds.

Russell Investments head of UK fiduciary management, Paul Wharton, adds: "UK defined benefit pension schemes have already suffered considerable pain through 2019 due to falling gilt yields increasing liability values. For pension schemes with low to medium hedge ratios this has meant large increases in deficit values as their investment portfolios haven't been able to keep pace with the increase in the liabilities. Even for clients who do have high hedge ratios, softening economic data globally is revising down earnings growth for 2020 and 2021."

Written by Natalie Tuck


M&G INSTITUTIONAL
IM&GINE
A DIFFERENT
APPROACH TO
MULTI-ASSET
INVESTING
Our unique 'episode' investment philosophy combines macro-economic research, behavioural finance and a valuation-driven approach. With 20 years' experience, M&G's Multi Asset team offer a range of diversified, risk-managed funds designed to deliver the growth and income that pension schemes need.
The value of investments will fluctuate, which will cause fund prices to fall as well as rise and you may not get back the original amount you invested. Past performance is not a guide to future performance.
www.mandg.co.uk/multiasset

VIEW FROM THE SPP

The cross-industry GMP Equalisation Working Group (GMPEWG) has recently published its *Call to Action* on addressing inequalities in Guaranteed Minimum Pensions (GMPs). It follows last year's High Court decision that schemes with GMPs accrued between 1990 and 1997 must equalise members' benefits for the effects of GMP (GMP equalisation or GMP-E).

Whilst recognising that clarification on some points is still awaited, the group has identified areas, mainly administrative, that schemes are urged start working on now.

The *Call to Action* sets out key points for trustees and their advisers to consider, including the need for all stakeholders to work collaboratively to ensure a successful project and the likelihood of resource constraints within the industry, with many schemes looking to complete GMP equalisation within similar timescales.

The document then covers topics for which there are good reasons to act now and the Pasa guidance also includes a checklist for trustees.

SPP is represented on the GMPEWG and the separate HMRC working group. The publication of the *Call to Action* is the first of many milestones that are expected to be reached this year in terms of helping pension schemes progress.

The GMP equalisation journey has already started. It is now clear that benefits must be equalised for the effects of GMPs. Whilst there are still unanswered questions, now is the time to get 'GMP equalisation ready'.

SPP Legislation Committee member John Wilson

THE SOCIETY OF PENSION PROFESSIONALS
leading pension thinking

In my opinion

On why schemes should offer partial transfers
"Pension freedoms give people new options to shape their retirement wealth in the way that is right for them. But for too many people this is an all-or-nothing option, involving giving up all of their guaranteed pension income in retirement. We would like to see far more schemes offering partial transfers, where members can retain a secure pension but also enjoy greater flexibility. This genuinely could be the best of both worlds."
Royal London director of policy, Steve Webb

On Prudential's £24m fine from the FCA
"Prudential failed to treat some of its customers, who could have secured a better deal on the open market, fairly. These are very serious breaches that caused harm to those customers. Prudential is now rightly focused on redress and today's financial penalty reinforces the cardinal obligation of fairness that firms owe to customers."
Financial Conduct Authority executive director of enforcement and market oversight, Mark Steward

On the progress made on executives' pensions
"We are particularly pleased that some companies have used this shareholder scrutiny as an opportunity to assess whether their broader workforce contribution rates are appropriate. Shareholders want to see that progress continue, with the aim of pension payments for executives being in line with the majority of the workforce by the end of 2022. Our new guidelines require companies to show they are serious about that ambition and set out a credible action plan to deliver it."
IA director of stewardship and corporate governance, Andrew Ninian

On the challenges that the pensions dashboard will bring
"There will be challenges to address – explaining that a £2,000 pension from age 65 is worth significantly more than a £5,000 DC pot will be tough – and time needs to be taken to ensure the messaging is clear. But critically, for the first time, everyone will have line of sight of their total pension savings. But there's potential for a big shock. Many may realise too late that they are simply not going to be able to retire at the age they had planned, or on the income they expect."
Association of Consulting Actuaries chair, Jenny Condron

On the need for compulsory accreditations for professional trustees
"While it will take time for the industry to adapt, we would like to see the mandatory accreditation of professional trustees within five years. As industry professionals, it is within all of our interests to strive for improved governance standards and drive better outcomes for members."
Pensions Management Institute president, Lesley Carline

VIEW FROM THE ACA

The ACA supports the pension dashboard initiative as a great advance in helping individuals to ultimately see their total pension savings in one place.

There will be challenges to address – explaining that a £2,000 pension from age 65 is worth significantly more than a £5,000 DC pot will be tough – and time needs to be taken to ensure the messaging is clear. But critically, for the first time, everyone will have line of sight of their total pension savings. But there's potential for a big shock. Many may realise too late that they are simply not going to be able to retire at the age they had planned, or on the income they expect.

And savings is a bigger issue to address than just pensions. I applaud our Younger Members' Group, led by Tom Dalton, who have seized the nettle here. The ACA's response to the FCA consultation on inter-generational fairness flagged that we need more flexible savings products that cover the breadth of savings more tax efficiently.

The ACA's call for simplification – both of the pension tax system, but also in terms of benefit provision, continues. Many of us are facing the challenge of GMP equalisation, but are stymied by uncertainty on the resulting tax implications. Only when this is resolved can we tackle the joys of converting GMP, anti-franking etc into a potentially simpler pension that is clearer for members to understand and which costs materially less to administer, invest against and ultimately to insure.

Association of Consulting Actuaries chair Jenny Condron

ASSOCIATION OF CONSULTING ACTUARIES

Soapbox: Kicking the can down the road

When I started in pensions, there were several issues facing the industry and its members that needed to be addressed. These included the Pensions Bill, gender equality and the infamous tapered annual allowance.

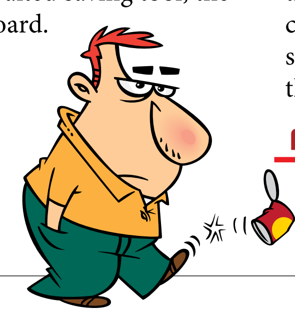
It's nearly a year and a half on from my first day, and these same issues continue to circulate. There have been promises and delays, proposals and consultations, but no action. Of course, the government has been a bit busy recently, when it's actually in session, but it has been kicking the can down the road for far too long on these issues.

The NHS pension scheme has seen large-scale opt outs, with over 200,000 staff leaving the scheme in the past five years, primarily due to tax issues surrounding the tapered annual allowance. The government has offered various proposals to fix the problem but has refused calls to scrap the allowance.

Its refusal comes despite all the other avenues it has explored being dead ends and repeated calls from senior industry members to finish the controversial tax policy.

This is not the only can that the government is kicking down the proverbial road, and the industry has been calling for a much-needed Pensions Bill to help legislate for and resolve issues since before I even considered pensions as a career path.

Part of the bill is the inclusion of legislation that will bring forward another long-awaited saving tool, the pensions dashboard. This could be a key device to improve the engagement and savings levels of millions of savers around the UK, yet it has also been pushed back for years.



Having first been suggested in 2014, and being scrapped and brought back in the process, it seems as if the dashboard may be on the horizon. But we believed that over a year ago too.

The latest rumblings from the government is that the bill will be included in the next Queen's Speech, which it has scheduled for 14 October, although it had already been delayed from the summer of 2019.

This government has also been accused of "dragging its heels" on rectifying gender inequality in the pensions system by Royal London director of policy and former Pension Minister, Steve Webb, after it announced that it would not be taking action in response to inequalities revealed in a review published in 2014.

These kinds of delays and general inaction from the government on pensions have become commonplace as the government deals with more 'pressing' concerns like Brexit, while not actually doing anything to resolve those issues either.

The government inaction has not been helped by the continual revolving door at the Department for Work and Pensions, which has seen seven Work and Pensions Secretaries since 2016.

With the constant changing of staff, no wonder nothing substantial has been achieved. Once someone finally has their feet under the table in the role, they either jump or are pushed.

With so many pressing concerns that need to be resolved, the chop and change attitude at the department is of serious detriment to the industry, and therefore savers, in the UK.

Written by Jack Gray

Don’t become trapped in your commercial property allocation

Investors in open-ended commercial property funds can suffer from the so-called ‘lobster pot’ problem (easy to enter, difficult to exit). Tony Yu of Kames Capital offers an innovative solution for UK pension schemes

The benefits of commercial property investment are well understood by pension schemes. The asset class can help investors to diversify risk and improve the risk-adjusted returns of multi-asset portfolios. Property investment also offers additional qualities, including attractive income-generation; inflation-hedging characteristics; and relatively low volatility when compared with other asset classes.

The choice of property options available to pension schemes is wide and varied, including direct investment, real-estate investment trusts (REITs), open-ended property funds, private equity vehicles, and multi-manager approaches. The traditional challenge for pension schemes is that these options introduce a range of potential issues.

Most small-to-medium sized pension schemes either invest in a single balanced property fund or use multi-manager or fund-of-funds solutions.

The risks of redemption runs from single balanced funds have increased in recent years and have become exacerbated by the uncertainty around Brexit. This makes it difficult for investors to be confident in the long-term liquidity and performance prospects of any single fund.

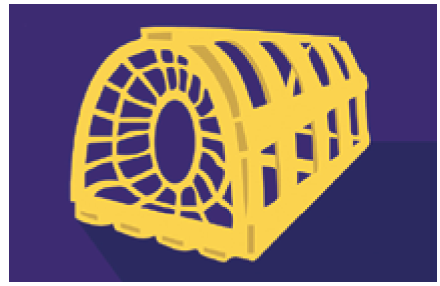
Over the past decade many multi-manager and fund-of-funds approaches have incorporated too much leverage for schemes seeking exposure to UK property market returns. Schemes have also experienced first-hand the illiquidity risks of large positions in closed-ended funds.

A passive solution

In other asset classes, such as equities and fixed income, we have seen passive solutions become very popular with pension schemes. However, the demands of commercial property as an asset class have meant that index-tracking approaches have not been available – until now.

Our ‘active beta’ property strategy seeks to match the performance of the UK commercial property funds market through investment in a diversified portfolio of property funds. In short, it is the first commercial property tracker for UK pension schemes.

The ‘active’ part of the name reflects the modest and risk-controlled active management required to achieve an index return. This involves carefully monitoring and adjusting the component funds, using the secondary market to mitigate transaction costs, while avoiding unnecessary and costly replication strategies and undesired exposures. We



purposely avoid less favourable positions in leveraged and illiquid private-equity-style vehicles or more opaque investments.

The ‘beta’ part of the name reflects the objective of the strategy. We are seeking to closely match the total return of the MSCI/AREF UK All Balanced Property Funds Index, while maintaining levels of risk that are appropriate for UK pension schemes investing in property as a diversifying asset. We achieve this by building a portfolio that is diversified across 12-15 open-ended balanced property funds.

The active beta property strategy is available as a segregated portfolio or through a pooled pension fund. We also offer the option of in-specie investment of existing holdings for schemes already invested in open-ended balanced property funds. This enables investors to swap their current holdings for a diversified market exposure with potentially significant transaction cost savings. In the current market environment this could enable schemes to transfer their holdings at close to zero cost.

www.kamescapital.com/activebeta

Written by Tony Yu, fund manager, indirect property, Kames Capital

VIEW FROM THE AMNT

Voltaire in his novel *Candide* satirises Gottfried Leibniz's optimistic view of this world as being 'the best of all possible worlds'. He uses Candide's tutor, Pangloss as the mouthpiece for Leibnitz's philosophy. Following a series of catastrophic adventures Candide finally dismisses his tutor's optimism but leaves unresolved what philosophy he should accept.

Pension fund trustees have tended to accept the Panglossian view of their investment managers on the premise that theirs is the 'best of all possible worlds'. However, increasingly fund members have developed differing views following failures to take into consideration environmental, social and governance issues when making long-term investment decisions.

The Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 encourage long-term shareholder engagement by institutions for occupational retirement provision. It requires the trustees to prepare a statement explaining the extent to which the views of the members hold will be taken into account in preparing or revising the statement of investment principles.

Challenging the short-term world view of investments not only satisfies the growing ESG concerns of fund members; it also makes sound financial sense in a world that may not be the best of all worlds but is the only one we have.

AMNT member Stephen Fallowell

AMNT Association of Member Nominated Trustees

Diary: October 2019 and beyond

Pensions Age Western Conference 2019

31 October 2019
Bristol Marriott Hotel City Centre

The Pensions Age Western Conference is back in Bristol for 2019. Following its huge success last year, the Pensions Age Western Conference will aim to meet the needs of pension managers, pension trustees and all those working in the pensions sector in and around Bristol. Delegates can improve their knowledge and understanding with presentations from leading pension professionals and policy makers from across the industry.

For more information, visit:
pensionsage.com/westernconference

PMI PensTech & Admin Summit

7 November 2019
Leonardo Royal Hotel, London

The PMI PensTech Admin Summit is aimed at in-house pension scheme managers, pension trustees and finance directors who want to keep up to date with the latest best practice and trends, meet industry influencers, and find solutions to some of the industry's most challenging issues. The conference will also provide a great networking opportunity for administrators and financial services professionals interested in the pensions space.

For more information, visit:
pensions-pmi.org.uk/events/pension-administration-summit/

Project de-risk: The DB journey planning summit

15 November 2019
Waldorf Hilton, London

This inaugural DB journey planning summit, which comes from Just, in association with *Pensions Age*, will break the mould when it comes to helping schemes plan the journey to their end game. It takes a different perspective, focusing on the practical and exploring the plethora of options available to schemes looking to de-risk, while helping them decipher what's the right route for them, and how they can reach their goals effectively.

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

Eversheds Sutherland Annual Pensions Conference

4 December 2019
Church House, London

Eversheds Sutherland's 14th Annual Pensions Conference considers the many ways in which significant change is underway in how retirement benefits are structured, provided and developed – and how employers and trustees are encouraging financial inclusion and engagement. Speakers include Pensions Minister Guy Opperman and The Pensions Regulator CEO Charles Counsell.

For more information, visit:
eversheds-sutherland.com

Visit www.pensionsage.com for more diary listings

Month in numbers

£4.7 billion

The total value of the bulk annuity deal between telecommunications firm Telent and Rothesay Life, a UK record. The deal secured the benefits of all 39,000 members, including 11,000 deferred members, and consists of two parts as the buyout will be preceded by a buy-in. It is expected to be completed before the end of 2022 and will see members receive individual pension contracts or annuities with Rothesay Life. The transaction beat the previous buyout record set earlier this year, when Rolls-Royce completed a £4.6bn deal with Legal & General in July.

13,500

The number of scheme members that will need to have their pension savings safeguarded following the collapse of travel company, Thomas Cook. The scheme is set to undergo PPF assessment.

8%

The increase in the PPF's levy estimate for 2020/21, up from £575 million to £620 million. The rise was attributed to changes in risk due to declining gilt yields and, as a result, deteriorating scheme funding levels.

Endgame the focus for pension scheme investment

Why are pension schemes reducing their equity holdings and embracing alternatives and illiquids?

Over half of UK DB pension schemes have reduced the level of equities in their portfolios over the past two years, while diversification into alternative growth assets has increased as schemes sharpen their focus on their chosen endgame.

This was one of the key UK findings from Aon's *2019 Global Pension Risk Survey*. The survey charts the actions, plans and concerns of UK DB pension schemes. The 2019 UK survey had 170 respondents, representing schemes of a broad range of sizes.

The survey's overall trends – of maturing pension schemes and reducing time to reach long-term targets – have had a clear impact on schemes' investment strategies. This year's survey demonstrates many of the trends we saw two years ago – notably de-risking and diversification. But this year the difference lies in the pace of change and the level of activity – schemes have firmed up their views and acted decisively.

This has been very much driven by schemes' own circumstances, but typically actions have fallen into two categories: schemes that have reduced equity exposure but increased liability hedging to reduce overall volatility, and those that have diversified from equities into alternative growth assets. We have also seen continuing interest in illiquid asset classes as schemes look to alternative investment ideas.

Wind the clock back 10 years and equities were typically 50 per cent of a scheme's investment portfolio. That has changed, with allocations now far lower and with 40 per cent of respondents expecting to reduce that figure further over the next year.

Nevertheless, they still need to maintain investment returns, which is where the growth in use of alternative growth assets comes in. We saw further evidence of this, with schemes indicating that they expect to increase their exposure to assets such as private credit (47 per cent), bulk annuities (33 per cent), real estate (27 per cent) and infrastructure (29 per cent).

De-risking trends

The survey highlights a reduction in time for schemes reaching their long-term target and makes it clear that most changes in schemes' investment approaches are driven by their aims of de-risking in its different forms, with 35 per cent of schemes targeting buyout and 43 per cent seeking self-sufficiency. In many cases, this is taking the form of increasing liability-driven investment (LDI), with 50 per cent of schemes adding to their LDI portfolios over the last year – and making a big impact on risk reduction.

We have long advocated pension schemes hedging their liability risks, so it is pleasing to see in the survey that nearly 90 per cent of schemes have hedged over 40 per cent of their interest rate risk, with 45 per cent of respondents now hedging over 8 per cent (up from 30 per cent in the 2017 survey).

This change has meant that more and more schemes have insulated themselves from the fall in gilt yields that we have seen in recent times and the adverse impact it would have had on their funding levels. The investment gains that this approach has enabled means that some of these schemes now have their endgame in sight.

Delegation increasing

This year's survey also asked schemes which elements of their investment strategy and implementation they had delegated or planned to delegate in the future. As in previous years, this is an area in which attitudes are evolving, with the number of schemes open to delegating manager selection and monitoring on the increase (almost two-thirds of schemes) and around a quarter of schemes now operating full fiduciary mandates.

Life is not getting any easier for scheme trustees or sponsoring employers. It is therefore maybe not surprising that we have seen a notable increase in activity over the months since the Competition and Markets Authority (CMA) review findings were published. The survey suggests – and we expect – that many more schemes will continue to assess the relative merits of fiduciary management as a way of implementing their investment strategies in the future.

For a copy of the research please email talktous@aon.com

Written by Aon partner Emily McGuire

In association with Aon Empower Results®

The comedians who came to tea

Trafalgar House client director, Daniel Taylor, chats to Jack Gray about 80s pop, selling drinks off the back of a golf buggy and why comedians are the perfect dinner guests

What's your employment history (including jobs outside of pensions)?
For the past three years I've been client director of Trafalgar House. Before taking up this role I held various administration roles, including head of administration for 10 years. I started in pensions straight after university so the only other out-of-market experience I have is a long succession of unsuccessful summer jobs. The best of which was selling drinks off the back of a golf buggy one summer. The worst of which was when I was a waiter.

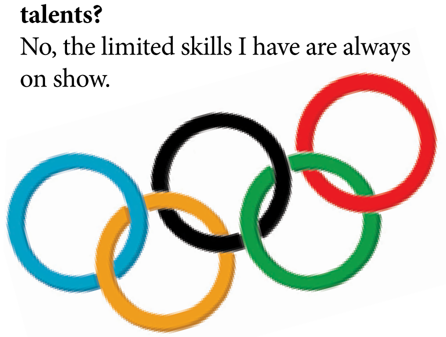
What's your favourite memory of working in the pensions sector?
There are so many. Be it from working with inspirational and motivated people to seeing something you've worked really hard on succeed.

If you did not work in pensions, what sector do you think you would be in instead?
I really love the design and creative aspects of my role. I'm also a massive geek and love technology and seeing how that can be used to improve our industry.

What was your dream job as a child?
This will probably explain why I find pensions so interesting… I always wanted to be a parliamentary civil servant. I have always been, and remain, really interested in politics. I thought working close to government would be fascinating but watching recent political events unravel has changed my view.

What do you like to do in your spare time?
I'm massively into theatre. I find myself going every week or every other week.

Do you have any hidden skills or talents?
No, the limited skills I have are always on show.



Is there a particular sport/team that you follow?
I don't like football or many sports as I find them all too repetitive. I'm looking forward to next year's Olympics and Paralympics however.

If you had to choose one favourite book, which would you recommend people read?
Fahrenheit 451. It's shocking how a novel written in the 50s can so accurately predict where we find ourselves today.

And what film/boxset should people see?
I love all of those dramas set against the backdrop of real events like *Narcos* or *Mindhunter*. I also think programmes that shine a light on social injustice and inequality can have an enormously positive influence on people's beliefs. Everyone should watch Ava DuVernay's *When They See Us.*

Is there any particular music/band that you enjoy?
I would love to say Mozart, punk or prog-rock but I have an outrageously unsophisticated taste in music. Pop and anything 80s is where I'm probably at, let's leave it there.

Who would be your dream dinner party guests?
I always read lists of dream dinner party guests and wonder how much fun some of the historical figures named would actually be. So, I'm going to be shallow and just name people I think are really funny and would be good fun to have over: Larry David, Sue Perkins, Victoria Wood, Graham Norton and Kathy Burke.

Is there an inspirational quote/saying you particularly like?
"Stand for something or you will fall for anything. Today's mighty oak is yesterday's nut that held its ground."
Rosa Parks.

Written by Jack Gray

Graham Norton Photo by: Sam Aronov / Shutterstock.com

Kathy Burke Photo by: Featureflash Photo Agency / Shutterstock.com

The GMP journey…is the end in sight?

Maurice Titley considers what needs to happen for the pensions industry to get to a time beyond GMPs

Where are schemes at now?

The future's bright, but it's a way off being GMP free. Schemes are starting to focus on GMP equalisation, but for many, GMP reconciliation is still not complete. Ultimately, reconciliation of both the scheme membership and GMP values is essential before member benefits can be correctly rectified. And it is only once this correct starting point is established that the data is fit for purpose to meet the scheme's requirements – for example undertaking liability management exercises, or correcting for gender inequality brought about by GMP rules.

Given there is so much at stake, the delays in concluding GMP reconciliation in 2019 have caused much frustration across the industry. The root cause is that in the run up to HMRC's final cut-off dates for raising queries in 2018 there was a scramble to submit queries, including some schemes who were very late to the GMP reconciliation party.

Most of HMRC's responses were back with schemes by June this year, leaving huge quantities of replies to be analysed to understand if they have been resolved (reconciled) or if they now need to be referred to trustees for a decision. Unfortunately, the way HMRC has provided these responses has not been consistent and will need more manual work to process than was predicted. In addition, some of the key data – including the GMP values themselves – has not been provided in responses and will only be made available when the final cut of HMRC scheme reconciliation data is provided to schemes from November this year.

What next – rectification?

Once the reconciliation is finalised then benefits need to be corrected where GMP has been incorrectly used in the past. The reasons for these mistakes can vary greatly but if the final decision is to accept HMRC as correct, benefit re-calculation is needed.

Many schemes have delayed commencing this benefit correction, or 'rectification' exercise, for a number of reasons:

- Waiting for the GMP reconciliation to complete to the stage where all, or almost all, affected members can be included in one exercise
- Provider capacity to undertake these exercises across hundreds of schemes has been a limiting factor, and has led to schemes being encouraged to hold off
- The Lloyds ruling on GMP equalisation and the desire to understand the likely timing and scope of member outcomes from GMP equalisation before applying under or over payment outcomes that have arisen purely from GMP reconciliation

While the future impact of GMP equalisation on members is of course important to consider, it would be a mistake to think that the calculation of members' corrected benefits following GMP reconciliation should now be combined with calculations of GMP equalisation corrections. The reality is that the populations of members impacted, the methods to be used, and the demands on historic data to support the rectification calculations will be very different for GMP equalisation, and to combine the two exercises risks a serious 'levelling up' of costs and complexity, not to mention an unjustifiable delay in rectifying member benefits identified as inaccurate during the GMP reconciliation exercise.

And finally, can we get started on GMP equalisation?

The need to correct benefits following GMP reconciliation does not detract from the requirement to also commence preparation for GMP equalisation, informed by the outputs of the industry working groups. Schemes are commencing work in a number of areas, which will be required irrespective of whether GMP conversion is ultimately applied, including:

- Undertaking member-level assessments of the impact of GMP equalisation
- Assessing the quality of the data available to support historic rectification calculations
- Liaising with their administrator or system provider to commence planning for the changes to BAU scheme calculations

The future is certainly not GMP free, but there should be light at the end of the tunnel!

Written by Maurice Titley, director, ITM

In association with itm Solution delivered...

Can alternative beta strategies help in a lower for longer environment?

Pensions Age explores the potential portfolio benefits of alternative beta in a challenging market environment

A recent report by *Institutional Investor* found that investors expect inflation to remain subdued, returns to remain low, and volatility to increase and all these factors are impacting chosen investment strategies. In this environment, two strategies are being favoured by investors – thematic active strategies and systematic/quantitative strategies.

In addition we are seeing investors becoming increasingly aware of being charged active fees for beta-driven returns dressed up as alpha strategies.

In this environment, for investors who realise how elusive and expensive chasing alpha has become, alternative beta can be appealing as a lower cost, uncorrelated and liquid strategy generating consistent returns.

Low correlation, high Sharpe ratio

"Our definition of alternative beta strategies refers to trading programmes that tend to have a low correlation to traditional markets, and a Sharpe ratio in excess of 0.3 or 0.4, similar to the historical Sharpe ratio of the stock market," says Philippe Jordan, president of Capital Fund Management International (CFMI), a quantitative asset manager founded in 1991.

An optimum strategy of this kind, Jordan explains, is one that blends negative and positive skew.

"Our alternative beta products combine multiple independent alternative beta strategies, providing a mix of positive and negative skew characteristics," says Jordan. "The result of our back tests is a portfolio with reduced overall negative skew producing a Sharpe ratio of 0.5 to 0.7 over time, versus a stock market Sharpe ratio of 0.3 to 0.4. This is also achieved with an average correlation to the major benchmarks of below 30 per cent and should be priced at below 100bp."

A compelling alternative for long-term investors

Alternative beta is compelling from a quantitative perspective, for investors maintaining a long-term exposure to the strategy.

"We work to deliver a steady return over the long term, within investors' chosen average volatility preferences, with the distribution of the underlying return varying each year depending on the risk constraint," Jordan explains.

"For example, if we run a portfolio with a 10 per cent average volatility and say it will deliver a Sharpe of 0.5, then returns could range from +15 per cent to -15 per cent in extreme years, with an average return of 5 per cent in a zero-rate environment. However, to earn an annual average return of 5 per cent, investors would need to maintain exposure to the strategy for a minimum of five to seven years."

"Whilst alternative beta delivers lower returns than alpha, it tends to generate a Sharpe ratio that is above the market metrics and it is beneficial in that it behaves differently over the long term," says Jordan.

Managing investors' expectations

"Alternative beta will never be as large as the beta market, because it requires a number of portfolio structuring techniques," Jordan concedes. "For example, it involves borrowing securities for shorting, meaning it will be inherently more expensive than pure equity beta."

Alternative beta therefore may be unattractive for investors looking for a similar return to that delivered by a portfolio of G7 government bonds, generating real annual returns of 3-4 per cent, with equity beta concurrently producing 7-8 per cent each year.

For investors who believe those sorts of return unlikely, alternative beta may become an appealing way of constructing a portfolio that balances a constant risk against a variable return.

Whilst alternative beta has become well understood by investors in the past 10 years, Jordan recognises that it can take a few more years before it will entrench itself fully as a core part of investors' portfolios.

"We find its appeal is universal, although to date investors that have been most attracted to it have been pension funds from the US, Canada, Europe, and Australia, which have long-dated liabilities," he says.

"Investors need to ensure that they maximise the portfolio benefits of reduced correlation with mainstream assets. They also need to ensure they understand the level of risk at which they're operating, and understand that the distribution of returns may be random within those risk parameters over the medium term."

Delivering the pensions dashboard

Gregg McClymont considers the requirements needed for the successful launch of the pensions dashboard

You could be forgiven for thinking that parliamentary business is all Brexit at the moment.

But it isn't. More importantly, for anyone in our industry, there is an eager anticipation of the Pensions Bill – whenever it might be introduced.

When it does happen, it will be welcome – because we need to build on the success of recent years, specifically the introduction of automatic enrolment in 2012.

The Department for Work and Pensions has said that the bill will be introduced at the "earliest opportunity" and, at the time of writing, it has been widely rumoured that it will be announced as part of the Queen's Speech on 14 October.

But will the bill include legislation compelling pension schemes to deliver data to the pensions dashboard?

We hope so. The high hopes for the pensions dashboard can't be realised unless all pensions are searchable, and all pensions will be searchable only if every pension provider is obliged by law to provide data.

There is more debate however over how many dashboards there should be. The People's Pension has long argued for the initial build phase to focus on building a single non-commercial dashboard – a view recently echoed by Frank Field and his Work and Pensions Select Committee.

Getting the official Money and Pensions Service (Maps) dashboard built and tested will be hard enough and long enough without the distractions of testing commercial dashboards alongside it.

At The People's Pension, we've already made this point – in our report on the Pensions Dashboard earlier this year *www.thepeopespension.co.uk/pensions-dashboards-report* – noting that a single non-commercial dashboard also has the advantages of avoiding sales pitches and offering a consistent and impartial service to consumers.

We hope that Maps will focus on building a public dashboard intended to be the focus of the sector's efforts – and that means getting industry on board and collaborating to ensure that data on the dashboard is as complete as possible.

Certainly, The Pensions Regulator chief executive, Charles Counsell, noted recently in front of the Work and Pensions Select Committee, that any 'mirroring' of the Maps dashboard on pension providers or other commercial entities' own systems must be just that: a mirror.

In the future, it could be sensible to open dashboards up further – something our report also called for. For example, this could include transactional capabilities, say, between funds and pension providers.

But that's for the future. The risks attached to commercial dashboards seeking to make money from persuading consumers to consolidate pension pots needs careful consideration and substantial consumer protections. There has been too much pensions mis-selling in the past to tread other than carefully.

We think the government should apply a legal duty to ensure operators

of commercial dashboards always act in the best interests of their customers, much like the legal duty on trustees of occupational pensions schemes.

This would make the regulation of third-party dashboards more effective – not least by ensuring dashboard operators act in the interests of their members, without just pushing products.

But this should be a future discussion. The present one should have an unerring focus on delivery of a non-commercial Maps hosted dashboard that answers the question people keep asking about pensions: 'What do I have and where is it?' A Pensions Bill that includes this vision of dashboard cannot come soon enough.

To find out more about what The People's Pension can offer your clients, go to www.thepeoplespension.co.uk or call us on tel. 0333 230 1310.

Written by Gregg McClymont, group director of policy and external affairs, The People's Pension

In association with the people's pension

The risk landscape

Judith Hetherington considers whether UK schemes are getting to grips with governance and risk management

Crowe has released its third risk management report,which took a look at the current risk landscape within the UK's pension funds.

The Occupational Pension Schemes (Governance) (Amendment) Regulations 2018 (the regulations) came into force in January 2019, setting out how IORP II will be implemented in UK law. The regulations set out a framework for trustees to demonstrate that they have an adequate and effective system of governance, which is proportionate to the complexity and risk profile of their scheme. The Pensions Regulator is due to provide further guidance by issuing a code of practice on how the regulations will be implemented by trustees in the coming months.

Trustees, pensions managers and finance directors of a broad range of occupational trust-based schemes, gave their views on their existing system of governance compared to the regulations. They also provided their views on the use of risk appetite, their ongoing risk evaluation, cyber and IT factors and the top risks that defined benefit (DB) and defined contribution (DC) schemes are facing.

Judith Hetherington, partner at Crowe, answers some key questions that have been highlighted by the survey's findings.

When the code of practice is released, do you envisage this having an impact on schemes?
We found that 78 per cent of respondents already have a formal assessment of governance in place that is performed every three years and 70 per cent of these schemes believe they already cover the required elements of the assessment as set out in the regulations. Therefore, when the new code of practice is issued by The Pensions Regulator, it should not have a significant impact on the majority of schemes.

The majority of the schemes that do not have an assessment of governance in place have membership of fewer than 1,000 members, therefore, on the assumption that these schemes are less complex, we would hope that the implementation of the code of practice would not have a significant impact on the resources of these schemes.

In addition, over 80 per cent confirmed that trustees perform the assessment of the system of governance. As the assessment is expected to be required to be completed at least every three years, trustees will have to consider how they establish an effective plan to ensure the right people are covering the right areas at the right time.

The regulations has introduced the concept of key functions. You asked the respondents who currently looks after the risk management function, and the evaluation, adequacy and effectiveness of the system of governance. What were the responses, and did any of them come as a surprise?
It was surprising that only 64 per cent of all respondents confirmed that there are specific parties who cover the risk-management function, as we would have expected that for most schemes, clear risk assessment processes including delegation by the trustees would have already been in place.

What have been the trends over the last year in relation to the consideration of the use of internal audit?
There has been a surprising shift away from using any type of internal audit function over all sizes of scheme and an increase in the number of schemes that have not considered this at all over the past 12 months. The challenge for trustees going forward will be how they can demonstrate they have an effective system of governance in place. Trustees will need to consider how they will obtain the necessary assurance over their governance arrangements, which will include their controls. An internal audit function may be the right option for their scheme in the future. It will be interesting to see how the regulator clarifies the assessment of governance and internal controls in the code of practice.

Under the regulations the code of practice must include remuneration policies. What is the current position for schemes?
Forty-eight per cent of respondents stated that they do not have a remuneration policy for trustees, and this increases to 67 per cent of respondents for small schemes. We speculate that the remuneration policy will need to consider the quality of service that the scheme receives, and whether this provides value to members and to the scheme. The cheapest contract does not always provide value for money.

In 2018, The Pensions Regulator suggested that trustees should consider their risk appetite and tolerance for risks, when determining potential risk prioritisation and mitigation techniques. What are the latest trends in the use of these techniques?
It is encouraging to see that there has been an increase from 50 per cent of schemes to 73 per cent of schemes are using risk appetite and tolerance techniques. However for the smaller schemes it would seem that following The Pensions Regulator's suggestions, a generic statement was put in place, to ensure that the scheme addresses these requirements but we would challenge to what extent these risk based techniques are used in practice. This is probably due to limited resources or time to enable the trustees to use these concepts effectively.

Cybercrime has been a big focus for schemes in recent years, which your past three reports have highlighted. However, a quarter of schemes still don't have a plan in place to respond to a cybercrime breach. What would you recommend that schemes do to protect themselves against this threat?
Due to the ever-increasing threat of cybercrime, it is essential that all trustees consider the risks associated with cybercrime, whether with the employer or at third party suppliers, and put a plan in place to respond to a cybercrime. Once a plan is in place, we would advise that trustees consider the need for scenario based training, such as cyber war games, which could examine how a scheme responds to realistic simulated cyber crises and demonstrate to trustees whether they know how their plans would work in practice.

What are the latest trends in the top risks facing DB and DC scheme?
Trustees of DB schemes continue to focus primarily on managing funding and covenant risks, whereas trustees of DC schemes are concerned with ensuring that members are making the right choices at retirement. For both types of schemes the risk of errors in the administration of the scheme is the second area of focus for trustees.

How can Crowe help schemes with their governance and risk management?
Our pensions **internal audit service** provides assurance that appropriate policies, procedures and controls are in place to mitigate key pension scheme risks as part of good scheme governance and supports the latest '21st Century Trusteeship' initiative and Codes of Practice issued by The Pensions Regulator.

With the expanding regulatory requirements on trustees to take ownership of risk management of their schemes, having good systems in place is vital to insure compliance.

We help and support trustees by **evaluating pension scheme governance arrangements**, including risk management, policies and practices.

About Crowe
Crowe UK is a national audit, tax, advisory and risk firm with global reach and local expertise. We are an independent member of Crowe Global, the eighth-largest accounting network in the world. With exceptional knowledge of the business environment, our professionals share one commitment, to deliver excellence.

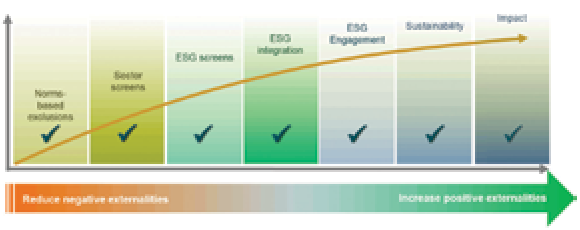
Written by Crowe partner Judith Hetherington

Sustainable investment in multi-asset strategies

Maria Municchi discusses ESG considerations within multi-asset investing

Many schemes use multi-asset strategies to target growth and manage volatility throughout market cycles. Sustainable asset allocation solutions can combine the benefits of that flexible and diversified approach to pursue those outcomes with responsible investment that also considers environmental, social and governance (ESG) factors. However, such strategies take many forms. They may be tightly focused on specific initiatives or target outcomes, while others have a broader perspective for beneficial action.

The spectrum of responsible investing



Source: M&G, illustrative as at September 2019

Asset allocation decisions are intended to be the foundations for achieving attractive long-term total returns. A sustainable approach will usually build on these foundations by constructing and dynamically managing the asset allocation from a universe of securities that meet high sustainability standards.

Screening, integration and engagement as a foundation

A first step in achieving a portfolio with good ESG qualities is to filter out companies and governments that breach fundamental qualifying requirements or fail to meet certain standards. This could be achieved by implementing negative screens, cutting out the detrimental direct or indirect impacts on other parties of a company's activities. By the same token, a positive screen can help support organisations recognised to be doing good, or better than others, in a particular field, capturing positive influences. Overall we aim to identify those companies operating more sustainably and those more capable of adapting to a changing world where incorporating ESG behaviours is standard procedure.

Integrating ESG considerations into investment decisions that are ultimately driven by fundamental analysis and assessments of value is another step along the spectrum of sustainable investing. ESG analysis scrutinises the material extra-financial factors that may present risks and opportunities for companies and public entities, helping to inform our investment decisions and their suitability for inclusion in portfolios.

Undertaking active engagement goes further still, working with companies to encourage responsible behaviour and improvements in their processes, so they can deliver positive outcomes.

We make use of all these tools in our sustainable multi-asset approach to asset selection and portfolio construction.

Capturing positive impact

Impact investing takes sustainable investing further still to foster good outcomes and positive change. It focuses on companies or funds that proactively deliver or target a positive environmental or societal impact.

Investing via listed equities can make access to impact investment easier for smaller scale pension schemes, where formerly it was frequently the preserve of larger portfolios.

M&G's impact team uses a methodology that examines potential investments, bonds, equities or other instruments such as green infrastructure. We consider their quality and viability, the impactful intentions (and practices) of the business, and the materiality and measurability of the impact its activities have in a number of social and environmental categories, mapped against the UN Sustainable Development Goals. Our multi-asset strategy dedicates between 10-30 per cent of its capital to positive impact investing.

By identifying assets that demonstrate that they actively make a positive contribution, we can build a portfolio that truly encapsulates responsible investing. This approach aims to give investors the opportunity of seeking attractive financial returns while actively contributing to a more sustainable society.

Written by Maria Municchi, fund manager, multi-asset team, M&G

Eurozone at 20: Reasons for optimism

The eurozone has defied the odds and critics to reach its 20th birthday. Andrew Cole says the region could deliver some positive economic surprises over the coming months, to the benefit of its equity markets

Yavuz Meyveci / Shutterstock.com

Milton Friedman was famously not a fan. Neither is fellow Nobel Laureate Joseph Stiglitz. Yet the eurozone has somehow defied the odds and its critics, surviving a problematic infancy and turbulent adolescence to make it through to its 20th birthday.

We believe the eurozone still has the capacity to deliver positive surprises in terms of economic growth and financial market performance. The fact that most investors are pessimistic on the region will likely magnify the impact of any such surprises on asset prices.

One reason for optimism is that reforms are generally heading in the right direction. That's especially the case for the labour market. Thanks to a loosening of employment regulations, Europe's labour force participation rate has increased steadily over the past several years. What is more, one of the eurozone's most persistent weak spots, the gap in competitiveness between Southern European economies and Germany, has shrunk by 15 to 20 per cent since 2010. The World Bank noted this progress by sharply upgrading the region's 'ease of doing business' scores in recent years, both in absolute terms and relative to the US.

There are also signs that the eurozone is willing to cast off its fiscal straight jacket. The fact that Germany is in a technical recession may prove a boon if, as seems increasingly likely, it prompts the government to increase spending. Finance minister Olaf Scholz has already said that the country is ready to deploy "many, many billions" of euros if needed to stave off an economic crisis. That would be in addition to existing plans to boost infrastructure spending.

Such self-help measures are particularly important given that German consumers have proven to be even more cautious than their policy makers, steadily pushing up savings rates and pumping ever fewer euros into the economy.

Economic boost for stocks

On a eurozone-wide level, the International Monetary Fund (IMF) estimates that fiscal easing in 2019 should provide a 0.5 percentage point boost to gross domestic product (GDP) – a level of stimulus last seen 10 years ago.

That's encouraging, given the region's economy is already on an upward path – Germany excepted. France and Spain in particular are seeing improving momentum, and our European leading indicators have turned positive. Construction spending is rising, and even the autos market is showing early signs of improvement (German car sales in August were the highest in a decade, according to Dataforce).

There is also stimulus coming from the European Central Bank, which in September approved a new, open-ended round of bond purchases, cut interest rates and eased conditions on long-term loans to banks.

On paper that all bodes well for European equity markets, particularly considering that corporate earnings have stabilised and stocks now offer very attractive risk premiums, with Germany's posting their biggest ever excess return over the risk free rate at over 9 percentage points.

The crucial question is whether it will be enough to persuade European savers to stop favouring bonds over equities. They have done so for the past two generations, enjoying equity-like returns without the risk thanks to capital appreciation. That no longer seems possible, with significant parts of the European fixed income market now delivering negative real returns.

It would make sense for consumers to start changing their habits. If they do, the boost for equity markets would be very significant.

But even without such a radical shift in investor preferences, a modest upward surprise in economic growth should be enough to justify our cautious optimism and to support market performance.

Written by Andrew Cole, head of multi-asset, London, Pictet Asset Management

You're only as young as you feel

Laura Blows explores the difference between chronological and biological age, and how knowing members' biological ages may affect the pensions industry

122. That's the age Jeanne Calment reached before she died in 1997, making her the oldest person to have ever lived, according to Guinness World Records.

But all may not be what it seems. Recently, a Russian study claimed that Calment died in the 1930s, with her daughter then assuming her identity to avoid paying inheritance tax. However, French officials have disputed these claims and have refused to change her death certificate.

Chronological and biological age

It seems determining age can be surprisingly tricky, even without the suggestion of alleged fraud. Not least because we can be said to have two ages – a chronological age, which simply relates to how many years we have been alive, and our biological age; how well our body is ageing.

Biological age is only relevant in context of chronological age. After all, being told your biological age is 65 is fantastic news when you're 80; less so when you're 50. Yet biological age can differ from chronological age by as much as 15 years either way, with very few people have matching chronological and biological ages.

Discussing this concept at the Longevity 15 conference was York University, Toronto, professor Moshe Milevsky, who explains that the ends of chromosomes, known as telomeres, are considered by many to be a good bio-

Summary

• People have two ages; their 'chronological age', which is based on the number of years alive, and their 'biological age', which is how well their body is ageing relative to their chronological age.
• Knowledge of members' biological ages, therefore improving accuracy of life expectancy predictions, may lower annuity pricing and result in more accurate funding reserves being required by insurers and pension funds.
• There are concerns around data privacy, accuracy of testing and the risk for fraud when testing for biological age.
• Biological ageing is just one type of information expected to be used by the pensions sector when assessing life expectancies, yet the direction of travel is heading towards utilising increasingly-personalised medical information in the future.

marker of ageing. "The shorter the telomeres, the lower your life expectancy, and the less healthy you are and the older you are, the shorter the telomeres."

Other bio-markers of ageing, and lifestyle factors, can also be used to determine biological age, and measuring them is already becoming "big business", Milevsky states. This is particularly the case in the US, PwC partner Paul Kitson adds, with many different companies, such as 23andme or TeloYears, offering this service to individuals.

It may all sound very futuristic, but as Milevsky says: "Gender is fluid, why shouldn't age be fluid?" He cites examples of the Dutch man last year who went to court to try and change his official age from 69 to 49, being the age he more identifies with, along with wanting to improve his dating prospects on Tinder (the court declined his claim), and of footballer Cristiano Ronaldo, who at 34, states he has a biological age of 23.

Pensions uses

But why should the pensions industry care about biological age, when its entire structure is based around chronological age?

The reason, according to Milevsky, is that biological age varies the greatest between people of the same chronological age at around the time of retirement, and biological age can be a better indicator of life expectancy. He gives the example of how, in 1918, during the outbreak of the Spanish flu, which was arguably the greatest longevity shock of the 20th century, a 28 year old man would have the same life expectancy as a 72 year old. Very broadly speaking, younger people were dying of the illness in greater droves than the elderly, because older people had greater resistance to the disease, having overcome previous epidemics, such as the Russian flu. Chronological age then was not a good indicator of life expectancy.

The difference in life expectancy between people of the same chronological age but with differing income levels, with the wealthy living longer, is already well known. However, according to Milevsky, income has an even greater impact on biological age. "Not only is the *[richer person]* going to live five years longer, they are biologically eight years younger," he states as an example.

It is this granularity of information that would be extremely beneficial to insurance firms offering annuities. Having a more accurate reading on life expectancy would result in insurers having lower Solvency II capital holding requirements.

This, in turn, would be useful for trustees of DB schemes, who may benefit from the cheaper bulk annuity pricing offered by insurers as a result. The more accurate prediction of life expectancy may also reduce the value of sponsor payments required, Cass Business School professor of finance, David Blake, suggests.

But beyond that, the knowledge of DB members' biological ages would have very little impact, Dalriada Trustees senior trustee representative, Hugh Nolan, predicts, as any differences between biological and chronological age would likely average out in a large pool of people.

For those saving in a DC scheme, or a personal pension, it may be another matter. They may benefit from increased annuity values if they are found to have a higher biological age compared to their chronological one. Simply having a more personalised prediction of their life expectancy may assist in their long-term financial planning.

This knowledge also may benefit them beyond their finances. As biological age is not linear, it may improve or decline, a person may be spurred on by a high biological age to try and improve their health and/or lifestyle factors, to bring it down.

Yet this possibility of peoples' increased engagement with their biological age may not extend to increased engagement with their pension provider.

Risks

As Institute and Faculty of Actuaries' Mortality Research Steering Committee chair, Sacha Dhamani, says, someone may be willing to fill in a one-page questionnaire, but are less likely to fill in a 100-page form to provide information to determine their biological age, or even send DNA samples, particularly when it is of no personal benefit for them to do so.

Indeed, people may be offended at the 'invasion of privacy' testing for biological age requires, or reluctant to even know their biological age, in much the same way some people avoid visiting the doctor.

The question of fairness arises too, Kitson warns, with ethical concerns over whether people should be priced differently based on biological age, when some aspects of that ageing will be down to genetics (although research seems to suggest only about 25-35 per cent of genetics affect biological ageing; the rest environmental and lifestyle factors).

The insurance industry has currently gone the other way, avoiding genetics by not being able to take gender into consideration when pricing. "The industry still needs to think carefully about what information we feel is acceptable to use, and what we should not. Biological age may fall into this tricky area," Kitson warns.

Also, people may be wary of pension schemes or insurers holding such personal information, due to the risk of such data being stolen. However, Dhamani compares it to driver-tracking devices, which would have had the same initial fears.

Accuracy

But assuming these concerns were assuaged, and this information provided, how can the pensions and insurance sectors ensure that the data can be trusted?

There are currently many different ways of determining biological age, with the likelihood that different approaches would garner different results. Yet consistency would be the minimum requirement for this information to be useful.

However, Milevsky highlights that GPS tracking had the same initial issue, with many different ways of pinpointing global location, until a uniform approach was adopted.

There would also need to be complete confidence in the test/s for biological ageing, to avoid the risk of fraud. For instance the founder, Elizabeth Holmes, of blood-testing company Theranos, was charged with 'massive fraud' through false or exaggerated claims about the accuracy of her blood-testing technology. People also may be tempted to 'game the system' and fraudulently adjust their biological age to benefit from an earlier pension age or receive higher-value payments.

For now though, the tests for determining biological age are very expensive, limiting any widespread use until cheaper tests are established.

Also, "as there is little/no historic data about the impact of biological age, it will take years to build up credible evidence of how it affects mortality rates before it could be used reliably in pricing or funding calculations – even if everyone starts recording this data now", Nolan says.

Impact

Currently, European law prevents genetic tests to be used to determine pricing of insurance products, Dhamani warns.

And, as Just Group's group medical director, Tim Crayford, says, the notion of shifting someone's actual age to their biological age is not new. "Some older calculations with medical underwriting have done this quite directly. Breckenridge, the medical underwriting textbook, describes techniques that assume when someone makes a medical underwriting disclosure, their actual age shifts backwards or forwards," he explains.

Therefore, there are questions as to what useful new information knowing biological age can really provide. For instance, Crayford notes that knowing a customer's full medical history, such as whether they have had cancer in the past few years, "offers a more accurate prediction of expected longevity than the small additional knowledge we might gain from their teleomere length or other bio-marker".

Prudential Retirement head of longevity risk transfer, Amy Kessler, agrees that "since medical underwriting is similar and already in use, I do not believe this would change the services

the pensions industry provides". Instead, she expects its impact to be "about the same as medical underwriting, which has had limited take up in the market", while Nolan goes so far as to describe biological ageing as a "damp squib".

However, current models to predict life expectancy are starting to be challenged, Kitson states.

"For a long time, socio-economic group (eg wealth) estimated by postcode has been seen as a key rating factor for life expectancy – but level of educational attainment is potentially outshining wealth as a factor. So some of our previous thinking is being challenged," he explains.

Future

As there is already great awareness that life expectancy is based upon far more than simply chronological age, Blake questions whether knowledge of biological ages would affect governments' social policy, with individuals' state pension age tailored to their biology.

Aegon pensions director, Steven Cameron, is sceptical, stating that there are many rules in the pensions arena based on chronological age, such as the minimum age for accessing pension freedoms, and the age at which the inheritance tax treatment of death while in drawdown changes. "It is unlikely that the government will replace these tests with one based on biological age."

However, Milevsky states that when the state pension age was formed in the UK in 1908, there was strong opposition to it being based upon chronological age, with outcry at the idea that all 70 year olds would receive a pension, irrelevant of whether they were healthy enough to carry on working. Chronological age did not become such a 'big deal' for people until the emergence of Hallmark Cards highlighting age as something special, he adds.

Even today, the Labour Party has hinted that it might allow individuals in certain demanding occupations to draw their state pension from an earlier age. "You could argue this isn't too far removed from a broad reflection of how occupation can have a bearing on biological age," Cameron adds.

It may not yet be discussed in terms of 'biological age', but awareness of the differences between people of the same chronological age seems to be growing, and the direction of travel is only heading one way.

"There is more granular underwriting between pension scheme and insurer, with a greater desire to understand the differences with lives than there was 20 years ago," Dhamani states.

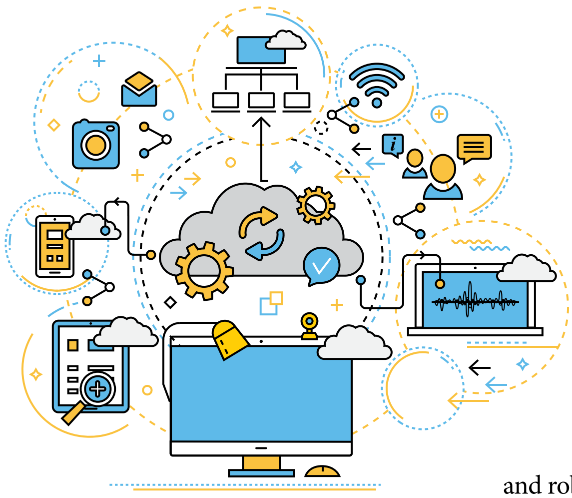
There already is Vitality Insurance basing pricing on the monitoring of lifestyle habits, and many individuals already have Fitbits, which showcase real-time biological information, Dhamani adds, with the amount of data it provides likely to increase in the future. It doesn't seem so implausible for pension schemes to be able to harness this easy access of data – with user permission – to establish members' biological ages.

However, "no one is going to scrap the analysis from chronological age, so biological age would only ever be used to supplement the existing data," Nolan says.

But it is clear, Kitson states, that the ability to understand an individuals' health/age/life expectancy is going to become increasingly quick, easy and cheap.

"Ten years ago, doing what TeloYears do now for $100 would have cost circa $100,000," he explains. "We have an explosion in wearables with (today) 2.5 million *Wikipedia*'s worth of data being produced every month, and will soon have things like swallowables. As an industry we are going to have to operate in a profoundly different data world to the past five years, and we have much to do to think about what this means."

Written by Laura Blows



Dream machine

The use of automation to carry out tasks within the industry is increasing, particularly for DC pensions, but will we get to a point where human input is no longer needed, or is that the stuff of dreams?

Over the past decade automation has crept into our everyday lives; from Alexa already having turned the lights on when you get in from work, to the thermostat that will heat or cool to whatever temperature is required; they are subtle changes that have made life easier.

Within the pensions industry, automation is self-service, says Trafalgar House client director Daniel Taylor, which means that the end-point user can initiate and complete the whole transaction without anybody else being involved.

Changing processes

There are, however, vast differences between the amounts of automation being used across the pensions industry. In the defined contribution (DC) market, automation is standard, Taylor explains.

Pensions Administration Standards Association (Pasa) board member, Chris Tagg, adds that the newer group personal pensions and master trust type arrangements are in a much better position for automation.

"They should have been thinking about this at the design stage and have all the data in place. They are large organisations that are running the schemes and are looking for efficiencies themselves; they will be the ones investing in things like programming and robots for answering calls to increase automation," he explains.

On the other hand, in the defined benefit (DB) market it is rare to see full automation, Taylor says, adding that it is even rarer to see partial automation. He says this is because schemes and administrators have not invested enough in automation.

Tagg adds that some legacy DB schemes have been in existence for 50/60 years. Therefore they have used different methods at different times, as well as having data in different places and formats. All this, as well as being closed to their end game, makes automation a hard sale, he says.

However, on the advice and guidance front, automation is playing a key role. Wealth Wizards CEO, Andrew Firth, notes that automation has changed the way relevant information and guidance on pensions is delivered. It can now be delivered digitally to members and employees, supplanting the need for face-to-face sessions or on-site seminars, he notes.

ITM director, Matt Dodds, summarises: "The pension industry today is more automated than ever, but, as a rule, is still decades behind other industries. As an industry we've progressed from paper files, through microfiche, electronic databases, admin and case management systems to digital-only admin. But not every provider/scheme is at the same stage of their automation journey – if they were the pensions dashboards wouldn't be such a challenge."

Humans need not apply?

Automation is having a huge impact on jobs within the pensions administration sector. Taylor refers to the 'utility metric' that administrators use to measure how many administrators are needed per members. The variation between DC and DB highlights the impact that automation is having on jobs.

"You can potentially get one administrator looking after around 10,000 to 15,000 members on DC, and on DB it's about a third of that; at a stretch you can probably get around one administrator looking after 5,000 members," he states.

So for the DB side of things, it appears that the need for humans will continue. As Tagg notes: "At the moment there is so much consultancy required to interpret data, it's not push button". He adds that at his consultancy firm, it would be a struggle to convince many of its DB clients to spend a lot of money to go down the automation route.

Working in sync

As Pasa chair Margaret Snowdon once said, the incorporation of robotics in the pensions industry is an "opportunity to be seized" rather than dismissed. Automation need not be seen as a threat, but it could also bring about many benefits to those working behind the scenes.

Summary
• Automation has crept into our everyday lives but the use of it varies in the pensions industry. In DC schemes it is widely used but, for legacy DB schemes, automation is a hard sell.
• Within the DC market it has changed the way members interact and engage with their scheme. It has also had an impact on the guidance and advice sector, with this journey increasingly starting digitally.
• All this is having an impact on jobs within the industry, but it is possible to work in sync with the technology rather than see it as a threat.
• Experts disagree on whether there will also be a role for humans in the future but the types of jobs being done will certainly change.

One of those benefits is less human error when undertaking tasks. Blue Prism account manager, Adam Reynolds, who spoke at a *Pensions Age* data seminar, in association with ITM, earlier this year, raised this point.

The company's Digital Workforce, he explained, is software that emulates what humans are doing. "It interacts with your current systems and applications the same way your staff do; there's no invasive techniques and it's code free." There are many benefits to the software, Reynolds said, but one of them is that no human errors are made, which take time to rectify. "That's one of the main things that customers come back to me and say they have realised," he noted.

Taylor also notes that people love automated pension schemes: "It gives them so much more job satisfaction, it eases the process, but actually eases everybody's process. What we're seeing now is that most schemes going through liability management exercises need bulk calculations performed in fairly short order to a high degree of accuracy.

"Unless you have automation then actually it slows everything down, so the ability to buyout or go through a bulk annuity exercise becomes very difficult and expensive, because you haven't invested in that underlying automation."

Currently, rather than making humans redundant, Taylor says he is seeing a shift within his company. He says they are seeing the technology teams grow as quickly, if not quicker, than a lot of member service and delivery teams.

"We're seeing that investment in technology actually pays dividends, it makes your business more efficient and it gives administrators a margin…. We're experiencing it at live time; we're seeing that migration of roles from administration into systems and technical roles," he says.

Furthermore, Wealth Wizards' Firth says advisers and paraplanners are finding that because key parts of the advice process are being made more efficient due to automation, they can focus more on understanding their clients' needs and objectives, and offering their services more widely.

When it comes to advice, he believes that advice journeys will increasingly begin digitally, and clients will be able share data such as their employment and pension details automatically (with permission) rather than having to fill out forms.

"Advisers will be able to focus their time and attention to understanding and helping the client, particularly where they are faced with significant and complex choices, and will be able to serve a broader range of clients with less complex needs. Automation will radically increase the efficiency, consistency and evidenced compliance of the advice delivered.

"AI capability will bring further automation into even the more complex areas of advice, enhanced compliance checking, and process efficiencies through voice to text and image recognition," he adds.

Will there always be a role for humans?
In the future, Taylor can see a time when there will only be a requirement to look after the infrastructure. "I think customer service tools will progress to such a point that at some time in the future, probably the next generation, they'll be able to get online support from bots and automated customers service channels that won't even require somebody in the back office to tell them what to do," he says.

Not all experts agree, however, with Tagg noting that the industry is complicated and it will always be that way. "Whilst you can introduce a lot of automation for things like dealing with data, communicating with members, calculating benefits, even down to things like ID verification, one-click retirement and sorting out all of your benefits payments…there's still going to be people who are running these schemes or responsible for overseeing them and they are going to need that human interaction to bridge the understanding gap."

He adds that if we can get to a utopia where everything is automatic, there are always going to be cases where it doesn't work. "You are going to need to be able to have people to spot potentially when it isn't going to work in advance or deal with the repercussions when it hasn't worked to put things right," he says.

Dodds is in agreement, noting that because pensions are intrinsically linked to money and lives, some things will always need a human touch.

"The role may be different – it may be responding to multiple chat windows instead of answering the phone or typing letters or designing member portals instead of annual benefit statements. And then there's the next Pensions Bill that will need actioning – humans need to have the ideas, create the solutions and write the code that allows technology to help deliver it."

Written by Natalie Tuck

Comparing buyouts and buy-ins – *Jos Vermeulen explains why different analysis is required when comparing buy-ins and buyouts* ***p50***

A year like no other? – *Maggie Williams reveals how the de-risking market has been hitting highs lately, with the volume of deals this year exceeding the 2018 record-breaking transaction levels, and next year being predicted to go even further. What can pension schemes looking for buyout do to join this trend?* ***p52***

De-risking focus:

Finding safety

Insight Investment head of solution design, Jos Vermeulen

Comparing buyouts and buy-ins

Jos Vermeulen explains why different analysis is required when comparing buy-ins and buyouts

Buyouts and buy-ins are typically undertaken by trustees of defined benefit schemes to help manage or reduce risk. While both seek to reduce risk and secure member benefits, they differ fundamentally in three ways: their purpose, practicalities and potential investment impact. Consequently, the analysis you should conduct when you consider them needs to be different.

Purpose

An **insurance buyout** is the destination point at which trustees and sponsors can be confident of securing **all** the members' benefits, i.e. an endgame solution.

An **insurance buy-in** is a potential investment option to help trustees move towards their endgame.

Practicalities

Under an **insurance buyout**, trustees typically transfer **all**[1] their assets and liabilities to an insurance company. The insurer takes on legal responsibility for fulfilling pension obligations to scheme members. The corporate sponsor divests all responsibility for the scheme, and scheme members become policyholders with the insurer. This allows the trustees to wind up the scheme, extinguishing all governance responsibilities.

Under an **insurance buy-in**, trustees typically transfer **some**[2] of their assets to an insurance company in return for a cashflow stream that reflects the actual pension payments for a portion of the scheme membership (the members insured). The insurance company makes payments to the scheme, which in turn makes payments to the pensioners. The trustees retain the governance responsibility for managing the whole scheme, effectively making the buy-in an asset of the scheme.

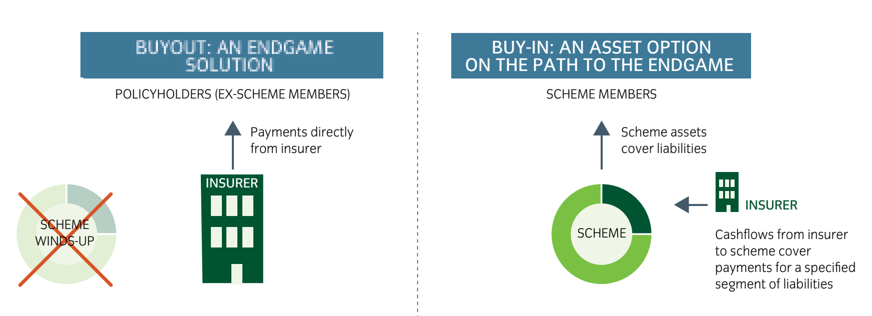
Potential investment impact

Once a **buyout** is complete, the pension scheme has wound up, and scheme members are individual policyholders with the insurer.

Following a **buy-in**, when looking at the notional portion of the members that have been insured, it can appear that there are no investment implications as their pension payments are matched exactly by the insurance contract (ignoring any governance costs incurred by the scheme for managing these member benefits). However, when looking at the scheme as a whole, there can be significant investment implications.

Buy-in transactions typically do not cover non-pensioners, and therefore the longer-dated and most risky liabilities typically remain uninsured. So, schemes may transfer disproportionately more assets than risks to the insurer. In addition, an insurance buy-in ties up a significant proportion of the scheme assets and cannot be reversed – this can reduce the ability to deal with unpredictable events.

Figure 1: How buyouts and buy-ins supports payments to pensioners



The investment implications may be four-fold:

1. Impact on the return required from remaining assets

A buy-in typically leaves fewer assets under trustee control. Depending on the longer-term funding aspirations of the trustees, this could increase the return needed from the remaining assets, everything else being equal – meaning there may be a need to take on more investment risk. Additionally, in order to maintain a given liability hedge ratio, a portion of the remaining assets might have to be allocated to collateral. This could also push up the required return on the 'free' assets.

[1] Partial buyouts are possible, but in the UK they are rare because this could leave trustees open to breach of their fiduciary duty to treat all members fairly in the subsequent event that there are insufficient assets to pay the remaining members' benefits

[2] There have been some cases where trustees have conducted a buy-in for all of their liabilities, but this is usually a short-term, pragmatic step to extinguish the mis-match risk while preparing the details for a buyout, and subsequent wind-up of the scheme.

	Buyout	Buy-in
Purpose	• Endgame solution	• One option on the path to the endgame
Practicalities	• Transfer all assets and liabilities • No further governance obligations	• Transfer some assets in return for a cashflow stream that reflects some liabilities • Retain all liability and governance obligations
Potential investment impact	• No further investment mis-match risk	• Asset that reduces the mis-match risk for a notional portion of the liabilities, but could increase the time to, and cost of reaching, the target endgame overall
Analysis required when comparing to other options	• Cost versus residual risk of managing liabilities	• Return required from remaining assets • Ability to hedge the remaining, or uninsured, liabilities • Time to achieve the target endgame • Flexibility to deal with unpredictable events

2. Impact on the scheme's ability to hedge its liabilities
In order to maintain a given hedge ratio, a portion of the remaining assets might have to be allocated to collateral, further pushing up the required return on the 'free' assets. Alternatively, schemes could decide to accept a lower hedge ratio (thereby increasing risk) or higher leverage.

3. Impact on the time to achieve a full buyout
The pursuit of higher returns following a buy-in increases the chance of negative returns, especially during times of market stress. The alternative – maintaining a lower return target – could lead to an increase in the time necessary to achieve a full buyout.

4. Flexibility to deal with the unpredictable
Up to the point of a full buyout, there will always be risks affecting the assets or the liabilities that cannot be predicted or hedged. Examples could be poor short-term returns, transfer values forcing payments earlier than expected, or changes in legislation causing changes to benefits. The illiquid buy-in asset gives trustees less flexibility to deal with any setbacks.

The analysis when considering buyouts and buy-ins needs to be different
An **insurance buyout** is widely deemed the least-risk way to secure payments for all members' benefits, provided the insurer remains solvent. However, insurers need to comply with stringent regulatory restrictions on investments and will also be seeking to generate a profit. This means buyouts are typically relatively expensive compared to other options.

The usual reason trustees would not pursue a buyout is a scheme's inability to afford it. Another reason would be if the trustees believe an equivalent outcome could be achieved more cost-effectively by adopting an investment strategy that incorporates techniques used by insurers, but without the regulatory and capital constraints insurance companies face.

When comparing an **insurance buy-in** to other options, trustees need to consider the impact on their certainty of achieving their target endgame. This involves considering the impact on a wider set of measures, such as the return required from remaining assets, the scheme's ability to hedge its liabilities, time to achieve the endgame target, and flexibility to deal with the unpredictable.

Written by Jos Vermeulen, head of solution design, Insight Investment

In association with Insight Investment

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A year like no other?

Maggie Williams reveals how the de-risking market has been hitting highs lately, with the volume of deals this year exceeding the 2018 record-breaking transaction levels, and next year being predicted to go even further. What can pension schemes looking for buyout do to join this trend?

2019 has been a year like no other for bulk annuities. A £3.8 billion buy-in by the Allied Domecq pension scheme at the end of September pushed the volume of deals for this year to over £30 billion; £6 billion higher than the whole of 2018, and with rumours of further major deals anticipated between now and the end of the year. Consultants are already predicting a buoyant 2020 that could reach even greater heights.

Hymans Robertson head of risk transfer solutions, James Mullins, attributes this growth to improved pension scheme funding levels, driven by good asset returns and company contributions. "Funding levels are also more resilient to market movements because schemes have taken significant steps to reduce their investment risk," he says.

"While companies have been very busy this year, they still have strong appetites to complete transactions. So, for well-run processes, buy-in and buyout pricing has remained at highly competitive levels," says Mullins.

However, not all schemes are focused on buyout in the short term. "Schemes are choosing one of three routes," says Insight Investment head of solution design Jos Vermeulen. "They are either opting for buyout, self-sufficiency or a consolidation option." Consolidation, either as a bridge to buyout or to manage a scheme through run-off, may become a more mainstream option in future, however Vermeulen points out that it is still a relatively untested path. That leaves self-sufficiency or buyout as the two most well-established options available to trustees.

Willis Towers Watson senior director, Shelly Beard, believes that self-sufficiency will only be an option for very large schemes where the sponsor is willing to support the scheme through run-off. Even for those schemes there may come a future point where the cost and governance involved in running the final stages of the scheme becomes unattractive relative to the cost of buyout.

For smaller schemes, buyout will be the ultimate goal with timescales determined by affordability and scheme preparedness. "Every scheme is funded in a unique way dependent on its history and circumstances, so will be in different places with regard to buyout," says Beard. "Some will already have transacted or will want to do so in the short term. Others will be looking at a much longer timeframe."

"If you ask why schemes have been able to carry out buyout transactions to date, it's been because they are well-funded, have de-risked their investments and have focused hard on getting over the line to buyout once they've got sufficiently close," says Aon senior partner and head of risk settlement, Martin Bird. "That might mean, for example, that they've been able to convince the sponsor to make an additional payment to enable the buyout to happen."

Scheme maturity is increasing

Wider market trends have also meant that more schemes are now in a position to seriously consider a buyout. "All pension schemes have been on a similar path over the past 10 years," says PIC head of business development, Mitul Magudia. "They have been moving their assets from equities into fixed income investments, to better match their liabilities. The vast majority of schemes are closed to new members and often to future accrual, so schemes have started requiring more liquidity to pay increasing pensioner payrolls as more members retire."

"Schemes with a high proportion of deferred non-pensioners in the membership may be further away from buyout," adds Beard. "Pensioners are easier to insure as there is a more predictable cashflow, so a lot depends on when the scheme was closed to new members and to future accrual."

The balance between deferred members and pensioners can also be affected by buy-in transactions. These generally cover pensioners only and can leave the scheme with a higher concentration of deferred members. Vermeulen cautions that this approach can cause problems over time. "Our analysis shows that pensioner buy-ins can make it more difficult to get to buyout. It may not be the best value for money, can increase risk in the rest of the scheme because the remaining deferred scheme members have more unpredictable longevity, and could affect the price of buyout in the future."

Vermeulen adds that carrying out a buy-in means a scheme has bought a highly illiquid asset. "Carrying out a buy-in doesn't remove risk or liabilities from the balance sheet. If there are significant changes in longevity among your deferred members or if your growth assets, such as equities, fall significantly, trustees can't re-risk because they can't get out of the buy-in policy."

However, some trustee boards have succeeded in carrying out a series of pensioner buy-ins over time as the scheme has matured, then finally carried out a buyout transaction with the small remaining population of deferred members.

Reshaping investment strategies

Schemes are taking steps other than buy-in to move closer to buyout. "Over the past few years, schemes have matured more rapidly than trustees had expected," says Bird. "That can have a natural effect of encouraging options such as enhanced transfer value (ETV) exercises and pension increase exchanges, tidying-up processes like trivial commutations and also reshaping investment strategies."

Summary
- The volume of bulk annuity deals has hit new records this year.
- Scheme maturity has made buyout more achievable for trustees, but every scheme will have a different time horizon.
- Trustees are reshaping their investment portfolios and hedging risk in preparation for buyout.
- Buy-ins are a popular de-risking option but could hinder buyout in some instances.

Becoming cashflow negative (i.e. pensioner payments out of the scheme exceed contributions into the scheme) has meant that many schemes have naturally reduced their investment risk, by moving out of growth assets and into liquid liability-matching assets such as corporate bonds. However, Beard says that many schemes will still need investment returns to help close the gap to buyout. "It's important to find the balance of achieving returns but not investing in assets that will be difficult to get out of in the future," she explains.

"Unless you are a very large scheme with no buyout plans for the short to medium term, assets with a maturity of 20 or 30 years will make buyout more difficult," cautions Vermeulen.

"It can be difficult to choose illiquid assets that will make a good transition to an insurer," agrees Bird. "All have different investment strategies and since Solvency II, the insurers will have different types of focus, including equity release or credit opportunities. But they are all likely to have liquid low-risk quasi-governmental bonds as a part of their investment strategy."

Magudia says that schemes are also hedging inflation risk as a way of preparing their portfolio for buyout. "Around half of UK DB schemes have implemented some form of hedging, which means they have been immunised against falling yields over the past few years," he says. Vermeulen adds that he has seen the percentage of inflation risk being hedged in portfolios increase from around 20 per cent to 70 per cent over recent years.

Beyond reshaping the investment strategy and hedging risk, there are other ways that trustees can move their scheme closer to buyout. "In a busy market it is critical to be well prepared and demonstrate to the insurers why your pension scheme should be high on their priority list," advises Mullins. "Resource, rather than financial capacity, is often the limiting factor for insurers, so schemes with strong governance and diligent preparatory work will stand out from the crowd," adds Bird.

That work could include the obvious basics such as data cleansing, which not only improves efficiency but also demonstrates to insurers how serious a scheme is about the transaction. Beard also advises "taking a detailed look back at the scheme rules so that trustees are confident in the benefits they need to insure".

While the majority of schemes now see buyout as their overall end goal, the speed at which they expect to reach that goal varies. "Schemes that have not hedged or are less well funded for historic reasons will have to take a more patient approach to de-risking," concludes Magudia. "They may require further contributions from the sponsor or asset outperformance before they can get to their preferred de-risking destination. But we expect a large number of schemes that fall into this category will secure buy-ins and buy-outs in the longer term as their funding improves and their schemes mature."

Written by Maggie Williams, a freelance journalist

In association with Insight Investment

Is there anybody there?

Summary

• Pensions seems to have largely disappeared from the political agenda, overshadowed by other domestic policy issues and the Brexit crisis.
• A Pensions Bill has been drafted, with cross-party support, but it is unclear when it will be presented to parliament and what it will contain – for example, a new regulatory regime for DB superfunds may not make the cut.
• There are many other aspects of the UK's pensions system besides those expected to be included in the Bill that require urgent attention from policymakers.
• Regulators and the industry continue to work to improve the system, but ultimately new legislation and political momentum will be needed to implement further reforms.

David Adams finds out whether parliament is still listening to the needs of the pensions industry

Imagine, if you can, that you are someone who knows very little about pensions. That person might be surprised to be told that pensions should be seen as a hugely important political issue, in which every citizen has a stake. Their surprise might be due in part to the fact that during the past three years or so politicians haven't talked about pensions anywhere near so often as they did during the first half of this decade. Pensions have been overshadowed by other important policy areas, like the NHS, education, law and order, climate change – and, yes, by Brexit.

Although 2019 has seen announcements about the dashboard and a new Pensions Bill, neither have yet seen the light of day. Is that simply a consequence of the political turmoil in which Theresa May's and (at the time of writing) Boris Johnson's administrations have found themselves? Or are policymakers neglecting pensions?

"Pensions is always a long-term issue and we're living in a short-term age – we have Brexit hanging over everything and there are other issues that demand a political response in the short term, so pensions are not going to be at the top of the agenda," says Pensions and Lifetime Savings Association (PLSA) director of policy and research Nigel Peaple.

"But there's a lot going on. *[Minister for Pensions and Financial Inclusion]* Guy Opperman has done a lot of work pulling in people from across the industry to focus on specific issues. He's a big champion of the simple annual statement; he's a champion of the dashboard; he's interested in quick transfers. These are all things he's looking at with the sector that aren't seen in parliament."

Opperman's Pensions Bill would surely have been presented to parliament during 2019 if political events had taken a different turn. At the time of writing, a spokesperson for the DWP says that until details of a new Queen's Speech are published the department can provide no further guidance on the possible timing or contents of the Bill.

When it does emerge, the Bill will almost certainly include measures related to use of collective defined contribution (CDC) pensions, increased powers for The Pensions Regulator (TPR) related to scheme governance and information-gathering; and further support for the dashboard.

It may include details of a supervisory regime for DB consolidation schemes, or 'superfunds'. However, in July 2019 shadow pensions minister Jack Dromey, who has cooperated with Opperman on the Bill, suggested that the government might omit this element from the Bill, to address it in a later piece of legislation.

One reason for this delay appears to be a disagreement between TPR and the Prudential Regulation Authority (PRA) over the nature of the regulatory regime for superfunds.

"As I understand it there is a divergence in points of view in government, which will be resolved at some stage," says Hymans & Robertson partner Patrick Bloomfield. "But it's a political question and for that to get answered we need politicians to stay in the job long enough to get it answered."

Injustices in the system

Former Pensions Minister and pensions campaigner Baroness Ros Altmann expects the Pensions Bill to feature in the next Queen's Speech, but she wonders if it will be a short Bill, including CDC legislation, but "leaving more substantial reforms for after any General Election".

B&CE policy and external affairs director, and former Shadow Pensions Minister, Gregg McClymont also anticipates publication of the Pensions Bill at some stage. "With so much hinging on the Pensions Bill – DB consolidation, CDC, the dashboard – it can't be kicked into the long grass," he says. "We'd expect to see it when the Brexit process is completed, and a government has a stable majority."

Royal London policy director and former Pensions Minister Steve Webb thinks a General Election is likely to delay the Bill, but he believes that whichever party ends up in government will bring the Bill, or something very like it, to parliament. "Realistically, it should be an Act of Parliament by the end of 2020," he suggests.

But there are other issues besides those due to be addressed in the Pensions Bill that also require political attention, says Altmann. "There remain injustices in the system, such as the net pay scandal, the need for a proper cold-calling ban, the importance of ensuring more people receive Pension Wise guidance and a greater emphasis on data accuracy to facilitate a reliable dashboard," she says. "In addition, moves towards greater transparency and disclosure of charges would be welcome; and I would support a ban on holding unregulated investments within a Sipp."

Webb also has a list of unresolved issues he believes politicians must address that are unlikely to feature in the Pensions Bill. "Some are currently in the courts, including the latest developments on GMPs, potential multi-billion pound changes to public sector pensions and an outcome of the Waspi [*Women Against State Pension Inequality]* case around women's state pension age changes, *[since time of writing Waspi lost their case in court]*" he says. "There is clear evidence that the tapered Annual Allowance and the Lifetime Allowance are causing real staffing issues in the NHS and urgent action is needed to resolve these matters."

Taxing issues

In the longer term, politicians are likely to return to the vexed question of pensions tax relief. "I assume there will be further discussion of reform to pensions tax relief, especially in light of the damage caused by the Annual Allowance Taper and the impact of the Lifetime Allowance on early retirement in the DB space," says Altmann. "I wonder whether there may be an attempt to separate DB from DC, as the tax impacts are very different between the two. I also hope reform of the net pay scheme system will allow low

earners to receive tax relief that they are currently denied."

Hargreaves Lansdown head of retirement policy Tom McPhail is not so sure that a full engagement with the tax relief issue will happen soon. "With tax relief, no-one really wants to do the difficult thing, which is to take it apart and upset some people," he says – although he does acknowledge that if Labour were to win a General Election the party is likely to end higher rate relief.

Altmann is among those who would urge a government led by any party to look again at another issue linked to pensions: funding social care.

"If there is reform of tax relief for pensions, I would hope that the government will introduce a system that incentivises saving for social care, either within or alongside, pension saving," she says. "Pensions are supposed to last for the entirety of retirement, but do not currently make any provision for the costs of being unable to live independently."

So, if there is no shortage of pensions-related issues to which politicians should be paying attention, how long will it be before they give these issues the attention they deserve?

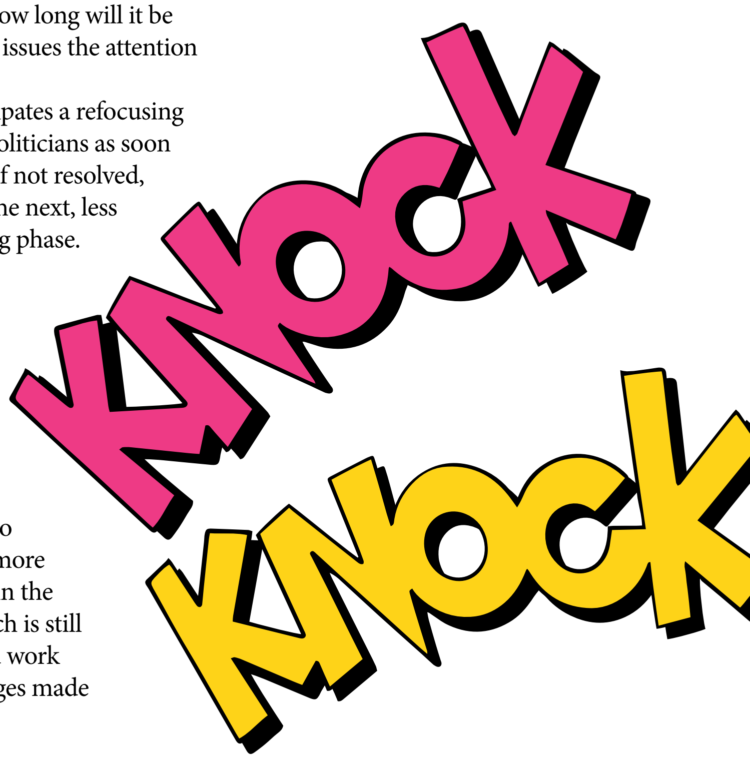
McClymont anticipates a refocusing on pensions among politicians as soon as the Brexit crisis is, if not resolved, at least moved on to the next, less politically destabilising phase. "Once normal service has resumed in the political world, pensions policy activity will pick up pace again," he says.

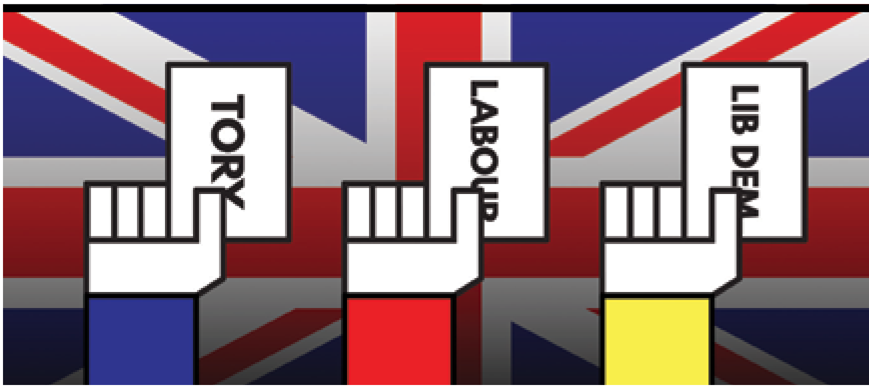
But Altmann points out that there are some advantages to not rushing through more reforms and changes in the pensions system, which is still processing unfinished work related to major changes made in recent years, including the introduction of auto-enrolment and of the pensions freedoms, as well as state pension reforms.

Bloomfield agrees. "What we need is broad-based consensus and multi-generational thinking," he says. "If at the moment there is space and time for that to be thought through at a political level, that would be a good thing. For anything to work in this country you need multi-decade, multi-generational thinking."

At present it is difficult to identify much evidence of such thinking being translated into policy. The industry and regulators continue to work towards improving the system, but ultimately only new legislation can address the unresolved issues that affect it. Only when political interest in pensions has been reactivated by a government with the authority to take political risks in this area will pensions return to the political spotlight.

Written by David Adams, a freelance journalist





Party time

David Adams looks at how the three main UK-wide political parties approached the subject of pensions during conference season

Autumn 2019 has seen a party conference season like no other, with the Brexit crisis overshadowing events and the parties gearing up for a General Election likely to happen sooner rather than later. But although the conferences were operating in campaign mode, with some new policies being announced, the subject of pensions was not particularly high up the agenda.

At the Conservative conference, held in Manchester during early October, the most high-profile mention of pensions came in a speech to conference by Secretary of State for Work and Pensions Therésè Coffey. Within a short speech mainly focused on the benefits system, Coffey criticised Labour policies on tax and nationalisation, which she claimed would end up "costing pensioners thousands of pounds"; and contrasted this with policies with which the Coalition and Conservative governments have been associated over the past decade, along with a brief summary of future plans.

"Since 2010, we have increased the basic state pension by £1,600 a year," said Coffey. "And since 2012, over 10 million people have been automatically enrolled in a workplace pension. We want to go further. We want to put people in control of their pension pots. We are ensuring the delivery of pensions dashboards so that people can see their savings online and in one place. We will take powers so we can send reckless business owners to jail if they plunder pension pots. And for the employees of The Royal Mail, we will make good on our commitments to help them deliver a new pension fund."

Even in this exceptionally unpredictable political environment it does seem likely that the next Queen's Speech delivered for a Conservative government will contain the Pensions Bill drafted by Pensions Minister Guy Opperman and his colleagues many months ago. In line with Coffey's speech, the Bill seems certain to contain measures to support the dashboard, strengthen The Pensions Regulator's powers and for the rollout of collective defined contribution (CDC) pensions.

But Coffey did not mention the regulation of DB consolidation schemes, or 'superfunds'. In July 2019, Labour's shadow Pensions Minister Jack Dromey, who has worked with Opperman on some aspects of the Bill, said he thought the government might not address superfund regulation in this Bill.

Were Labour to form the next government, it might present a fairly similar Pensions Bill in its own Queen's Speech. The party did not make any specific policy announcements related to pensions at its own conference, held in Brighton in September. A spokesperson says that pensions policy commitments outlined in the 2017 General Election manifesto still stand. These include guaranteeing the triple lock for the state pension throughout the next parliament and legislating to ensure that accrued rights to the basic state pension cannot be changed.

In relation to the latter point, the manifesto also pledged to compensate women born in the 1950s whose state pension has been changed without their consent, for whom Women Against State Pension Inequality (Waspi) and BackTo60 campaigns have been running in recent years. At the time of writing, the High Court's judicial review has just ruled against these women. Labour also promised a review of the state pension age; and protections for UK pensioners living overseas.

The Liberal Democrats had also made a pledge to the Waspi cause, saying that if the party was in government it would pay compensation to women affected in line with the recommendations of the parliamentary ombudsmen. The Parliamentary and Health Service Ombudsman's review of test cases paused in June pending the judicial review ruling. The Liberal Democrats have also promised to protect the triple lock.

Overall, what was not said at these conferences – Coffey failing to mention either the triple lock or superfunds, or any mention by any politician of tax relief, for example – may turn out to be as significant as what was said. But although we will have to wait to see the parties' election manifestos to get a clearer idea of their plans, there were some clear indications of the future direction of travel; and a perhaps surprising degree of consensus.

Written by David Adams, a freelance journalist

Summary

• Automatic enrolment has enjoyed a high success rate, with lower opt-out rates than expected.
• With re-enrolment now occurring with many companies, efforts are now being made to encourage previously opted-out staff to stay in the scheme this time.
• Continued non-compliance by companies, regarding re-enrolment, can lead to a large fine from The Pensions Regulator.

Second time around

Paul Beardwell explores the trends observed so far from the companies undergoing the re-enrolment process with its employees

Since 2012, when the first stage of auto-enrolment began, every business in the UK has had a duty to ensure that their employees are enrolled into a pension scheme.

Now that the auto-enrolment round has ended, with small businesses having generally completing the process by the end of 2016, the process of re-enrolment has begun. Aon DC commercial leader Anthony Kemp explains. "Every three years following an employers' original auto-enrolment staging date (or their last re-enrolment date) employers are required to assess their workforce. They need to re-enrol any eligible jobholders who have opted out, ceased contributions, or who are members of the pension scheme, but are not meeting the auto-enrolment 'qualifying scheme' minimum requirements."

The timescales involved in the re-enrolment of eligible employees are regulated and set by The Pensions Regulator (TPR). Its spokesperson states: "Employers must choose a re-enrolment date that falls in the three months either side of the first anniversary of their staging date, which is the date their workplace pensions duties started."

With this in mind, how are businesses coping with re-enrolment? What are the ramifications of non-compliance, and how can businesses prepare themselves for the re-enrolment process?

The re-enrolment process

All eligible employees in the UK were enrolled into a pension scheme. Whether an employee then chose to stay in the scheme or subsequently opt out was a matter of personal preference.

Kemp comments that "overall, auto-enrolment opt-out rates among our clients have settled at around 7 per cent, meaning 93 per cent of staff are in their company pension plan".

With tales like this generally echoed across UK businesses, of opt-out rates usually under the 10 per cent mark, the success of auto-enrolment seems undoubtable. When considering re-enrolment however, where employees who had previously opted out are then automatically placed back into a pension scheme, has there been any notable difference in retention?

Kemp says this doesn't seem to be the case. "From our own client base, we have not seen an increase in the proportion of opt-outs following re-enrolment, so it looks like the re-enrolment process is successful in getting people back into pension saving," he explains.

Non-compliance

While the majority of both companies and employees have got on board with the principles of auto-enrolment, what about those firms that have shied away from their responsibilities?

In August this year, The Pensions Regulator announced in their *Compliance and Enforcement Bulletin* that an unnamed London-based company was fined £350,000 for not complying with their re-enrolment responsibilities under the scheme.

Commenting at the time, TPR director of automatic enrolment, Darren Ryder, said: "This case demonstrates it's vital to carry out both ongoing duties and re-enrolment correctly. We will take action to ensure that not only are staff put into a pension but they continue to receive the correct contributions on an ongoing basis, and that those who opt out are re-enrolled correctly and given their right to start saving."

Indeed, the legal ramifications of a company not satisfying the requirements of the scheme can be very expensive.

For companies to comply with re-enrolment, records must be kept, staff must be informed, potentially additional contributions paid if previously opted-out staff opt back in during re-enrolment; all potentially expensive. But the legal ramifications of not doing so could cost far more.

As Kemp clarifies: "Employers can be fined for not complying with re-enrolment in the same way as not meeting their duties for auto-enrolment. If a company does not comply, initially a fine of £400 is issued and this must be paid within the period set out in the penalty notice. If the employer still does not comply, then a fine of a daily rate of between £50 and £10,000 could be levied."

Why opt out?

A business that is fully compliant may still see a proportion of staff eventually opting out of a workplace pension scheme. For some staff this may be a matter of affordability. Kemp offers that "individuals may not be able to afford the contributions that they must pay to be a member of a pension arrangement. This is more likely to be the case following the increases in the minimum contribution requirements over the past two years".

The Department for Work and Pensions offers some insight into the opt-out rate of employees. Its *Automatic Enrolment Evaluation Report*, published in 2018, states that: "Of the 12.7 per cent of new savers who stopped saving within the opt-out window between April 2014 and June 2018, 41.8 per cent were due to the end of employment, 43.6 per cent made an active decision to opt out, and becoming ineligible accounted for the remaining 14.6 per cent."

Factoring in the effect of affordability, the report also notes that older members are opting out at a higher rate. "A few opt-outs cited affordability as their main reason for leaving the scheme, either because they needed their take-home pay for immediate day-to-day expenses, or because they were saving elsewhere. Older workers tended to suggest that it was 'too late' to start a new pension: whatever the level of provision they had built up elsewhere, they believed they would not be able to save enough in this pension to make it worthwhile. This was due to the combination of a relatively low contribution rate and the anticipation that they did not have many years left of their working life," it stated.

Pasa DC Governance Working Group member, Rosie Lacey, explains that some lower-paid workers may keep opting out as they do not feel they would benefit from pension saving. "Affordability for those on low incomes and the income replacement ratio provided by the state scheme pensions for this group means they don't feel the need to save," she says. "Someone on an income of £18,000 will see an income replacement of around two-thirds, which is pretty good."

Making the process easier

For a company to ensure its obligations are met under the re-enrolment process a number of variables are to be considered. A common stumbling block that may be encountered is administration and record keeping.

"A common area of challenge we have seen is in identifying the in-scope population for re-enrolment. This population is made up of individuals that have left the pension scheme or reduced contributions for different reasons. Some have opted out for lifetime allowance reasons and could be exempt from re-enrolment, while often others will not have their reasons being recorded. In addition, the company will need to decide its position on all of the allowable exemptions, such as those opting out within the past 12 months," Kemp says.

To ensure that the re-enrolment journey is as pain-free as possible, Butler-Hodge highlights a re-enrolment tool on TPR's website that can help any company avoid the consequences of non-compliance.

Additionally, Lacey notes that many pension providers can help ensure the re-enrolment process runs smoothly. "If *[re-enrolment responsibility]* is not already with your provider it is a good time to move the responsibility to them. Most large trust-based schemes have already been through re-enrolment once before so should already refined or improved their processes. Automate *[processes]* as much as you possibly can".

Her advice to companies about to start re-enrolment is to "start the process in a timely manner. Most providers will do this for you, and don't be afraid of it, as the process is the same as the as auto-enrolment and any previous re-enrolment".

While companies shouldn't be afraid of starting re-enrolment, Ryder does point out that it is an important task. "Re-enrolment gives staff who opted out of their workplace pension a fresh chance to start saving, so it's an important task," he explains.

"Automatic enrolment has led to millions of new savers and we want to ensure this success continues. Our online re-enrolment tool will help employers continue to meet their legal duties so that staff continue to have the opportunity to save."

Written by Paul Beardwell, a freelance journalist

What makes a good master trust? *– Anish Rav from Atlas Master Trust reveals how, despite authorisation, not all master trusts are the same, and what needs to be considered when selecting one* ***p62***

Improving trust in a post-authorisation world *– As we approach the final stages of the first wave of master trust authorisation and consolidation begins to take shape, it's important to not lose sight of what will make a good master trust in a post-authorisation world* ***p64***

Atlas Master Trust head of clients, proposition and strategy, Anish Rav

What makes a good master trust?

Anish Rav from Atlas Master Trust reveals how, despite authorisation, not all master trusts are the same, and what needs to be considered when selecting one

The growth of master trusts has been well documented and the requirement for them to be authorised by The Pensions Regulator means they will meet the minimum standards for operating. But that doesn't mean that all master trusts are the same. The way they operate and the outcomes they provide for members can vary significantly.

If you're an HR, pensions or finance manager considering using a master trust, what should you look for to ensure that it delivers the best possible outcomes for your members and your organisation?

It's all about members

Pension scheme members in the UK are the beneficial owners of more than £3 trillion of assets[1], but those with workplace pensions have almost no say in what happens to their money – those vital decisions are made by trustee boards, providers, asset managers and consultants with very little input from members, if any at all.

This results in a disconnect – according to recent research by Capita Employee Solutions, *The Future Face of Retirement,* 72 per cent of employees aren't engaged with their company pension and 77 per cent don't understand enough about pensions to make considered decisions. People typically feel indifferent or powerless about retirement, and they're confused about pensions: they don't understand the differences between the diverse types that are available and don't know how much they've saved or what they should contribute.

But they want to engage more because they accept that they're responsible for ensuring they have a decent pension, with or without their employer's support. The vast majority – 84 per cent – want to understand better how much they need to save to be able to enjoy a comfortable retirement.

A master trust that's designed primarily around members and not centred around the preferences of the provider, the employer, the associated consultant or the adviser will generate better outcomes for its members. Everyone has the right to take control of their financial future and make something of the money they've worked hard to save throughout their working lives. Putting them at the centre of everything you do is crucial to running a good master trust scheme – something that we've already recognised at Atlas. We work tirelessly to achieve one ambition: to ensure that none of our 100,000+ members get any surprises when they retire.

This is not at odds with employers' needs – they want the best outcomes as well. If members understand their pensions, they will have one less thing to worry about and will thank their employer for selecting a quality scheme.

To ensure that pension scheme members are fully engaged with their retirement plans, a master trust must focus on creating great customer experiences that engage members in a non-patronising, grown-up way, with total realism, by really listening to them and addressing their needs.

Members should be able to expect personalisation (understand my particular needs and tailor what you tell me accordingly), efficacy (make the interactions and communications simple and easy) and empowerment (give me the tools, help and support to own my own financial future), so that they actively participate in their pension rather than just passively receive information about it.

Driving innovation

Master trust trustees play a vital role in making sure that members' interests are prioritised through innovation and strong leadership.

Good governance goes beyond authorisation by The Pensions Regulator; it's about having a proactive, effective and relevant board that's actively involved to ensure the best possible outcomes for members.

A master trust that focuses as much on enhancing members' experience as it does on protecting them is critical to ongoing innovation, improving outcomes for members and creating effective pension provision for all parties.

To achieve this, a board of trustees must have expertise and an understanding of their role and be suitably qualified and experienced. The most effective boards will also have a diverse range of knowledge and skills. They must function as a dynamic, cohesive team, with members able to challenge one another's views robustly but still take collective responsibility for decisions.

Trustees should have a clear, mutually-agreed and widely-understood vision, objectives and set of beliefs, dedicating significant time and effort to understanding the strategic issues that

affect governance, performance and member outcomes.

Sub-committees – covering areas such as investment or engagement – should hold joint meetings that integrate different areas of oversight seamlessly and effectively and share this holistic approach across support and delivery partners and advisers.

So, what should you look for in a master trust board?

Is it effective? Is it collegiate? Does it operate as one and is it capable of making swift decisions?

With an emphasis on dynamism rather than bureaucracy, a successful governance team maintains continuous oversight of processes and investment performance rather than deferring consideration until the next quarterly governance meeting.

It ensures that all materials and communications are comprehensive, clear and well-documented.

Is it proactive? Does it strive constantly to do things better, aiming to enhance what already works rather than just fixing what's broken? A successful governance team is agile and empowered, with a clearly-articulated vision of success.

Does it stay relevant? Does it empathise with members' hopes and fears, while understanding and responding to their needs? A successful governance team gets to know members and communicates clearly and simply with them.

Checklist

I've highlighted some of the key considerations above, but there are others to take into account.

While price is a consideration, it shouldn't be the main one. Nor should the name nor size of the trust. It can be easy to choose a trust simply because it's big or cheap but the key thing to think about is the ultimate outcome for members and how they're taken on the journey. This means assessing:

- The master trust's cultural fit with your organisation
- The master trust's ability to meet your objectives
- The quality of the investment solution, especially the default strategy
- The level of interaction between employers and the master trust – are employers fully involved with the scheme and able to ensure that members' needs are being met?
- How the master trust takes members' views into consideration and acts on them – does it really listen to the members' voice?
- The amount of skill and expertise that the people who would be running your pension scheme have – is there a dedicated team in place, focusing solely on the master trust?
- The commitment of the master trust's funder to ensuring it is there for the long term. Moving to a master trust is not something you want to do often, so having a long-term commitment is crucial.

But, of course, the main thing is how the master trust puts members front and centre of every decision with the sole aim of getting the best possible outcome for them.

Written by Anish Rav, head of clients, proposition and strategy, Atlas Master Trust

[1] Financial Conduct Authority, February 2019

Summary
• With a potential 39 master trusts to be authorised at the end of the first phase of authorisation, the market has already more than halved in size.
• Following the first wave, many in the industry are expectant of further consolidation down the road, as even those authorised may not stick around in the market.
• As consolidation takes effect, savers will feel the benefits through lower fees and more investment potential.

Improving trust in a post-authorisation world

As we approach the final stages of the first wave of master trust authorisation and consolidation begins to take shape, it's important to not lose sight of what will make a good master trust in a post-authorisation world

As we approach the final stages of the first wave of master trust authorisation, the shrinking of the market has been stark.

From a substantial 83 master trusts before authorisation took shape, The Pensions Regulator has authorised 31, with a further eight still waiting for their fate to be revealed, at time of writing.

The number is even smaller that the regulator anticipated, after it estimated that 50 master trusts would be left after authorisation. However, while the standards have been raised, it shouldn't be taken for granted that fewer master trusts means better quality.

Atlas Master Trust head of clients, proposition and strategy, Anish Rav, believes that while the authorisation process has produced a strong level of minimum standards to ensure the protection of member benefits, there needs to be just as much effort in enhancing member outcomes.

What is good?

While the authorisation process has put many schemes through the wringer, and given that many will be undergoing supervision from the regulator once authorised, schemes must not get complacent.

According to Rav, pro-active governance, partnership and member focus are the three key principles that master trusts must not forget.

"Pro-active governance is by far the most important thing as it will drive the future of the service, the value and the experience that the employer and its employees will receive and most importantly the member outcome," he says.

Atlas prides itself on having "world-class governance standards" with a strong member focus, a trait that he feels does not extend itself to the wider authorised world.

"The strength and nature of a master trust's governance structure and approach is absolutely critical. Sadly, many authorised master trusts today do not have the requisite governance structures and processes to recognise and adequately drive enhanced member outcomes."

Pensions and Lifetime Savings Association (PLSA) policy lead for master trusts, Craig Rimmer, also believes that a competent board of trustees is vital for a master trust to operate effectively, noting that a good board of trustees should complement each other in their all-round skills.

"It is important to have a trustee board that has good knowledge all round and is cognitively diverse. We believe that there are four key areas of knowledge – legal/regulatory, investment, actuarial and administration – and four competences – communications/interpersonal skills, commercial acumen, intellectual curiosity, and a readiness to challenge."

Another element, according to Rav, is the way in which the on-boarding of new clients is handled. The master trust undergoes a 'get to know you' workshop with the employer, ensuring that the relationship is formed on a 'basis of knowledge and understanding' that could otherwise get lost in larger schemes.

So if the process of authorisation won't in itself drive up the quality of governance among master trusts, will consolidation help? Is bigger better?

Consolidation is king

The regulator will be the first to admit that one of the main goals of the authorisation process is consolidation, and it's clear to see why.

The recently-published *DC Future Book 2019* highlighted a number of ways in which to increase members' savings into a DC pension pot. Besides members simply increasing their contributions or working longer, consolidation of smaller schemes was also noted.

The research, conducted by The Pensions Policy Institute (PPI) and Columbia Threadneedle Investments, found that a median earner saving 8 per cent of total earnings from age 22 to state pensions age could increase their pot between 6-8 per cent if smaller schemes consolidated and dropped charges, due to benefits of scale.

"The average charge in contract or trust-based schemes with five members or fewer is 0.72 per cent. For schemes with a thousand members or more, the average charge is 0.37 per cent in trust-based schemes and 0.45 per cent in contract-based schemes," says PPI head of policy research, Daniela Silcock.

"According to our research, communication and behavioural nudges that result in increased contribution levels and/or longer working, can have the most significant impact on member pension pot sizes… the same applies to a drop in charges arising from scheme growth or consolidation."

Rimmer, believes that the scale will help drive benefits for the members: "We now have the opportunity to utilise large scale to build well-run schemes that support the saver and all points on their pension journey, from their first contributions to living out their retirement and caring for their beneficiaries.

"The master trust market can now develop and grow the possibility of new super schemes. There is the expectation that there will be a wave of further consolidation further down the track.

"In effect we have seen a halving of the number of master trusts already; we would expect to see more mergers and acquisitions and more exits. It is also possible that we will also see more new entrants to the market."

Hymans Robertson head of DC provider relations, Michael Ambery, agrees: "We are expecting to see a race for providers to win business and establish their credentials. This will almost definitely create consolidation through acquisition."

According to Rav, some master trusts that have achieved authorisation could well find themselves being consolidated over the next 12 to 18 months.

"Some authorised master trusts will feel that they do not want to continue operating as they decide that increased governance and the long-term nature of master trusts is not for them."

Does consolidation drive innovation?

As market consolidation starts to take effect, beyond lowering overall charges for members, it could also lead to innovation in the way DC pension funds are invested.

A recent study by research house Cerulli Associates found that pension consolidation was also forcing smaller asset and fiduciary managers out of the market due to increased competition and fee pressure.

The study, *European Institutional Dynamics 2019: Addressable opportunities for asset management,* found that consolidation will drive innovation in the DC space by opening up a broader range of asset classes in default funds.

"It will be one factor that will act as a driver for increased innovation. Increased membership, increased contributions and the maturing of the master trust book will also act as drivers to more innovation in the sector," Rimmer says.

As a result of this, the government has been looking to open up DC pension pools into patient capital, a move which global business consultancy Oliver Wyman believes could add as much as 7-12 per cent into savers' pots.

While Rav believes it is not consolidation itself that will drive innovation, which will be a by-product of scale and efficiencies, he believes innovation will certainly play its part.

"The interesting question is whether that innovation will be focused on truly driving enhanced member outcomes – or trying to simply impress and please various market-makers, advisers and/or commentators," he says.

Commentators agree that consolidation alone will not drive innovation, as policy initiatives, legislation and technology advancements are likely to be the biggest driver. It is the schemes that can put governance at their heart that will thrive the most.

Written by David Andrews, a freelance journalist

[1] Financial Conduct Authority, February 2019

Shaping the future

University of Leeds associate professor, Iain Clacher, talks to Natalie Tuck about his research on pensions, and what changes he would like to see for the industry in the future

The pensions industry is often criticised for being 'behind the times' on several issues such as technology, diversity and communications. What are your thoughts on this?
I think it's probably fair. I have done research on trustee boards, and so in terms of diversity, it shows the average age of a trustee is about 55. They are generally well educated, they are generally male; a trustee board on average will be made up of 80 per cent white men aged 55-60.

That's not particularly diverse and that leads to problems because you're not going to get diversity on a board where everybody is very similar, and that can potentially lead to some sub-optimal decision making.

If you look at technology and you compare pensions to many other industries then pensions is quite far behind. Look at all the technology we have; things like artificial intelligence is really advancing. Look at what is being developed around blockchain; and while this is all new and emerging, you don't see it being adopted anywhere in pensions. If we look at pensions, innovation in pensions is the pensions dashboard – to call that innovation is quite damning.

The pensions dashboard seems so dated when you compare it to banking?
With banking you're seeing an agenda personalisation, and that means you have real-time access to your finances, you have apps and various other things that can help you, you've got great visualisation on your finances, little nudges, such as rounding up whenever you buy anything. All these little things that sit in financial services don't really exist in pensions. Pensions is very far behind the curve in that respect.

If you look at communications that's another area where you think wow – pension communications is an annual statement that has been simplified to two pages and people still don't understand it. Actually people need something different because you can't really engage with your pensions, and so that creates problems further down the line where people don't understand what they are saving and what they are going to get.

Why are pension schemes/providers so slow to bring in new technology to help with pension communications?
I think that in general pensions is quite a conservative industry and that's a good thing in many respects. If you see somebody come in and disrupt pensions with these types of innovations you'll very quickly see other people come on board. I think a fast second mover is probably quite common in pensions; the problem is you need a first mover.

You have done some research into collective DC (CDC) schemes. What did that focus on? Do these types of schemes have the power to revolutionise UK pension saving?
Yes I do, I am actually a strong believer in CDC schemes because there are many advantages to that idea of collective vehicles and scaling up on the asset side because of the advantages you get, so there clearly has to be advantages to something on the decumulation side. I do think that if you build the system properly then you can make a meaningful shift in pension savings. The generational apartheid of the haves and haves not *[DB/DC]* is really quite stark, and there needs to be something better that comes through for people. If there's not, then we're going to end up with some quite serious societal problems as people age.

Is there a way for CDC schemes to help with balancing the burden of pensions between employers and employees?
The problem with that is people are proposing different models of CDC. I have a paper on one particular model of CDC, which was developed by Con Keating. His model works very well as far as I can see based upon the simulations. However, to get these models into practice and see them start to run then it's really difficult to see whether (UK) CDC works. Some CDC schemes will not work, and some might fail, and some will be better than others. But that's also the state of pensions we have generally, because some DC pensions are better than others, some DB pensions are better than others, so the idea of CDC being

a sort of a panacea and a one-size-fits all and everything works, I don't see as correct.

However, I can see something where there is a better balance between the responsibilities that people face in terms of managing their money, because currently everything is pushed onto the individual and I think there are ways in which you can probably help people make better decisions. So employers I think will put in the money but I think the way in which the scheme runs could be done in such a way that there is much greater support of the people receiving the pensions.

Blockchain technology is gaining traction in the financial sector. From your research, what role do you think it has within the pensions industry?

Yes, the CDC work I undertook actually looked at a blockchain-type system to run the scheme on. Blockchain is not the right description for what you would want but it's the technology that is most relatable in this area. However, what we were interested in was smart ledgers and smart contracts. If you think that people paid money into a pension 30 years ago and they don't even realise that they've got a small pot sitting somewhere, that's lost within the pensions administration system and that is not efficient. Having a blockchain-type solution via smart ledgers and smart contracts, means that you know exactly where everything is because it is in an immutable ledger and so things don't get lost. So people could keep all their small pots and they could even aggregate them at some point given the quality of the data that such a system would generate.

The other thing that a blockchain-type solution brings is increased governance and accountability. Because many of the decisions that are made in pensions happened a long time ago, we don't quite understand the rationale and reason for why a particular decision was made. From a trustee governance perspective, having such decisions recorded on a system is very powerful. Having that kind of system also means you can have a macro view of the scheme and all the different people in it and you can also have a micro view of the scheme and create a dashboard for an individual. The idea of being able to aggregate and disaggregate without much effort I think is really quite compelling.

How do you envisage pensions communications will look like in the future?

What I would like to see is communications and advice starting to merge together. Communications can be very sophisticated, it can be really appealing and intuitive. But as it stands now, if you put in a request to your pensions manager on some sort of basic query you would be lucky if you got a reply within two weeks. That idea of having some sort of integrated system where you can query, you can ask questions, and you don't get decision-tree type answers, and you get specific answers to the context that you're in, I think is very powerful. It would be an artificial intelligence that could reason; a basic version is 'well people like you made this decision', but that doesn't make it the right approach where everything is comparative – it should be tailored and it should be personalised. However, if you can have an interface that can reason, it will bear a much closer resemblance to financial advice, which is what people need.

In half a century's time, how much do you think will have changed within pensions? Will pensions even exist?

If pensions looks like it does today in 50 years then there has been a failure of the public, from government, the private sector, from academics, and anybody that you can think of currently involved in pensions. What I would hope to see are solutions for retirement that suit people's needs that are fairly priced, and that people can get the support and guidance that they need. What people actually want is relatively simple; they want to save money and be reasonably financially secure in retirement. The fact that we've not arrived at a point where we can do that yet, I think, is really quite telling.

Written by Natalie Tuck

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Pensions Age Autumn Conference 2019 review

The Pensions Age Autumn Conference heard from an extravaganza of experts within the industry on the future of pension policy, investment strategies and regulation

The exquisite Waldorf Hilton on London's Aldwych once again opened its doors to the pensions industry for this year's Pensions Age Autumn Conference, which has established itself as a must-attend event in the UK pensions calendar.

Pension trustees, scheme managers, CIOs, advisers and providers came together at this historic venue to learn and network alongside their peers at one of the most stimulating times in UK pensions history.

With pensions policy continually evolving, The Pensions Regulator (TPR) constantly reviewing its priorities in response to market events, new investment strategies being developed to assist pension funds to meet their differing needs, and a whole host of disruptors entering the pensions space, there was certainly no shortage of topics to be addressed on the day.

Long-standing pension scheme trustee and chairman of Stamford Associates, Roger Cobley, who was moderator for the event, opened with the introduction of the first keynote speaker of the day, ABI director of policy, long-term savings and protection, Yvonne Braun.

It has been said that the cement on British pension policy never dries. Braun explored this statement with a look at what might be next for pensions policy. She offered a thought-provoking insight into the ABI's perspective on what needs to happen for the pension sector to not only earn the public's trust, but to also live up to what should be the main purpose of the industry – securing people's retirement.

The agenda moved away from looking at the future to reflecting on the past, specifically to the history of investment, with M&G Global Listed Infrastructure Fund manager, Alex Araujo, taking delegates on a historical journey with some captivating examples that showcased the enduring nature of infrastructure assets and their ability to deliver inflation-beating returns over the long term.

Araujo went on to explain how listed infrastructure can provide effective diversification for investors' portfolios in an asset class with ample liquidity, and dispelled the myth that defensiveness is its only attraction. The asset class, he explained, is also a beneficiary of powerful thematic tailwinds that will drive long-term growth in income and capital.

"We launched our strategy in the second half of 2017. Last year, 2018, was an example of the defensive characteristics of this strategy – preserving capital in an environment of overall lower equity markets; but 2019 has demonstrated that this is not just a defensive strategy. Because we are investing in businesses that have growth characteristics, we get to participate when equity values move higher and when those opportunities arise," he said.

Factor investing was the next topic under the spotlight, with an insight into the role artificial intelligence (AI) can play in this investment strategy by Quoniam Asset Management senior associate partner, Dr Volker Flögel.

In his presentation, Flögel explained that, while factor investing may be built on foundational research from over 50 years ago, modern techniques have provided investors with a set of tools that has the potential to revolutionise portfolio management. While this may be the case, however, he discussed some of the hype behind artificial intelligence, addressing the question of whether big data is the solution to investment analysis, and explored both the practical and impractical sides of using machine learning to enhance investment forecasts.

He added: "I don't think there will

be a huge disruptive change in the investment management industry – at least not in the portfolio management space. Is AI useful? Yes, because there is a lot of alternative data and unstructured data coming up and to retrieve the relevant information from these types of data, we do need AI-based techniques.

"However, I am very sceptical that we will soon have return models that offer pure return by AI – if you come across these, I would recommend that you be very sceptical and look into the details."

AMP Capital head of global equities, Simon Steele, was next to the podium to discuss how long-term alpha can be extracted from global equities. Steele discussed the types of companies that are best placed to deliver long-term alpha and how to identify long-term alpha opportunities. Steele also brought to light the role of quantitative and qualitative inputs, risk management and significantly the link between ESG and long-term alpha.

"ESG for me is not some new revolution; nor is it a bolt-on to a research process. It actually lives and breathes in everything we do when we are researching companies and looking for good candidates to invest in because it is no different to any other risk or opportunity. It will appear in profits at some stage."

His presentation was then brought to life with an eye-opening real example related to robotic surgery, which he argued is an area that can thrive and survive because it offers real value to the healthcare economy, "not because it is cheaper than a traditional surgical procedure, because it isn't, it just offers much better benefits".

He concluded: "Long-term alpha for me is all about the compounding of cashflows. If we can combine high persistent returns with certainty of outcome and combine that with a pathway to growth, and add lots of patience, then we can unlock the sources of financial alpha, which is very closely linked to shareholder value creation over the long term."

After looking at robotics, the theme of technology also featured heavily in the next presentation but for different reasons. Ferrier Pearce group managing director, Andrew Moffitt, shifted the focus away from the institutional investor towards the consumer, with a thought-provoking presentation on how the consumer landscape is changing as technological development fuels and supports behavioural change.

Moffitt explained: "I have used the word 'consumer' in the title of my presentation today, as it is important that we *[in the pensions industry]* remember who we are talking to – the consumer. This is the person who is online booking their travel, online paying for their utilities. The consumer is experiencing a new reality in every other sector of their consumer life, but is what they are experiencing from the pension industry keeping up with that sort of reality?"

Moffitt then went on to offer a fascinating insight into what the future could look like if pension schemes harness the opportunities available to encourage healthy saving.

"Never has there been a more important time for the consumer, the member to understand the risks inherent in the greater number of choices they have; the greater responsibility they have been given. Also, when it comes to the challenges of communicating, we as an industry are not engaging very well. Registration levels are typically in single figures – there are some exceptions to that, but that is the industry average and when you think about the importance of what it is we are trying to communicate, to have levels as low as that should give us cause to think about whether there are things we can learn from other sectors," he added.

TCW group managing director, Laird Landmann, moved the conversation from the future of pensions to Greek mythology, with a presentation intriguingly entitled *The Odyssey: 10 Years of Credit Expansion.*

The historical presentation explored the impacts of unconventional monetary policy on the fixed income markets and real economy following the great recession of 2008, culminating in an exploration of the risks in the current bond market.

Commenting on what he is seeing in terms of demand from UK pension fund investors, Landmann said: "We are seeing a fair amount of interest in US bonds – the cleanest of the dirty shirts in terms of yield, and obviously in the long duration space we are seeing that. We are also seeing appetite for unconstrained strategies."

He continued: "There are things that we can do in this over-whelmingly pessimistic environment, there are a few opportunities. Overall however we are advising US and UK pension funds to keep their liquidity high, so that when real valuation changes occur – and we haven't seen real valuation changes in a long time – you can react."

The thorny issue of GMP equalisation (GMPe) was the topic of the next session, as Capita client relationship director, Geraldine Brassett, came to the stage to offer pension scheme delegates an insight into how best to deal with the challenges this issue presents.

In her session, Brassett focused on the aspect that she said underpins everything to do with GMPe – data – and explained to schemes how they can tell if their data is equalisation ready; what steps they can take to get them there; and what the most frequent data issues are.

"It is important not to lose sight of what these projects are about – they are about putting the member in the position that they should be in as a consequence of GMPs; there are plenty of complexities and data is one of them because we are going back 20 years when data and record keeping wasn't always as good as it is now."

Looking ahead, Brassett emphasised

the importance of managing risk and starting that process now. "The risk of delivery and the risk of doing it right are both key – if you don't do this right now, you'll be doing it wrong for an awful lot of people. Also, recognise that there is going to be a lot of work for the industry to do, so start thinking about where you want to be in the queue. Finally, recognise there are other reasons to get your data in order – not least because it will make the regulator very happy if you do it", she concluded.

Policy was back on the table before delegates broke for lunch, as Pensions Policy Institute (PPI) director, Chris Curry, gave a detailed presentation outlining the plethora of issues facing pension schemes – DB, DC and state - in the current environment, as well as what might be on the cards for the future.

Curry commented: "One of the big questions is whether pensions beginning to look more like long-term savings? Is there a blurring between the two? We have seen the introduction of new products that are designed to do a little bit of the things that pensions do, alongside other things.

"There is also discussion around potential tax reform. One part of the government is very interested in getting more flexible pension savings products under the pension theme to help support retirement. We know that individuals' lives are changing, the way we live our lives is changing and the way our children will live their lives will change even further. What does this mean for the future? Does our current pensions framework work in a world where people want a much more flexible lifestyle?"

After lunch, the hot topic of cashflow management was raised, with AXA IM's head of fixed income portfolio solutions, Sébastien Proffit, and senior consultant relationship manager, Hershel Pant, joining forces to look at some key considerations for pension funds that increasingly need to be cashflow aware.

They reflected on a number of important long-term issues, to include liquidity, ESG and end-game awareness and how the value chain is adapting.

Pant enthused: "The hunt for cash is on as we speak. Some of the schemes in the room will have already started this; a lot of schemes have some sort of strategy in place, but a majority are using asset disinvestments or taking some degree of market-timing risks when they are funding their cash, and very few have used cash-flow matching or are cashflow aware. What this means is that very few people are designing their portfolios for matching the pensions that they have to pay out."

Improving governance and member outcomes was the focus of the next session, with a practical presentation from Evolve Pensions' director of strategy, Jessica Rigby. She used her experience of going through master-trust authorisation to offer guidance to trustees, particular of smaller schemes, who may be looking to improve the running and overall governance of their schemes.

"One thing that people are often guilty of is over-complicating things – we sometimes need to take a step back, create some brain space. Schemes can do this by looking at some of the simple processes, simple ways in which they are operating their scheme; going back to basics but scratching at things a little bit."

Rigby suggested, for example, asking questions around the trustees who are involved with the pension scheme: "Continue to review and assess the trustee board and don't be afraid to be honest with the other people in the room about competence on the board." Similarly, she highlighted the importance of asking questions around your advisers. "Have you set expectations for your advisers? Are you making the most of those annual reviews?

"Through master-trust authorisation, we have really had to have an open and honest look at ourselves and then give that evidence out – we now feel very comfortable that the policies and the processes, the people and the finances have been scrutinised within an inch of their lives. If the regulator is going to go into that much detail with master trusts, you can bet at some point it is going to do the same to smaller schemes too."

The closing keynote speaker of the day was worth the wait, as TPR director of legal services, Anthony Raymond, provided an update on TPR's recent activities and priorities, including its new supervision and enforcement work and what it means for the regulated community. He also addressed the future of trusteeship and combatting scams.

He began his presentation, however, by thanking the trustees in the room: "Thank you for all the work you do to make financial futures of savers sustainable and secure. We at TPR welcome and recognise the diligence and professionalism and dedication that you bring to trusteeship."

He further explained that TPR has ranked up its activity and realigned its resources; has responded to a changing landscape and is putting savers first. He added: "There will be further changes ahead – we know for example that the broader economic outlook for the UK is uncertain and at the moment predications are impossible. We need to further cement the investment risks and opportunities relating to ESG factors in the minds of trustees. ESG is something which the regulator has a particular focus on around climate change risk.

"Superfunds, CDC and AE contributions are also all on our agenda, and we look forward to working with the industry in discussing these issues," he concluded.

All in all, an informative, educational and thought-provoking day.

For our next event, our Western Conference, held on the 31 October in Bristol, please visit: **www.pensionsage.com/westernconference/**

Sustainability Guide 2019:

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Necessary overload

The Pensions Regulator's (TPR) new trustee requirements came into force at the beginning of this month to ensure that trustees disclose how they are integrating sustainable investment principles into their strategies. Jack Gray investigates what this means for trustees, the challenges it presents and whether this is one regulation too far

Summary

- Since TPR confirmed the changes in sustainable investment disclosure policy in June, trustees have been urged to prepare themselves or risk falling foul of the new regulations.
- Some believe that the guidelines are necessary to ensure that pension schemes are moving with the times and doing their bit to tackle climate change.
- However, others think that TPR has overstepped the mark and the changes will result in nothing more than a prescriptive tick-box exercise that catches out trustees.

Since 1 October 2019, trustees have had to abide by new pension scheme investment guidelines, which changed the way they must present their statement of investment principles (Sip). The Pensions Regulator (TPR) has said that the Sip must now include details of trustees' policies on several aspects of their investment strategy, including environmental, social and governance (ESG) factors and stewardship of investments. Trustees are now also obligated to disclose the extent to which members' views are considered when planning scheme investments and the details of arrangements with asset managers. The industry is somewhat split on the guidelines, with some believing it is a necessary step for pensions to keep up with other financial markets, while others think that it will make the job of a trustee unnecessarily complex.

Adapting trustees

Pension scheme trustees are once again having to adapt their practices to make sure they are complying with TPR's new rules.

Ensuring that they are aware of and fully prepared to abide by the regulations could be key to avoiding being subjected to the regulator's interventions.

However, Sackers partner, Ralph McClelland, warns that this is just "one issue for busy pension scheme trustees" and this may just be the tip of the regulation iceberg.

"As with any change of this sort, there's work to be done with scheme boards in formulating beliefs, consulting with sponsoring employers, liaising with managers and advisers, and going through the governance required to agree changes to the scheme statement of investment principles," he explains.

"There is also a real sense in which this is only the beginning of the exercise. Articulating a policy is one thing, but the policy is meaningless if it is not adhered to in practice."

Willis Towers Watson director and head of sustainable investment, Adam Gillett, agrees that there are more trustee guidelines to come, and believes that it is necessary to ensure that the performance of trustees and their schemes continues to progress.

He states: "There's more regulation coming, this is just the thin end of the wedge rather than the end game. They've got to keep upping their game and what is good practice will keep getting a higher bar."

Gillett says that the "most important narrative" of the changes is that this is just the beginning of a journey into creating more sustainable investment practices to help tackle climate change. The scale and urgency of the climate challenge is such that we need to "harness" the regulations and mindset around sustainable finance to achieve worldwide change, he adds.

Higher standards

Higher standards will now be expected of trustees, but they seem to be ready for the challenge. A recent study by Hymans Robertson finds that 70 per cent of trustees are supportive of the changes and 96 per cent feel prepared for their implementation. It appears as if the changes are having the desired effect, with the study finding that 84 per cent of trustees have increased training on responsible investment, while 91 per cent say that they have spent more time discussing sustainable investment in trustee meetings over the past year.

Furthermore, it's not only the trustees that seem to feel positive about the changing guidelines, and some argue that implementing a sustainable investment strategy will benefit members and investors with positive returns. Hymans Robertson's research finds that 49 per cent think that it will improve investment returns, while Newton Investment Management chief commercial officer, Julian Lyne, says that TPR's new guidance "should be viewed as good news for investors of every kind" as ESG factors are "key drivers for the long-term sustainability of companies".

Royal London director of policy, Steve Webb, agrees: "The good news

is the balance of the research suggests that this need not involve sacrificing returns and, in some cases, can generate enhanced performance.

"Those responsible for managing other people's money will need to ensure they are not behind the curve when it comes to taking account of these important issues."

Keeping up with the curve is another reason cited as to why these new regulations are so important. Attitudes towards sustainable finance is changing rapidly as people wise up to the environmental challenges facing the planet.

Gillett believes that new regulations are key to ensuring that the pensions industry does its part in tackling climate change. He says: "We need to pull every single lever we have as individuals and collectively, and regulation is a hugely powerful one of those levers. We should be trying to use it as best we can because we don't have a lot of time and the scale of the challenge is pretty enormous."

Overload

Despite the positives, some in the industry are not as enthusiastic about the changes. Concerns have been cited that the increased requirements are going to increase the already heavy workload for trustees. Some see it as a time consuming exercise that will add to the already complicated legal compliance required of trustees and put people off becoming trustees. Furthermore, although TPR insists that it is not just a tick-box exercise, there are concerns that it could become one as the regulations could be prescriptive and encourage trustees to just be compliant, rather than always having the best member outcomes as their top priority.

"There is a danger that trustees will suffer from intervention overload," begins BESTrustees president, Alan Pickering. "Everything that we do should have at its heart the maintenance or improvement of member outcomes and there's a real danger that process becomes an end in itself and not all of these processes will directly improve member outcomes.

"What's more, the prescriptive nature of some of the interventions is such that we're having to get legal sign-off to make sure that not only are we doing the right thing, but we're doing the right thing in accordance with a prescriptive set of rules. There's a real danger that focusing on a prescriptive process, avoiding falling foul of detailed regulations, can actually be counterproductive.

"If it becomes unduly technical and unduly compliance orientated, I think that quality people are not going to step up to the plate. "

The Pensions and Lifetime Savings Association believes that the new regulations are too all-encompassing and that "TPR should focus on targeting disengaged schemes rather than putting new obligations on all schemes", as most schemes are already well-run and this may impede them in achieving the best outcomes for members.

As with any increased governance exercise, Lyne warns that the ESG risk disclosures are "likely to entail additional costs" and sustainable investments could "potentially impact performance too".

Pickering adds: "That legal sign-off costs money that might be better used elsewhere. I'm not saying to the lawyers 'please make sure members can understand this' I'm saying, 'please make sure that I cover my back'.

"I ought to be glad that we haven't had a government for the past three years, goodness knows how much we'd have to tackle."

Written by Jack Gray

Making pensions last a lifetime

Gareth Collard explores the link between sustainable investments and sustainable pension payments

Sustainability has become a watchword of our times. From climate strikers to governments, sustainability is higher on the agenda than ever before.

For Just, sustainability is at the heart of what we do – but for us it has a dual meaning.

For almost 25 years, individuals have entrusted us to pay their annuities. Since we started DB derisking, trustees and employers have joined them, and we now pay out well over £1 billion of retirement income each year.

With liabilities stretching out 50 years or more, we need to ensure the assets we hold in our portfolios will still be generating income to meet the guarantees we have made to all our policyholders.

To achieve that, sustainability is key.

Sustaining our promises

Economic cycles come and go, but pension promises remain, and our role is to keep paying incomes, regardless of the economic climate. This means making sure our asset allocation will produce the necessary cashflow.

To do this, we employ a technique that has been used by insurers for decades. Cashflow-driven investing entails analysing profiles of our liabilities and the schedule of payments we must make. We then seek out assets that generate a cashflow that's a close match to our commitments and add a buffer for defaults. The closer we can match the liability profile, the less vulnerable we are to changes in interest rates and investment returns.

The assets that best suit this cashflow-matching technique are fixed interest investments. From the moment we buy the asset, we can determine how it supports our income-generating target. Some of our pension promises have inflation benefits so we select fixed interest investments such as bonds, which can be issued with coupons or payments that are linked to inflation. As our pension promises have a certain linkage to inflation, this helps us manage this factor of our liabilities without the need to enter complex hedging arrangements.

We have long-term liabilities and so we need long duration assets. Short-dated, easily tradable, government-issued bonds have their place in insurance-like portfolios such as ours, but the majority of our assets need to last much longer.

Sustaining our investments

Sustainability is at the heart of our investment strategy to meet our long-term liabilities.

Our strategy aims to future proof our assets to ensure they deliver the investment performance we need over the next 50 years.

There are many ways to analyse securities and while some investors consider sustainability and environmental, social and governance (ESG) factors as incidental, we think they are a vital part of fundamental credit analysis.

Looking at the separate components of ESG, each offers specific risks to any potential asset. While governance has always been key to assessing a security, the environmental and social have become increasingly important for investors who buy bonds, with the purpose of matching cashflows.

Using the 'E' and 'S' elements allows us to explore industry-specific risks and look ahead to where problems may lie in future.

There are certain things society will always need. For example, we will always need water and to have our sewage taken away. So, organisations providing these services can be expected to have a secure, long-term future.

But all companies are not created or run in the same way. Using an ESG lens, we are able to examine issuers on a case-by-case basis and critically determine which are likely to go the distance.

Taking motor manufacturing as an example, it is pretty certain that people will still be travelling in 50 years, but how they do it might look very different. Even if a car maker is already taking radical steps to stop selling diesel vehicles and is focusing on producing electric cars, we don't know that the concept of car ownership will still be around in even 10 years' time.

If you are considering investing in a motor manufacturer that doesn't have a plan for what it's going to do after it's switched from diesel to produce only electric cars, vans and trucks, you might conclude that you do not want to lend it money.

There are knock-on aspects to this, too. If car ownership falls dramatically and car sharing becomes the norm, then traffic volumes are likely to fall. This might impact infrastructure assets, such as toll roads, as fewer cars means lower revenue.

Evaluating investment with sustainability at the focus throws up plenty of questions that may not have previously considered and helps us to be more confident identifying companies that have a long-term future.

Sustaining the future

We were one of the first institutional investors to pull out of the tobacco sector at a time when it was seen as a 'cash cow' by many of our peers.

In our view, along with the moral argument, we took the pragmatic stance that the tobacco industry did not have a future and this was a risk to us.

A few years on from this decision, the world of tobacco has clearly changed. In the west there has been a huge decrease in smoking, and even the safety of vaping is being questioned.

Now, many people see tobacco investment as a financial risk that they did not identify in previous years, when those of us who were looking at it through an ESG lens had long held this view.

Let's be clear on something though – we are not attempting to be a green fund.

For example, if we identified an issue with the governance of a company, we'd investigate what actions it was taking to resolve these rather than immediately selling its bonds.

Importantly, sustainable investment is not just about screening out what we cannot invest in – it is about finding new opportunities.

Sustainable opportunities

We hold about £400 million of investments that target energy generation infrastructure, and this is set to grow.

For example, we own a significant amount of the private debt issued against two large windfarm projects operating in the waters off the UK. Although it is technically not a bond, the fixed interest coupons match our liabilities nicely. We are also invested in some solar power operations in Spain.

We were the first pension insurer to sign the United Nations Principles for Responsible Investment and are working through our entire portfolio to see where we can make improvements using a sustainability and ESG lens.

The Just Group board and investment team are embracing this transition towards a fully sustainable future, not just because it is the right thing to do, but also as it is the most financially prudent approach.

We are in the early stages of embedding sustainability to analyse our investments. We have improved the level of due diligence around our fundamental credit analysis and are taking a more systematic approach to the analysis of the risks associated with sustainability.

The challenge for us, as for all pension funds and insurers, is finding and securing assets that will last the lifetime of our beneficiaries. As responsible investors, we understand the best way to fulfil that need is to consider sustainability when evaluating investment decisions.

We want to help people enjoy a better later life. Sustainability can help us deliver this for all our policyholders: securing their pension benefits in a world they want to live in.

Written by Gareth Collard, chief investment officer, Just

In association with

A strong bond

Paul Brain and Scott Freedman explain why a sustainable approach to bond investing could boost returns and reduce risk

At a time of significant economic and political uncertainty in which we anticipate that growing government debt levels will crowd out other capital requirements, we believe that a dynamic and unconstrained investment approach is a sensible and effective one for fixed-income investors. Such an approach can take advantage of a broad bond universe, and be allied with a disciplined focus on capital preservation and the positive sustainable credentials of potential investments.

There are two key ways in which bond investors can lose money: through rising interest rates and through bond defaults. We believe there are plenty of indicators that the economic outlook is deteriorating, and as a result, the threat of rising US-led interest rates has reduced for now. However, given the lower economic growth we anticipate over the next couple of years, we would expect to see both default rates and the cost of debt rise. In our view, this environment heightens the importance of taking an active and sustainable fixed-income approach.

Effectiveness of an ESG approach

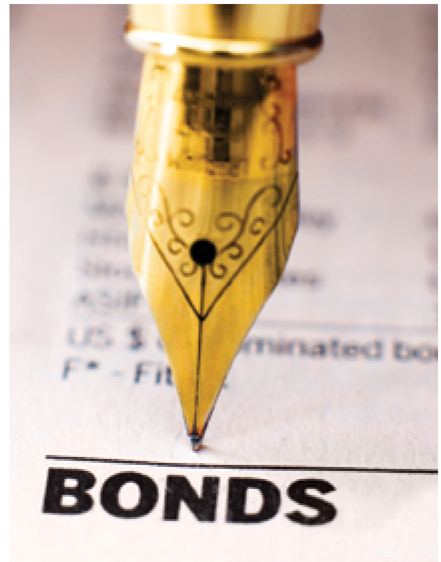
It is broadly accepted that a higher credit rating is beneficial in that it reduces the perceived risks surrounding a company or a country, and allows a would-be investor to make an educated judgement on the risks and opportunities around the investment case. Consequently, the higher the credit rating, the lower the rate at which a company or country is able to borrow at, as it is considered a less risky investment.

There is a growing body of evidence that proves that the performance of a fixed-income portfolio can be enhanced by applying a rigorous sustainable lens to the bond-selection process – employing environmental, social and governance (ESG) analysis alongside conventional financial metrics. We expect that over time, as with conventional credit ratings today, an issuer's cost of borrowing will increasingly be influenced by its ESG quality score.

In its 2018 fixed income study, Barclays found that tilting a credit portfolio in favour of bonds with strong ESG credentials tended to lead to better performance versus those portfolios that had a low MSCI ESG rating. Indeed, it highlighted that a high MSCI ESG portfolio score led to a 45 basis point overall increase in bond performance, with governance factors proving to be the biggest contributor, adding 123 basis points of outperformance.[1]

If we turn specifically to the European high-yield bond sector as an example, a sector that may bear the brunt of a rise in default rates as the economic cycle worsens, it is no coincidence that the weaker the MSCI ESG rating, the worse or more volatile the bond's return. It is especially true in a fixed-income context that avoiding the losers is at least as important as picking the winners.

As well as seeking to access improved performance and avoid defaults, in our view sustainable bond investing can provide investors with the opportunity to direct their fixed-income investments towards a range of positive impacts. ESG factors have already been proven to have a positive material impact on a company's



financial profile, and we believe in-depth analysis of ESG considerations, alongside issuer engagement where appropriate, can help to enhance long-term investment opportunities in this growing sector.[2]

Finally, for those still concerned that taking a rigorous responsible approach to bond investing might impair potential performance, we believe there are at least six compelling factors as to why bond investors should consider such an approach. They are listed below:

1. Positive impact

Bond investors have the ability to provide financing for a range of socially- and environmentally-beneficial investments that are not available to equity investors. Examples include supranational development agencies, green bonds, social housing, and other not-for-profit organisations.

2. Engagement

Bondholders can still engage even though they do not get a vote. They may hold less influence with large public companies than equity investors do, but they represent the only external investor influence that can be brought to bear on private companies, who are often more reliant on debt-capital markets to sustain and grow their businesses. Better assessment of (and sometimes influence on) a company's management of ESG risks and opportunities should, in our view, provide the potential to deliver a more rewarding investment for clients. Investing across the capital structure means that as bondholders, we can also harness the engagement activity of our equity colleagues where we own both the bonds and equity of an issuer, and where companies may be less receptive to bondholder engagement given their wider capital-market access.

3. Risk mitigation

ESG factors can have a material impact on a company's financial profile and, as mentioned earlier, there is a growing body of academic research supporting this view. The inclusion of ESG factors within credit analysis enhances risk mitigation, which is particularly important given the asymmetric nature of bond returns. We believe responsibly managed companies are best placed to achieve a sustainable competitive advantage and provide strong long-term investment opportunities.

4. No detriment to financial returns from lower sector weightings

Owing to the nature of sustainability-focused investing, some sectors are likely to have an inherently lower portfolio weighting in some responsible fixed-income strategies.

At Newton for example, our sustainable equity and fixed-income strategies have adopted a 'red lines' approach of excluding investments in violators of the UN Global Compact, and in issuers that are incompatible with a '2-degree world', which means that we have little or no exposure to some sectors such as energy, defence and tobacco. However, the opportunity cost of this is limited in a fixed-income context, given lower sector concentrations and the lesser upside potential of bonds compared to equities.

The global investment-grade and high-yield corporate bond indices total around $12.3 trillion in size before exclusions. A soft exclusion of defence, alcohol and gaming companies, along with our proprietary 'red lines', reduces the available investments by just under 20 per cent, leaving a still sizeable universe totalling $9.9 trillion.[3]

5. Robust sustainable fixed-income investment process

We believe investors should consider fixed-income investors that are experienced in in-depth ESG analysis on all corporate and sovereign-bond holdings, and that have the support of an established responsible-investment team with a longstanding ESG heritage.

6. Transparency

We believe it is important to select a bond investor that is as transparent with its clients as it would wish its investee issuers to be with it, so publishing detailed quarterly reports of all fixed-income engagement activities should be an important priority.

Conclusion

We are entering a market phase of considerable economic and political uncertainty, in which we believe the returns derived from fixed income are likely to become less correlated with other asset classes – and thus less predictable – as we see a gradual shift away from quantitative easing to fiscal easing.

We anticipate that, under such an economic and monetary-policy shift, government debt levels are likely to grow at a time when economic growth is likely to slow. In this environment, we would expect default rates to rise and access to cheap debt to become more restricted. To us, this is when a dynamic and unconstrained investment approach which accesses a broad bond universe can come into its own, especially when combined with the added rigour of a disciplined focus on capital preservation and the positive sustainable credentials of potential investments.

Companies with higher ESG ratings have been shown to outperform their lower-scoring peers, so in our view an active, responsible bond strategy should be well positioned to weather the changing market backdrop when compared to a more passive option, which could be locked into a narrow index with increased potential for incurring a capital loss.

Written by Paul Brain, leader, fixed income, and Scott Freedman, portfolio manager, fixed income, Newton Investment Management

In association with NEWTON Investment Management

[1] Source: Bloomberg Barclays Indices, MSCI ESG Research, Barclays Research, October 2018.
[2] ESG and Financial Performance: Aggregated evidence from more than 2,000 empirical studies, Journal of Sustainable Finance & Investment (Friede, Busch & Bassen), 2015.
[3] Source: Newton, ICE BAML Bond Indices, 5 April 2019.

Impact investing – for people, planet and pensions

Aon's Tim Manuel, UK head of responsible investment, explores the drivers and benefits of impact investing, a fast-growing area

The need to address major environmental and social issues, including the climate crisis, resource scarcity and demographic changes, is driving a worldwide industrial restructuring and shifting the basis of competitive advantage among companies. This is leading trustees to reconsider their approach to investing. Many are asking how they can address some of world's most pressing environmental and social challenges through their investments while continuing to deliver competitive returns they need get the best outcomes for their members.

Impact investing offers one way to do this. Designed to deliver investment returns and positive impact for people and the planet, it differs from traditional investment approaches in these ways for trustees:

- Impact investments must have an explicit intention to drive specific positive social and environmental change
- As well as measuring returns, investments are also measured by the progress they have made towards the stated environmental and social aims.

The potential benefits are considerable, which explains why this is one of the faster growing segments of the responsible investment universe. From a recent survey by The Global Impact Investment Network (GIIN), impact allocations to public equity grew at the second fastest rate after real assets.[1]

The financial case for impact investing

As global megatrends make the future look very different than today, investment managers with the ability to identify and act on environmental and social challenges are likely to have a fuller understanding of companies' true risk and opportunity profiles. Identifying and investing in companies that are better positioned for the future will result in better odds of achieving improved financial performance over the medium and long term.

Early adopters of impact investing may also benefit from a positive tailwind to returns over the short to medium-term. Increasing regulation and policy actions, coupled with megatrends and concerns over transparency, are beginning to influence investor preferences, leading to increasing demand for a smaller universe of highly-rated sustainable investments and reducing demand for lower-ranked companies. This could lead to strengthening valuations for sustainable investments, driving valuations higher and supporting a return premium over the near term.

Further positive spillover effects, which benefit all stakeholders, flow from being part of the solution. Companies with a positive impact on environmental and social outcomes, mean they are better positioned to bolster economic and market performance, while fewer risks materialise than would otherwise be the case. This can result in a virtuous cycle that helps everyone, including trustees and their members.

Opportunities to deliver impact

Impact initiatives can range from very specific objectives, such as a desire to improve the lives of certain demographic groups, to broader initiatives, encompassing a range of global issues. Climate change and natural disasters, concerns around nationalism and protectionism, and socioeconomic inequality emerged as the top three issues keeping investors awake at night in Aon's 2019 report *Global Perspectives on Responsible Investing 2019*.[2]

The full breadth of impact opportunities is being most commonly captured using frameworks referencing the Sustainable Development Goals (SDGs) developed by the UN.[3] In 2015, the 193 member-states of the

Source: The Investment Impact Framework[4]

United Nations developed and adopted the SDGs, which have subsequently gained significant traction. Trustees and the wider investment community increasingly view the SDGs as guidance for a list of deserving goals, which trustees can choose to address broadly, or select the specific goals most important to them.

Achieving and measuring impact

Although implementing impact strategies sounds attractive, ensuring capital has a positive impact is not always straightforward. It is important to understand the type of companies, products and services that are material to impact goals. Deciding which metrics to use to measure impact also presents a challenge – easy solutions are not often apparent.

The investment and academic communities are working hard to address this. The University of Cambridge Institute for Sustainability Leadership (CISL) Investment Leaders Group, of which Aon is a member, has developed The Investment Impact Framework.[4] This identifies six core goals that align with the SDGs, including three environmental goals and three social goals, and measures progress towards meeting these goals using simple metrics.

In this framework, each of the six goals has been given a basic metric (see dashboard opposite), and each one is colour-coded to indicate the quality of contribution to the SDGs, ranging from green (very positive) to red (very negative). This enables trustees to check their alignment to the SDGs in a meaningful and consistent way.

Frameworks such this as are expected to play a valuable role in the development of ideal quantitative metrics for impact investing in future. Additionally, qualitative assessments will have a role to play in building a holistic view of impact investments – qualitative scrutiny of individual investments can lead to an improved understanding of the underlying investment rationale, impact and sustainability challenges.

Looking forward

Positive sentiment, interest and regulation around responsible investing is continuing to grow.[5] In turn, impact strategies are set to become an increasingly important part of trustees' future investment considerations. For many, the ultimate question will be how to implement these strategies.

Our work with clients has shown it is important to engage as early as possible: to build understanding of the range of opportunities, challenges, and different ways to introduce impact investments to their portfolios. The potential for financial rewards and risk mitigation, while making a positive contribution to environmental and social challenges, makes this a compelling proposition for all pension scheme stakeholders.

For more information on responsible and impact investing, visit aon.com/responsibleinvestment or contact me at timothy.manuel@aon.com.

Written by Aon's UK head of responsible investment Tim Manuel

In association with

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[1] The Global Impacting Investment Network (GIIN). (2019, June). *2019 Annual Impact Investor Survey*. New York, USA: The Global Impacting Investment Network

[2] Jones, M. (2019). *Global Perspectives on Responsible Investing 2019*. London: Aon.

[3] Sustainable Development Goals (2015). *About the Sustainable Development Goals*. [online] Available at: https://www.un.org/sustainabledevelopment/sustainable-development-goals/ [Accessed on Friday 27 September 2019]

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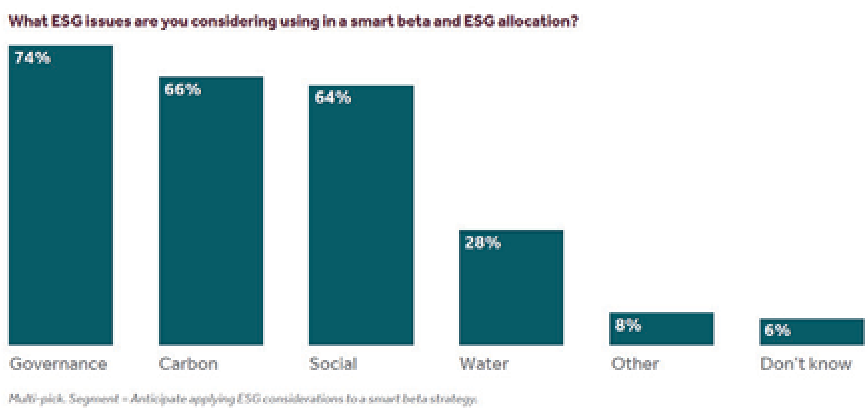
The rise of smart sustainability: Size matters. Location matters

Henry Odogwu explores the growing interest in blending ESG with smart beta



Source: FTSE Russell. Smart beta: 2019 global survey findings from asset owners

Our latest annual survey of global institutions' use of smart beta shows a rise in smart beta adoption among asset owners and an increase in combining smart beta strategies with sustainability parameters.

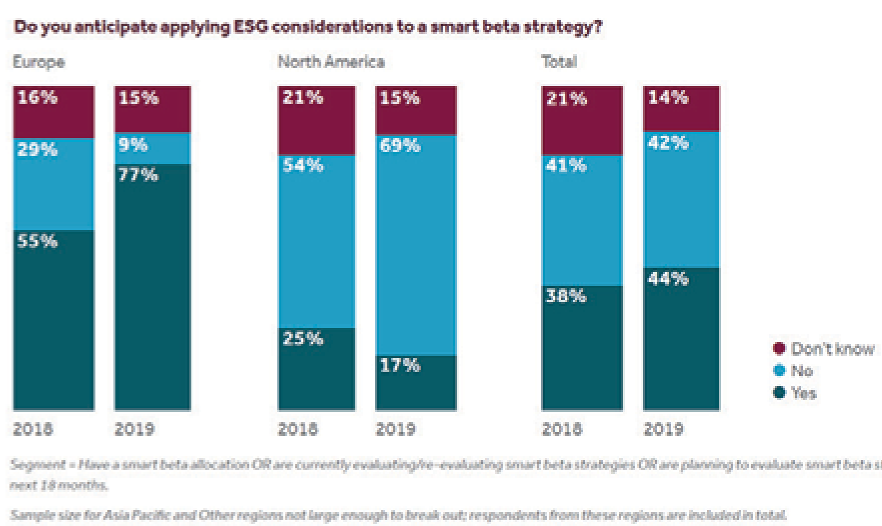
We've noticed rising interest in the blending of ESG and smart beta in recent years, an approach we call 'smart sustainability'. So, this year we produced a separate report to explore the motivations and regional differences in the application of ESG to smart beta.

Overall, of respondents using and/or evaluating smart beta strategies, only 42 per cent have ruled out applying ESG considerations to their smart beta strategy of choice while nearly half (44 per cent) are actively considering doing so. Governance, carbon, and social considerations were all commonly cited among respondents, suggesting a growing sophistication with the use of ESG risk management tools.

But the upward trend is not universal. We found a size bias in appetite for ESG and smart beta combined strategies. Fifty eight per cent of larger organisations (but only 30 per cent of smaller ones) are looking to increase their allocation over the coming years. And only a tiny minority (4 per cent) of larger funds ruled out increasing allocations to ESG and smart beta. This seems logical: larger institutions tend to have the resources to investigate and often allocate to newer fund strategies before their smaller peers.

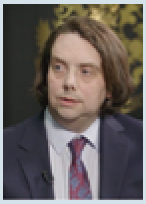
We also found a geographical imbalance in appetite for smart sustainability strategies; In Europe, 77 per cent of European asset owners expressed interest in applying ESG considerations to smart beta (up from 55 per cent from 2018), while 17 per cent of North American asset owners indicated similar interest (down from 25 per cent on 2018).

We think Europe's lead in incorporating ESG into smart beta strategies may reflect the changing regulatory context with European regulators encouraging greater disclosure by both companies and investors. There have not to date been similar



Source: FTSE Russell. Smart beta: 2019 global survey findings from asset owners

Mersey's long horizon:



Why pension schemes can lead on climate change

At the beginning of this year Merseyside Pension Fund adopted a FTSE Russell smart sustainability index, the FTSE All-world Climate Balanced Comprehensive Factor Index. The long-term investment time frame that pension schemes take poses enormous challenges but can also lead to innovative investment approaches to difficult issues. In this section of the article we hear from Merseyside Pension Fund (MPF) portfolio manager, monitoring and responsible investment, Owen Thorne, where he explains how the fund approached the climate change challenge.

How long has addressing climate change been an issue for the scheme?
As one of the larger pension schemes in the UK, we have consistently taken a progressive role in active stewardship and engagement on ESG issues, and we have had a long-standing interest in climate change. Recently it's been apparent that the rate of climate change is accelerating; the global transition to a low-carbon economy and a more sustainable future is well underway, and the policy responses towards climate change are accelerating, too, so it became incumbent on us to take account of these macro trends at an inflection point in the world of responsible investing.

MPF stakeholders have been strongly supportive of the view that ESG factors are financially material and that their integration in investment strategy is consistent with fiduciary duty. But it's fair to say that the Paris Agreement was a turning point in terms of a realisation that action on climate change needed to be larger scale and targeted at both risk and opportunity. At that point, it was determined that the fund's responsible investment policy be brought into line with the goals of the Paris Agreement.

The direction of travel on responsible investing (RI) and environmental, social and governance (ESG) issues in UK and Western Europe is clear: regulators are acting. This affirms our view that urgent action on climate shaped by a policy response to Paris (however mixed) was a much more likely scenario than an ongoing business as usual scenario.

How did you address this investment challenge?
Paris was a strong factor in persuading us to undertake a strategic review of our exposure to climate-related financial risk; and to consider decarbonisation plans in mitigation. Throughout the process we consulted with a cross-section of internal and external stakeholders of the fund. It was clear to us that the global transition to a low-carbon economy and a more sustainable future was well underway, and seemed to be accelerating. It was also apparent that our approach should not compromise on our ability to deliver investment returns while managing climate change risk.

Because of that review, we allocated a third of passive equities in our £9 billion portfolio to a low carbon index-based strategy, with a tilt to a number of equity factors. The index achieves our targeted reduction in carbon emissions intensity and fossil fuels reserves, but also increases exposure to 'green revenues', and over time we expect will generate a return in line with or ahead of the market.

Does climate change pose a problem for pension schemes like MPF, which operate with very long-term time horizons?
As a pension scheme open to new members, we are aware that those new members could be participating in the scheme for a long time, creating pensions liabilities 80 years into the future, which must be funded.

We therefore must operate with very long time horizon. For MPF, 2050 is not that far along in terms of our event horizon. And our existing liabilities to pay pensions to our members exceeds beyond the year 2100. That's how long-term we have to be in terms of looking at liabilities and risks, which of course include the systemic risk posed by climate change.

regulatory developments in the US, although Canada is moving ahead and has established an expert panel on sustainable finance to advise the government.

Regardless of implementation differences across regions, assets owners globally who anticipate applying ESG considerations to a smart beta strategy are doing so for investment reasons. More than three-quarters are motivated by avoiding long term risk as compared to a little over half of respondents last year. But it's clear that adoption is happening at different speeds in different market sectors.

Written by By Henry Odogwu, managing director, head asset owner & consultants, Europe, FTSE Russell

In association with FTSE Russell

Transforming ESG from a tick-box into a mindset

Girish Menezes considers how pension scheme admin, and the administrators themselves, can become more environmentally friendly

As a pension administrator, clients are increasingly asking me about my firm's environmental and people strategy. These tend to be more along the tick-the-box vein than in-depth enquiries into the companies ethical behaviour. However, an increasing number of trustee boards have ESG on their radar and pension administration is under the spotlight, both in terms of the services provided and the administration company itself.

Trustees and pension managers are slowly buying into the programme. Most schemes have now moved from monthly paper payslips to a single payslip annually and then only on a significant change. Benefit statements are next in the line of fire. Schemes can create video versions, as well as add 'what if' interactive functionality to bring them alive (for example, the impact of increasing DC contributions by 1 per cent).

Administrators are now driving members toward member websites for retirement quotations, updating addresses or requesting Divorce Sharing Orders. Many of these functions can be fully automated, saving time, paper and the carbon footprint of transporting letters around the country. Email addresses and mobile telephone numbers can be captured on first login, enabling administrators to respond with quotations, member newsletters or other communications digitally.

Being a services industry, ESG takes a slightly different flavour to a peer in the construction, pharmaceutical or manufacturing sphere. However, it is still obviously important and most administrators in the industry take these concerns seriously by default.

Pension administration is primarily a people business. Taking on a client, cleaning their data, automating their calculations, taking phone calls, checking system outputs, all require people; administrators who are engaged, capable and well trained. It is critical to have an administration team who feel respected and supported. We should be tracking employee engagement, gender balance, pay scales and gender/age-related pay gaps. Outside of work, is there a social calendar? What is the percentage representation from the team at such social events?

Most of us reduce, reuse and recycle and our organisations do tend to get rid of personal waste bins, have communal recycling stations and have lights that automatically switch off when there is nobody in the room. Environmental concerns often have pleasant financial benefits with reduced electricity bills, lower printing costs and so on.

It is a slow journey, converting people, whether employees, members or trustees, from an ESG tick-box to a mindset. The polar bears will thank us though and so will our chief financial officers.

Written by Pensions Management Institute Advisory Council member, Girish Menezes

Company Profiles

Just

At Just, we launched our defined benefit de-risking solutions in 2012. Since then we've gone on to support a number of trustees and schemes of all sizes, combining our standard and medical underwriting expertise with excellent customer service.

So far, we've completed over 170* transactions and secured benefits for over 27,000* members and policyholders to help them enjoy a secure and fulfilling later life. We manage an annuity asset portfolio of over £20bn*, including over £5.7bn* of DB assets.

Our standard and medically priced de-risking solutions deliver choice and potential value for trustees and sponsors. We're the only UK insurer actively pricing bulk annuities on a medically underwritten basis.

We were named Risk Management Provider of the Year at the Pensions Age Awards 2019 and Pensions Insurance Firm of the Year at the European Pensions Awards 2019.

Our experienced team is focused on meeting the needs of trustees and your administrators. De-risking is our speciality and our priority is to make your journey from transaction to administration as smooth as possible.

** As at 30th June 2019*

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Newton Investment Management is a London-based, global investment management firm, providing a focused range of investment strategies to public and private-sector DB and DC pension funds, corporations, charities, and, via BNY Mellon, individuals. With £50.1 billion of assets under management (as at 30 June 2019), we run a broad range of equity, fixed-income and multi-asset strategies, and have particular expertise in absolute-return, income-focused, high-conviction and sustainable investing.

We use bottom-up security selection tied with a thematic framework to create and manage strategies that aim to help secure our clients' futures. Our global investment themes are vital to us in providing crucial perspectives on the investment landscape. They identify key long-term forces of structural change, such as changing demographics and a technological revolution, and give us a framework for research and debate.

We integrate environmental, social and governance (ESG) research into our security selection process across all investment strategies, as we believe ESG factors can have a positive influence on the financial prospects of an investment. Our sustainable strategies build on this integrated process by targeting a dual outcome of positive investment returns and positive societal outcomes. Principles-based red lines prohibit investment in tobacco, companies that violate the UN Global Compact's ten principles promoting responsible corporate citizenship, or companies and governments that we deem incompatible with the goal of limiting global warming.

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Aon is an advocate for best practices in responsible investment, and we have spearheaded several initiatives to help provide our clients, and the investment industry, with future insights and guidance on this evolving topic.

Our work in this area includes:

- Implementation of fund manager ESG ratings, providing transparency for our clients on how, and how well, fund managers are integrating ESG risks into their investment strategies.
- Development of deterministic scenarios looking at the potential impact of climate change on pension scheme portfolios and funding levels.
- Creation of a responsible investing framework to establish a standard language and benchmark around common concepts and definitions.
- Partnerships with a number of notable organisations around the world, including being a signatory to the UN's Principles of Responsible Investment (UNPRI); and a partnership with the University of Cambridge Institute of Sustainability Leadership (CISL).
- Development of research and thought leadership to help clients judge whether responsible investment initiatives will be beneficial to their portfolios.
- Researching additional funds and strategies that utilise responsible investment strategies, like ESG integration, impact investing and exclusion strategies.
- Establishment of Aon's Responsible Investment Network, a working group, bringing investors and other industry participants together to discuss developing responsible investment regulations and best practices.

For more information, **visit aon.com/responsibleinvestment**.

FTSE Russell

A leading global provider of benchmarks, analytics, and data solutions across asset classes

FTSE Russell is a leading global provider of equity and Fixed Income benchmarks, analytics, and data solutions across asset classes. Our global perspective is underpinned by specialist knowledge gained from developing local and global benchmarks, and understanding client needs around the world.

FTSE Russell index expertise and products are used extensively by institutional and retail investors globally. Approximately $15 trillion is currently benchmarked to FTSE Russell indexes. For over 30 years, leading asset owners, asset managers, ETF providers, and investment banks have chosen FTSE Russell indexes to benchmark their investment performance and create investment funds, ETFs, structured products and index-based derivatives. FTSE Russell also provides clients with data and analytics tools for asset allocation, investment strategy analysis, and risk management.

With the addition of The Yield Book business, FTSE Russell carries a highly respected analytics platform that is operating in its third decade and serves approximately 350 institutions globally including investment management firms, banks, central banks, insurance companies, pension funds, broker-dealers, hedge funds and investment management firms. The Yield Book's products offer analytical insights into a broad array of fixed income instruments with specific focus on mortgage, government, corporate and derivative securities.

Through its Mergent business, a leading provider of business and financial information on public and private companies globally for over 100 years, FTSE Russell brings about a trusted partner to corporate and financial institutions, as well as to academic and public libraries. With advanced data collection services, cloud-based applications, desktop analytics and print products, Mergent provides solutions from top down economic and demographic information, to detailed equity and debt fundamental analysis.

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Picture by: Shutterstock.com

Due to its member-owned business structure, the Co-op operates its schemes differently to most, with a particular focus on sustainable investing. Jack Gray speaks to Co-op pensions investment and risk manager, James Giles, about the schemes' funding levels, environmental, social and governance investment goals, and de-risking strategies

Sustainably different

Can you give a brief overview of the schemes that Co-op operates?

The Co-op operates five defined benefit schemes, covering 52,000 pensioners and a further 55,000 members who are yet to retire. The largest of these schemes, Pace, has approximately £11 billion of assets and in 2018 was split into two sections, one sponsored by the Co-op Group, the other by the Co-operative Bank, following the recapitalisation of the bank in 2017. Pace itself was formed in 2006 when a number of pension schemes covering the Co-op's businesses merged – the oldest of these dates back to the 1920s. Pace also has a growing DC section for ongoing accrual, which is used for auto-enrolment for both the Co-op and the Co-operative Bank, and which currently has 47,000 active members.

The four other DB schemes range from just over £100 million in size to over £1 billion and have been acquired as the Co-op has grown (including the Somerfield scheme, which the Co-op took on following the purchase of Somerfield in 2008).

Over recent years, the investment strategies for all the schemes have been de-risked and broadly aligned, with high levels of hedging against interest rate and inflation risks through LDI, and allocations to buy and maintain investment grade corporate bonds and secured finance alongside modest allocations to passive equity in some schemes. The Co-op section of Pace also has a specific allocation to long-term, inflation-linked property.

Co-op's most recent financial report showed a £1.64 billion surplus in its pension schemes. How did the company achieve such a strong funding level?

The 6 July 2019 interim accounts for the Co-op show a surplus on an accounting basis, and the aggregate position across the schemes is also strong on an ongoing funding basis (which is used to set contributions and assess the ongoing position of the schemes; as a result this basis is more of a focus of the trustees and the Co-op). This strong position is the result of a number of factors – the relatively high degrees of hedging in place, which have protected the schemes against much of the fall in interest rates over recent years, contributions from the sponsors and demographic changes.

Co-op is structured differently than most companies and does not have shareholders. How does this affect the pension schemes?

The Co-op is owned by its millions of members, rather than shareholders. This means it is able to take a longer-term view with no focus on shorter-term share price movements; being a member-owned organisation, with members having a say in how the Co-op is run, there's also an emphasis on doing the right thing for society and our planet, which has helped inform the pension schemes' responsible investment policies.

Can you explain the Co-op pension schemes' policy to sustainable investment and what it has done as part of this strategy?

Investing responsibly is a key aim of each of the schemes, the Co-op and the Co-operative Bank, and has been an area of engagement from members. Each set of trustees, as long-term investors, worked with the Co-op to develop a policy that reflects the belief that environmental, social and corporate governance factors are expected to have an impact on returns. For transparency we've tried to make our responsible investment policies easily accessible to members on the schemes' websites, along with reporting against how they have been implemented.

In setting the policies, we identified areas of focus aligned with co-operative values and where investment could have an impact – specifically the environment, controversial weapons, corporate governance and human rights. We then engaged with our investment managers to review how they incorporate sustainability when selecting investments, and how they engage with investee companies; on top of this, we apply a set of exclusions criteria for our segregated bond holdings to prevent investment in companies whose actions are inconsistent with our policies.

Earlier this year we reviewed our equity investments, which had been in passive market capitalisation weighted index funds. Aligned with our policies, we switched around £200 million across the DB schemes to L&G's Future World equity index funds, which explicitly consider environmental, social and corporate governance factors when determining how much to invest in different companies through 'tilts' to give greater weight to companies that score well against these criteria (and which exclude investment in companies that persistently fail to address climate change). We undertook a similar review for the DC scheme with the Co-op and the bank and in June, the trustee of Pace moved the default investment strategy to invest in the future world multi-asset fund as it believed that this was more consistent with the values of scheme members and the sponsors, and a more sustainable long-term investment.

Pace was also approached by one of our investment managers with an opportunity to invest in affordable housing through our inflation-linked property mandate – as this fitted well with the Co-op's values and was supported by a strong investment case, in November 2018 we announced a commitment of up to £50 million to affordable housing, which is funding developments at a number of sites across the UK.

The Somerfield Scheme entered into a buy-in with PIC in January 2019. Can you describe the terms of the deal and the process?

Given the steps taken to reduce investment risk in the Somerfield Scheme in particular over recent years, with a relatively low allocation to equities and high levels of interest rate and inflation hedging in place, the trustee and the Co-op recognised that longevity risk was the largest single residual risk the scheme was exposed to. Working together with advice from Aon, the scheme approached the market in mid-2018 to get quotes for a buy-in policy to cover the majority of pensions in payment at that point. Quotes received were narrowed down to a short-list of three, and following a due diligence process, Pension Insurance Corporation (PIC) was selected in November on the back of attractive pricing, its administrative track record and its strong reputation.

As part of the insurance contract we agreed the assets that would be transferred to PIC – a basket of gilts and cash – and in December 2018 we restructured the scheme's LDI portfolio to hold this 'price lock' portfolio, and at the same time rebalanced the remaining assets to ensure the desired levels of interest rate and inflation protection remained for the un-insured liabilities. As a result we were completely protected against any insurance price movements from this point while the contract was finalised and the assets were transferred, at which point PIC were 'on risk' for the insured pensions – this certainty over pricing was something that was particularly important to the trustee and the Co-op.

Why did the scheme decide this (buy-in) was the best way to move forward?

The buy-in allows the trustee and the Co-op to invest in a way that exactly matches the pension payments due to a large number of the scheme's pensioner members (and their spouses). This reduced the volatility of the funding position of the scheme further, reducing the risk to the Co-op of increasing contributions, and improving security for the scheme's members. The trustee considered other options to manage longevity risk, including longevity swaps, but chose a buy-in given the attractive pricing available, the hedging against interest rate and inflation risks that it also provided, and the less complex governance requirements of a bulk annuity. As the buy-in is in the name of the trustee, security is increased for all members of the scheme through the improved stability of the funding level, not just a sub-set of members.

Written by Jack Gray

Lumbering public-sector pension schemes are unsustainable, devouring taxpayers' money and providing over-generous defined benefits long since consigned to history in the private sector, say their critics.

But is this is too facile a view? "It is all too easy to fall into the trap of considering the sector as one giant amorphous blob," says PLSA head of DB, LGPS, and standards, Joe Dabrowski. "There are significant differences between funded schemes – the vast bulk of which is in the Local Government Pension Scheme – and the wide range of other unfunded public sector schemes such as NHS, police and teachers. The sustainability of the schemes can vary enormously."

Major reforms

The Public Service Pensions Act 2013 brought in major reforms to the six largest public-service pension schemes in the UK – the pay-as-you-go schemes for the armed forces, the civil service, NHS, teachers, police and firefighters and the funded Local Government Pension Scheme. Key changes included pension benefits being based on career average revalued earnings (CARE); a pension age linked to the state pension age for teachers, local government, NHS and the civil service; and a pension age of 60 for members of the schemes for the police, firefighters and armed forces. Active members of the schemes prior to April 2015 (2014 for local government) were transferred onto the new schemes, except for those covered by transitional protection for those 'closest to retirement'.

In addition, public-sector pensions in payment are now linked to the CPI rather than RPI.

These reforms have made a substantial impact and are projected to cut spending on public-service pensions, from around 2 per cent to below 1.5 per cent of GDP, over the next 50 years, according to House of Commons Library research. But this figure is hotly contested.

Summary

- The pension reforms stemming from the Public Service Pensions Act 2013 were not radical enough, some claim.
- The LGPS is in relatively good shape but the other public service unfunded schemes are unsustainable unless UK GDP zooms ahead.
- On such contentious issues no significant changes are likely for several years.

House of cards?

The public sector is the last bastion of defined benefit pension provision in the UK. But is this crumbling edifice in danger of toppling? Stephanie Hawthorne reports

LGPS is shipshape

The funded LGPS is in better shape than the unfunded sector. "It is one of the largest funded and open DB schemes in the world at £275 billion and provides pensions to close to six million members, the average being less than £10,000 a year," says Dabrowksi, adding, "its funding position overall is strong".

Barnett Waddingham, partner, Barry McKay, agrees: "The strong investment returns achieved by LGPS funds over the long term typically pay for around two-thirds of the cost of the benefits, with contributions meeting the other third. The current round of valuations in England and Wales are generally showing an improvement in funding levels, with a number of funds being fully funded, and current costs being stable, although this will vary by employer."

But the unfunded schemes are in altogether a different place.

Smoke and mirrors

The government has been partly sheltered from the DB cost pressures experienced by private-sector employers because of the artificial discount rate used to value and put costs on public-sector pensions. Unfunded public-sector pensions are calculated using the SCAPE *[Superannuation Contributions Adjusted for Past Experience]* discount rate. Mercer chief actuary, Charles Cowling, says this is "now CPI+2.4 per cent a year with the crucial underlying assumption backing the SCAPE rate, the assumed long-term growth in UK gross domestic product (GDP)".

He explains: "This is a much higher discount rate than the private sector uses (typically the private sector uses a discount rate that is less than CPI) and this means that public-sector pensions are presented as being much cheaper (maybe as much as 50 per cent cheaper) than private-sector pensions. Unless the government is going to reduce public-sector pensions in years when GDP growth is less than CPI+2.4 per cent, an ever-growing financial burden is being transferred to younger generations."

LCP partner, Bart Huby, agrees that these costs have not been transparently assessed or clearly recognised in the public finances.

"Depending on how you measure them, the UK currently has unfunded public-sector pension liabilities of close to £2 trillion – these are financial obligations that will have to be met by future taxpayers, in the same way as the interest and capital on gilts, but they do not properly form part of recognised public-sector debt," he states.

Insufficiently radical

In some areas, the reforms were less than ideal. Huby points to the overall

cost/generosity of benefits: "In order to compensate for the move to CARE and the increase in the retirement age, the government agreed to increase pension accrual rates, in some cases substantially – eg in the Civil Service Scheme, to 2.32 per cent, an increase of nearly 40 per cent compared with the previous pension accrual rate of 1/60th."

He adds: "Substantially higher member contribution rates have meant that significant numbers of potential members (reportedly 16 per cent in the NHS pension scheme) have opted out, and so are not in fact building up a pension."

There is also more complexity, with Huby pointing to "different post-2015 arrangements being put in place for the four main public-service schemes (Teachers, Civil Service, NHSPS and LGPS) with different accrual rates, CARE revaluation rates, member contribution rates, and transitional arrangements.

"The transitional arrangements, which protected older employees close to retirement – have now been deemed age-discriminatory *[due to the recent McCloud ruling]*, with a potential extra cost to the public purse of around £4 billion."

Following the ruling, public-sector pensions are subject to a great deal of flux and uncertainty, Royal London's director of policy, Steve Webb, believes. "The government will have to revisit its reforms, possibly reversing the recent cuts and then reintroducing new cuts, potentially including those close to pension age," he explains.

The McCloud ruling could also be a catalyst to simplify the 2015 reforms, "potentially onto a uniform public-service pension basis for all main sections of the public sector and to put them on a more sustainable basis," Huby suggests.

One option to reduce the high opt-out rate would be to allow workers to opt for reduced contributions and reduced accrual, but there are no easy answers, says Webb.

"The big problem with closing 'unfunded' DB schemes such as those for teachers, nurses and civil servants and replacing them with funded DC schemes is how to fill the resultant funding gap," he explains.

"This could result in a substantial shortfall, which would need to be made up by general taxation. In short, unwinding an unfunded pension regime and replacing it with a funded regime can probably only be done very slowly."

Unstable equilibrium

Spence & Partners, owner and director, David Davison, adds: "If you go back to 2015 reforms, the genesis of those reforms went back to 2008 or 2009 so there was about seven years of negotiation before there was any impact."

Given the parliamentary arithmetic, Cosan Consulting director John Reeve agrees. "I suspect that the future of public-sector pensions is that they won't change significantly in the future," he states.

But there is clear daylight between the generosity of pension benefits provided in the public and private sectors, which Hymans Robertson partner, Richard Warden, says could be "hard to maintain over the long term as either public-sector pension levels will need to be reduced, or private-sector pension levels need to rise."

In the end, Irwin Mitchell partner, Penny Cogher, stresses: "There is always an unwillingness to change the public-sector pension arrangements due to so many entrenched interests – the unions, the politicians, the judges, the Prime Minister, the civil servants, all benefit from public-sector pension arrangements. Even when some change has been attempted, there has been legitimate push back from the Supreme Court that the manner in which the changes have been made has been unlawful as they have been made in a discriminatory way. "

She concludes: "The unfunded public schemes, in particular, have a colossal underfunding, which, for the most part, is swept under the carpet. This cannot be sustainable long term and at some stage someone/some party will have to be sufficiently brave and determined to challenge the position, probably due to intergenerational unfairness. It won't be easy."

Written by Stephanie Hawthorne, a freelance journalist


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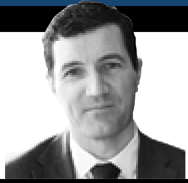
How the right fiduciary approach can help – Trustees' responsibilities are widespread: they include ensuring their pension scheme is well run, protecting members' benefits and fulfilling their regulatory commitments. Managing the investment strategy forms just one part of these responsibilities, but often it's a time-consuming one. Could partnering with the right fiduciary manager help deliver better outcomes? ***p92***

Fiduciary management comes of age – Having now become established within the UK pensions market, Elizabeth Pfeuti considers how fiduciary management will fare under challenging investment market conditions ***p94***

Fiduciary management focus:

Reaching targets



Schroders head of delegated sales, Stephen Bowles

How the right fiduciary approach can help

Trustees' responsibilities are widespread; they include ensuring their pension scheme is well run, protecting members' benefits and fulfilling their regulatory commitments. Managing the investment strategy forms just one part of these responsibilities, but often it's a time-consuming one. Could partnering with the right fiduciary manager help deliver better outcomes?

Under a fiduciary management approach, trustees delegate day-to-day implementation of the investment strategy to a team of investment experts. Essentially a fiduciary manager makes investment decisions on the trustees' behalf, but within a clearly defined set of guidelines. This governance approach reduces the burden placed upon trustees, which in turn leads to better decisions and therefore ultimately better outcomes for the scheme and its members. More specifically we believe there are four governance benefits a fiduciary approach can harness for trustees. While each scheme will have its own unique requirements and therefore the relative importance of these benefits will vary, all are accessible to trustees who partner with the right fiduciary manager.

We look at each of these benefits below and what they may mean for scheme governance:

1. Increased focus on the decisions that matter the most

Trustees have to manage their responsibilities alongside the demands of their normal day job. Overseeing the investment arrangements is just one part of their role. By delegating the detailed implementation of the investment strategy, they gain the benefits of employing an expert whose sole occupation is to concentrate on investment. By having clearly defined roles and responsibilities, trustees can ensure that they have the necessary time to dedicate to the key strategic decisions that contribute the biggest impact on the future outcome of their pension scheme.

Figure 1: Key focus areas

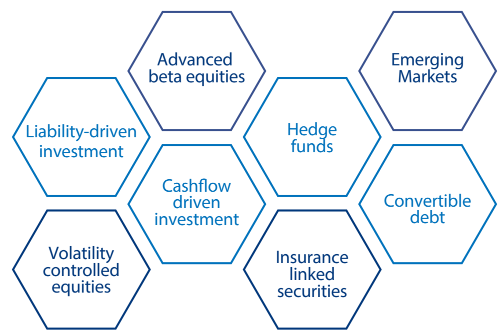
Focus on what's most important...	...by delegating the rest
What are our funding goals?	What asset classes should we invest in?
When do we expect to reach our funding goals?	What implementation route should we use for each asset class?
Is the overall level of risk in the scheme appropriate?	How should we adjust the portfolio for the latest developments in markets?

Source: Schroders

2. Access to knowledge and expertise in investment decision-making

Pension scheme investments are becoming ever-more complex. For example, strategies that involve derivatives such as liability-driven investment (LDI) and equity downside protection are now commonplace; and developments in technology and new thinking are reshaping how investors consider investment risks.

Figure 2: Combining specialist investments



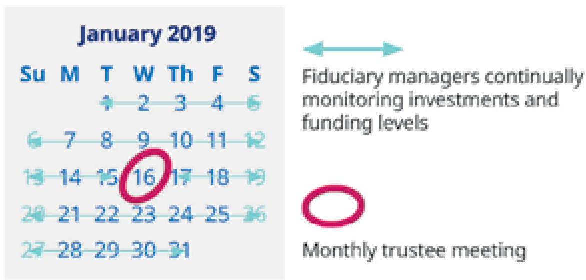
Source: Schroders

It can be hard to keep up with all of the latest developments. By using a fiduciary manager, trustees bring additional specialist investment knowledge onto their board. The fiduciary manager applies their many years of investment experience to the pension scheme's specific circumstances and works with the trustees to develop and implement a strategy to meet the pension scheme's particular needs.

3. Improved agility of decision making and speed of implementation

Trustee groups typically meet on a quarterly basis. While this provides a good framework for longer-term decision making, shorter-term opportunities may be missed if there are delays in approving and implementing investment decisions. The investment climate is dynamic and can change very quickly; it is important to stay nimble to adapt to changing circumstances, to

Figure 3: Speed of implementation



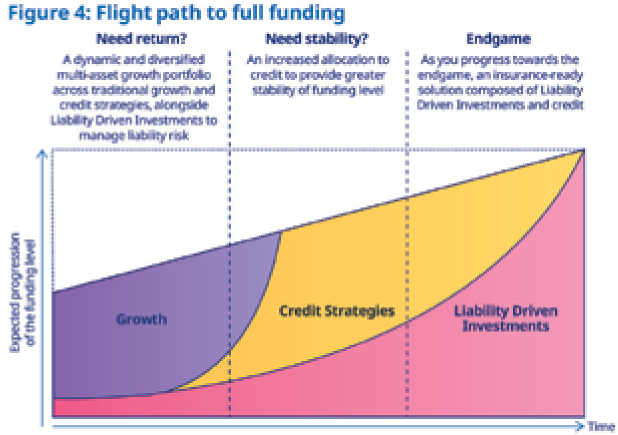
Source: Schroders

protect the funding level or to capture market opportunities. Fiduciary management means that trustees have a team of investment professionals who are monitoring their investments and – crucially – are ready to make decisions on their behalf every working day. In reality, the portfolio does not change every day but by putting in place a fiduciary manager they have the authority to act on the trustees' behalf, enabling them to act swiftly to implement changes. The level of delegation will be clearly specified in the agreed set of investment guidelines. This means that the trustees remain firmly in control.

4. Risk management to enable the long-term objectives to be met

Most DB pension schemes are now closed to new members and many are also closed to future accrual. These pension schemes have a finite time period until the last pension is expected to be paid. As a result, trustees and sponsors are increasingly looking to the end-game and are planning towards a lower-risk investment strategy as the pension scheme matures. Many fiduciary management arrangements include a 'flight path'. This is a long-term plan towards full funding, which captures opportunities to de-risk as the pension scheme's funding level improves. Advances in technology mean that fiduciary managers are able to track the pension scheme's funding level on a daily basis. When a funding level trigger is reached, the fiduciary manager immediately moves the pension scheme to a pre-agreed lower-risk strategy. This enables the pension scheme to move quickly to capture opportunities. Having a pre-agreed framework in place means decisions can be taken swiftly by the fiduciary manager, but without increasing the trustees' governance burden.

Figure 4: Flight path to full funding



Source: Schroders. For illustration only.

Choosing the right fiduciary partner

The choice of fiduciary manager is one of the most important decisions trustees can make, given their pivotal role in setting and implementing a scheme's investment strategy. It can be a difficult decision to make as there are many different kinds of fiduciary manager. Often comparing providers' approaches is like comparing apples and oranges. Schroders' view is that trustees should work with an independent oversight organisation that can advise them on the selection process, helping to navigate this important decision.

Schroders as your fiduciary partner

At Schroders we firmly believe in the fiduciary management governance model. As we have outlined above, it offers significant benefits to trustees and for many we believe it's the right model to adopt. As an investment manager, Schroders has developed a unique and flexible fiduciary management platform. We combine long-term investment strategy advice and our expertise in managing multi-asset and liability-matching portfolios, ensuring the effective delivery of all aspects of investment is in one place, ultimately reducing your governance burden. This allows you to focus on the bigger picture, whilst we take care of the day-to-day management. Our approach to fiduciary management is rooted in our investment management heritage, something we feel provides a compelling competitive advantage. As a stable family business with over 200 years of asset management heritage, we are client-led in all that we do and have the cultural values necessary to be a trusted partner. We also bring a deep knowledge of UK pensions, actuarial techniques and a breadth of investment experience. We truly believe that the integrated nature of our proposition: across advisory support; investment strategy; and investment management, will deliver the funding level outcomes our clients require.

Written by Schroders head of delegated sales Stephen Bowles

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Summary
- Delegation can help trustees take back control.
- Investment opportunities can be upskilled through fiduciary management.
- How will fiduciary management cope with a no-deal Brexit?

Fiduciary management comes of age

Having now become established within the UK pensions market, Elizabeth Pfeuti considers how fiduciary management will fare under challenging investment market conditions

Once the new kid on the finance block, fiduciary management is coming of age.

With £142 billion across 862 UK mandates in 2018, according to KPMG, the amount of assets has grown by more than 1,080 per cent in the past 10 years.

Small wonder, then, that the UK's largest asset managers have set their sights on competing at the highest level in this sector, while the world's leading investment consultants restructure to focus on fiduciary assets.

The approach has also – eventually – been given the green light by the competition regulator, which has put into place new strict standards on performance reporting and fee disclosure.

But with trade wars on the horizon and a potential no-deal Brexit, can this newly maturing approach to pension fund investment perform under pressure?

For Schroders fiduciary manager, Rosalind Scott-Douglas, the key to the approach's success – in good times and bad – is how it strengthens pension fund governance.

"It works in parallel with other corporate structures, such as the board, which look at risks, take a general overview then delegate the details and implementation of projects on a day-to-day basis," says Scott-Douglas.

Time to call in the experts

Over the past 15 years, schemes have recognised that most trustees are not investment experts, but even if they were, being allowed just one meeting a quarter to discuss all elements of running a pension scheme, alongside their day job, was not the optimum process for most schemes.

"If you're getting good advice, it should be combined with the best implementation," says Mercer head of fiduciary management (UK) Ben Gunnee. "There should be consistency. Even with the optimal asset allocation, the question to trustees is whether they have the time and expertise to find the right manager, then rebalance and add in new ideas in a timely manner."

Appointing a fiduciary manager means having the appropriate – and aligned – risk management from the very start of the process.

"From the planning stages, trustees take a holistic approach and delegate work as the implementation of the plan is given to experts in their field to carry out," says Scott-Douglas. "The fiduciary manager is concerned with the entire strategy. From the planning to implementation. This allows trustees to focus on the most important issues."

Crucially, however, the absolute fiduciary responsibility remains with the trustees, some of whom have so far been hesitant about handing over the keys to the car.

"We understand the initial instinct of trustees losing control," says BMO GAM head of UK fiduciary investment, David Hickey. "But the feedback has been the opposite. Trustees feel more control and they can spend their time budget on key matters."

Alignment of key measures allows better and more-efficient decision making, he says.

"Every client is different: needs, spend, convent, expertise, investment beliefs," says Hickey. "It is important when building up a proposition that there is open architecture and it is highly tailored to what they are and what they need."

Along with this additional time back in their diary to focus on what really matters, fiduciary management clients are closer than most to new ideas.

Bright ideas

"Fiduciary management gives schemes the quickest and purest access to best ideas as they go directly into a portfolio," says River & Mercantile Solutions co-head of solutions Ajeet Manjrekar.

For Manjrekar, fiduciary managers should be constantly looking for investment opportunities and to improve risk management.

"I want all our clients to be able to access our best ideas," he says. "We are agnostic whether the client is fiduciary or advisory – everyone should and does have access to these same best ideas, but fiduciary management clients have the quickest access."

While some trustees still want to pull the trigger on these new ideas themselves, a fiduciary management client's quick access is a valuable way to 'upskill' their investments, according to Scott-Douglas.

"Delegating the implementation of investment means managers can make adjustments on a day-to-day basis," she says. "The speed of implementation and adjustment is rapidly speeded up."

This approach is not just important on the asset side, but concerns liabilities too.

"There are in-built triggers that can be activated when there are material changes, internal to the company or external factors," says Scott-Douglas. "These triggers can automatically de-risk, at levels that were agreed at the outset as part of a flightpath, so a scheme does not miss an opportunity."

Stressed out?

This quick-fire approach may be useful in the coming months and years as geopolitical risks take hold of international markets.

"For our fiduciary management clients, we stress-test portfolios for unexpected outcomes," says Gunnee. "We don't position a portfolio to try and make on something, such as the Brexit vote, but we position the portfolio, so it is not negatively impacted by one outcome or another."

This is not typically something advisory clients would get from their investment consultant, nor is it likely that disparate asset managers would come together to test each of their client's overall exposure.

"The majority of advisory clients won't have had their portfolios stress-tested, nor be in a position to react quickly as markets move," says Gunnee. "After the Brexit referendum result, our clients' funding positions barely moved, whereas, according to the Pension Protection Fund's *Purple Book*, the average UK pension's funding position fell by 4 per cent."

But don't all these added extras make fiduciary management much more expensive? If it was once the case, huge new competition in the market has pulled fees down.

"Over 15 years, competition has increased," says Scott-Douglas. "Initially, large schemes were working with investment consultants to put in place complex strategies of active management, including LDI, which wasn't as streamlined as today, and the fiduciary management fee was like ad valorem to what they were already doing."

New entrants to the market have driven fees down – both the underlying costs of the investment management and the fiduciary management bill itself.

"Fees are coming down across the industry and the Competition and Markets Authority's requirement for firms to go to tender will increase that further," says Manjrekar. However, he warns that there is still a variety of fees, that only regulation will change.

"Transparency is key," he says. "Trustees need to see the scale of fees and a breakdown of what is being paid."

This transparency is also important to show trustees just what they are getting for their money, according to Hickey.

Getting what you pay for

"If you take on a fiduciary manager, you are not paying them by the hour. It's a different approach," he says. "It is more aligned as you are all working towards the same outcome: improved funding levels. It's logically better for the scheme."

If switching from simple advisory using all passive funds, fees can go up, but for Scott-Douglas, there is good reason. "It's really a different service you're paying for," she says. "It's not comparing like with like. Taking on the oversight is a whole new approach."

For Gunnee, trustees need to think about what they are prepared to pay to get where they want to be more quickly – and the extra services it will entail to do it.

"The only similarities to the advisory model are the advice given and the quarterly meetings/reporting," he says. "The rest – the portfolio adjustments, the automatic de-risking, the dynamic tilts, the cashflow modelling, the operational elements – that's all additional services that come with fiduciary management."

Could fiduciary management, on balance, therefore, end up cheaper?

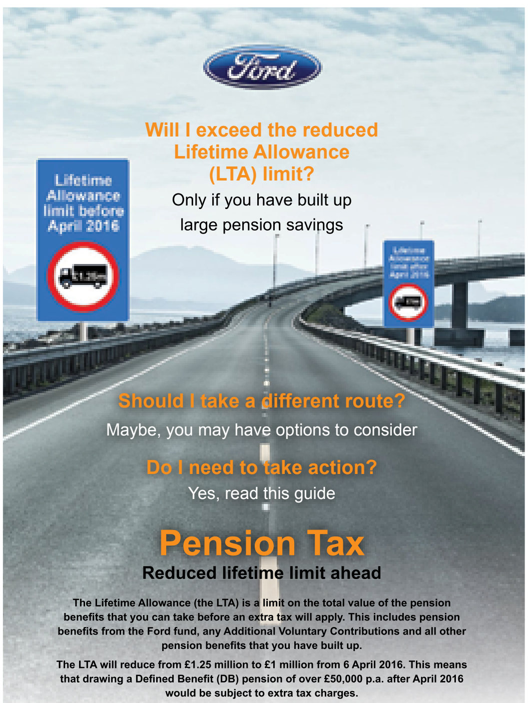
"Even when it is more expensive, it is by a matter of basis points and what you're paying for is the outcome," says Gunnee. "You might be paying 10bps but getting 20bps of return and getting to full-funding more quickly. The results show it does outperform advisory, but trustees need to see a track record in a transparent way."

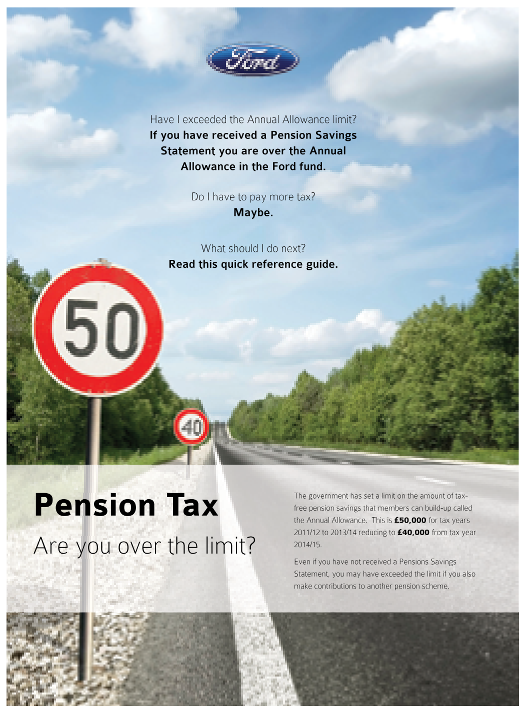
Written by Elizabeth Pfeuti, a freelance journalist

Summary
• Pensions communication is fraught with challenges.
• All too often communications become a compliance exercise, to the detriment of consumers.
• Despite this, plenty of schemes, consultants and providers are breaking new grounds in engaging members.
• Speaking the right language, finding unlikely champions and targeting the disenfranchised can all make a huge difference.

New frontiers

Sara Benwell considers examples of how communications initiatives are pushing the boundaries of member interest





Pensions communications has always been a tricky enterprise, fraught with challenges. There's not just the question of whose job it really is to make members aware but also the issue of how to talk to people who often seem like they don't particularly want to listen.

Despite this, there are some organisations that sit at the vanguard of communications, finding new ways to overcome these challenges and creating campaigns that are not only interesting, but also yield measurable results.

Speak your members' language

One way to make pensions more compelling is to tell a story in a language and tone that you know will resonate with your members.

This seems obvious, but all too often it falls by the wayside, bogged down in compliance, jargon and a reliance on old-school methods.

The 2017 Automatic Enrolment Review Advisory Board co-chair, Ruston Smith, who led on engagement, explains: "When schemes and trustees communicate with members, they need to appreciate the huge amount of information that everyday people receive from every direction, equivalent to 34GB of data a day, and how they prefer to receive it.

"With increased disclosure requirements in chairs' statements and Statement of Investment Principles for example, and the language that's used, the question is whether we're producing member communications for members or compliance. These communications are becoming longer and increasingly complicated as we have to include so much compliance stuff.

"When new information is to be included, we need to think carefully about how easily it can be understood and how clear and useful it will be. We should consider members as customers and put them at the heart of everything we do and develop for them."

This seems simple, and in reality, perhaps it can be. In fact, when you look at schemes that are delivering results, great storytelling and visual communications can work wonders.

Ford is a company that has used simple messaging to convey complicated financial ideas. In particular, Ford's strengths lie in talking to its employees in a language they completely understand – and employing campaigns that use

travelling as a metaphor.

One good example of this is a campaign the scheme launched around the decrease in lifetime and annual allowances (LTA and AA) in 2016. Thanks to a generous scheme structure and plenty of long-serving employees, the new changes were likely to impact a substantial segment of the workforce, many of whom would previously have been unaware of the complex LTA and AA tax rules.

Ford's European pensions manager, Oliver Payne, explains: "We wanted to make sure our employees understood the changes, but the pensions annual allowance is one of the most complicated rules to explain. It's also difficult because it's not the company that's making the changes, it's the government."

To overcome this challenge, Ford launched a campaign focused around speed limits. This allowed the organisation to explain a hugely complicated piece of legislation in a manner that all of its employees could relate to. Excellent visuals used an analogy of pension savings over a career being similar to a road trip and the tax charges being similar to a charge for exceeding a limit.

The annual allowance was likened to a speeding penalty for 'saving too fast', while the lifetime allowance was explained as a consequence for exceeding a weight limit for 'too much pension savings'. Using the motoring analogy, images were designed to include eye-catching visuals that would motivate employees to take action with simple, strong guiding headlines.

Scheme members welcomed the powerful, simplistic message, and feedback showed how valuable this kind of campaign can be. According to Ford, one employee said: "This is an outstanding piece of work. You've taken a complicated subject, simplified it, and been really creative in how you've communicated it."

As well as the education campaign, Ford (with the help of LCP) also launched a tax modeller so employees could go a step further and see how the lifetime and annual allowances applied to them. This was also a success, with 400 employees accessing the tool in the first week.

Another great example of straightforward messaging yielding solid results comes from Mass Mutual. The organisation worked with AHC to launch a campaign that promoted retirement by harnessing the power of the love of pets.

The campaign promoted the need for retirement savings by directing savers to RetireSmartPets.com. Visitors to the site were invited to post and share photos of their furry friends on social media, and, more importantly, were encouraged to increase their retirement plan contributions.

More than 1,700 photos were shared, including dogs, cats, rabbits, mice, horses, a hummingbird, chickens, parrots, turtles and even a lizard. The most popular pet was a chocolate Labrador Retriever puppy who attracted more than 8,300 votes and whose owner won an iPad.

But most importantly, the campaign yielded more than $43 million in new retirement plan deposits.

Speaking your members' language can sometimes mean engaging with topics that you'd never normally associate with finance, let alone pensions.

For instance, MyCSP taps into popular culture, finding ways to engage members through singing, musicals, strictly and even *Love Island*.

MyCSP director of communications and engagement, David Boardman, explains: "We found that to challenge these misconceptions, we needed to be bold. And, in doing so, we've seen thousands of people engage with their pension schemes that otherwise wouldn't have done.

"We tailor our material to popular themes not usually associated with pensions – music, movies, musicals, even TV shows. Explaining the language of ITV's *Love Island* is a great analogy to use when demystifying pension jargon.

"Music and dance can be useful too – we recently donned sequinned outfits and used dancing analogies to successfully get our message across. Basing a campaign around music also provides you with a soundtrack with which you can literally bang that pension drum.

"Most importantly, though, are the

results. Choosing a strong theme creates a strong sense of theatre, which in turn provides a strong call to action – a recent campaign rolled out to thousands resulted in a 61 per cent increase web visits month on month."

Consider unlikely champions

Pensions messaging is all well and good, but employees can be mistrustful of the financial industry and it can help to try and get other departments involved.

For instance, for companies that have high levels of union involvement, getting representatives involved can make a huge difference to how change is perceived and whether it is eventually accepted.

The most clear-cut example of this comes from the Royal Mail's quest to adopt collective defined contribution (CDC). From the start this has been a collaborative effort between the organisation and its unions and this has been evidenced in terms of how the project has been received both internally and by government.

RSA business development and partnerships manager, Toby Murray, explains: "A fascinating element of this project is the people involved. It began as a partnership between the RSA, the Royal Mail, and the Communications Workers Union to find a pensions solution for both employers and workers.

"The partnership was perhaps best exemplified by a comment at one of our events, where a participant said they'd 'never come across a situation where a company and a union are so committed to ensuring an outcome together'."

Payne also finds that engaging the unions can help disseminate pensions communications through the workforce, something the company focused on when it came to dealing with freedom and choice legislation.

He says: "Knowing the close relationship our employees have with the unions and the uncertainty freedom and choice created, we thought it was really important to work collaboratively with the unions from the start.

"We sat down and worked together through an active working group with defined outputs. We ended up launching a partial transfer option, and it was really fantastic from a communications point of view to be able to show employees the journey we had gone on with the unions and how we had come to the conclusions we had."

Find new ways of reaching the unreachable

Generally speaking, pensions communications tend to land best with those people who were interested in the first place. So better email campaigns may have better results, but often it's still the same people opening the emails in the first place.

That's why it's important to find new ways of reaching people – particularly those who are particularly disengaged from retirement saving, such as the young, the self-employed and mothers.

There's lots of evidence that some areas of the industry are getting better at this. For instance, both Aviva and Smart Pension use Alexa as one way for their members to find out their savings value and increase contributions, and the Pensions Geeks tour the country in a bus once a year to promote engagement and give people a forum to ask questions.

Another quirky communications initiative comes from Scottish Widows, who worked with *Mumsnet.com* on an educational pensions campaign.

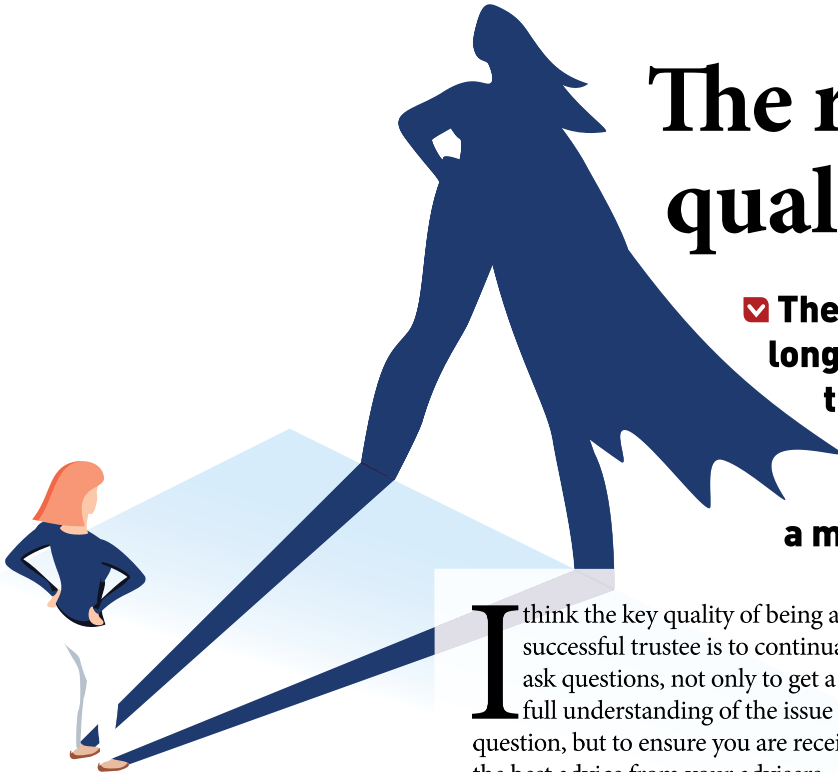
Scottish Widows' head of marketing Claire Stracey says: "Working with *Mumsnet* has been a perfect fit for us, as they share our commitment to helping educate women on their long-term financial planning and they are in touch with such a wide network from across the UK.

"Through them we've shared facts and practical tips to help women learn and think more about their retirement planning. Scottish Widows' director, Jackie Leiper, has featured in some of *Mumsnet*'s Facebook Live sessions and we've run online Q&As and created content bespoke for the *Mumsnet* community.

"This has enabled us to reach thousands of people and the feedback we receive is consistently positive with the open, discursive nature of the *Mumsnet* community opening up the topic of retirement planning is a realistic, relevant and engaging way.

"By communicating to as many people as possible in this way it helps to educate and demystify the view that pensions are hard to grasp and something to worry about another day… Working with *Mumsnet* has helped us to bring the conversation to the forefront and simplify what's often thought to be a complicated topic."

Written by Sara Benwell, a freelance journalist



The right qualities

The Pensions Regulator has long emphasised '21st century trusteeship', but what are the main skills and qualities required to be a modern-day trustee?

Managing a modern pension fund requires many skills and abilities. Whilst it is always advantageous to have good technical knowledge, the following points are important to thrive as a modern-day trustee.

An open-minded approach can take on board new perspectives and evidence, even if it contradicts their gut feeling or previous knowledge.

There is always something new to learn so being able and willing to develop your ideas is key and ideally there needs to be a desire to both acquire knowledge and the ability to do so.

Trusteeship is a team game so it's important for the players to be able to say when they don't agree, but also work cohesively with others.

Being strategic and focused despite having lots to do, constantly driving the agenda to the most important issues (even if they are difficult) is a hugely valuable trait.

Redington head of governance and decision research Paul Richards

I think the key quality of being a successful trustee is to continually ask questions, not only to get a full understanding of the issue in question, but to ensure you are receiving the best advice from your advisers.

There are various specific duties for trustees, eg acting in line with the trust deed and rules; acting prudently, responsibly and honestly; acting in the best interests of the members and potential members of the scheme (including dependants); and acting impartially.

However, not being afraid or intimidated from asking questions, defines for me a good trustee.

Lend Lease UK Pension Scheme ex-MNT Alan Gander

Modern trustees need to possess a wide range of skills. At a technical level, they of course need to have the knowledge and understanding of their scheme and the wider pensions environment. They have also become risk managers, both in terms of controlling the short-term, day-to-day risks of operating the plan and then developing a plan to address the long-term strategic risks.

And it goes without saying that they should be people of honesty and integrity who will always act in good faith and in the best interests of their members.

But increasingly trustees need to demonstrate a spectrum of softer skills, so that they can deal with more complex situations and the potential for conflict:

- The ability to listen actively to and then communicate with all stakeholders and advisers.
- The confidence to challenge advisers and to hold the sponsoring employer to account.
- The ability to negotiate with and influence relevant stakeholders.
- The flexibility to be open to, but also critically assess, the myriad new ideas, options and solutions that are constantly evolving.
- The self-awareness to recognise when to ask for help and when they need additional training
- The objectivity to evaluate their own skills openly and to examine and manage their own conflicts

These qualities give trustees the range of attributes they need to manage the ever-more complex pensions landscape, and to ensure the best possible outcome for their members.

Mercer principal and governance specialist Mark Wilkinson

A credit strategy that goes further

can yield better results

Investec Multi-Asset Credit Strategy

Focused on delivering higher yield with reduced volatility, its low sensitivity to interest rates, we believe, make Multi-Asset Credit investing a highly relevant solution for today's persistent low-yielding bond markets.

- **A one-stop solution dynamically investing across global credit markets**
- **Targets[1] an attractive total return of cash in excess of 3 month GBP LIBOR +4% p.a., gross of fees, over the credit cycle. Current yield[2]: 4.9%**
- **A truly 'best ideas' approach, built from the bottom up, that seeks to control risk while taking advantage of the extremely diverse opportunity set**
- **Portfolio Managers Jeff Boswell and Garland Hansmann have over a decade of experience, putting them at the forefront of Credit investing**

For pension funds looking to de-risk core equity holdings, re-invigorate vanilla credit portfolios, or to address low-yielding government bond portfolios, **is it time to consider an alternative to traditional fixed income?**

www.investecassetmanagement.com/MAC

The value of investments, and any income generated from them, can fall as well as rise. [1]Performance targets are subject to change and may not necessarily be achieved, losses may be made. [2]Based on a representative USD portfolio, GBP yields will differ.

Investec
Asset Management

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__Pulling levers__ – Investec Asset Management's head of developed market credit, Jeff Boswell, speaks to Pensions Age about the benefits of a multi-asset credit investment strategy in a changing fixed-income market __p102__

__Credit where it's due?__ – Long-term low yields have left pensions looking for new ways to invest. Sandra Haurant asks whether diversification through multi-asset credit can hold the answer __p104__

Multi-asset credit focus:

A smooth journey

Investec Asset Management's head of developed market credit, Jeff Boswell

Pulling levers

Investec Asset Management's head of developed market credit, Jeff Boswell, speaks to *Pensions Age* about the benefits of a dynamic multi-asset credit investment strategy in a changing fixed-income market

Please could you provide an overview of the current fixed income market situation? What are the current trends you are seeing?

It's been a very strong year generally for fixed income markets, fuelled by a very strong rates-based rally.

What's been unusual about the rally since the start of the year is that it certainly hasn't been uniform. An interesting observation in that regard is US high yield, which has had a very strong returning year so far. US high yield as a whole is up around 12 per cent. Never in the history of US high yield before have you had returns of north of 10 per cent, with the BBs outperforming CCCs.

What does that tell us? It tells you that there's a little bit of apprehension from investors in terms of reaching for risk. So, it's been a very defensively orientated rally, certainly in parts of the market.

Following this rally, parts of the market are starting to look increasingly expensive, with certain credit subsets edging back towards post-crisis tight spread levels.

There are certain parts of the market that we feel are starting to look a little bit more vulnerable or susceptible. It's this divergence in performance which then lends itself to a multi-asset credit (MAC) strategy.

MAC investment has increased in popularity with pension funds in recent years. Can you explain why? What benefits does it provide in today's FI markets for this to be the case?

There is a spectrum of MAC strategies. You've got some higher-octane strategies where they're looking for higher returns (and take more risk) and you've got some super-defensive strategies. But I'd say the majority of MAC managers fit into the middle ground and that is where we sit as well.

That middle ground I'd consider to be around cash plus 4-5 per cent in terms of return objectives with MAC seen as a means of generating an attractive yield in a world that is certainly yield challenged.

Historically, if you look at any investor's portfolio, the core building block of that portfolio was government bonds, which generated attractive yield, but then also had a defensive element to it in terms of acting as a defensive anchor in choppy markets. That has been whittled away given the long rally in bond markets.

The MAC solution has come about as a means of trying to plug that gap by providing defensive yield, but also in a non-interest rate sensitive manner.

That's the core reason why people are interested in MAC. But there's also a supplemental reason around where we are in the cycle.

A MAC approach, where the manager has a lot more levers to manage through those different environments, is potentially going to lead to better outcomes, not just from a returns perspective in terms of the opportunity that's provided by having divergent performance across different credit asset classes, but also in terms of managing the downside.

What is Investec's particular approach to MAC investing? How does it differ to others on the market? And how is it particularly suitable to today's fixed income environment?

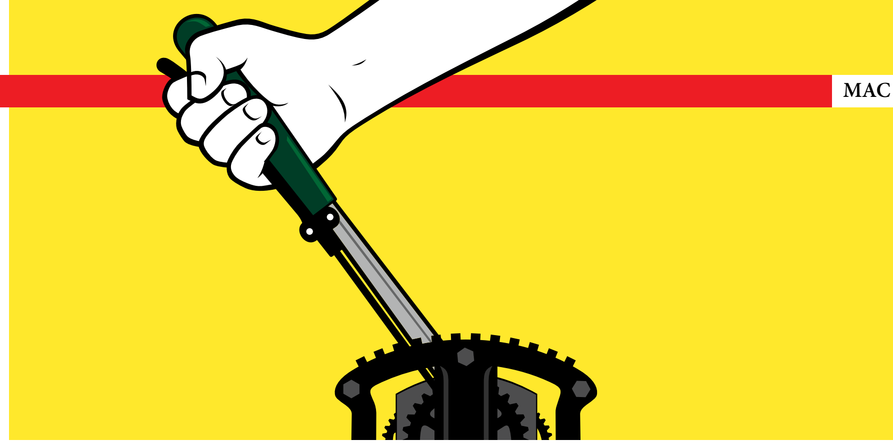
There are different camps in terms of how managers approach MAC. Some are very top-down driven with their asset allocation calls. Then there's also very bottom-up driven approaches, which is where managers are really driven by where they see value. That's very much the camp we fall into.

One of the beauties of credit markets is that there are significant inefficiencies in terms of the way credit risk is priced. That comes down to a variety of factors including local supply and demand dynamics, the construct of markets, and even the stickiness of the investor base.

What that means is when we're looking at a particular credit, often that credit will issue bonds or loans in multiple different markets, but the spread that you can earn on that credit will differ market by market because of those different dynamics, or technicals within those markets.

So, our approach is driven from the bottom up, assessing where we get best paid for a given level of risk.

It is the opportunity from certain markets, repricing relative to other markets and making them look more



compelling, that drives our asset allocation. We believe that allows us to far more consistently deliver on positive asset allocation, rather than taking big top-down calls where the error rate is exceptionally high.

The appeal of our MAC strategy is we have all these levers, all these different markets to invest in. Our asset allocation relative to a lot of our peers shows, we believe, a lot more dynamism.

We're not defined by specific hard boundaries in terms of just using the big credit blocks that are out there. We're unconstrained in terms of how we can find a type of risk in a range of different markets.

So, for example, rather than taking US high yield BB risk, we have seen far better value within bank capitals, which is also known as contingent convertibles (CoCo's). We think that there's good value in parts of that market as a substitute for traditional high yield. Corporate hybrids we also really like as an asset class because not only has it provided very similar upside to high quality high yield, but it has the appeal that, in sell-off scenarios, it has typically performed a lot better than high yield.

How can pension funds use MAC strategies?

For smaller pension funds, MAC can be a fixed income solution, whereby rather than them trying to figure out when to invest in investment grade or what their allocation to high yield should be, we're effectively an outsourced solution that will give the pension fund access to a variety of different markets.

MAC can fulfil a slightly different need with larger pension schemes. It might be that they still are looking for attractive returns but they're not willing to take too much incremental risk. Maybe they want to substitute some of their investment-grade bond allocation into a MAC solution, which plugs that gap for them.

For some, it might be that they've had a great run with high yield, but they're a little bit worried about where we are in the cycle. MAC can be that substitute in terms of giving them a similar type of upside yet better potential downside.

Or it can be for some pension funds who have had a great run from an equity standpoint but would like to take some risk off the table, without getting too defensive. That's where MAC comes in. Our flagship strategy targets returns in excess of cash +4 per cent, (typically cash +4-6 per cent). It's an attractive return profile. Certainly, seeking far more compelling drawdown characteristics than equity.

More specifically, for DB schemes aiming to get to a funding position suitable for a buyout, having seen their funding level increase over the past seven years, maybe to the 90 per cent range, they will want to maintain a funding level around this level, but even then, it is not quite where they need it to be. MAC provides the opportunity to still deliver attractive returns, but has equally the dynamism and the defensiveness to help protect the overall portfolio in more difficult times.

For DC, the member needs to be in a fund that has the opportunity to create an attractive yield and an attractive return, but has equally the dynamism and defensiveness to offer protection. Large falls in the value of pension savings puts people off saving into, or remaining in, a DC pension.

Because MAC is such a dynamic solution, it can fulfil very different needs.

How can Investec's approach help pension funds in a changing FI market, for instance, the bubble bursting?

No matter when/if the FI bubble bursts, the beauty of our MAC is it just gives us far more levers to pull in managing through such a scenario.

If that bubble does burst, there's going to be huge opportunity for us as a dynamic MAC manager, as you will see divergence in the performance of different asset classes. That's where we believe we can add a huge amount of value.

For instance, the levers we're pulling at the moment are still generating an attractive yield, but as markets tighten in, it typically is more about capital preservation and managing and protecting the downside. Then waiting for any sort of proper correction, and that's when the opportunities arise.

There is a risk that the issuers of fixed income investments may not be able to meet interest payments nor repay the money they have borrowed. The worse the credit quality of the issuer, the greater the risk of default and therefore investment loss. There may also be insufficient buyers or sellers of particular investments giving rise to delays in trading and being able to make settlements, and/or large fluctuations in value. This may lead to larger financial losses than might be anticipated. All data as at 30 September 2019.

Visit investecassetmanagement.com/MAC

Summary
• Low yields have become the normal state of play, which leaves pensions with a challenge; how can they meet their liabilities going forward?
• Multi-asset credit provides diversification by having a broad spread of asset allocations in the credit union that is adjusted by managers when necessary.
• A lack of correlation between assets can provide the protection from market movements that pension schemes need.
• There are a number of different strategies, but all of them aim for decent levels of diversification.
• The appetite for alternatives to traditional fixed income is likely to grow, as interest rates are predicted to remain low.

Credit where it's due?

Long-term low yields have left pensions looking for new ways to invest. Sandra Haurant asks whether diversification through multi-asset credit can hold the answer

A low-yield environment has become the new normal in the world of investment, but the news that almost a third (30 per cent) of all investment-grade securities are now offering yields at below zero still makes for surprising reading. In August 2019, according to Bloomberg, the global stock of negative-yielding debt had reached $17 trillion; so if an investor buys into that sub-zero fixed income debt now, and holds it until maturity, they can only make a loss.

For institutional investors, and perhaps pension funds in particular, this means a significant rethink is in order. Things have changed so significantly that the traditional approach is no longer an option; sovereign debt, the 'old world' staple of pension portfolios, can no longer offer the returns that are needed in order to meet the liabilities pensions have. To come good on the promises made to savers, they need to make some big changes to the way they invest.

Investec's head of developed market credit, Jeff Boswell, explains: "If you look at any investor's portfolio, the core building block of their portfolio was a government bond portfolio, which generated attractive yield, but then also had a defensive element to it, in terms of acting as a defensive anchor in choppy markets." Now that the defensive element has essentially gone from portfolios, pension funds are obliged to look elsewhere for attractive yield with enough of a defensive element to offer sufficient protection. This, says Boswell, is where multi-asset credit can be a useful tool. "It's a means of generating what is an attractive yield in a world which is certainly yield challenged," he says.

Flexible funds

Hermes Investment Management's head of fixed income, Andrew Jackson, believes that, while finding yield may be difficult, the scope for returns and illiquidity premium is out there. But, he says, navigating today's tough landscape is not always an easy task. A balance must be struck. "Against a backdrop of lower yields and at a late stage cycle, investors are aware that traditional approaches may be insufficient to generate good-quality return for risk," says Jackson. "Multi-asset credit provides a non-siloed, flexible approach that can be tailored to the exact needs of pension funds, particularly those able to be flexible and tolerate some illiquidity."

According to Jackson, the diversified approach available through multi-asset credit has multiple benefits for pension schemes. From flexibility to risk management, he suggests, they have plenty to offer: "Multi-asset credit solutions can be tailored to deliver minimum risk for desired return, or maximum return for desired risk," he says. "Traditional solutions could currently be deemed 'uninvestable', with central banks' asset purchase giving rise to $17 trillion of negative yielding assets. Opportunity to generate alpha is much more valuable in markets where beta pays so little. Multi-asset credit provides the flexibility required to maximise alpha opportunities; pension funds can optimise their risk-adjusted returns through strategies that dynamically invest across the credit spectrum, and throughout the capital structures of companies, thereby diversifying the means of identifying opportunities."

Matters of size

The role of multi-asset credit within a portfolio can vary, depending on the size of the fund and its requirements. Boswell explains: "For smaller pension funds, *[multi-asset credit]* can be a fixed income solution for them whereby, rather than trying to figure out when to invest in investment grade, or what the allocation to high yield should be, a multi-asset credit fund manager can effectively act as an outsource solution, giving access to a variety of different markets." At the other end of the scale, the need for larger pension funds might be different. "For bigger pension funds, we can fulfil a slightly different need," says Boswell. "I would say, typically, with the bigger pension funds, it might be that they are looking for attractive return, but they are

not willing to take too much incremental risk; so maybe they want to substitute out some of their investment grade bond allocation into a MAC solution."

Within the multi-asset credit world, there are a number of different strategies; one of the main differences, perhaps, comes down to the level of liquidity investments might offer. The one overarching theme for multi-asset credit, though, is diversity. Payden & Rygel's global credit portfolio manager Tim Crawmer says: "Pension funds are looking for creative ways to find yield, but they also want to find ways to minimise the risk in the grab for that yield. Multi-asset credit is a good solution, because it includes higher yielding asset classes, like high yield, leveraged loans, emerging markets and structured products, and by combining those in one mandate, you can get high yield-like returns, but you also get the diversification benefits of being in different asset classes that do not have a correlation of one to each other."

And when it comes to accessing multi-asset strategies, there are plenty of paths to take for pension schemes, whatever their size, says Jackson: "Hermes offers segregated accounts, funds and everything in between. We believe solutions should be tailored for specific needs and pension funds must think critically about their risk return objectives," he says. "We believe consultants have performed a very valuable service to pension funds' long-term outcomes by improving understanding and risk tolerance for both MAC and more flexible approaches to credit."

At Investec, the approach to multi-asset credit is differentiated by a combination of a diversified portfolio, dynamic asset allocation and defensive capabilities. Its investment universe is broad, with everything from high yield and loans to emerging market debt and investment grade, and area not all multi-asset credit strategies include.

Making changes

There is, then, plenty of choice, and the lacklustre environment in fixed income means that this is an area that has been growing in popularity with pension schemes, although not necessarily all over the world. "Certain areas have a greater interest in multi-asset credit," says Crawmer. "We have seen a lot of interest in the UK and Europe; not so much in the US, because the pension funds *[in the US]* like to do their asset allocation in house."

With interest rates low and expected to stay that way for a while, appetite for investments that can shift and change to capture yield is likely to strengthen. The need for pensions to match their investments to their liabilities, to protect themselves from risk and to find ways in which to best meet their obligations to members, means they must look for the most efficient and reliable approaches to hunting for yield. But what does the future hold for multi-asset credit?

"Currently, we believe that fundamentals and, importantly, company behaviours continue to support credit markets, especially at the higher end of the ratings spectrum. Now, more than ever, credit investors need to identify areas of value in the market – and allocate with conviction – while reducing exposure to fully-priced sectors," says Jackson. As for beneficial mixes of asset classes, he says: "We currently see good value in emerging markets and corporate hybrids. Within corporate investment-grade and high-yield markets, security selection is increasingly important."

The quest for yield in this ongoing low interest rate, low yield world may continue to lead investors to this, relatively new, part of the credit market, where diversification and flexibility are the key themes. Indeed, Jackson says: "Broadly, we believe MAC will continue to grow as appetite for more flexible solutions continues to rise … We remain cautious on the outlook, but continue to believe that MAC can be a product for all seasons for institutional investors."

Written by Sandra Haurant, a freelance journalist

In association with Investec Asset Management

Going it alone

Pensions saving among the self-employed is woefully low. And yet this segment of the workforce has been increasing, potentially leaving a significant amount of people without adequate retirement savings. What recommendations does the industry have to help improve the rate of self-employed retirement saving?

Auto-enrolment been incredibly successful so far, with more than 10 million people saving into a pension. Yet self-employed workers do not have access to auto-enrolment, leaving 15 per cent of the British workforce at a disadvantage.

Enabling auto-enrolment for the self-employed through the tax system is the only realistic option if the government wants to encourage mass participation from this section of the workforce. But this isn't easy. The way in which self-employed workers interact with the tax system – often tending to make larger, less frequent payments – will make this difficult to achieve.

It's important the government also looks at the type of investments for self-employed workers; Being auto-enrolled into a combination of a pension and a liquid savings vehicle should be considered as they may need better access to capital, depending on the nature of their business. We would oppose early access to pension assets.

The People's Pension director of policy Gregg McClymont

One idea suggested by Matthew Taylor, who conducted the Taylor Review of modern working practices – commissioned by the government in 2017 – was to effectively auto-enrol self-employed people into a pension and administer this through HMRC's self-assessment process. So, for example, when a self-employed individual submits their tax return to HMRC via self-assessment, they could also be expected to provide 4 per cent of their income towards a pension unless they choose to opt out.

The report also suggested making the most of the digital advances that underpin the gig economy by creating payment software that automatically transfers money directly into a pension or Lifetime ISA, so that it becomes as much of a norm as when an employed person has their employee pension contributions deducted at source.

Those that are self-employed tend to be those that are engaged in their own personal destiny and as such, the way to encourage savings in this segment will need to be significantly different to those targeted by auto-enrolment. If you were to introduce something similar for the self-employed, I could easily see that the opt-out rates would be higher due to their need to be in control.

I feel that we need to revisit the complexity of pensions and yet again the tapered annual allowance. Earnings are significantly more likely to fluctuate if you are self-employed, which could either mean you end up contributing too much, locking funds away that may be needed or getting a tax charge because you have earnt too much.

We have previously suggested that the tapered annual allowance should be calculated a year in arrears and this is just another example of how it could be of benefit. In addition, the self-employed would really benefit from being able to claim tax relief contributions paid in one year, but tax from another. This would be a radical departure from the current process of only allowing tax relief in the year in which contributions are paid, but for those with fluctuating earnings it would make it far easier to plan.

St. James's Place Group head of pensions strategy Claire Trott

The success of auto-enrolment has clearly demonstrated that the key to increasing pension saving is to make membership of a pension scheme automatic. If people have a choice about whether to save or not, present bias and inertia generally prevent them choosing to save. For the self-employed, the added risk of short-term cashflow problems gives them another reason to keep their money in an easily-accessible vehicle, such as a bank account, rather than locking it away for the longer term.

The self-employed have to complete a tax return every year. Pension contributions should be automatically deducted as part of filing a tax return, using regulatory minimum contribution rates but with the option to pay more. A default scheme would be available (probably Nest) but with an option to specify a different scheme. In order to replicate the principles of auto-enrolment, there would be the ability to opt out by submitting a separate opt-out form at a later date – the experience of auto-enrolment suggests a relatively small percentage would do this.

The sidecar initiative being tested by Nest is also a good example of striking a balance between keeping sufficient funds accessible in the short term and securing savings for the long term. This facility should be a key feature of any pension scheme offered to the self-employed.

Bravura Solutions pensions product manager, Jonathan Wileman

When thinking about ways of increasing the level of pension savings amongst the self-employed, it is important to remember that this is a hugely diverse group and effective solutions will need to be equally diverse if real progress is to be made. Revenues, cashflows, profits can all be very volatile when running your own business and therefore committing a regular amount to a pension – instead of say investing more into the business or paying yourself a decent wage – can be a challenge. In addition, evidence suggests that the self-employed have a preference for more accessible forms of savings (eg ISAs).

The government has committed to testing a number of policy interventions; these include more targeted marketing campaigns and the use of certain behavioural nudges. I believe the greatest opportunity lies in the intersection between the self-employed, their service providers (eg accountants, banks) and government (eg HMRC). There have been fantastic digital developments in recent years with the likes of Xero, Tide and Starling Bank offering software that fully integrates all aspects that the self-employed need to run their business. Together with the government's making tax digital initiative, it would be possible to both deliver targeted messages and set up rules-based savings triggers to make it much easier to make pension contributions. For example, when filing annual accounts, an individual could agree to contribute a pre-determined amount to their pension if profits exceeded a certain number. The benefits of doing this both from a tax and long-term savings perspective could be clearly presented.

Redington director of DC and financial wellbeing Jonathan Parker

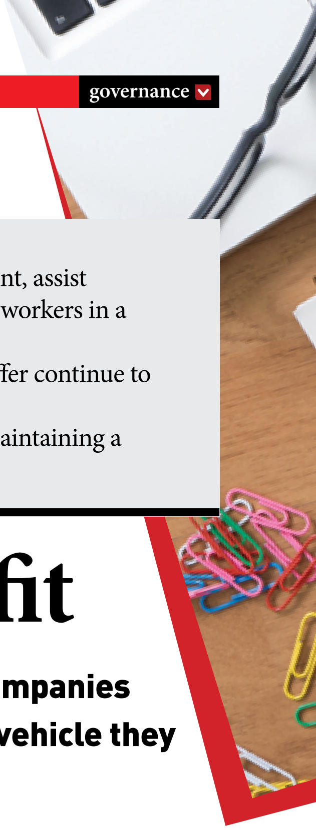
The self-employed need more help to ensure that their financial future is secure. We have therefore asked the government to do two things to help them. This applies not just to retirement savings but overall financial resilience.

The first is a tax-free advice allowance of £500. This is the amount that employers can spend on their staff each year as a tax-free allowance to enable them to get financial advice. We want this to be extended to the self-employed as a tax-free allowance, offset against profits. After all, they not only have to fund their retirement savings, life and health cover themselves, with no help from an employer, they must also source suitable arrangements.

Secondly, the self-employed suffer from uncertainty of income and bad debts can make this even more challenging. This makes it harder for them to plan. We would like to see the option of carry back of pensions tax relief reintroduced. This would enable the self-employed to assess their financial position, after all debts are collected, and give them more confidence in committing to long-term savings from a position of financial security.

It would also assist the self-employed who may spend the early years of a business building it up to have the option of carry forward of pension savings tax relief, without the need to have a pension plan open in those early years. This is an obscure rule, not understood by the public and can result in two self-employed people, with identical profits, having very different outcomes in terms of their tax-relievable pension contributions.

LEBC Group director of public policy Kay Ingram



Summary
• Companies' employee benefits help staff prepare for retirement, assist recruitment and retention efforts, and fulfil mandates to enrol workers in a retirement scheme.
• Employers need to ensure that the workplace benefits they offer continue to provide the most benefit they can for all parties.
• For this, a periodical review is an important ingredient for maintaining a successful retirement scheme.

Feeling the benefit

John Devine explains the importance of companies regularly monitoring the retirement saving vehicle they select for their staff

For many employers, a company pension scheme that helps employees save for a comfortable and secure retirement may be their biggest expense after salaries and wages, and managers will want to know that their money is being spent wisely.

To stay on top of what can be a challenging and changing retirement horizon, companies should conduct regular reviews to ensure objectives are still being met, from regulatory requirements to meeting the retirement needs of employees, according to Pension Geeks co-founder, Jonathan Bland.

"I think it's vital that employers review their pension schemes, not only to ensure they satisfy the automatic enrolment rules or to check that it remains compliant following any change in pension scheme law, but to ensure they still meet the retirement needs of their employees. Employers have a duty to ensure they enrol their employees in good quality, durable pension schemes –and to ensure the schemes continue to perform effectively," he says.

Fit for purpose

When reviewing schemes, an employer's corporate objectives should factor into the process, says Aon's head of the benefit design team, David Hughes, who adds those objectives could include: managing risk and cost, staff loyalty and retention, harmonising benefits in 'future-proofed' arrangements, offering employee choice, and educating and supporting members.

Many sponsors, he adds, want to work with experienced partners, "to ensure that benefit offerings are in line with their objectives and reviewed regularly to ensure that they remain fit 'for purpose".

Regular reviews will help an employer stay current on the changing demographics of the workforce, and on new pension innovations, such as digitally-enabled communications, says Aegon's managing director of workplace business, Linda Whorlow.

"It's important that employers are made aware of what is available on the market, so their pension scheme isn't left behind."

And employers, says Now Pensions' director of policy, Adrian Boulding, should have a business perspective when it comes to reviewing their retirement schemes.

"Even a small employer will be paying thousands of pounds of pension contributions across to that supplier every year, so they should keep that relationship under regular review to ensure that the service is fit for purpose and value for money," he states.

Reviewing a pension scheme could be done every three years but might be "brought forward if regular monitoring of ongoing activities reveals any cause for concern", continues Boulding. Large clients will often review their suppliers every three years, and a pension scheme provider will be treated in the same way, says Whorlow.

A growing number of defined benefit schemes in the UK have conducted reviews over the past four years, and the closure of DB schemes has accelerated as a result, says Hughes. He offers several reasons for this trend, including changing workforce demographics leading to a majority of employees being in DC schemes rather than DB ones.

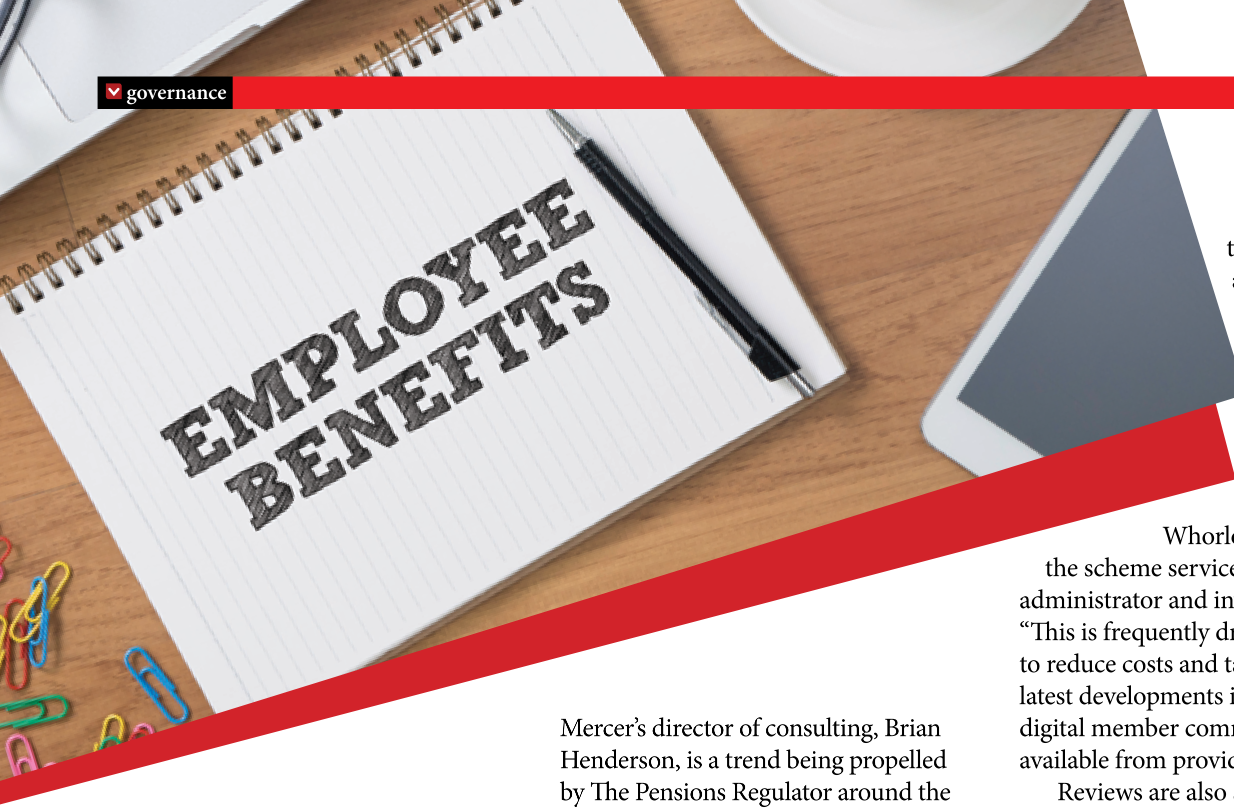
"It then becomes a far more natural step to move towards harmonising future benefits, with the risk of potential business disruption also being lower than it might once have been. The focus then shifts to DC provision as the primary vehicle for many and making sure that this is appropriate and 'fit for purpose' in a changing world," says Hughes.

When conducting reviews, employers need to take into consideration the reasons behind the effort.

"If the pension scheme is primarily there for compliance with auto-enrolment legislation, then the review should check that the administration is smooth and that the member communications are engaging. But if the pension scheme is forming an expensive part of the remuneration package, then a much wider review, considering alternative suppliers and different forms of pension schemes, might be appropriate", explains Boulding.

Stakeholder input needed

Taking into consideration the possible reactions of key stakeholders, either negative or positive, is an important



component of any review, says Hughes, as is "the timing of any review in the context of any other business activity, such as corporate restructuring or wider pay reviews".

"It is also notable that almost half of the reviews in our recent survey have had union involvement. This is likely to be a key driver for the 59 per cent of benefit reviews in the past four years that have involved some sort of concession to members compared to the initial proposal, up from 35 per cent for benefit reviews before 2014 survey," he adds.

Working with an experienced partner, he adds, can help to pave the way for a positive dialogue with unions regarding the issues faced with ongoing DB provision, and how to find an acceptable solution.

Stakeholders involved in reviews could include members of the retirement scheme, union representatives, employer representatives, trustees, and employees.

"The pension scheme is for the employees' benefit. Of course their views should be canvassed in any review exercise. This will also reveal whether the scheme is obtaining the level of employee engagement that the employer is hoping for," says Boulding.

One of the forces driving reviews in the UK at the moment, according to Mercer's director of consulting, Brian Henderson, is a trend being propelled by The Pensions Regulator around the question of consolidation, particularly of smaller schemes into larger master trusts. The regulator, he says, is raising questions about fees, investment potential, governance and other related matters.

"There is a directional travel with that line… and it's to try and get the smaller schemes to consolidate with the big schemes. Those big trusts are measured in the billions of pounds, so if you are sitting on a £30 million DC scheme, it's going to be hard to compete with the bigger trusts. I think the regulator is onto that, and that is prompting reviews," Henderson explains.

Reviews

Reviews may result in a number of changes, including the closure of a DB scheme or a move to a master trust. However, it's important, says Boulding, to see a review in broader terms.

"It would be a good idea for the review to look at what role the pension scheme is playing in terms of meeting the eventual retirement needs of employees, perhaps including an examination of how scheme benefit levels compare to the PLSA's new retirement living standards. A really important change coming out of this could be higher levels of employer contributions or greater promotion of the opportunity for additional voluntary contributions from employees."

A trend that's increasingly being seen from employers and trustees, says Whorlow, is bundling the scheme services of a third-party administrator and investment platform. "This is frequently driven by the desire to reduce costs and take advantage of the latest developments in fully integrated digital member communications available from providers."

Reviews are also seeing the emergence of new pension models.

"Against a backdrop of DB benefits considered unaffordable for many but workers' unions view that DC savings would not provide a sustainable income in retirement, we are also starting to see the early emergence of collective defined contribution schemes. Under this solution the investment and longevity risks could be shared between members, providing a sustainable income in retirement, within a defined contribution environment," explains Hughes.

In addition to questions of value and structure, a review can also help drive employee engagement, says Bland.

"If you've got a great workplace pension scheme, why wouldn't you want to shout about it and encourage your staff members to make sure they are getting the most from it. Employers can play a key role in helping their workers to understand the value of this benefit and in turn, promote to their staff that they are valued and they care about their wellbeing. If your staff are feeling, happy, looked after and motivated, this can only have a positive impact on the business."

Written by John Devine, a freelance journalist

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CHAIR

Chair for the day: Bob Hymas, Trustee Executive, BESTrustees
Bob has worked with pension schemes for nearly 20 years and is an experienced trustee. He has several scheme appointments with BESTrustees ranging in size from ones with assets of less than £100 million to one with assets of nearly £3 billion. Through these appointments, Bob is the chairman of schemes and committees as well as a co-trustee. Some of the committees he has chaired have been focused on specific de-risking transactions such as buyouts. He also has experience of chairing industry-wide groups.

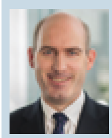
PANEL

Guy Freeman, Business Development, Rothesay Life
Guy's career has spanned over 30 years in the pension fund industry, moving from scheme actuarial to investment consulting and then onto investment banking at J.P. Morgan and Goldman Sachs. Since 2007, Guy has worked in business development at Rothesay Life, playing a leading role in most of the insurer's transactions with pension funds, including those at Rank, RSA, BA, Uniq, GM, MNOPF, Lehman, CAA, Toshiba, and the Post Office amongst many others. He is a Chartered Financial Analyst and a Fellow of the Institute and Faculty of Actuaries.

Karen Gainsford, Principal Consultant, Aon
Karen is a principal consultant within Aon's risk settlement group. She spends all of her time working with clients on de-risking projects and is authorised to provide advice on insurance transactions. Karen has advised on risk settlement projects from £4 million to £2.7 billion, and in 2018 alone advised on transactions totalling £3 billion. Earlier this year, Karen worked closely with Behave London to develop Aon's Behavioural Insights into risk settlement guide, and is keen to help trustees and companies navigate through the decisions needed to de-risk.

Tom Ground, Managing Director, Defined Benefit Solutions, Aviva
Tom Ground joined Aviva in August 2017. He has 20 years of financial services experience across insurance, fixed income and strategy consulting as both principal and adviser. Prior to joining Aviva, Tom headed up L&G's bulk annuity and longevity insurance business, where he managed the execution of bulk annuities and the end operations once they were sold. Tom led the successful execution of transactions of all sizes including the largest buy-in and largest buyouts. Prior to Legal & General Tom spent 10 years with Accenture.

Mark Hedges, CIO, Nationwide Pension Fund
Mark has responsibility for the performance and implementation of the asset allocation strategies agreed with the trustees and fund investment advisers. Mark is responsible for a c£6.3 billion asset portfolio; with investment manager selection across liquid assets (equities, liability hedging, credit) and illiquid investment (infrastructure, real estate, private debt, opportunistic and buyout equity funds). Previously Mark led the establishment of Nationwide's Covered Bond programme and its Silverstone RMBS Master Trust funding vehicle.



Rob Mechem, Head of Business Development, Just
Rob joined the DB solutions team in 2014. He cares about what's right for schemes of all sizes when they're preparing to buy-in or buyout. His team supports trustees and their administration partners from enquiry, through transaction and onwards to transition. He's a qualified life insurance actuary, which helps ensure the right questions get asked to focus the expertise within the team and maximise value for trustees. Before joining Just, he spent 12 years at Aviva eventually leading the pricing of bulk annuities for six and half years.

Akash Rooprai, Head of Client Management, ITM
Akash is head of client management at ITM for de-risking activities, working with large pension schemes and insurers to improve the data in the context of buy-ins and buyouts. He has over two decades of experience in actuarial work all in the area of pensions. He has worked as a bulk annuity specialist for over 10 years and has been responsible for some high profile transactions, including the first £1 billion plus buyout, the first public sector bulk annuity and advised trustees on the first captive bulk annuity in the UK.

Matthew Swynnerton, Partner, DLA Piper
Matthew is a partner at global law firm DLA Piper and heads the London pensions team. He advises on all aspects of pensions law, including corporate and bulk annuity transactions, reorganisations, benefit redesign and liability management projects, reviewing and updating scheme documentation and advising trustees and employers on their legislative and trust law duties. Matthew drafted key legal sections of the Combatting Pension Scams Code of Practice, which received widespread praise from The Pensions Regulator.

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De-mystifying the de-risking process

Our de-risking panel asks what pension schemes need to know when it comes to de-risking in today's world

Chair: De-risking can mean different things to different people – what do we think it means to pension funds?

Rooprai: De-risking means removing uncertainty in the wider sense. There's a lot of uncertainty in pension schemes and that can be in relation to investment returns, market movements, data, documentation, benefits; and removing uncertainty is removing risk.

Hedges: Ultimately, as a pension fund, your objective is to provide certainty around meeting the benefits of your members. So, you need to go on a journey that proceeds to keep removing risk and uncertainty to those payments, and that's the process that we go through as a pension fund. Typically, we start off with things that seem to give us the biggest risk and, as we start to remove those, we uncover other levels of risk that, whilst they may have seemed immaterial, become commensurately more significant because your overall risk is steadily reducing.

Mechem: That's right, and that way you are making it a higher and higher probability that you will pay out the right benefits now and in the future and that's what it's all about, securing the best outcomes for members.

Gainsford: There are a number of different aspects to this. One is having certainty over the benefits that are payable, so being sure on your data, having clear benefit specifications and so on. Then you've got the asset side – making sure that you have enough assets to meet those benefits, and making sure that you're getting the right risk and reward balance from those assets.

Swynnerton: Also, we shouldn't forget the security of the employer, looking at things like parent company guarantees, escrow, letters of credit – that kind of thing can obviously help de-risk a pension scheme.

Chair: Is de-risking on the agenda of all schemes?

Rooprai: Most trustees think it's on their agenda. I'm sure that there is a good portion though who don't actively do anything much about it.

Gainsford: Many schemes want to be doing something, but some feel they are constrained by the position of the company or the funding level of the scheme. There are quite a few with aspirations, but feel that they can't take action at this moment in time.

Rooprai: There's often a misunderstanding of what de-risking means, and I'm glad we started by defining it. Some schemes feel they're constrained because they think they haven't got the money to do something significant when, actually, they could be doing something. They could be looking at their data, they could be looking at their documentation and these things don't need to involve a settlement transaction or spending huge amounts of money – they involve spending money of course but spending less money.

Hedges: Whatever circumstance they're in, schemes should have an objective in mind of where they want to get to and, over time, that should lead them to decisions that enable them to do de-risking, whether it's de-risking of assets, whether it's understanding the data behind their membership and making sure that's in a better state and so on. There's a whole host of things in that risk spectrum for them to think about, but they should all have a clear objective of where they want to move towards,

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and they have to take into account, quite rightly, the financial covenant of the sponsor.

That will shape some of the risks they have to take in the interim, but they've got to continue to try and evolve that and move it forward. That's really the purpose of trying to ensure they're going to meet that ultimate objective of paying out the benefits to their members.

Regulation

Chair: Is everyone happy with the regulator's guidance and narrative on de-risking?

Freeman: I do think it would help trustees if there was some clarity about the sponsor's long-term aim, be it buyout or self-sufficiency. I think they're a little bit caught at the moment with companies who don't want to put more money in but have an objective of buyout in the long term. The sponsor can't be open about it because the moment they say, "we want to buyout", that might trigger additional funding. If they were forced to come off the fence about that point, it would help the trustees know where they are ultimately going, perhaps.

Hedges: That's a challenge because it depends on the maturity of the scheme, where it currently sits, where its sponsor sits in terms of financial strength, and its willingness and ability to support the scheme. We've had these discussions. We've thought about the long term, whether buyout is an objective for our fund. It isn't, at the moment. It may become so. Over time, your objectives will change, so you need to go on a journey. Ask yourselves, what's the first thing that you need to look at?

The first thing, maybe, is that you need to get well funded. You need to get your technical provisions funded, and then you perhaps move towards your next target, which is possibly self-sufficiency. Over that journey, there may be opportunities where you can take further risk off the table in terms of buy-ins, perhaps, and you might get to a point you are reasonably well-funded, where the costs to the sponsor of a buyout might become more reasonable, but you won't know that now.

So, to set an objective of buyout might be something the sponsor's not going to sign up to, because it just sees a big cheque at this point in time. But if you have a longer-term strategy that recognises it will evolve, then maybe you'll have a discussion in 10 or 15 years about buyout. All of this is very dependent on the maturity and the profile of each individual fund.

Gainsford: I agree. We see that often, in that schemes are aiming for self-sufficiency, and then some sort of corporate event happens or funding is better than expected and buyout becomes feasible far earlier than the scheme expected. The key point, from my perspective, would be to keep your options open. If you are aiming for self-sufficiency at the moment, don't close your eyes to the option of opportunistic buy-ins that can potentially move you towards a buyout in the future, because it could very easily fit within your self-sufficiency goal in the meantime.

Rooprai: In that context, it's important for a scheme to understand whether it will ever contemplate buyout or not, and there are some schemes that will never contemplate buyout – perhaps not very many, but there are some. If you are thinking you are going to aim for self-sufficiency over 10 years, but you're not closed off to buyout, then if there's an opportunity to do a buy-in, for example, you can take some risk off the table because perhaps something good has happened.

I do wonder if there's a need for regulatory clarity here because trustees and companies, in particular, perhaps feel constrained about signing up in some way to a buyout target, because there might be funding implications; there might be implications around having to pay higher transfer values and less flexibility. There should be some regulatory clarification here that says, if it's a separate long-term target, it doesn't trigger all sorts of other things that you need to do.

Hedges: I agree that the regulation is not very clear here and it's one of the concerns, clearly, that our sponsor has. The way we recognise it is that the journey to self-sufficiency means inevitably your technical provisions' discount rates are going to reduce over time. But how do you do that in a way that the sponsor can get comfortable with? It feels to them like they are almost writing a free cheque.

Freeman: My issue with this kind

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of framework is it's quite driven by the question of 'what returns do we need to make it affordable?' From a trustee perspective, that's the wrong way around. It ought to be about how much risk you can take based on the covenant strength. And secondly does the sponsor actually want you to take those risks? If so, perhaps you should. Other than that, there isn't much in it for the membership. What do the members get out of taking risks? Not very much – all the upside of risk-taking normally goes to the sponsor's shareholder. So from a trustee perspective, de-risking should be about how much risk you can afford to take and how you can get to the right position for the pension fund. The company may not like that if it triggers additional funding, of course but the risk position is after all a trustee decision.

Mechem: It's also about the 'what-ifs?' Everybody is on a de-risking journey, but what happens if the sponsor becomes insolvent? What's the new de-risking journey and plan to get there if that occurs? I don't think the regulator focuses on adverse scenarios that may happen, unlike the PRA who regulate the insurance regime, where you've got lots of 'what-ifs'. That needs focus, but I agree it's about how much risk you are prepared to take to get to your end game in different scenarios.

Chair: So, is there a change in approach needed from the regulator or is there a change needed in regulation? Or do the trustees need to change their way of thinking?

Rooprai: I'm not in favour of overregulating, but there probably isn't enough from the regulator on this. I agree that you need to start by asking what risk you have in the pension scheme. Then measure that risk in some way (there are lots of different ways to do that), monitor it, and that then drives everything else you do. But there is the need for some regulatory impetus here.

Freeman: There has been quite a bit of impetus recently with the regulator focusing more on weaker schemes, highlighting the strength of the covenant as the key input to that decision about risk-taking, and that's heading in the right direction. It's whether trustees react to it and follow it, or ignore it like some of them seemed to have done in the past.

Swynnerton: I agree. There is quite a lot of material from the regulator on encouraging trustees to focus on their sponsor covenant and security, have appropriate emergency plans in place to deal with insolvency scenarios, and what Brexit might mean. Perhaps some trustees just aren't doing these things.

Also, the regulator has come under heavy criticism for some of the high-profile corporate failures that have resulted in schemes going into the PPF. Hopefully this will be addressed as part of the regulator's new powers. That will, I think, be the regulatory change that will drive thinking on this. The regulator will have new powers, which will force corporates to think differently about their restructuring and their transactions. Beyond that, it's hard to think what additional regulation should be brought it.

Chair: It sounds like the regulator's approach probably isn't too far off where it needs to be, but perhaps trustees need to respond or react to it slightly differently.

Swynnerton: And they need to drive employer engagement more – there isn't perhaps enough cooperation or discussion between trustees and employers about their appetite for risk.

Freeman: And clarity about the sponsor's long-term aims for the pension fund.

Supply and demand

Chair: We mentioned earlier the opportunities for buy-in and buyout. The presumption is that there is a supply, and trustees can engage and have successful transactions. But what is the capacity in the buy-in, buyout market and more widely what will the market look like in the future?

Ground: Overall, the de-risking marketplace/insurance capacity is growing by 20 per cent a year on average, and has been for the past six or seven years. There are probably two things limiting growth – the availability of assets and the availability of capital. We've got lots of new sources of capital coming in, so there are new re-insurers that effectively are putting capital in, and there are new people wanting to put capital in different ways either in debt or equity.

Then there are all sorts of new structures that are available that basically mean that you should have quite a lot of confidence that the market will be able to carry on growing. Whether it can grow as fast as the demand is growing is another question, but you'd have thought you'd be confident that you could support at least 20 per cent.

Chair: Can you talk more about these new structures?

Ground: There's more availability in terms of new ways of getting reinsurance into the market, so there's longevity

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reinsurance and then there are other reinsurance structures that allow capital to come through, which are being pushed very hard by banks and by other insurance providers. All of that gives more capacity to the market.

Chair: Is that the view on the supply side, that there is sufficient supply?

Freeman: The market looks like it's going to be something like £40 billion this year from pension fund transactions alone, and last year that was £24 billion, up by more than 50 per cent having already doubled over the previous year, 2017. If you look at the eight insurers that transacted with pension funds, they actually completed something like £40 billion in total last year too when you include back-book transactions with other insurers that are exiting the annuity market.

What is different about the market this year is that there are more very large deals, of £1 billion-plus, and there are more buyouts in the market. This has a couple of immediate impacts.

First of all, the larger transactions get a lot of focus and that means it's harder for the small and medium size deals to get as much attention as before.

Secondly, buyouts take a lot more time than pensioner-only buy-ins, both from the advisory side and on the insurance side.

Overall what I think we won't see is much of an increase in the number of transactions that take place from 160 in 2018. The average transaction was £150 million last year. This year, it might be well over £200 million. We're seeing that average size go up and that could mean it's getting harder for the smaller pension funds to access the market.

Mechem: That does depend. The smaller schemes need to come to the market much more prepared than they've ever been before. With accurate data and benefits ready for insurers to price against, understanding where they want to get to and with a plan in place. They probably need to be more open and honest with the insurers on what the target is, because we're all in a position to select which schemes we'd like to go for, and the smaller schemes have got to be prepared to share more information than they've ever done before.

Freeman: I agree. For smaller schemes trustees have to set their target price, they have to have a quick process, a simple process, and be willing to offer exclusivity fairly early on to an insurer that's prepared to give them the price that they want. But there's a difficulty there too – how do advisers get a client comfortable with a setting a price target?

Gainsford: Within Aon, we try to set decision-making frameworks very early on with our clients so that it's clear whether a potential transaction will meet their metrics or not. When we receive insurer quotations, we will judge the quotations against those metrics. If one or more of those quotations meets all of the metrics, we'd make sure that the trustee and company have governance in place to be able to then act quickly if required by the insurer who's provided the most compelling offer.

Also there's a greater need to be flexible. You can go into transactions setting out a one-stage, two-stage process but you need to be flexible in terms of both timing and whether you do run one round or two rounds or even just defer based on what quotations come back from insurers. So, flexibility and timing are key.

I agree with Rob [*Mechem*] that, as a consultant talking to insurers, I need a very clear message when I'm talking to the insurers to get them to quote on a particular case. So, schemes need to be well prepared – they need to have complete, clean data as far as possible and very clear benefits, benefits that have been specified and reviewed by the lawyers. Also, a price target that we think is achievable in the current market is very important. We will not take a scheme to the market with speculative pricing.

Freeman: The days of insurers being willing to do much work on what is probably a feasibility test have gone, and that means the advisers that are needed are ones that know where the market price is so they can do the best feasibility analysis.

Ground: The market is very much open for schemes of all sizes. There are several insurers that are focusing on schemes of all sizes. If you're a trustee of a small-sized scheme, you don't need to be afraid of the market not being available to you.

Gainsford: Yes, and they remain an important source of business for a number of insurers. What we've found is that we will still get interest in almost every transaction that we want to take to the market. Saying that, what we find is that we're not getting quite the numbers of insurers that we might have done in the past, but this isn't impacting the end results for schemes.

Ground: Insurers know which schemes they like and which ones they are likely to be able to be competitive on. We and other insurers

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can look through the specification and decide pretty quickly whether it's something worth doing the work on. So, having fewer insurers quoting isn't a bad thing. In fact, it can mean a simpler and quicker process.

Chair: You mentioned small schemes. What do you mean by small schemes?

Ground: We did schemes as low as £100,000 last year, so small can mean very small – the whole market should be covered.

Also, it could be that you've got a scheme with which you can do a buy-in and you want to make sure that you're able to do a top-up buy-in when you can afford it. So it's very important that the market continues to address schemes of all sizes and definitely Aviva have been very focused on making sure that's possible.

Mechem: I agree. It's about getting engaged insurers rather than getting the whole market involved. Two or three engaged insurers that are actively going to target the transaction is better than having four, five, six insurers when only one or two are prepared to do it. That's where the dynamic is changing. The DB universe is polarised between a few large schemes and many smaller ones – which was the original impetus behind the recommendations made by the DB taskforce. It's natural that mega deals get the focus of attention now but it's smaller schemes and smaller transactions where some insurers have always focused.

Chair: As a trustee, how do I make a scheme more attractive to an insurer, especially at the smaller end?

Ground: Two things are important. Firstly, making sure that the data and benefit specifications are in a state ready to transact; we and other insurers will prioritise a scheme that's well-prepared. Secondly: it's about understanding that the scheme is ready to transact and has clear targets set.

A good adviser needs to be in a position to make sure the scheme is ready. It's about the commitment that the scheme has shown in order to execute a transaction. It doesn't matter whether it's a big scheme or a small scheme.

Hedges: Is there also a dynamic around the assets that you've used in the scheme?

Ground: The pension scheme needs to be able to disinvest from their existing assets. There were a few examples of schemes that have come to the market with illiquid assets, private equity or property that can't be readily disposed of. These are harder for an insurer to take as part payment for a transaction.

Freeman: That's an interesting area because if the investment consultants are doing their job properly, they're encouraging trustees to think more about how they can invest. A current theme is to have more illiquid assets. If you're in a pension fund that you think is going to be running for decades because the sponsor is large and strong then illiquid assets are a sensible area to explore. But if the sponsor suddenly says it wants to buyout, then the illiquid assets can make completing a bulk annuity transaction difficult. Insurers will usually want to receive a premium in the form of liquid assets as anything else can make a transaction expensive or complex to negotiate.

So, setting investment policies can be tricky for trustees where they don't have certainty over the fund's medium-term future.

Ground: It's the same with data – you need to make sure that data cleansing exercises that have been kicked off are completed. Before a buyout, we've got to make sure that the data's in a fit state to transact, and that the legal specification has been concluded properly.

Freeman: That's something that doesn't matter too much if you're focusing on pension buy-ins – you just need the demographic inputs such as experience data, post codes and marital status. But for a full buyout, everyone wants to know exactly what the cost is going to be for the company. You have to nail everything down. You can't have any uncertainties about what the benefits might cost. There are often gaps in areas such as contingent spouses pension amounts, pending cases from suspected or recent deaths, GMP population reconciliation etc without which you don't have certainty on total costs. So there's lots of work to do there to make sure you get to that point.

Mechem: Most insurers know where they're going to be most competitive and that's where they're going to focus their resource. We can be influenced by the ratio between pensioners and deferred members, the number of members to be covered (which might make it possible to medically underwrite) and the weighted average age. I agree with Tom [*Ground*] that scheme assets should be liquid, the exception being investments in infrastructure or other long-dated illiquid assets like LTMs that an insurer might want to take-on in-specie. Having good quality up- to-date data is also a real bonus.

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Chair: It sounds as if it is a seller's market and the individual schemes have to be at a high level of preparedness. They have to have done their homework and be fully prepared.

Mechem: I think the days of pricing to establish feasibility are well gone.

Freeman: The change in market dynamics also potentially puts a question mark over the idea of starting with a pensioner-only transaction and then expecting to come back to the market with the rest of the liabilities within the medium term. This because the market's appetite for deferred-only blocks or blocks that are largely deferreds is not as good as it was, particularly when another insurer is already in place on the pensioners. When insurers are being more selective, these second tranches are now much harder transactions to place. So that just poses a question if you start with a pensioner-only transaction, are you going to get to where you want to go?

Mechem: You're right – it then comes down to what your de-risking journey plan is. Even if it's only three years to your end game, pensioner buy-ins make sense to help you de-risk. But when

you're close to full buyout, you need to think about the deferreds that remain after a pensioner buy-in, to ensure you'll have the assets to pay for cover or plan a journey where the majority of these deferreds have become pensioners.

Rooprai: Back to the broader supply/demand question, there are £2 trillion worth of pension liabilities in the UK. If only half of them are chasing an insurance solution at some point, then the latent demand is huge. Tom [*Ground*] was saying how there is good availability of capital and the insurers have been good at finding assets that can give decent pricing. I wonder, over the longer term, whether that's going to continue. It doesn't take much for that to change in terms of schemes coming to market for that to create an issue for the suppliers.

Chair: Do we see the market changing over the next five to 10 years, 20 years?

Freeman: It's hard to predict but at the moment, there's plenty of supply from insurers. Access to capital is good, for Rothesay Life at least and we've been busy hiring ahead of demand. So hopefully the market supply will keep moving in line with trustee demand, which is inevitably going to increase over time. If there's a mismatch, then prices may become a little bit more expensive in the short term, perhaps, until more capital is drawn in and prices re-balance.

Mechem: It's about getting it right, being prepared and having everything in place, as opposed to speeding things up and coming unprepared. And part of being prepared is making sure your administrator knows what they'll need to do after a derisking transaction. It's surprising how often the first they hear about this is after the transaction is signed and the insurer briefs them and the trustees. This can cause problems as administrators aren't resourced-up or contracted to take on this additional work; it pays dividends in the long run for the administrators to be involved early on and have a plan in place for what work is going to come their way.

Swynnerton: For schemes thinking about how they can best market themselves to an insurer, well-advised trustees will establish a joint working group with the employer. Benefit specs have also always been at the forefront of trustees' minds and we've always had a lot of input into those on the legal side.

I've yet to see, though, trustee boards creating joint working groups to look at a potential transaction and establishing terms of reference, or developing a benefit spec, in advance of the initial recommendation to look at a buy-in, except perhaps where trustees have previously executed one, so already have the framework in place from the initial deal. You'd be surprised how long even a joint working group's terms of reference can take to agree, particularly if you've got an employer perhaps with an overseas parent who wants to get involved in the process. Is there really any harm, assuming that buyout is the ultimate goal, in creating an accurate benefit spec now, so that if the market opportunities are right, they can move really quickly, given that it's certainly going to be needed at some point?

Freeman: Perhaps this is another area for regulatory intervention – to encourage trustees to spend some money on making sure that they have an accurate benefit spec. This would help ensure that any issues with the historical documentation have been addressed and to check whether it all matches up against the administration practices over the years. At the moment, companies don't want to think about doing this because it is highly likely that they'll be spending money to unearth some problems that will cost even more to address. With some stronger guidance from The Pensions Regulator, trustees would be able to push on this point.

Swynnerton: One of the risks here is that, when you create your benefit spec, whether it's for an insurance transaction or in a sale context, that's when the skeletons come out of the closet.

Chair: There is that big risk attached to any such exercise.

Swynnerton: Indeed, and there will be a natural tension between the trustees wanting to resolve those kinds of issues quickly and the employer representative who perhaps thinks: "Well, I'll have retired in 10 years, that's somebody else's problem to deal with."

Rooprai: The fact is those issues exist already in the scheme – you're just crystallising them. Arguably, they're even crystallised already, you just don't know. They're the known unknowns.

And yes, there is a resistance to spending money now for a future benefit. A scheme that is looking to buyout in five years will argue against doing the data work and the documentation work now. But it is important to do it sooner rather than later because you're going to spend that money anyway; in five years' time you're going to be spending lots of money on your consultants and your advisers and ultimately paying the premium, so why not do some of that spend now? That way you can spread the cost over a number of years.

Gainsford: It's also important to make sure that whatever target you're aiming for is actually calculated correctly, because if there are underlying issues with pension increases or equalisation or any other skeletons that come out of the closet, then you're aiming for the wrong target and you could get too far down the line to then be able to re-risk to earn the money that you need to fill any potential holes.

Rooprai: Yes – that would mean everything you do with the pension scheme is targeting the wrong thing. Your funding's targeting the wrong thing. Your long-term plan's targeting the wrong thing. You may be in the wrong asset classes.

Swynnerton: Trustees' fundamental duty is to pay the right benefits out of the scheme – creating a benefit spec and digging the drains in that way will only help them achieve that fundamental duty.

Mechem: Absolutely, and why not remove the uncertainty? The risk is there – and by not doing the work, the risk's still there, so you might as well do that work upfront.

I agree also that regulatory input into this would be very helpful. If you are in a situation where you don't know what your benefit specification is, how can you do anything that the regulator wants you to do?

Swynnerton: Trustees don't want to make themselves unpopular with the employer, so that's why these things don't get suggested sooner. It would certainly remove that tension between the trustees and the sponsor if the regulator said this was something the trustees must do.

Hedges: If it's not regulation, just guidance, a classic response from a sponsor would be: "Why do we have to do it?" We haven't done any buyouts in our scheme and we're a long way, probably, from doing that, but we have still gone through a detailed assessment of the data. We've cleansed that. We want to put ourselves in a situation where, if opportunistically we're in a situation where it now makes sense, we could execute quickly. If a good opportunity comes up, we don't want to miss it.

We've had a monthly de-risking group with the society for six years now and that focus has initially been on

inflation and interest rate hedging but, since we've dealt with most of that, we are now talking about longevity. We have been having discussions about where do both sides see the ultimate long-term objectives. We think that's the right process.

Behavioural aspects of de-risking

Chair: Something that's very important in what you have described is the good relationship with the sponsor and the sponsor understanding what the trustees are trying to achieve. That feeds into the behavioural aspects of the trustee board. Trustee boards may get distracted in conversations about how the sponsor is going to react to something, especially when there is a price tag, rather than focussing on what they need to achieve.

Gainsford: One behavioural bias that comes through in de-risking, particular with buyouts or buy-ins, is the pain of paying – paying the money now rather than potentially having to pay in the future. Sponsors do see that as a big issue – it is something that weighs heavily on them and perhaps a CFO today might prefer to leave that cost for a future CFO

De-risking roundtable

to deal with.

The other behavioural bias that comes through quite strongly is regret aversion. If I pay money now for a transaction or if I pay money now for a benefit specification, could I actually pay less in the future? As humans, we don't want to make decisions that we are going to regret. The way around that is to take out any ambiguity from the decision, make sure it's really clear what is required, what the benefits are, what the risks are that you're reducing, and therefore trustees and companies make informed decisions that have no ambiguity attached to them, and they find it easier to do that.

Rooprai: That's a really good point. I always used to get asked, as a bulk annuity consultant, is it a good time to buy? Will I get a good price? I think these are the wrong questions. What you should be asking is, for the price that can get rid of the risk, is it worth getting rid of that risk?

Hedges: Exactly. I've been looking at our interest rate and inflation hedging, and it's taken a lot longer than it should have done, primarily because the sponsor has been saying that rates will go up, so it's not a good time to do it. We however argue that it's a risk we don't get paid for, so let's just remove the risk and move on. But it's been a slow process because there is always that regret risk. But the point you make is correct – you should be asking the question, is this a good price to take that risk off the table today? If it is, do the transaction because you're taking away the risk. That's the crucial thing.

Gainsford: It highlights the importance again of the de-risking framework that you set up and your decision-making framework, so that when you get quotations in or when you're faced with some sort of de-risking opportunity, you can evaluate everything on the facts, rather than have some sort of behavioural influence in the background.

Chair: What other barriers exist for a scheme looking to de-risk?

Gainsford: I would say time. There are quite a few different options that a scheme can look at – bulk annuities, longevity swaps and many more. How do schemes look at them all and how do they consider them in the round? Which order do they do them in? This is at a time when trustees are still going through investment strategy reviews and triannual valuations. So they need to make sure there's enough time and resource from the trustee point of view to actually move forward, and generally setting up subgroups for specific topics is a good way of getting around that, so that people can specialise in a particular area and then feed back to the main board on the process.

GDPR

Chair: The regulatory environment in which we operate is always changing. We've had GDPR during the course of last year – has that had much impact on the de-risking market?

Swynnerton: GDPR still seems to be quite a difficult issue that, as lawyers, almost a year and a half on, there are still issues to be resolved around disclosure of data. Obviously, any buy-in is going to involve disclosure of personal data, but often that will include sensitive personal data, because in order to make pricing to be attractive, insurers want as much information as possible, including data in relation to ill-health pensions. You can pseudonymise that data and omit the ill-health data set, but it may be difficult to avoid disclosing postcode data or the fact that the pension is in payment at a time which means that it must be an ill-health pension, meaning that special category data is effectively disclosed.

So sensitive personal data remains a really knotty issue for trustees, on which they will require legal advice as to whether there is a legal basis for disclosure. Ultimately, they may need to get comfortable through reviewing their privacy notices and a combination of mitigating factors, such as the strength of the non-disclosure agreements in place with the insurers, pseudonymisation, and use of secure transmission methods. So there are still some complex legal issues in relation to GDPR out there for trustees.

Mechem: I don't think GDPR has slowed anything down in the bulk annuity market. Matthew [*Swynnerton*] has highlighted some of the things that trustees should consider, of course, but we medically underwrite members and, therefore, we are looking at sensitive personal information. We've seen no slowdown on anything that we do in that area, so I don't think it's had a big impact.

Swynnerton: There will be more clarity over time as we have a bit more experience of how the Information Commissioner will act in light of GDPR in a pensions context, but the main issue is that it has created a risk for trustees that wasn't quite as acute pre-GDPR around disclosure of data, particularly sensitive personal data. The trustees must get comfortable with that risk, primarily through legal advice, and then through whatever protection they can put in place through NDAs, secure transmission, limiting the data and transparency.

Concluding thoughts

Chair: Can I ask each of you to give your top tip to trustees around de-risking – what they should be doing and what they should be focusing on.

Mechem: I think being fully prepared, having a clear project plan, having a fully engaged sponsor throughout the de-risking process – these are all key things to ensure that a transaction occurs. And probably most importantly, talk to the insurer early to understand where they are in their business cycle. And last but not least, small schemes should feel confident to approach the market once they've done their preparation.

Swynnerton: I'd echo that, although it's important not just to focus on one specific aspect, but perhaps have a slightly broader scope than just buy-in and buyout transactions, through engagement with the employer and creating, if one doesn't already exist, a subcommittee or joint working group of trustees and employer representatives who can act quickly on a buy-in but can also look at the broader spectrum of de-risking options.

Gainsford: I'd encourage schemes to have clear objectives and a framework for evaluating the different options, so when they receive information back from the market or from other options, like member options, how are they going to decide which to do and when? So, clear objectives and a clear way of evaluating those options.

Ground: Be ready – appoint good advisors and make sure you get all of the governance sorted so that you can execute quickly. That's critical. It is a very busy market, so if you get things wrong then you might not get the best price and the best deal for your members.

Freeman: I would say engage experienced and expert advisers, definitely. That is key. But also, if you want to get insurer interest, trustees should go and meet the insurers face-to-face. Insurers have to weigh up the likelihood of a transaction and little counts as much as a direct conversation in making that judgment.

Hedges: Understand your risk, have a long-term plan, be open to the opportunities and be prepared so you can have the governance to execute quickly.

Rooprai: Have an aim in mind, have a plan and execute the plan, but get the basics right, sort your data and documentation out.

Chair: To add the trustees' perspective, the challenge that exists for trustees, especially with the smaller schemes, is having the budget and the resource to get the scheme into a position where it is ready to approach the market. The perception in the past has probably been that there's a healthy appetite from insurers and because of excess supply trustees could complete transactions by resolving issues during a period of negotiation. Those days are clearly well and truly over. The emphasis now needs to be on preparation, and also having early engagement with the sponsor so that all options have been considered and the sponsor is onside.

Summary
• Pension funds' investment portfolios are looking increasingly like those of insurers.
• Schemes' individual situations determine why they choose an insurance buyout over a buy-and-hold bond portfolio.
• Patience can be a virtue for even for the longest-term investor.

According to reports, on average, one US insurance company goes bust every year. From small state-level minnows to large multi-sector behemoths, these supposed prudential financial giants frequently fall over.

Fewer topple over in the UK due, mainly, to it being a smaller market. But if the insurance model is not watertight, why are pension funds so keen to mimic its behaviour?

The reason is clear. Compare just one insurer a year in the world's largest market falling to the literally hundreds of company schemes that have entered the Pension Protection Fund's assessment period in the past 10 years.

The majority of companies are fallible – and very few defined benefit pension funds can stand up on their own.

The name's bond

Asset allocation surveys published annually by Mercer show a rampant expansion by pension funds into fixed interest and income securities, just like those held by insurers.

These bond portfolios are increasingly complex, too, using liability-matching tools that have been common for decades in the insurance world.

Aviva Investors investment strategist, solutions team, Niren Patel, explains: "Pension funds are continuing to increase their adoption of cashflow-driven investment (CDI) strategies. The main reason for doing this is to align the asset portfolio with liabilities, as well as managing any cashflow negativity."

CDI portfolios typically contain high-quality debt and debt-like assets, across both private and public markets.

These CDI strategies can help to dampen the effects of volatility in the market, too, according to Patel, which is something investors are keen to do after wayward equity markets have returned.

"With uncertainty dominating the current investment backdrop, real assets are proving popular with pension funds who can benefit from illiquidity premia, without impairing credit quality or pushing up risk," says Patel. They also secure downside protection through real asset backing, alongside regular stable cashflows.

The pain point for investors shifting into bonds and other debt instruments, however, has been the price.

The famously low interest rates over the past decade has meant paying over the odds, in some cases, just to guarantee an income that will match payments going forward.

Private markets often offer a premium over public ones, as long as the investor has the constitution for taking on the illiquidity.

But, according to XPS Pensions Group head of risk transfer, Harry Harper, "everything is very expensive now".

"The low long-term yields and low bank lending rates have driven up the price of all assets, including equities, property, bonds, bulk annuities, the lot," he explains.

Hi-ho silver lining

There is silver lining for pensions, however, and it explains why pension schemes are lining up to imitate insurers: they want to transfer all their risk over to an insurer.

"As pension schemes will hopefully already hold the funds that they need for a buyout in some type of asset, it is really a case of switching from one over-priced asset class to another over-priced asset," says Harper.

Once the switch to bonds has been made, the funding level of the scheme will become a lot more stable (in theory).

"Therefore, if a scheme can afford buyout then it should switch to bonds as soon as it can to try and ensure the buyout possibility does not slip away from the scheme, as it could do overnight if they stay in growth/equity investments," says Harper.

Harper has seen the gradual transition from growth assets to bonds by pension schemes over the past decade, but for those looking to buyout, the process is more rapid.

"Provided assets are in the millions rather than billions, it would only take a couple of weeks to trade out of equities and into bonds/gilts," he says. "Illiquid assets that are held by some schemes to get a better long-term return might take a year or so to exit from at a good price, so if those assets are held it is vital to plan ahead."

For Legal & General Investment Management head of investment advisory, Tim Dougall, pension schemes that have identified buyout as their endgame have little to fear from expensive bond markets – they are already 'in the price' of buyout quotes from insurers.

"Pension funds who wish to buyout will be buying bonds at some point – either themselves or because the insurer will buy them to back the policy and reflect that in the price," says Dougall. "So, in simple terms, pension funds can buy the bonds now, immunising themselves against the future movement in their prices, or buy them later with the risk that they will be even more expensive at that point."

Most pension schemes aiming for buyout are looking for certainty, not risk, he says.

Stick or risk?

But if pension schemes are making all this effort to transform their portfolios into something that looks like an insurer, wouldn't it make sense to save the fee of a buyout and run the scheme into maturity itself?

"There are some schemes who decide to continue to run the scheme rather than buying out even when it is affordable to do so," says Aon head of investment risk settlement, Lucy Barron. "These schemes typically have a number of specific features that makes buyout less attractive, including accounting reasons for continuing to run the scheme, strong scheme sponsors and strong investment (and longevity) risk management."

The process can also be time-consuming, which can put some businesses off. However, with £30 billion in risk transfer transactions completed in 2018, it seems the industry is getting operationally more efficient, leaving this reason for holding on to the risk less relevant.

"The most obvious benefit being to protect against the risk of members living longer than expected," says Barron. "A significant financial risk that most financial instruments (like bonds) are unable to protect against. Furthermore, whilst there may be an upfront time commitment for many stakeholders, the long-term governance requirement is all but eradicated, freeing up stakeholders' time and allowing them to focus their efforts on other areas important to them."

Getting on with running their company, in other words.

Should the worst happen, and markets flip out or crash again, meaning the buyout or risk transfer markets are put on hold or at least run at reduced capacity, looking more like an insurer than a pension fund might have its advantages.

"If clients are in a position to buyout the scheme but the market pricing has deteriorated to a point where it is no longer affordable in the short term (or simply because capacity is low) the reality for most schemes is that time is on their side," says Barron. "While it may be possible for some companies to pay more into a scheme to bridge the gap, this is unlikely to be affordable for most schemes. In fact – all things being equal, the aging of a scheme's membership should make it more affordable as time goes on."

Even if there's no capacity available from a given insurer, given a pension fund is 100 per cent funded on a buyout basis they are in a very strong position, so should focus on managing the existing asset portfolio and monitoring insurance capacity across the market, according to Patel. "What may not be attractive for one insurer may work for others."

For Harper, a reversal out of the insurance model is unlikely to be on the cards.

"Bonds can be sold again, although it's fairly uncommon these days for trustees to decide to 're-risk' by going back into growth assets," he says. "Bonds are the best asset to be in if market levels do change, so the worry about markets changing is really something that should concern trustees who are holding equities, where very large falls at short notice are common."

If insurers increase prices, they should come back again if they wait long enough, says Harper. "It's just a case of waiting – and pension schemes are very good at waiting, if they have to."

Written by Elizbeth Pfeuti, a freelance journalist

Poetry and pensions

In honour of National Poetry Day on 3 October, *Pensions Age* showcases poems written about pensions

One day you'll retire, my son.

When you're 2 you'll have a piggy bank.
For which you'll have your folks to thank.
At 5, maybe a pension, maybe a JiSA.
We're undecided, maybe neither.
By 10, you'll understand saving.
You'll want to spend it, but we'll manage
the craving.
At school, you'll be taught about money.
By 18, an expert, I'm not being funny.
And what will you do at 22?
Be enrolled, that's what you'll do.
If you opt out, you'll be back in at 25.
What a time to be alive.
And an MOT at 50?
That sounds nifty.
At 55 you could take some cash.
Manage your funds, give that a bash.
At 65 you'll get your pension.
The one from the state, I should probably
mention.
Actually, maybe later, at 68.
You'll just have to wait.
At 75, you'll crystallise.
The kind of jargon we all despise.
At 80, maybe annuitise.
See what a monthly income buys.
Then at 100, maybe you'll retire.
At the age of 100, maybe higher...
Standard Life head of global savings policy Jamie Jenkins

Scams

Many employees understand the dangers of falling for a scam,
But when it comes to pensions, do they know how to spot a sham?
To help your employees avoid falling victim to losing their pension,
We have provided our top five tips which are worth a mention.

1. Scams look and sound legitimate, to not give anything away,
So employees should check that the company is registered with the FCA.

2. If an investment offers a great opportunity and seems too good to be true, It's likely to be a scam, and if they fall for it, there is little they can do.

3. Genuine advisers will never tell individuals to make a decision in a hurry,
So anything promoted as a limited time offer, creates reasons to worry.

4. Pensions can normally only be accessed at age 55 and employees should know all the facts,
So that when someone promises to release their pension early, they will know how to react.

5. Employees need to know where to go if they are in any doubt,
Their workplace is often the first place they will turn to, to help them out.
Now just before we end it there, we want to raise awareness about what employers can do,
This would be to help many employees avoid a scam, and not just a few.
Financial education is key to this as it can highlight the risks employees may face,
So why not consider putting this in place?
By Wealth at work

There was a young lass from Dundee
Who wanted to be a trustee
She's unlike the others
That band of old brothers
So added some diversity
Dalriada Trustees senior trustee representative Vassos Vassou

Divorce

A man who had saved all his life
Gave 50 per cent to his wife
He thought that he ought
And so did the court
It's sad that divorce is so rife
Spence & Partners director Hugh Nolan

You used to say you loved me, your outpourings were effusive
But over time, the rot set in and those billet doux elusive
With the love we had a distant flame, of those memories I've become a hoarder
But now I think it's time to talk 'Pension Sharing Order'
MyCSP director of communications and engagement David Boardman

Money for later
Rolling up throughout the years
Old age happiness
Spence & Partners director Hugh Nolan

At-retirement

When I am on a pension
Currently 21 years ahead
I better first mention,
That I hope I won't be dead.
I'd like to think I'll be on holiday
And be a local volunteer
Doing social stuff every day
Being kind to those who're dear.
But when I see the annual statements
From my several pension providers
I fear my estimated pension payments
Will leave me hungry, eating dust
and spiders.
Lucy Fry Bespoke Poetry

There was once a man from Lincoln
Who needed a guaranteed income
With freedom and choice
He bought a Rolls Royce
And now he eats out of a tin can
Money Alive CMO Ian Beestin

Tick tock, tick tock, 40 years have passed
The day has come, of which I've dreamt,
retirement at last
I'm aware of all my benefits, my life
before me set
Relax, unwind and rest awhile. Enjoying
life? You bet!
**MyCSP director of communications
and engagement David Boardman**

There was an old couple from Keynsham
Who wanted to build an extension
They accessed their cash,
Got stung by the tax,
And have totally ruined their pension
**Smart Pension director of policy and
communications Darren Philp**

When I am an old woman I shall wear
purple
With a red hat which doesn't go, and
doesn't suit me.
And I shall spend my pension on brandy
and summer gloves
**Part of the poem 'Warning' by Jenny
Joseph**

There was a young man of Devizes,
With pensions of different sizes,
The one that was small was no good
at all,
But the other was big and won prizes
**Money & Media founder Andrew
Michael**

If you can keep your head when stock
markets fall.
Have other sources of income on which
you can call.
If you understand how, tax applies to
your stash (excepting of course, upfront
tax-free cash).
And if ongoing charges don't make you
frown.
Then my dear friend consider drawdown.
Money Alive CMO Ian Beestin

In the complicated world of our pensions
Undoubtedly deserving a mention
Is the complex regulation
Confusing the nation
And causing everyone tension!
**Newgate communications senior
consultant Joe Cockerline**

Death

There's a sheer inevitability to the setting
of the sun
We both accept that day will come when
is all said and done
My life with you has been sublime, a joy-
filled jubilation
I leave you safe and sound, my dear, my
death benefit nomination
**MyCSP director of communications
and engagement David Boardman**

There once was this thing called a
pension
That caused me unnecessary tension
Returns were poor
And the charges just soared
But my provider didn't think it worth a
mention
**Smart Pension director of policy and
communications Darren Philp**

We are the women born in the 50s,
Who will not falter in our fight.
The government postponed our pension.
This isn't fair. It isn't right.

We contributed to this nation,
Our workforce made this country great.
We don't deserve to be singled out
Told our pensions have to wait.

We enriched the UK's economy,
As teachers, nurses, mother and wife.
Now a random birth date lottery
Gives us an impoverished life.

We did as the government bade us,
Made sacrifices and paid our due.
Now is the time to repay that debt,
We did our bit. Now it's up to you.
***Pension plea (to the government)*
by LGBT Poet Laureate 2016-19
Trudy Howson**

There was a young man from Oxford
Kept his pension statements in the
sideboard
He wondered: "If when I'm a hundred
and ten
They'll have launched the first pensions
dashboard"
Money Alive CMO Ian Beestin

Under pressure

It was recently claimed that the LGPS is facing pressure to drop active fund managers in favour of passive investment, as a result of the Woodford downfall. *Pensions Age* asks: How does situations like these influence your views of active management?

The investment management business is surprisingly black and white. If you are prepared to pay someone to exercise their judgement in order to beat a benchmark, then you should expect them to do exactly that, otherwise why pay the extra fees? On average over 27 years, pension funds in the CEM global database have been rewarded for making active management decisions. The amount is very small, around 60 bps gross and 20 bps net per annum (two-thirds disappears in fees). The value added is wafer thin, but then just 20 bps equates to £ billions in value that has been created. For DB pension funds, that is money that shareholders, members or taxpayers will ultimately put in their pockets rather than their pension funds. However, be smart about where you want to be active and how you implement your strategy. Make sure you have the right benchmarks, particularly in private markets where many funds are measuring noise rather than signal (and paying high fees). Finally, make sure you properly understand what your manager is doing and what risks it presents.

CEM Benchmarking client relationship manager John Simmonds

While the Neil Woodford case has heightened awareness of the risks around active, and particularly, illiquid investments, and around individual 'high performing' investment managers, the reality is there is no such thing as a completely passive fund. For example, smart beta is considered passive but has multiple underlying indices making a decision on what would be a better risk/reward ratio. It would probably be more helpful to talk about it in terms cost. Passive typically equals low cost, usually around 10bps. They are cheap to operate and have low transaction costs. The cost of buying and selling stocks in a highly active way can be huge - including 50bps in stamp duty alone. Going back to Woodford, the idea of an individual fund outperforming the market consistently for five years is extremely rare. And for pensions investment managers, who need to be thinking longer term, 40 to 50 years, it has never been appropriate to 'set and forget'. Workplace pensions are of course constrained by the charge cap and cannot be 100 per cent active without being really careful who you use and how.

Smart Pension chair of trustees Andy Cheseldine

Like many high-profile manager failures before it, the impact of the Woodford downfall has had a number of unexpected consequences. One of these is the suggestion that LGPS and other high-profile pension schemes should in future avoid the reputational risk of selecting active managers and instead invest entirely in passive mandates.

I profoundly disagree with this approach. That is not to say that I don't advocate the use of passive mandates for clients when appropriate. I disagree with the conclusion that the failure of one active manager should cloud the whole industry.

For me, the Woodford debacle actually reinforces the need to invest in active mandates, so long as this is founded on deep and detailed manager research. I have no vested interest here, but I have been in this industry long enough to understand the importance of the (sometimes) tedious level of research we do in assessing and validating funds as suitable for clients.

I believe active management can and does add value, but you must make that decision not solely on the manager's track record. The process and philosophy are crucial. Similarly, the fund structure is critical – you must understand the structure of the vehicle you are using.

Quantum Advisory partner and head of investment Amanda Burdge

Pensions history

The political risks

Fifty-six years ago, in October 1963, whilst addressing the Metropolitan Association of Building Societies at their conference on investment trends, George Ross Goobey drew attention to the political risks that investors had to face. He forecast that a general election was likely in the following year and that it was probable that a Labour government would be elected.

He shared with his audience his thoughts on some of the plans a Labour government may wish to implement. He foresaw the possibility of it having plans for higher taxes to pay for some of its schemes, such as 50 per cent pensions for all. He thought dividend limitation was another possibility, which was a good reason why investors should be more interested in stocks giving a higher immediate return than the low yielders.

He also felt that the past history of nationalisation had not been too bad for investors as it had been carried out on market values rather than a confiscatory basis and he did not expect that principle to change. The Socialists' view of equity shares also needed to be considered. Their recent pronouncements on national pensions had included suggestions for setting up funds invested largely in equities, presumably because they also considered that investing in equities was the only way to offset inflation. He noted that many trade union funds were invested in equities and he imagined their members would strongly object if government action damaged these investments.

The trend of investing by many pension funds had been towards equities and members of those funds would also object if their occupational pensions were placed in danger. "I therefore do not greatly fear the present political situation," he concluded.

The Pensions Archive Trust chairman, Alan Herbert

Fun and games

Wordsearch

Y	R	O	T	C	E	S	C	I	L	B	U	P	B
D	T	C	S	P	Y	R	T	E	O	P	O	I	E
E	N	I	P	C	J	E	H	S	L	H	O	P	N
Y	E	R	L	J	I	T	A	Z	T	L	S	N	E
O	M	V	T	I	P	T	V	Q	O	P	O	J	F
L	L	S	N	U	B	G	I	G	Q	I	U	H	I
P	O	R	T	O	U	A	I	L	T	E	S	V	T
M	R	P	P	E	D	C	N	A	O	N	R	X	R
E	N	U	S	A	A	H	M	I	I	P	P	V	E
F	E	L	T	L	V	O	P	T	A	G	U	O	V
L	E	E	A	E	T	W	A	I	D	T	R	A	I
E	R	G	H	U	P	Z	M	W	W	K	S	R	E
S	E	C	A	V	Z	T	S	S	L	I	W	U	W
C	O	M	M	U	N	I	C	A	T	I	O	N	S

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I know that face...

Answer at bottom of page

I know that face... Answer: Aegon UK CEO Mike Holliday-Williams

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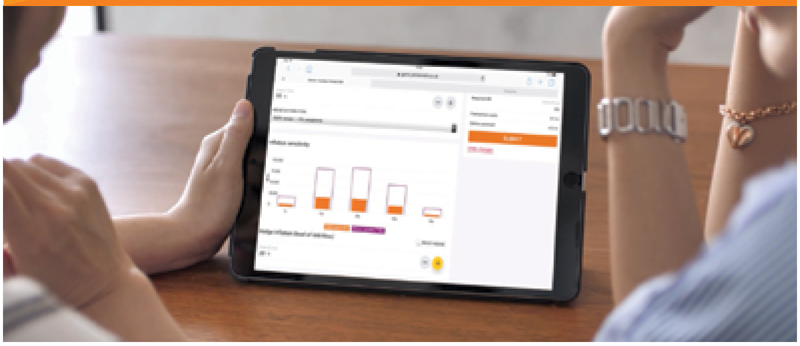

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