Pensions Publication of the Year 2019!*

Charges Responses to the DC default funds charge cap consultation

Mentoring The mentoring schemes available within the pensions industry

GMPs The benefits of combining GMP conversions with PIE exercises

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September 2020

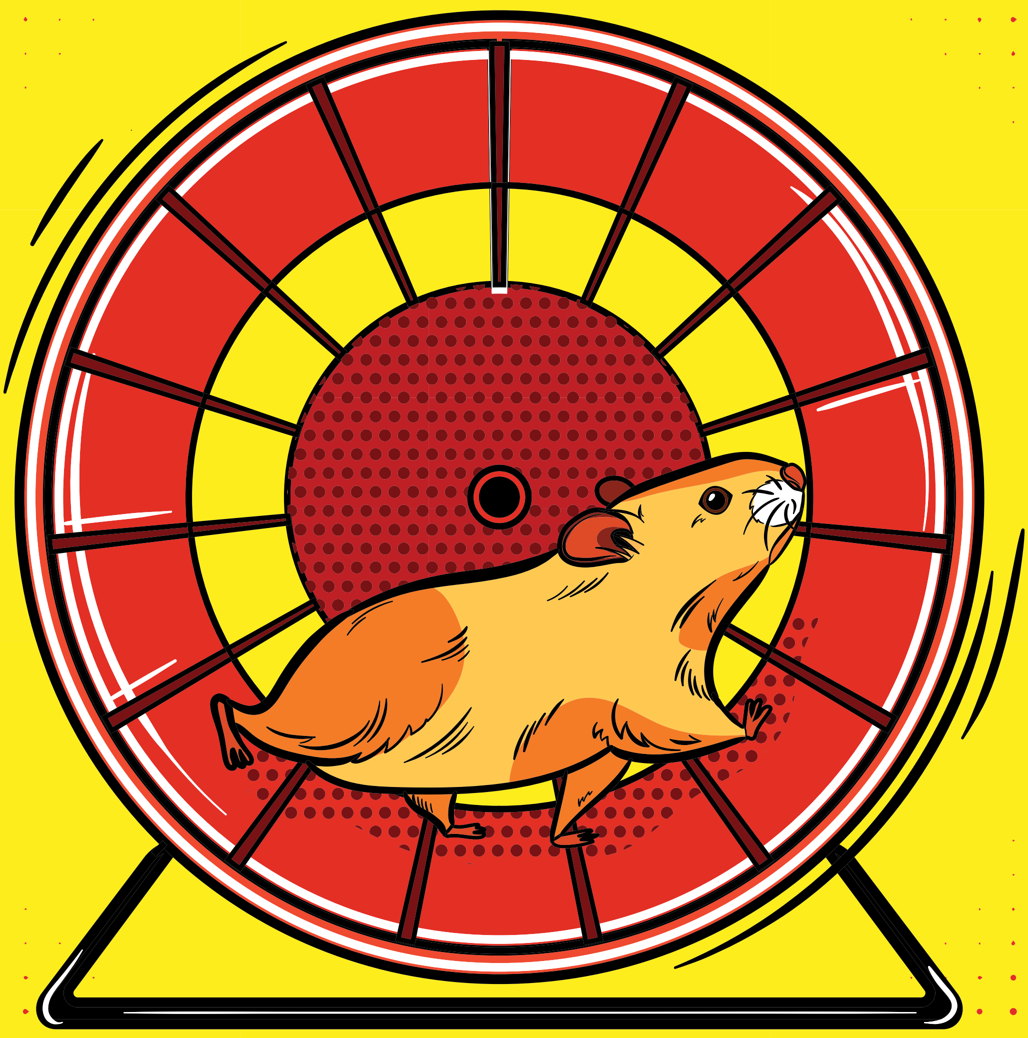
PENSIONS Age

The leading pensions magazine

Case study: *Lothian Pension Fund's recent responsible investment commitments*

Relationships: *How to have an optimal relationship with pension scheme providers and advisers*

Spinning faster



Struggling to keep up with ongoing regulatory reform?

INSIDE: Pensions Age Fixed Income Guide 2020

Editorial Comment

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

In another, more 'normal' time, watching UEFA Euro 2020 would have been a highlight of the summer for many, surrounded by pals and pints in the pub, the concept of social distancing never heard of as the crowds hug together in jubilant celebration of England's winning goal in the final (well why not, this is a fantasy after all).

The pensions industry's two regulators seem to still have the beautiful game on their mind, as they launched a campaign against scams this summer, specifically targeting football fans.

According to The Pensions Regulator and the Financial Conduct Authority (FCA), almost £31 million has been lost to pension scammers since 2017, judging by complaints filed during this time with Action Fraud.

Football fans approaching retirement are risking an 'own goal', the regulators note, as just 43 per cent know how much money they have in their pension pots and 45 per cent do not know how to check if an approach about their pension is legitimate. In contrast, 76 per cent know the cost of items related to their team, such as a football shirt or season ticket etc.

To counter this, as part of their ScamSmart campaign, the regulators teamed up with football commentator, Clive Tyldesley, who said: "Scammers are very good at breaking down your defences and putting you under pressure with various deadlines. But your pension isn't a football transfer – there are no deadlines!

"Your favourite team wouldn't buy a new striker just because his agent says he's good. They'd ask around, check out his stats, do some research – just like you should when handling your pension plans. Before you fall foul to savvy scammers, remember to take your time, seek advice, and speak to an FCA-authorised adviser. Don't agree to anything you're unsure of."

The use of football terminology and comparisons is refreshing in the above message, to help draw in interest from a particular subset of people and to make pensions, what is typically seen as a dry subject, as interesting, relatable and easier to understand.

For too long the pensions sector has lamented the wider public's lack of financial literacy, and had wanted them to engage with their retirement savings on the industry's terms – even a supposedly simple term, such as 'drawdown' for example, requires people to be 'in the know' – it is not self-explanatory.

If the pensions industry does not make efforts to talk to savers in a language they understand, you can be sure that scammers will.

In this time of Covid-19, with the extra financial pressures it is bringing for many, people are more vulnerable than ever to the charms of a smooth-talking con artist.

Or even without the efforts of scammers, individuals may be tempted to make sub-optimal decisions with their retirement savings, due to the financial straits they may be in now taking precedence over potential future financial problems at retirement.

That is why it is more important than ever for the pensions sector to talk to members, so that they understand the consequences of their actions and can make fully-informed decisions about their finances.

Yet, according to a recent survey by PensionBee, 69 per cent of DC savers have not been contacted by their pension provider about Covid-19.

This is despite just 34 per cent of respondents saying that decisions about accessing their pension were harder due to the coronavirus pandemic.

Just 10 per cent said they had been contacted by their provider with an explanation of how the pandemic might affect the way in which they would access their pension, while only 7 per cent had been told by a provider to seek impartial advice or guidance before accessing retirement savings.

More must be done. The efforts we make now can make all the difference, so that when the postponed Euros hopefully occur next year, football will be 'coming home' with everyone's pension pots intact.

Laura Blows, Editor

COVER FEATURE

Theme: Industry issues

44

Spinning faster

Laura Blows explores the pace of reform within the pensions industry and whether trustees are struggling to keep up

Highlighted features

PENSIONS AND LIFETIME SAVINGS ASSOCIATION — By agreement, Pensions Age is distributed free to all PLSA members as part of its package of member benefits	By agreement, Pensions Age is distributed free to The Pensions Management Institute (PMI) members as part of its package of member benefits
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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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NEW circulation figures

Pensions Age now has its new circulation - figure from the Audit Bureau of Circulations (ABC). 15,030 (July 2018–June 2019) print distribution this is 100% requested and/or copies sent as a member benefit (PLSA, PMI, SPP, AMNT). Pensions Age is also sent as a Tablet Edition to our 25,000+ online subscribers (source: Publishers Statement Sept 19). Our print circulation is nearly 300% higher than other titles in the market.

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Dateline - July/August 2020

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

6 July The **Pensions Dashboards Programme**, part of the **Money and Pensions Service**, launches a consultation on data standards for the pensions dashboards. The consultation, which was initially scheduled for earlier this year but was delayed due to the coronavirus pandemic, had an input deadline of 31 August.

8 July The **government** will pay the minimum employer auto-enrolment (AE) pension contributions for workers hired under its new Kickstart Scheme. The initiative, announced in the Summer Statement, will provide £2bn to create six-month work placements aimed at those aged 16-24 who are on Universal Credit and are "deemed to be at risk of long-term unemployment".

10 July The **Pension Protection Fund (PPF)** will give levy payers struggling as a result of the coronavirus pandemic up to 90 days interest free to pay their 2020/21 levy bill. To be considered for the extension, applicants need to complete an online 'Covid-19 notification form' and explain how they have been negatively impacted by the pandemic, after receiving their levy invoice.

15 July The **Pension Schemes Bill** passes in the House of Lords (HoL) following a third reading and will now move for consideration in the House of Commons. Its progression follows two other readings of the bill during its journey through the HoL, with the government recently defeated in four amendment votes in the report stage. Baroness Maeve Sherlock expressed gratitude for these "significant concessions" given during the passage of the bill, stating that as pensions are long-term savings vehicles, it is important to build upon "a foundation of political consensus".

16 July The Treasury launches a consultation seeking views on its proposed method of implementing changes to remedy the age discrimination identified in the McCloud court case. It proposes offering affected members the choice of accruing benefits in either the new career average pension schemes or in the final salary legacy arrangements that they were moved from for the period between 1 April 2015 and 31 March 2022 (the remedy period). It is also seeking views on how to offer members this choice.

21 July The **government** launches a call for evidence into pensions tax relief administration, following industry and stakeholder concerns over the net-pay anomaly. It highlights concerns around the potential for a low-earning individual's take-home pay to be affected by the method of pensions tax relief operated by their scheme, stating that it is keen to understand what "deliverable options for change" exist, as a "straightforward and proportionate solution" has yet to be outlined. The call for evidence seeks to gather views on the operation of both the main methods of administering pensions tax relief, net pay and relief at source, and what improvements might be made, closing to responses on 13 October.

28 July The **Work and Pensions Committee** opens an investigation into pension scams in the first strand of a three-part inquiry into the impact of the pension freedoms and protection of pension savers. The inquiry, whilst initially focusing on pension scams, will broaden in later stages to look at accessing pension savings and saving for later life, with a formal call for evidence expected next year.

Editorial credit: Lenscap Photography / Shutterstock.com

28 July ITV has submitted an initial offer of £31m to The Pensions Regulator (TPR) to reach a settlement regarding its financial support of the Box Clever Group Pension Scheme. In March, TPR gave ITV a six-month deadline to put in place financial support for the scheme, after it lost its legal challenge against the regulator at the Supreme Court in February 2020.

11 August The combined deficit of UK defined benefit (DB) pension schemes in the **PPF** 7800 Index increases to £199.5bn by the end of July 2020, For more information on these stories, and daily breaking news from the pensions industry, visit **pensionsage.com**

a rise of more than £20bn since the end of June 2020 (£174.8bn). This latest increase represents a threefold year-on-year increase in the deficit, with a deficit of £62bn recorded at the end of July 2019, and almost a six-fold increase since the start of the year when a deficit of £35.4bn was recorded.

Editorial credit: Philip Bird LRPS CPAGB / Shutterstock.com

19 August The **Supreme Court** partially allows an appeal in a case centred around inheritance tax (IHT) charges following a pension transfer and omission of drawing pension benefits. The appellants are executors of Mrs Staveley's estate, who brought the case to the Supreme Court after the Court of Appeal had ruled that IHT was payable on both the transfer of her funds into a personal pension and her omission to draw her pension benefits before her death. Its decision finds that a defined contribution (DC) pension transfer made within two years of death should not be subject to IHT. However, it rules that IHT should be payable on the omission to draw pension benefits.

20 August Pensions industry members back leaving the AE charge cap unaltered as the **Department for Work and Pensions' (DWP)** consultation on the issue draws to a close. The consultation, announced in June, sought industry views on the charge cap applicable to default arrangements within DC schemes used for AE, with the cap currently being set at 0.75 per cent of funds under management and having applied since April 2015.

21 August The **PPF** and **DWP** launch appeals against aspects of the High Court judgment in the *Hughes and others v The Board of the PPF* case. In response to the court's decision, the DWP, which is responsible for the compensation cap's level and the legislation governing it, lodges an appeal against the ruling that the cap is unlawful. Alongside this, the PPF lodges an appeal with the Court of Appeal on the approach it may adopt to meet the requirement for members to receive at least 50 per cent of their entitled benefits. It is also appealing as to how survivors' benefits should be dealt with. The PPF states that the minimum compensation requirements mean that it would need to amend its methodology.

21 August The government's proposals to align the Retail Price Index (RPI) with the Consumer Price Index including owner occupiers' housing costs (CPIH) could cost savers and investors up to £122bn if implemented in 2025, the **Association of British Insurers (ABI)** warns. In its response to the consultation, the ABI emphasises that even the latest implementation date of 2030 would only reduce the impact to £96bn.

26 August Pension savers have lost over £30m to scammers since April 2017, according to complaints data from **Action Fraud.** The **Financial Conduct Authority (FCA)** and **TPR** reveal that savers have claimed £30,857,329 lost to scams with the nation's fraud reporting centre in just over three years. The regulators warn that the true number of victims is likely to be much higher, as savers fail to spot the signs of a scam and are unaware of how much is in their pension pots.

26 August The **DWP** launches a consultation seeking views on proposed requirements for larger occupational pension schemes and authorised master trusts to publish climate risk disclosures. The consultation proposes relevant schemes have effective assessments and management systems for climate risks in place from October 2021. It also includes proposals to report on these in line with the TCFD recommendations by the end of 2022.

27 August Employers have continued to meet their pension duties despite Covid-19 challenges, according to **TPR**, with the impact of regulatory easements demonstrated in its latest enforcement figures. The regulator's quarterly *Compliance and Enforcement Bulletin* shows that temporary easements introduced by TPR led to a 55 per cent fall in the use of powers between April and June this year, compared to the previous quarter.

News focus

DWP launches consultation on pension climate risk disclosures

The DWP has opened a consultation seeking industry opinions on requiring larger pension schemes to have effective climate risk assessments and management from October 2021. It also proposes that schemes should be required to report on their assessments and targets in line with the TCFD recommendations by the end of 2022

The Department for Work and Pensions (DWP) has launched a consultation seeking views on proposed requirements for larger occupational pension schemes and authorised master trusts to publish climate risk disclosures.

The consultation proposes that occupational schemes with more than £5bn in assets and authorised master trusts have effective governance, strategy, risk management, and accompanying metrics and targets for the assessment and management of climate risks and opportunities in place from October 2021.

Additionally, it is seeking views on proposals to report on these in line with the Taskforce on Climate-related Financial Disclosures' (TCFD) recommendations by the end of 2022.

The measurements and disclosures for affected schemes would include calculating their portfolios' 'carbon footprint' and assessing how the value of their assets or liabilities would be impacted by different climate change scenarios, including those outlined in the Paris Agreement.

Relevant schemes' climate risk disclosures would be required to be publicly available, referenced in annual reports and on members' annual benefit statements.

The DWP also proposed for schemes with £1bn or more in assets to be included in the requirements from 2023, before consulting on extending them to all occupational schemes in 2024.

Commenting on the launch, Pensions Minister, Guy Opperman, stated: "We need to respond urgently to the risks of climate change, especially those affecting the financial sector and wider economy, on which so much rests. We need a financial sector that recognises these risks, and opportunities, and is stronger as a result.

"To enable this change, I propose embedding in pensions law the recommendations of the TCFD. I make no excuse for the work this entails – we lead the way and I expect others to follow."

Opperman acknowledged that the disclosures would be a "new process and a learning curve" for many trustees and promised that they will be supported in this by statutory guidance and the Pensions Climate Risk Industry Group.

The consultation also proposed that schemes report on their portfolio's

greenhouse gas emissions, with the failure to publish any required disclosures potentially subject to a penalty from The Pensions Regulator (TPR).

Following its commitment to do so in the Conservative Party election manifesto, the government has also launched a call for evidence into pensions tax relief administration, following industry and stakeholder concerns over the net-pay anomaly.

It has highlighted concerns around the potential for a low-earning individual's take-home pay to be affected by the method of pensions tax relief operated by their scheme, stating that it is keen to understand what "deliverable options for change" exist, as a "straightforward and proportionate solution" has yet to be outlined.

The call for evidence seeks to gather views on the operation of both the main methods of administering pensions tax relief, net pay and relief at source (RAS), and what improvements might be made, closing to responses on 13 October.

The government clarified that it is not proposing to implement an entirely novel method of administering pensions tax relief, but rather is looking to understand any potential new approaches to providing pensions tax relief within the current framework.

The call for evidence stated that

the government is approaching the proposals with "an open mind", although all approaches will be compared to the principles for making changes to the pensions tax relief administration system: simplicity, deliverability and proportionality.

Industry experts have previously raised concerns over the impact of the anomaly on members and the current tax relief system, with Now Pensions previously estimating that around 1.75 million earners are missing out on up to £111m of pensions tax relief.

The government has outlined four alternative approaches, warning that any changes would be difficult to explain to individuals and are likely to lead to greater engagement with HMRC by individuals who would otherwise have no need to contact them.

The government also launched a consultation seeking views on its proposed method of implementing changes to remedy the age discrimination identified in the McCloud court case.

It has proposed offering affected members the choice of accruing benefits in either the new career average pension schemes or in the final salary legacy arrangements that they were moved from for the period between 1 April 2015 and 31 March 2022 (the remedy period).

It is also seeking views on how to offer members this choice. The government has proposed either offering affected members an 'immediate choice' or a 'deferred choice underpin' (DCU).

The immediate choice would require affected individuals to make their decision "in the year or two" after the point of implementation in 2022.

Alternatively, the DCU option would see their decision deferred until the point at which the member retires, or when they take their pension.

Under the DCU option, all members would be deemed to have accrued benefits in the legacy scheme, rather than the reform scheme, for the remedy period, until they make their decision.

The government is also seeking views on its proposal to move all public sector workers in the scope of the consultation to the reformed career average schemes they had initially been moved into in April 2015, from 1 April 2022.

Meanwhile, the Pensions Dashboards Programme (PDP), part of the Money and Pensions Service (Maps), launched a consultation on data standards for the pensions dashboards.

The consultation, which was initially scheduled for earlier this year but was delayed due to the coronavirus pandemic, had an input deadline of 31 August.

The specific data standards that the consultation will seek input from the industry on were laid out in April, when the PDP and Maps published two working papers on the potential scope and definition for data standards for an "initial dashboard", alongside a progress report on the project.

Opperman commented: "The data standards will set out the information that pension providers and schemes will be required to show their customers and members via dashboards, and the format in which data will have to be supplied.

"The legislative framework that will underpin delivery of dashboards has rightly attracted parliamentary scrutiny during the passage of the Pension Schemes Bill. I want to ensure we get this right. I want to engage with the industry to understand how the legal requirements will operate in practice."

Written by Jack Gray and Sophie Smith

NEWS IN BRIEF

Ferrier Pearce Creative Group has announced it is rebranding to MakingGiants. The rebrand is part of a wider restructuring that will see the company's subsidiaries, Kolab, Key, and Ferrier Pearce, brought under one roof. The agency plans to branch out into other sectors and broaden its digital offering.

Average defined benefit (DB) transfer values reached a record high of £261,500 in July, according to **XPS Pension Group**. The company's Transfer Value Index had risen from £259,700 at the end of June to the record high before falling back slightly to end the month at £260,700, with the increase attributed to a fall in gilt yields during the month.

The combined deficit of UK DB pension schemes in the **Pension Protection Fund** 7800 Index increased to £199.5bn by the end of July 2020, an increase of more than £20bn since the end of June 2020 (£174.8bn). This latest increase represents a three-fold year-on-year increase in the deficit, with a deficit of £62bn recorded at the end of July 2019, and almost a six-fold increase since the start of the year when a deficit of £35.4bn was recorded.

Siemens Benefits Scheme has completed a £530m buy-in with Legal & General Assurance Society, securing benefits for over 2,000 UK retiree members. The transaction was completed under an umbrella contract, which was chosen by the trustee in order to ensure that potential future transactions can be completed quickly when the timing and market conditions are right. Siemens previously completed a £1.3bn buy-in with PIC in 2018, covering around 6,000 pensioners.

VIEW FROM THE TPR

Covid-19's short-term challenges are immense, but it's vital we don't lose sight of the longer term. At the start of the pandemic, we quickly supported businesses with clear guidance on our auto-enrolment (AE) expectations and altered our enforcement approach so as not to worsen the situation.

This temporary change has seen a drop in the times we used our powers and demonstrates how we responded to ease the Covid-19's burden on employers in a pragmatic and proportionate way.

We delayed enforcement action for those concerned they wouldn't be able to make the correct contributions. We gave more time to agree action plans with providers to bring payments up to date. And, while non-compliant employers received warning notices, we made decisions whether to escalate enforcement in recognition of the pressures they were under.

Despite the challenges, the vast majority of employers continue to meet their AE duties. We have not to date seen a significant spike in missed contributions or non-compliance.

While we have been taking a pragmatic approach, we are focused on taking action against wilfully non-compliant employers or those committing serious breaches. We continue to monitor compliance to ensure failing employers get back on track and staff receive the pensions they're entitled to. We take a dim view of employers who seek to exploit Covid-19 to avoid their duties.

Our message is clear. We will take the right action at the right time to support employers and ensure savers are protected.

TPR director of AE, Mel Charles

The Pensions Regulator
Making workplace pensions work

Pension Schemes Bill progresses to House of Commons

The Pension Schemes Bill has completed its passage through the House of Lords and has now moved into the House of Commons for consideration by MPs. The bill has had its first reading, although the date of its second reading is yet to be announced

The Pension Schemes Bill has been passed in the House of Lords (HoL) following a third reading and will now move for consideration in the House of Commons.

Its progression follows two other readings of the bill during its journey through the HoL, with the government recently defeated in four amendment votes in the report stage.

Baroness Maeve Sherlock expressed gratitude for these "significant concessions" given during the passage of the bill, stating that as pensions are long-term savings vehicles, it is important to build upon "a foundation of political consensus" when considering policy decisions that could last decades.

Commenting on the passing of the bill, Baroness Deborah Stedman-Scott, the Under-Secretary of State for Work and Pensions, emphasised that the government had listened to the Lords' arguments and concerns, resulting in 73 total amendments, which have "strengthened the bill".

Stedman-Scott continued: "This is an important piece of legislation that will benefit members of the public and help people plan for their future.

"As I said at second reading, the bill will have a far-reaching impact for people saving into their pension for retirement.

"It ensures reckless bosses cannot gamble with peoples savings, it transforms the way people get information about retirement savings, and it introduces a whole new type of pension to the market."

She added: "We recognised the concerns in respect of delegated powers,

we listened to your thoughts about a public dashboard, we introduced measures in respect of climate reporting and the Paris Agreement, and we've responded to the threat of scams by tightening the rules on transfers."

Stedman-Scott also highlighted further amendments made to the bill in the HoL, namely issues around intergenerational fairness, consumer protection and scheme funding.

She continued: "We will be looking at these carefully, along with the strong arguments you made in support of them, as the bill progresses in the other place."

Adding to this, Baroness Sherlock noted key differences on the level of consumer protection needed to mitigate poor outcomes, stating that she believed the weight of evidence remains with these arguments, as do many regulator reports.

She added: "I hope very much that by the time the bill is debated in the other place, that the reasoning behind our report amendments, on the headstart of the public dashboard and the risks of dashboard transactions and questions of fairness, will find favour."

Written by Sophie Smith

DWP and PPF launch appeals against compensation cap ruling

The DWP and PPF have lodged appeals with the Court of Appeal following the High Court's ruling that the pensions lifeboat's compensation cap for those below normal pension age was unlawful discrimination on the grounds of age

The Pension Protection Fund (PPF) and Department for Work and Pensions (DWP) have launched appeals against aspects of the High Court judgment in the *Hughes and others v The Board of the PPF* case.

In June 2020, the High Court ruled that the PPF compensation cap was unlawful on the grounds of age discrimination and its approach of making a one-off compensation calculation needed to make sure the individual would receive at least 50 per cent of the benefits their scheme would have provided.

Additionally, it ruled that members of schemes in assessment should receive benefits at the level required by the European Court of Justice's (ECJ) *Hampshire* judgment, which found it unlawful for PPF compensation to be less than 50 per cent of the benefits an individual built up before their employer became insolvent.

In response to the court's decision, the DWP, which is responsible for the compensation cap's level and the legislation governing it, has lodged an appeal against the ruling that the cap is unlawful.

Alongside this, the PPF has lodged an appeal with the Court of Appeal on the approach it may adopt to meet the requirement for members to receive at least 50 per cent of their entitled benefits.

It is also appealing as to how survivors' benefits should be dealt with.

The PPF stated that the minimum level compensation requirements mean that it would need to amend its methodology and is different to its view of what the Insolvency Directive requires.

The pensions lifeboat said that it has asked the Court of Appeal to deal with its request "as soon as possible" but that if the court does not agree to let it proceed with the appeal, "that will be the end of the case".

Meanwhile, the Supreme Court has partially allowed an appeal in a case centred around inheritance tax (IHT) charges following a pension transfer and omission of drawing pension benefits.

The appellants were executors of Mrs Staveley's estate, who brought the case to the Supreme Court after the Court of Appeal had ruled that IHT was payable on both the transfer of her funds into a personal pension and her omission to draw her pension benefits before her death.

Its decision finds that a defined contribution pension transfer made within two years of death should not be subject to IHT, ruling that the appellants should not be subject to IHT on the transfer.

However, it ruled that IHT should be payable on the omission to draw pension benefits.

Written by Jack Gray

NEWS IN BRIEF

The **Centre for Policy Studies** (CPS) and ex-Chancellor, Sajid Javid, have urged the government to axe the current marginal rate pension tax system in favour of a flat-rate bonus, paid regardless of tax code. A joint report highlighted reforms around the taxation of pension contributions as "low-hanging fruit" when looking to recover funds following the current crisis.

The **Pension Protection Fund** will give levy payers struggling as a result of the coronavirus pandemic up to 90 days interest free to pay their 2020/21 levy bill. To be considered for the extension, applicants need to have completed an online 'Covid-19 notification form' and explain how they have been negatively impacted by the pandemic, after receiving their levy invoice.

Work and Pensions Committee chair, Stephen Timms, has written to pension providers asking for ideas and evidence to address the increasing number of small DC pension pots.

The number of people choosing to take their pension as drawdown fell by almost half (42.2 per cent) compared to 2019, analysis by the **Association of British Insurers** has found. The organisation stated that the number of people enquiring about and accessing their pension has fallen 'dramatically' over the lockdown period, with member pension enquiries falling by 31.9 per cent.

VIEW FROM THE PLSA

The pension freedoms gave savers greater choice about how to access their retirement savings. But a significant body of evidence shows the confusing range of options and risks is leading to poor decision-making and affecting people's retirement living standards.

We believe retirement processes should work for all: those who arrive at their decumulation options with little knowledge, or who do not engage; as well as those who are confident and have detailed plans.

That is why the PLSA has published a call for evidence suggesting a framework designed to support savers and protect people who don't engage with or fully understand the choices they face when they move towards semi- or full retirement.

At the heart of the proposal is a call to establish a new regulatory regime that will require pension schemes to support their members when making decisions about how to access their pensions – including by offering or 'signposting' to products that meet specific standards. The proposed framework would also entail minimum standards for member engagement and communications and scheme governance in relation to decumulation. These standards would help protect savers by maintaining the quality of a scheme's offer and providing a safety net against the worst outcomes of inaction.

Instructions on how to submit your views are available at the PLSA's website.

PLSA head of DC, master trusts and lifetime saving, Lizzie Holliday

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

WPC launches pension scams inquiry

The WPC has opened an investigation into pension scams as part of a wider inquiry into the impact that the introduction of pension freedoms has had on savers

The Work and Pensions Committee (WPC) has launched an investigation into pension scams in the first strand of a three-part inquiry into the impact of the pension freedoms and protection of pension savers.

The inquiry, whilst initially focusing on pension scams, will broaden in later stages to look at accessing pension savings and saving for later life, with a formal call for evidence expected next year.

As part of the initial investigation, the committee has launched a call for written submissions as to the prevalence, trends, and common outcomes of pension scams in the current landscape.

The committee has asked for views on the existing enforcement tools being used, as well as what more can be done to prevent scammers operating and prevent individuals from becoming scam victims.

It will also be seeking opinions as to HMRC's position on the tax treatment of pension scam victims.

Commenting on the inquiry, WPC chair, Stephen Timms, emphasised that the introduction of pension freedoms in 2015 brought "new freedoms for people to plan financially for their futures".

However, he warned that this flexibility also meant more potential for the "unscrupulous" to take advantage and scam savers out of what is likely their largest financial asset, subsequently "crippling their dreams of a comfortable retirement".

In the following month (August), data from Action Fraud revealed that pension savers had lost over £30m to scammers since April 2017.

The Financial Conduct Authority (FCA) and The Pensions Regulator (TPR) revealed that savers have claimed £30,857,329 lost to scams with the nation's fraud reporting centre in just over three years.

The regulators warned that the true number of victims is likely to be much higher, as savers fail to spot the signs of a scam and are unaware of how much is in their pension pots.

Men in their 50s were the most likely to fall victim to pension fraudsters, with the amount of savings lost ranging from under £1,000 to £500,000.

"Scammers wreck lives and no matter how big or small your savings are, every pot is a target," commented TPR chief executive, Charles Counsell.

"It may seem tempting to make a change to your pension fund now, but it is important not to rush.

"Before making any decision about your pension, take your time, and visit the ScamSmart website to always check who you are dealing with."

The FCA and TPR have launched a campaign focusing on football fans, following research that found 43 per cent of supporters do not know how much is in their pension pot and 45 per cent do not know how to check whether an approach about their pension is legitimate.

Written by Jack Gray and Sophie Smith

VIEW FROM AMNT

The idea of 'personal freedom' has a long history and continues to engage philosophers, politicians and me and you.

The present imposition by government of social distancing and wearing face masks can be considered an attack on our 'personal freedom' though I, like the majority of people, accept this imposition as the state seeking to secure my wellbeing. This acceptance is deemed a 'social contract' between the individual and the state, originally set out by Jean-Jacques Rousseau in the 18th century.

Conditions of this contract have changed depending on the ideology of the ruling party; usually defined in crude terms as 'state intervention' verses 'personal liberties.'

The Work and Pensions Select Committee has started a consultation on pension freedoms, with the first part concentrating on 'pension scams'.

The original 2016 Pension Freedoms Act, although full of good intentions, was also driven by the political ideology of placing freedom back in the hands of the individual. Unfortunately, that freedom also included the right of the individual to make a complete hash of their financial future.

So we seek to redress the balance by providing some form of state intervention to protect the individual.

The tension between these two ideologies will continue in many forms but legislators of all persuasions need to understand that if you place a person on a tightrope they often need a safety net.

AMNT member, Stephen Fallowell

AMNT Association of Member Nominated Trustees

TPR enforcement figures fall amid Covid-19 easements

TPR's use of its enforcement powers declined by 55 per cent in Q2 2020, primarily driven by the regulator's easements in response to the Covid-19 pandemic. Meanwhile, TPR responded to questions from the WPC over its handling of the Norton Motorcycles case

Employers have continued to meet their pension duties despite Covid-19 challenges, according to The Pensions Regulator (TPR), with the impact of regulatory easements demonstrated in its latest (27 August) enforcement figures.

The regulator's quarterly *Compliance and Enforcement Bulletin* showed that temporary easements introduced by TPR led to a 55 per cent fall in the use of powers between April and June this year, compared to the previous quarter.

TPR director of automatic enrolment, Mel Charles, noted that, despite the challenges of the pandemic, there had not been a "significant or unusual spike" in missed pension contributions to date.

Instead, the regulator emphasised that the "vast majority" of employers have continued to meet their auto-enrolment duties, including completing their declaration of compliance and re-enrolment responsibilities.

Whilst TPR saw a slight increase in compliance notices issued during Q2 compared to Q1, it clarified that this reflects an 18 per cent increase in the number of employers who reached their declaration deadline between March and May 2020 compared to Q1.

The bulletin also revealed a fall in the number of mandatory penalties for missing or incomplete Chair's Statements, from 52 in Q1, to just three in Q2, which in turn saw the total number of statutory powers used for governance breaches decrease from 167 in Q1 to 97 in Q2.

In total, the regulator used its powers

The Pensions Regulator
Making workplace pensions work

for automatic enrolment breaches 15,733 times in Q2, more than half the number of instances seen in Q1 2020 (35,174).

The number of fixed penalty notices issued (1,555) was six times fewer than the previous quarter, whilst the number of escalating penalty notices issued (625) was five times fewer than Q1.

Meanwhile, TPR chief executive, Charles Counsell, wrote to Work and Pensions Committee chair, Stephen Timms, in response to questions posed by Timms concerning TPR's handling of the Norton Motorcycles case.

Following The Pensions Ombudsman's (TPO) decision to uphold the complaints relating to the Norton Motorcycles schemes, Timms wrote to Counsell regarding TPR's plan of action.

In his responding letter, Counsell wrote that TPR is conducting an internal review to consider its approach and response to the scam and "identify if there are further lessons to be learned".

The review will include considerations of how the regulator uses data to identify trends or patterns that may suggest conflicts of interest and TPR will use the recommendations from the review to support self-improvement and technological development.

Written by Jack Gray and Sophie Smith

USS delays valuation by fortnight amid 'urgent' A-level matters

The USS delayed publishing its 2020 technical provisions valuation by two weeks, following an agreement with UUK, due to urgent issues surrounding A-level results and admissions. In July, the scheme revealed its DB deficit had risen to £12.9bn as of 31 March 2020

The Universities Superannuation Scheme (USS) announced a two-week delay to its scheme valuation, which was initially due to be published on 24 August, amid issues around A-level results.

The USS confirmed that in light of the "urgent and difficult matters" relating to A-level results and admissions, it had agreed a two-week delay with Universities UK (UUK).

A spokesperson for the USS stated: "We have been clear throughout the process that, given the unprecedented circumstances in play, the timetable for the 2020 valuation will be kept regular under review.

"Consistent with this commitment, we have agreed to reschedule the formal launch of the TP consultation with UUK to Monday 7 September."

The scheme also confirmed that employers will still have the full eight-week period to consider and "make clear their views to UUK" until 30 October, with a "consolidated response" to be provided by UUK following this.

A spokesperson on behalf of USS employers stated: "We have jointly agreed with the USS trustee to a short delay in the launch of the first statutory consultation on the 2020 valuation of the scheme.

"This two-week period will allow university members to concentrate on the urgent and important work they are doing to support students through the current A-level results and admissions challenges.

"It will also ensure the pensions covenant work can be progressed further and the broader context for the valuation to be presented to sponsoring employers."

The USS defined benefit (DB) deficit increased to £12.9bn in 2019/20 due to the impact of Covid-19, the scheme stated.

The scheme's deficit increased by £7.5bn over the year, from £5.4bn as at 31 March 2019, as assets fell by £0.9bn and liabilities rose by £6.6bn.

As of 31 March 2020, total assets under management for the scheme were £67.6bn, down from £68.4bn in 2019, with DB assets totalling £66.5bn and defined contribution (DC) assets totalling £1.1bn.

The scheme attributed the "sharp rise" in the funding deficit to the impact of Covid-19, stating that market conditions at the reporting date had a "significant impact" on the price of the scheme's DB pension promises and that "enduring low interest rates" had further impacted the deficit.

However, the scheme reported strong long-term investment returns for the DB fund, with an average of 6.19 per cent per annum over the past five years, equal to £17.4bn and 0.91 per cent per annum above the benchmark.

Written by Sophie Smith

VIEW FROM THE PMI

In July this year, the Treasury issued a call for evidence on tax relief for registered pension schemes. This was clearly prompted by the anomalous nature of tax relief on contributions made by low earners to defined contribution (DC) arrangements.

For some time, commentators have noted that those whose earnings fall below the threshold for income tax will be eligible for tax relief on contributions to schemes using Relief at Source (RAS). However, this relief only applies if the scheme concerned uses the net-pay (NP) system. This anomaly has quite rightly stimulated extensive discussion and it is perfectly correct that the Treasury should seek to address the concerns expressed.

Auto-enrolment has drawn an increasing number of individuals into pension saving and the majority of them do so via a DC arrangement. In 2017-18, the total value of tax relief on contributions was £37.2 billion, so the need to ensure the system is fair and equitable has become more pressing.

However, inequalities concerning tax relief for registered pension schemes extend far beyond members' DC contributions. Since the adoption of the current tax regime in 2006, there has been a pronounced difference in the way the annual and lifetime allowances have applied to accrual in defined benefit (DB) and DC schemes, and it has now become important that these differences are subject to reform. It is right that inequalities are corrected, but the limited scope of the current call for evidence means that many will remain unaffected – a missed opportunity.

PMI head of technical, Tim Middleton

Appointments


Joanne Livingstone

▶ The government has announced the appointment of Joanne Livingstone as chair of the **Firefighters' Pension Scheme Advisory Board (SAB)**, effective from 17 August.

Livingstone, whose appointment will last for four years, serves as an adviser to the Judicial Pensions Committee, which advises the Lord Chief Justice in relation to pensions issues, as well as being chair of trustees for the Liberty Europe Pension Scheme. She is also a practitioner member of the actuarial council, having previously worked as a scheme actuary for Pension Wise, acting as a guider in one-to-one pension meetings with the public. Commenting on her appointment, Livingstone stated: "I am delighted to be appointed to chair the SAB in its important role in helping to deliver appropriate pensions to our vital firefighters." The appointment follows the departure of former chairman, Malcolm Eastwood, at the end of March. The SAB advises the Home Secretary on making changes to the scheme, as well as advising the 45 fire and rescue services in England and their local pension boards.

▶ **Phoenix** has named the leaders of its five new open business units. The group has established five new business units as part of its new structure to drive growth in its open business.

Tom Ground has been named as managing director (MD) of the retirement services unit, Gail Izat has been appointed MD of workplace and customer Ssvings, and Jenny Holt has been named as MD of the investment unit. Nigel Dunne and Dean Lamble have retained their roles as leaders of the European business and SunLife, respectively.


Gavin Perera-Betts

▶ **Nest** has announced the appointment of Gavin Perera-Betts as managing director of the new Nest Experience business unit. Perera-Betts has been with Nest since 2007 as its chief customer officer and played an 'instrumental' role in the design of the scheme's digital-first service since its launch in 2011. In his new role, he will be expected to meet the challenge of developing Nest's customer strategy and service delivery proposition.


Sarah Bates

▶ **John Lewis Partnership Trust** for Pensions has appointed Sarah Bates as chair of the trustee.

Bates joined on 1 August, replacing Dame Jane Newell, who stepped down from the position after seven years. She joins with over 35 years' experience in investment management, and is an independent member of the BBC Pension Scheme and University Superannuation Scheme (USS) Investment Committees.


Paul Armitage

▶ **XPS** has named Paul Armitage the new head of the National Pension Trust (NPT).

Formerly NPT head of distribution, Armitage will take over responsibility for XPS' master trust from Dave Hodges, who retired earlier this year. Commenting on his appointment, Armitage emphasised the "critical role" of master trusts such as NPT, highlighting the importance of delivering strong member engagement in these "uncertain times".

▶ **Sackers** has promoted five lawyers to various roles within the firm.

Naomi Brown has been promoted to senior counsel, while Katharine Swire has been named as an associate director. Angela Stafford, Emily Rowley, and Emily Whitelock have all been promoted to senior associate. The promotions took effect on 1 August 2020, and the total number of partners now stands at 29 and other lawyers at 33. Sackers senior partner, Ian Pittaway, said the firm's success "depends on the quality of our lawyers" and the promotions were all "thoroughly deserved".


Nikhil Rathi

▶ **The Financial Conduct Authority (FCA)** has appointed Nikhil Rathi as its new permanent chief executive, replacing the regulator's interim boss, Christopher Woolard.

Rathi, who is expected to take up the role in the autumn, is currently the chief executive of London Stock Exchange (LSE) and has previously served as HM Treasury financial services group director from September 2009 to April 2014.

In this role, he led the Treasury's work on the UK's EU and international financial services interests. It has been agreed that Rathi will have no remaining interests in LSE Group shares when he joins the FCA, while he will also not be involved in supervisory or enforcement decisions relating to the LSE Group until 22 June 2021. Commenting on his appointment, Rathi stated: "I am honoured to be appointed chief executive of the FCA. I look forward to building on the strong legacy of Andrew Bailey and the exceptional leadership of Christopher Woolard and the FCA executive team during the crisis."

Building a more flexible future

Kevin Martin reflects on the lessons the master trust The People's Pension learnt from the Covid-19 pandemic

The pensions industry, like every other area of business, has responded to the effects of the global pandemic in a range of ways. It's made us all stop and think. As we reflect on the past six months, it's useful to take our experiences as a master trust provider and look at what we've learnt and how we're flexibly adapting to meet future needs.

The challenges of the coronavirus pandemic required fast thinking and even faster learning about what worked best for our customers and staff. When lockdown started in March, our priorities were to follow government guidance and provide a targeted and appropriate level of customer service while also looking after the safety and wellbeing of our staff. This meant that for a while we had to do things a little differently.

Of course, we couldn't satisfy every customer's needs 100 per cent of the time – but there's a balance to be struck. We listened to customers and staff throughout and used their constructive feedback to make significant adjustments to how we work.

We needed to keep our staff safe, so had to quickly get most of them working from home. This meant we couldn't talk to as many customers as usual on the phone, so we increased our email and online support. At first, we focused our attention on the customers who needed us most (vulnerable customers and over 55s who wanted to access their money and couldn't go online), and asked others to contact us via email. This allowed the team, who were now safely working from home, to help customers via our digital channels.

We ramped up our online content, building key support and guidance on coronavirus, improving our contact us pages and signposting so that customers could quickly access important information. We also shared videos to show members how to manage their pensions online and made more of our forms and transactions digital.

As government support such as the Coronavirus Job Retention Scheme (CJRS) and advice from regulators evolved, we dived into the details and questions being asked by our customers and shared key information on our website. When demand picked up from employers as more businesses ran their payrolls as a result of the CJRS, we created a facility to offer same day call-backs for employers who needed one-to-one phone support.

Throughout lockdown we've re-recorded our phone messages and included up-to-date information and step-by-step instructions to help people do what they needed to online. We maintained quality phone services for people who couldn't go online and needed to talk to us.

Many of our staff worked longer and more flexible hours, including evenings and weekends, to meet the demand and level of service required. Most customers have been supportive and have recognised that keeping our phones free to prioritise those in most need was the right thing to do.

Our response doesn't end there. The pandemic has accelerated our thinking and as mentioned earlier, we've learned valuable lessons about how we should evolve our support in the future. We've enhanced our technology to give us more resilience and flexibility in the event of another lockdown. Our crisis management planning helped us meet the demands – but we've been tested. Having learned lessons and knowing more now about what we're facing, we've made adjustments to our detailed scenario planning so we're even better prepared. The online changes we've made mean people have more choice about how they interact with us and carry out transactions. Many people want the flexibility to do what they need online at a time that suits them, while others want the helping hand of our guidance over the phone.

Pensions are about steady financial growth over the long term and building foundations for the future retirement we all want. Those principles remain true at The People's Pension and we will continue to provide the stability and strength that all our customers expect and deserve.

We're advocating this through our support for employers too, as they adjust to new situations like staff returning from furlough and want to talk to their staff about pensions. Employers thinking about engaging with their staff can use our communications toolkit to make sure people know how to access their online account, check their details, and consider how pension saving supports their financial future.

We're running online events for employers in the autumn exploring how best to engage staff with their pension. If you're interested, email us at RRM@bandce.co.uk or call 0333 230 1310. Go to www.thepeoplespension.co.uk to find out more about how we can support you with your pension needs.

Written by Kevin Martin, group director of customer services, B&CE – provider of The People's Pension

In association with

the people's pension

VIEW FROM THE PPI

Leaked documents suggest that the Treasury is considering dropping the triple lock state pension inflation measure (the higher of prices, earnings or 2.5 per cent) in favour of a double lock (the higher of prices or earnings) to help reduce the impact of the Covid bill.

Moving to a double lock would reduce state pension costs in the long term but might not prevent a significant short-term increase in costs.

People leaving and returning to work as a result of Covid can result in significant fluctuations in earnings inflation. Under both a double and triple lock, an increase in earnings above prices and 2.5 per cent would result in the same increase in the level of the state pension, so there would be no immediate reduction in government spending resulting from such a change.

However, introduction of a double lock would mean that state pension income would increase more slowly, potentially increasing pensioner poverty and the level that younger workers must save to top up state pension income to an adequate level. A smoothing mechanism, (eg, a rolling average over several years to measure earnings inflation) could address the immediate issue of expenditure, while allowing more time for debate on state pension inflation. Decisions about state pension indexation will impact generations to come and should not be taken without significant research and consultation.

PPI head of policy research, Daniela Silcock

PENSIONS POLICY INSTITUTE PPI

Market commentary: Recession and recovery

Recession. It's a dirty word that conjures images of food banks, worried customers queuing outside banks and sad looking people carrying the contents of their desks in cardboard boxes. The bad news is that the UK once again finds itself in this financial crisis.

The Office for National Statistics confirmed the news as it reported on 12 August that the nation's gross domestic product (GDP) declined by 20.4 per cent in the second quarter, with the astronomical fall eclipsing all others that have occurred since 1955. However, this was not entirely unexpected as the UK remained in the eye of the Covid-19 storm for a great deal of the three-month period.

Killik & Co associate investment director, Rachel Winter, says: "A drastic fall in output for the second quarter was to be expected given the restrictions that remained in place throughout those three months."

"The UK derives about four-fifths of its GDP from the services sector, which includes many types of businesses that have been unable to operate during lockdown. Examples include retail, hotels, restaurants, and live events. Our dependence on the services industry is one reason why our fall in output has been relatively severe compared to other major European economies."

Indeed, Conister Finance & Leasing Limited director, Douglas Grant, comments that the UK's newest recession is "the deepest of any of the G7 economies".

Some analysts still found room for positivity, with AJ Bell personal finance analyst, Laura Suter, stating: "Figures showing GDP growth of 8.7 per cent in June are encouraging – albeit this is coming from a very low base after the falls in May and still sits far below the pre-Covid figures from February.

"But July figures are expected to be more positive still, as more businesses re-opened and people emerged from their houses to start spending."

Quilter Investors portfolio manager, Hinesh Patel, says: "The Eat Out to Help Out scheme appears to have gotten off to a good start, and it is this more targeted stimuli that other industries will be craving.

"The UK public loves a deal, so this scheme may provide a template for future targeted stimulus. The house builders in particular will be watching it closely, particularly given the proposed relaxation in planning laws."

Despite this apparent policy success and the likely continued upturn in GDP, it remains difficult to be optimistic while uncertainty reigns.

Fidelity International investment director, Tom Stevenson, comments: "No-one knows exactly what the recovery from coronavirus will look like – particularly with the potential for a second wave of infections and further local lockdowns – but it is likely that it will be a slow crawl towards pre-Covid levels with further government stimulus needed to restore sustained growth."

Suter agrees, noting that a V-shaped recovery "relies on no second lockdown" but also the possibility of "UK trade talks being successful".

Even so, Patel argues: "Opportunities do exist for investors though, and with a harshly competitive environment we expect to see those quality and innovative companies prosper. Throw in further stimulus come the autumn and these companies may be the ones to benefit greatly."

Consequently, it is difficult to say whether the nation is dancing on the precipice of sustained economic recovery or simply enjoying a brief period of relief from the depths reached when the pandemic was at its highest intensity.

Written by Duncan Ferris

Trustee SIP requirements

Trustees should take note of important changes coming into force on 1 October 2020 in relation to Statements of Investment Principles (SIP) and disclosure

Changes to the legislation on investment and disclosure made in 2018 (the 2018 regulations) and 2019 (the 2019 regulations) reflect an increasing focus on stewardship and governance when it comes to trustee investment activity. The first round of changes came into force on 1 October 2019 and included, perhaps most significantly, a requirement for trustees to include in their SIP their policy in relation to ESG factors, including climate change. Now, trustees must prepare for another round of changes to their SIPs, due to come into force on 1 October 2020.

Some of the new requirements only apply to 'relevant schemes' and some only apply to schemes that are not relevant schemes. Generally speaking, a relevant scheme means a scheme that provides money purchase benefits.

Changes that apply to all schemes required to prepare a SIP

By 1 October 2020, trustees will need to update their SIP so that it includes their policy in relation to arrangements made with an asset manager. This policy must address matters including: (i) how the arrangement incentivises the asset manager to align its investment strategy with the trustees' investment policies; and (ii) how the arrangement incentivises the asset manager to make decisions based on assessments about the medium to long-term performance of a debt or equity issuer. Trustees will have to include this policy in the first Annual Report that they prepare on or after 1 October 2020.

The 2018 regulations made amendments to the requirement for policies on stewardship so that, by 1 October 2019, trustees had to update their SIP to include their policy on engagement activities in respect of investments including engagement with 'relevant persons' and 'relevant matters'. The 2019 regulations made amendments to the definition of relevant persons and added capital structure and management of conflicts of interest to the list of relevant matters. The policies will have to include these points by 1 October 2020.

Changes that apply to relevant schemes

The 2018 regulations introduced provisions coming into force on 1 October 2020 requiring trustees of relevant schemes to produce an implementation statement (implementation statement) as part of their annual report. Generally speaking, an implementation statement should set out how and to what extent trustees' investment activity over the course of the previous year reflects the investment strategy, as set out in the scheme's SIP. The 2019 regulations added a further requirement for the implementation statement to report on voting behaviour by or on behalf of the trustees during the year. The first implementation statement should be included in the first annual report produced on or after 1 October 2020 and then published. It is also worth noting that the 2019 regulations include a deadline which means that certain information in the implementation statement must be published no later than 1 October 2021. Furthermore, trustees must inform scheme members of the availability of the implementation statement via the annual benefit statement.

The policy in relation to arrangements with asset managers and the additional information in the policy on stewardship will also have to be included in the SIP for the default arrangement for relevant schemes with 100 or more members by 1 October 2020.

Changes that apply to DB schemes

Trustees of DB schemes must include information in their first annual report produced on or after 1 October 2020: (i) about how their policy on stewardship has been followed; and (ii) describing the voting behaviour during the year. The trustees will have to publish their first report on these matters by 1 October 2021. In addition, by 1 October 2020 trustees of DB schemes will have to make their SIP publicly available on a website, free of charge.

Next steps

Trustees should identify which requirements apply to their scheme and the relevant deadlines sooner rather than later. Obtaining and evaluating the necessary information may require time and effort. Trustees may also wish to refer to The Pensions Regulator's guidance for DC schemes, which includes information about implementation statements, the DWP's guidance on the requirement to publish information and the PSLA's guidance (published at the end of last month) about the reporting requirements.

Written by DLA Piper pensions partner, Matthew Swynnerton

In association with DLA PIPER

VIEW FROM THE SPP

Cybersecurity and the protection of member data has shot right to the top of trustee risk registers.

Many trustees will have had detailed training leading up to the introduction of GDPR in May 2018 and will have been through a wholesale review of their contracts, policies and procedures.

There is a risk that some of the training may be a little rusty. In particular, I find myself pushing trustees to re-run their response training so they are on the front foot when a breach occurs. And unfortunately, it is 'when', not 'if'.

Attacks always seem to happen on a Friday evening, there is never enough information and it is stressful. A simple plan helps navigate first interactions, gives structure to the discussions and increases the chances of making good decisions over whether ICO notification is needed within the 72-hour deadline.

This includes confirming facts such as who is impacted, implementing the response plan, establishing who needs to know what and determining remediation.

The plan should also make sure that the increased focus on member data doesn't obscure other priorities such as running payroll, member transactions and good governance.

Any real-life threat along these lines will be difficult to deal with, but training and a robust response plan will give structure and help to alleviate stress.

SPP Legislation Committee member, Andy Cork

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In my opinion

On the Supreme Court's ruling on the Staveley Case:
"The judgments have changed at every stage, and even in this final ruling the judges were not in complete agreement, showing what a highly contentious issue this has been. It's hugely reassuring for the industry that the transfer itself has been found not to create an IHT liability, for reasons which would seem to set a precedent for other similar cases."
Curtis Banks pensions technical manager, Jessica List

On government plans to align RPI with CPIH
"An issue of this magnitude, impacting millions of people, needs the broadest possible range of input before a decision is made. We believe that a fair and equitable outcome can be achieved if RPI is aligned with CPIH plus an appropriate margin to ensure that there are no resultant losers. Unless this or an alternative solution is adopted, pension schemes and other holders of index-linked gilts could be facing a transfer of wealth to the UK government of up to £130bn; with the impact of Covid-19 making the pain £10bn more today than it was in March."
Insight Investment head of solution design, Jos Vermeulen

On the need for a taskforce to combat issues around small deferred pots
"The government needs to work with the sector to address these issues. Resolution of high numbers of small, deferred pots could, in time, lead to improvements being made in the level and structure of the charge cap as well as possible improvements in member engagement as they see their pots grow to a more substantial size."
Now Pensions CEO, Patrick Luthi

On the potential cost of dashboard data exercises for pension schemes
"The pensions dashboards is a very important initiative, but the government needs to come clean about what is involved. If it really intends the dashboard simply to be a cut-and-paste from existing statements, then the information on display will be utterly inconsistent between different pensions. Assuming that this is not what is planned, schemes will instead have to do a huge amount of data manipulation to get data in a standardised format for the dashboards. The cost of this will be huge, especially where data is not currently well organised."
LCP partner, Steve Webb

On The Pensions Regulator's proposed DB funding regime
"DB scheme funding is very different to minimum risk/insurance funding and must be designed to balance sustainable growth of employers. We would not like to see a new regime that unreasonably pushes up DB costs. Doing so would exacerbate issues of intergenerational fairness, by diverting a greater share of employers' pensions spending to making DB promises more secure, at the expense of DC saving for current employees."
Association of Consulting Actuaries (ACA) chair, Patrick Bloomfield

Arming members with the facts

Jonathan Watts-Lay offers guidance for how to protect pension members from knee-jerk decisions

The turbulent markets experienced due to Covid-19 are concerning for everyone but especially for members of defined contribution (DC) pension schemes who are looking to retire. This, coupled with the fact that household incomes have come under extreme pressure, has meant that scheme members could easily be tempted to make rash decisions such as accessing their pension savings early.

However, significant risks exist if members rush to make knee-jerk decisions without seeking appropriate guidance or regulated financial advice first.

Employers and trustees have a duty of care to ensure that members have an understanding and awareness of the implications of early withdrawal and the potential risks involved. Many members will be unaware of the implications of the Money Purchase Annual Allowance (MPAA) and tax charges. Those who fully encash pots over the £10,000 limit will trigger the MPAA, reducing their annual allowance from £40,000 to £4,000.

Also, accessing a pension whilst working runs the risk of paying a lot of unnecessary tax. If members take cash from their pension while still working, 75 per cent of the sum withdrawn will be added to their earnings, which may push them into a higher tax bracket.

It is important for members to know that whilst they may be in need of extra cash, there are other options available such as reducing costs through the government-backed mortgage holidays ending in late October and debt repayment deferrals, through to looking at alternative savings that may be more appropriate to access.

For those members about to retire and who are tempted to withdraw their entire pension in one go, the same tax rules apply. So by taking their entire pension as a lump sum, 75 per cent would be taxed as earned income and potentially result in an unexpected hefty tax bill. In addition, members need to understand the implications of no longer having a pension invested in a tax free environment to provide them with an income throughout their retirement.

Scammers also see such turbulent times as an opportunity to con savings from members. In July, Action Fraud reported that victims of coronavirus-related scams had lost over £11 million, with it previously stating that pension scams had been among the most common type of fraud during the crisis. Victims of pension scams can be left approaching retirement with a significantly reduced income and in some cases, entire life savings can be lost.

Arming members with the facts on what they can and cannot do with their pension and the potential risks involved, will help them avoid making costly mistakes.

Trustees are the first line of defence in protecting retirement funds and have a key role in ensuring members make informed choices. Since the virus emerged, the Financial Conduct Authority and The Pensions Regulator (TPR) have issued comprehensive guidance on what employers and trustees should be doing to help deal with the increasing risk of scams and are expecting them to step up to the task.

TPR has advised trustees to urge members 'not to rush decisions and provide them with clear, relevant and timely information so they can make informed decisions'. They also instruct trustees to follow the Pension Scams Industry Group (PSIG) code of good practice – 'Combating Pension Scams' which is based on three key principles;

1. To raise awareness of pension scams for members and beneficiaries.

2. To have robust processes for assessing whether a scheme may be operating as part of a scam.

3. To be aware of the known current scam strategies.

Ultimately, employers and trustees need to actively facilitate access to financial education and guidance at retirement to help members make informed choices. This can involve using free services such as Pension Wise or more tailored services from workplace providers.

Written by Jonathan Watts-Lay, director, WEALTH at work

VIEW FROM THE ABI

Reforming the Retail Price Index (RPI) methodology has enormous consequences.

While the RPI measure is imperfect, its systemic use in contracts, assets and index-linked gilts (ILGs) means that the impact of the proposed changes will be measurable in the billions. This is because the difference between the RPI measurement and the proposed change to Consumer Prices Index including owner occupiers' housing costs (CPIH) has been approximately 1 per cent since 2010.

While there has been speculation that the measurement of inflation would change, the continued issuance of RPI ILGs signalled that disruptive reform would not happen.

The current reform proposals will create winners and losers and will be most keenly felt by affected life and pensions policyholders and defined benefit (DB) pension scheme members. Organisations that hedged their CPI-linked liabilities with RPI-linked assets will be significantly worse off. This change will penalise organisations for doing the right and prudent thing for their customers and scheme members.

As the industry will need appropriate time to transition, the consultation's maximum proposed implementation date of 2030 is essential. If the reform does go ahead, there should be serious consideration of compensation. This would help to mitigate the impact of the change on firms, and crucially, their customers.

ABI senior policy adviser, Hetty Hughes

Soapbox: Changing perceptions

Encouraging diversity is a key challenge faced by the pensions industry and, whilst many are taking steps to try and improve representation, it seems that there is still some way to go.

A recent Winmark and Barnett Waddingham report revealed that, despite 40 per cent of firms taking "active steps" to encourage diversity on their trustee boards, the representation of women on trustee boards seemed to be falling. Indeed, just 14 per cent of the trustee chair respondents were women, a 4 percentage point fall compared to 2019.

The report also revealed that the majority of trustee chairs cited a lack of female candidates as the key barrier in getting more representation on trustee boards. This could be seen as a slightly lazy excuse, and could imply that some organisations are not actually treating diversity as a genuine goal, but as a tick-box exercise.

It is a sad truth that many job adverts simply don't receive any applications from a range of diverse applicants. However, it's important to look deeper at how these roles, and the broader industry, are being advertised to the world. After all, financial services as a broader industry has typically been designated a 'male sector', a perception that will take time to break and could cause some to feel alienated.

After copying and pasting a recent pensions industry job advert, which had received no female candidates, into an online gender bias analysis tool, it returned to say that the job advert was male orientated in its wording and tone. This may seem like an unimportant detail, but if every job advert is falling into this pitfall then it becomes easier to understand why women may not be applying for these roles.

On surface level, this is a relatively easy fix, with these same online tools often presenting alternative verbiage and ways in which to better tailor the advert to encourage a more diverse mix of applicants. But it speaks to a broader message about how we advertise the broader financial industry, and how our own assumptions and bias feeds into this.

If designers aren't careful, even chatbots can reinforce gender stereotypes or promote discriminatory behaviours. For instance, whilst Alexa and Siri are by default female voices, those used in the financial services are often male.

Our own assumptions and bias inevitably feed into our work life, but by being aware of these we can stop this from translating into things like chatbots and job adverts, and the broader perception of the industry.

Of course, gender diversity is not the only area of representation that the pensions industry struggle with. But the important message of looking closer at the real issue and barriers facing minorities in the industry still holds true.

It's brilliant then to see the launch of campaigns such as the Classroom to Boardroom initiative, run by Entrepreneurs in Action and led by Redington, which are committed to looking at the real barriers that are preventing some minorities from being better represented in the industry, and working in collaboration with others to solve the issues at the core, by identifying and proactively working to increase the number of diverse applicants for such opportunities.

People stating that they have not received a diverse mix of candidates shouldn't be good enough anymore. Looking to proactively support minorities, by exploring the reasons behind the lack of diverse applicants, is crucial if we want to advertise the pensions industry as one that is inclusive and open to all. Even if it is one job advert at a time, past perceptions can and should be broken.

Written by Sophie Smith

Reaching the end

Lucy Barron looks at minimising risk and maximising flexibility for scheme endgames

No aspect of investment has been left untouched by the Covid-19 pandemic, and pension scheme endgame strategies are no exception. Whether schemes are aiming for self-sufficiency, considering buy-ins, looking at commercial consolidators or are on a longer-term path to buyout, the past few months will have required close scrutiny of investment strategies.

Overall, the Covid-19 crisis has made trustees only too aware of the impact of any risks they are running in their portfolio. It has also heightened the need to be able to see and act on opportunities as pricing changes quickly.

In March, we saw credit spreads widen significantly, alongside dramatic falls in equity markets. As UK bulk annuity pricing is largely dependent on the cost of buying corporate bonds, that presented a golden pricing opportunity for transacting buy-ins and buyouts. Schemes with flexible investment strategies that were ready to act therefore had an opportunity to secure insurance at very attractive levels. Schemes that were further away from buyout were able to buy credit more cheaply to reduce pricing volatility for future insurance transactions.

As markets continue to be volatile, minimising risk and maximising flexibility will give trustees the best opportunities as they work towards their scheme endgame.

Minimise risk

There is always great debate about whether schemes should invest like insurers if they are aiming for buyout. While it is an interesting debate, it is almost impossible to put into practice. While schemes need to generate high levels of investment returns to close the gap to insurer (or consolidator) pricing, it is typically most appropriate to have a diversified investment strategy that generates the required return with the lowest level of investment risk. Schemes also have to contend with the fact that all insurers will have different strategies using a wide range of fixed income and illiquid assets. In addition, the assets that are attractive to insurers at any one time will depend on factors such as the transaction size, capital requirements and asset pricing.

That said, trustees can prepare by minimising investment risk versus insurer pricing. Having a high level of interest rate and inflation hedging will mean a scheme is well-positioned versus insurer pricing and, where gilts are held, to provide liquidity and transferability alongside cash. Holding credit is also likely to provide some protection against insurer pricing moves and is often an attractive asset for any insurer. On the other hand, holding assets that will not move in line with insurer pricing, such as equities, needs careful consideration. Schemes have to be sure that they still need to hold them and that the growth they provide will get trustees closer to buyout and not increase risk as they move closer to a transaction.

There may also be other assets that insurers will take in certain circumstances, including for larger transactions some illiquid credit assets. One approach that can lower the risk of volatility close to transaction, is to agree a price lock in advance with the trustees' chosen insurer that will move in line with the scheme's actual gilt and corporate bond assets and will be used to pay the premium.

Maximise flexibility

One of the biggest investment strategy lessons from the crisis is the need for trustees to ensure that the asset strategy is robust, flexible and tailored towards their endgame. For example, if trustees are targeting self-sufficiency they must be able to deliver the cashflows the scheme needs in a variety of different ways. If sponsor contributions stop – as they have done for some schemes in recent months – the trustees still need to be able to cover the scheme's outflows.

Schemes that are aiming for buyout also require a clear picture of what success looks like, and the time frame in which the trustees might want to transact. The investment strategy must be sufficiently flexible to achieve that while also being able to take advantage of opportunities to act earlier if they arise. For example, investing in illiquid assets with a five-year lock-in period will become a roadblock if trustees suddenly find they might have been able to transact a buyout after three.

The Pensions Regulator's recent guidance on scheme consolidators has also given trustees another low-risk destination for their scheme. While it is early days, a lot of the same principles apply to preparing assets for a consolidator as they do for buyout. Minimising risk and maximising flexibility are again crucial here.

In terms of the settlement market, the expectation is that there will be fewer buy-in and buyout transactions completed in 2020 than the c£44 billion of transactions completed in 2019. That might mean in the second half of 2020 and early 2021 there is better pricing on offer from insurers as they look to achieve volume targets. But this will be for the schemes that are prepared from an investment, as well as a wider data, benefits and governance, perspective.

Written by Aon partner, Lucy Barron

Mining emerging market fundamentals for hidden gems

With home interest rates at all-time lows, the higher yields of emerging market bonds may be hard to resist. But they obviously carry risks. A deep dive into the fundamentals of emerging economies reveals surprising differences and unexpected strengths – and may allow managers to spot opportunities while mitigating risk

Emerging markets (EM) ended the first half of 2020 on a note of confidence, even as the Covid-19 pandemic accelerated in parts of Latin America and elsewhere. Central bank support in the developing world, as well as in the US and Europe, put a floor under risk assets. That said, returns on EM debt were uneven: investment-grade sovereigns are up, and Asia and China fared best of all because of effective measures to contain the coronavirus. High-yield bonds, by contrast, underperformed safer assets.

Investors remain understandably cautious, but vulnerability to the pandemic and to oil and other commodity prices varies significantly from country to country. A bottom-up analysis of the economic fundamentals of each country can reveal surprising strengths and opportunities for investors.

For example, some oil-exporting economies are highly vulnerable to fluctuations in international oil prices. Other countries, such as the Dominican Republic, are oil-importing nations, which benefit from low prices, although the Dominican Republic is sensitive to tourism, which has been severely disrupted by the pandemic.

Some countries are tied at the hip to China's recovery, whereas others would benefit more from a US rebound. Some, such as Russia and Iraq, entered the pandemic with strong fundamentals – modest debt-to-GDP ratios, for example – while other countries have less fiscal leeway. We expect close to half of the countries in the J.P. Morgan EMBI Global Diversified Index to need debt restructuring as a result of the global recession.

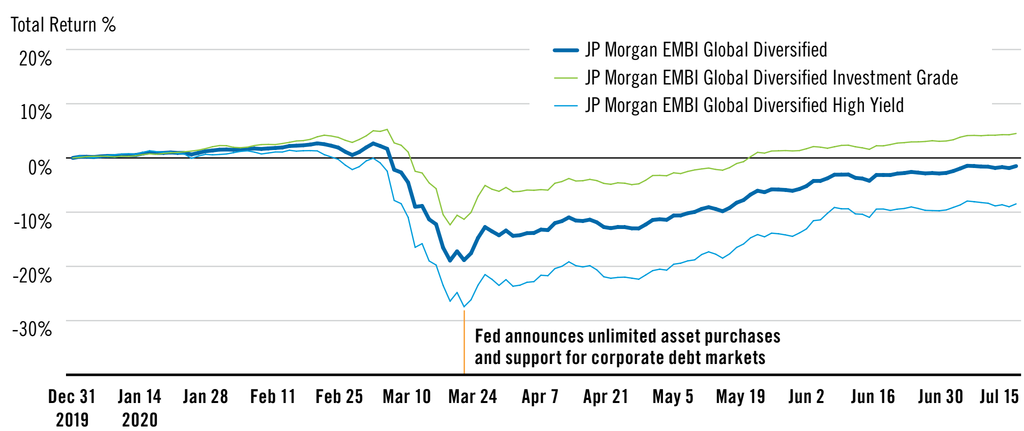
Debt relief: Good or bad?

Creditors, including the IMF, World Bank and Paris Club have been quick to help countries fund their emergency responses with additional credit lines and debt freezes, sometimes called 'standstills'. These have averted solvency crises in a number of distressed economies.

EM SOVEREIGN BONDS REBOUND FROM MARCH LOWS

Exhibit 1: Investment-grade hard currency EMD outperformed high yield.

December 31, 2019–July 15, 2020



Sources: Franklin Templeton Capital Market Insights Group, JP Morgan, Macrobond. Indexes are unmanaged and one cannot directly invest in them. They do not include fees, expenses or sales charges. **Past performance is not an indicator or a guarantee of future results.** Important data provider notices and terms available at www.franklintempletondatasources.com.

But it is important to monitor debt-relief proposals that could trigger a ratings downgrade or shut emerging economies out of publicly traded markets. Sixteen emerging-market finance ministers wrote a joint op-ed in Jeune Afrique[1], a Francophone publication, warning that G20 debt relief programme[2] should not interrupt repayments on publicly-traded bonds.

The other key actor to watch is China. Its role as a global creditor now surpasses the IMF and other multilateral lenders such as the World Bank, with an estimated $1 trillion in direct loans and trade credits, mostly to commodity-driven economies in Africa, East Asia and Latin America. Since the onset of the pandemic, China has suspended debt repayments for 77 emerging economies and announced $2 billion in assistance to countries impacted by Covid-19.

For many of these countries, a successful recovery is highly dependent on their relationship with China. In addition to being a key creditor, China is often the main trading partner and biggest market for the commodities of the developing world.

In China's orbit

China's success in containing Covid-19 is good news for commodity-exporting countries. Its oil consumption is back to pre-pandemic levels, as is the country's demand for industrial commodities such as iron ore to feed its steel mills.

For EM investors, understanding China's growing influence in emerging markets is vital. Take Angola, Africa's second-largest oil exporter. It was hit hard by the collapse in oil, as over 60 per cent of state revenue and 90 percent of Angola's exports are petroleum based.

On the heels of plunging oil prices and a ratings downgrade in late March, Angola's bond prices signalled a debt restructuring was imminent. Nervous investors headed for the exit. But a closer look revealed no need for panic. The key lay in Angola's relationship with China – its chief export partner as well as biggest creditor. China imports the majority of Angola's oil. It also holds most of Angola's short-term debt. President João Lourenço announced[3] in June that he had successfully negotiated a three-year debt moratorium on the $22 billion Angola owes China, potentially saving $4.5 billion in debt servicing costs. Bond markets responded favourably.

Low debt allows Iraq to weather storm

Not every oil exporter was against the wall when oil prices crashed earlier this year. As OPEC's second-biggest oil producer, Iraq entered this year's oil shock on a better financial footing than many oil-exporting peers, including Angola. Iraq has kept its debt burdens low by relying on investments from foreign oil companies to boost production of its hydrocarbon reserves, rather than borrowing money to accomplish the same aims on its own. As a result, Iraq spent less than 3 per cent of state revenues on servicing its foreign debt last year[4]. Production, meanwhile, reached a record-setting 4.8 million barrels per day last year[5], marking a major milestone after 15 years of conflict.

Iraq's Achilles' heel is not debt, but the government's vast public payroll and state pensions, which current oil revenues do not cover. So whereas Angola turned to China for debt relief, it is likely that Iraq will turn to both the US and the IMF for budgetary support.

As the global economy looks forward to Covid-19 vaccines, we are confident that emerging market assets will continue their upward trajectory as economies and consumers gradually return to business as usual. We think a selective approach that evaluates bonds country-by-country remains the best.

Find out more: www.franklintempleton.co.uk/em-debt

Written by Franklin Templeton Fixed Income Group

[1] "Aucun pays ne doit avoir à choisir entre sauver des vies et rembourser des dettes," Jeune Afrique, May 2020.
[2] G20's Debt Service Suspension Initiative
[3]. Frey, A. "Angola/Mozambique: China debt relief helps Fitch Ratings," Club of Mozambique, June 2020
[4]. Iraq Staff Report. International Monetary Fund. July 2019.
[5]. Iraq Staff Report. International Monetary Fund. July 2019.

Cooking up a storm

Association of Consulting Actuaries (ACA) honorary treasurer and Isio London team head, Stewart Hastie, chats with Duncan Ferris about teamwork, architecture and the satisfaction of getting your hands dirty in the kitchen

What's your employment history (including jobs outside of pensions)?
I started my career at Watson Wyatt, which is now Willis Towers Watson, and trained as an actuary and scheme actuary, as well as setting up their corporate consulting business. I was then at KPMG for 13 years until we set up Isio in March. Prior to that I worked briefly at British Airways doing performance management for cabin crew and I've worked in bars, pubs and retail.

What's your favourite memory of working in the pensions sector?
One of my fondest memories was working with a big client on a large project about 12 years ago. We were doing months and months of union negotiations and you really felt like part of the team, we really felt like we were working with the client towards a successful outcome. Right towards the end I managed to unlock the negotiations with a particular idea. It was the working together as a team as well as being able to find that last piece of the jigsaw at the last minute.

If you did not work in pensions, what sector do you think you would be in instead?
I think I would have been an architect, but nobody wanted architects when I came out of school!

What was your dream job as a child?
A sports car designer!

What do you like to do in your spare time?
Aside from the usual of travelling and trying to keep fit I really enjoy cooking. I find it quite therapeutic to be creative with my hands given what I do for a living. My brother is quite a famous chef down in Australia and is starring in an episode of a new Netflix show!

Do you have any hidden skills or talents?

Cakemaking. Every year I make a cake when it's one of my three children's birthdays. I do it more for my benefit than for theirs! They have fairly elaborate designs and themes, like football pitches, golden snitches and emojis.

Is there a particular sport/team that you follow?
I'm a Chelsea fan and when people are allowed back in the stadiums, we'll go to home games on a fairly frequent basis.

If you had to choose one favourite book, which would you recommend people read?
My favourite book is probably *The Great Gatsby* but one book I'd really recommend is *Maverick* by Ricardo Semler. It's all about democratising the workplace and how you can empower people to want to do the right thing within an organisation. I found it inspiring in terms of talking about how to run a business.

And what film/boxset should people see?
One series I watched recently was *Little Fires Everywhere*. It's about privilege, race, diversity and bringing up children. It's very watchable and engaging, and of those themes resonated with me, particularly in the current climate and context.

Is there any particular music/band that you enjoy?
I have fairly wide-ranging taste, from the likes of Buena Vista Social Club to Massive Attack. More recently I've been influenced by my kids and so I quite like Billie Eilish.

Who would be your dream dinner party guests?
I find Kevin McCloud from Grand Designs and his ability to talk about design and houses fascinating. I'd also like Derren Brown, Sheryl Sandberg, David Attenborough, Ariana Huffington and Dr Yuval Noah Harari.

Is there an inspirational quote/saying you particularly like?
"You can be the world's best garbage man, the world's best model; it don't matter what you do if you're the best." – Muhammad Ali

Editorial credit: Scott Woodham Photography / Shutterstock.com

Written by Duncan Ferris

Providing trustee protection

Insurance cover is of ever-greater importance to trustees, OPDU's trustee survey reveals

The legislative and regulatory burden for pension schemes continues to increase and The Pensions Regulator (TPR) has put the role and responsibilities of trustees centre stage in its drive to improve governance. This has led to an increase in trustees' accountability and exposure to risk and places further duties on trustees to ensure their schemes are well run.

OPDU wanted to consult its client base and contacts to assess their reactions to a series of questions and comments that arose from our day-to-day dealings and through the feedback received from our free technical training sessions on insurance and how this interacts with existing trustee protections. This article highlights the main findings.

We asked the participants to rate on a scale of 1 to 5 the importance and urgency of each question or comment. Seventy-two per cent of respondents were from DB or hybrid schemes and 78 per cent were either trustees or pensions managers. The respondents represented schemes ranging from small DB schemes to some of the largest schemes in the UK

We found that 62 per cent of respondents believed that it was important or very important to provide insurance cover for meeting the costs of regulatory investigations and 70 per cent believed this was an urgent issue. This clearly reflects the increased potential exposure to these types of costs. Our experience in helping clients meet the costs of investigations is that costs can accumulate very quickly. This is because investigations can go through several stages and involve a number of different advisers as TPR seeks the information it requires, which may necessitate extensive disclosure from the scheme.

Furthermore, protecting trustees from personal loss is a key feature of insurance because the protections in place through any indemnity and exoneration clauses associated with a scheme are limited by legislation and sometimes through practical difficulties in a sponsor's willingness or ability to provide that indemnity. This leaves trustees with exposures, so it was no surprise that 81 per cent believed that it was important or very important that trustees should be able to act without fear of personal loss, and 70 per cent saw this as an urgent matter to address. The latter certainly corresponds with OPDU's experience where we have seen increasing numbers of enquiries for cover. The need to better understand how insurance can protect has never been greater. There are a number of pension trustee liability (PTL) and discontinuance policies available. It is important for trustees to understand these can provide very different coverage, both in breadth and depth. Therefore, having a policy that meets the trustees' specific needs and understanding the terms of the cover provided is very important.

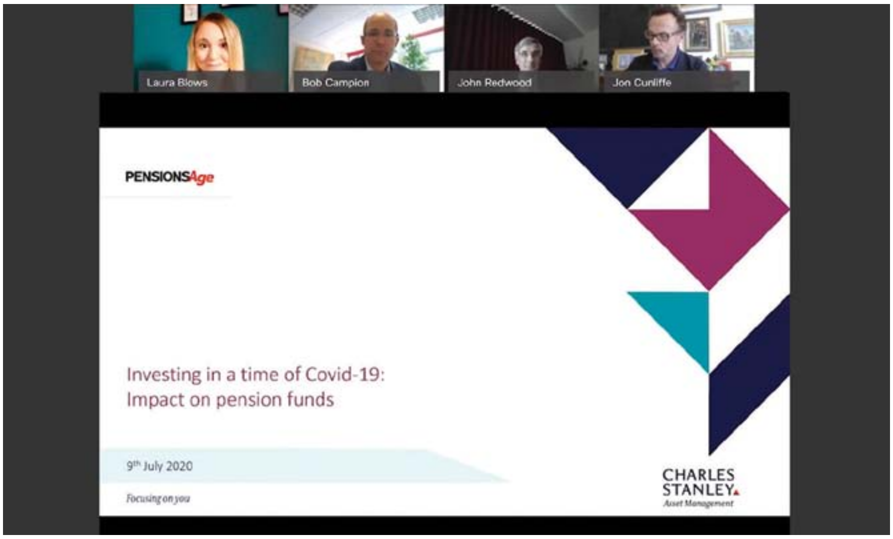
A very high 91 per cent of respondents thought it was important that schemes should be covered for costs in pursuing a third-party administrator or adviser for a breach of a professional duty of care. This is an important element of cover given schemes extensive use of advisers. If there is an issue that should be pursued, for example, advice or action resulting in the failure to equalise benefits properly, then this cover can, and has, provided the relevant funding.

A number of schemes are either winding up or will do so in the near future and here there are no scheme assets and either no sponsor, or a potentially uninterested one. Trustees can be particularly exposed in such circumstances and 87 per cent of respondents believed that it was important or very important that run off/ discontinuance insurance was secured. Typically we see terms of at least 12 years, with 15 years common. About a third of clients opt for lifetime cover when it is available.

This links to the importance for insurance cover for retired trustees, which was rated important or very important by 82 per cent of our respondents. This is important because PTL policies may either fail to provide such cover, or limit it to six years. It is essential that trustees who retire in normal circumstances have lifetime cover.

Written by OPDU executive director, Martin Kellaway

In association with OPDU WWW.OPDU.COM



Investing in a time of Covid-19: Impact on pension funds

Charles Stanley Asset Management considered the impact of Covid-19 on investment markets, central bank policies and continuing trends such as the digital and green revolutions, in its recent webinar with *Pensions Age*

The recent Charles Stanley Asset Management/Pensions Age webinar explored investing in a time of Covid. An understandable topic, as trustees seek expert guidance wherever they can in these unusual times.

Yet the webinar soon highlighted how the Covid-19 pandemic has mainly accelerated trends that were already occurring.

Take globalisation.

"Everybody thought that globalisation on the whole was a good thing," Charles Stanley Asset Management chief global strategist, John Redwood, said. "From the stock market point of view, it allowed economies of scale. It allowed the new transition to new and better technologies. It allowed trade to be a driver of world economic growth."

But then Covid-19 appeared. Travel halted suddenly due to the lockdown and the gradual easing of restrictions hasn't yet resulted in a return to the norm.

As a result, governments are now seeking greater national resilience, Redwood stated, as the pandemic interrupted international supply chains.

Yet this trend was starting to emerge before Covid-19, for example with the trade disputes between the US and China, Redwood pointed out.

The digital revolution was also already in full swing before Covid-19, but during the crisis it went into overdrive.

"I think it is a pretty safe assumption that travelling all over the world is going to be reduced and international business is going to operate more by means of conferences and technologies than it did before the pandemic", Redwood said.

While the digital revolution enjoyed a lockdown push, it was already led by public and business demand. Meanwhile, another trend that had its roots prior to the pandemic has been receiving a more top-down boost.

The green revolution is set through international targets and treaties, governments telling people how they must change, Redwood said, "telling you that you need a different type of car or to eat a different type of food or how to heat your home more effectively".

According to Redwood, the figures for this year so far shows that ESG investing is doing slightly better than the standard models.

He gave the example of share prices, highlighting the difference between backing the green and digital revolutions, or sticking to traditional, well-known companies.

Over the past five years Amazon's share price increased by 524 per cent, Tesla's by 26 per cent, and Apple's by 184 per cent, Redwood stated. In contrast, Marks & Spencer's share price declined by 81 per cent, Ford's by 62 per cent and Exxon Oil was down by 47 per cent.

These trends are clear to see with the benefit of hindsight, but it can be a bit more tricky for pension fund investors to see future, long-term developments, particularly while responding to current market changes.

For instance, in response to the pandemic, Charles Stanley Asset Management chief investment officer, Jon Cunliffe, noted that the activity of central banks may well generate "quite a significant tailwind".

"In terms of the business cycle and profit cycle, there is clearly a negative backdrop," he stated. "However, if we focus in the activities of central banks and their impact in terms of other asset markets, we can see a something that has emerged that has developed quite a significant tailwind, and that's very low levels of bond yields across the developed world.

"If we look at the 10-year notes in the US, we have had a 40-year secular rally in bonds. Yields have fallen from their high of around 16 per cent, down to their current levels of 65 basis points in the 10-year. This signifies a tailwind for equity investing, because the lower the bond yield, the lower the discount rate applied to future equity earnings, which becomes a positive for equity valuations.

"On the other hand it could be a precursor to an ice age in terms of very low levels of interest rates, growth and inflation. Of course, as an investor, corrosive inflation, or outright deflation, becomes a concern, because that becomes entrenched in the mindsight of both corporate and consumers and can mean that we get into a Japan-style environment, where we get caught in a 'liquidity trap.'"

Focusing on current central bank action, Cunliffe highlighted that in Switzerland, the entire government bond curve is in negative territory, while in Japan the only part of the yield curve that will provide positive return is in ultra-long bonds. Germany is also negative throughout and the UK is heading in that direction. The US is a relative high-yielder, but has been rallying quite sharply recently, reflecting the stance of the Fed with its asset purchases and recent rate cuts.

Honing in on the US, Cunliffe gave the example of how the Fed's balance sheet increased by $3 trillion over a recent two-month period, purchasing $70 billion US treasuries per day at its peak. In contrast, during the financial crisis, it was purchasing $120 billion per month, "so this is an unprecedented increase".

This creates a portfolio channel where those Treasuries that were held by investors get replaced by corporate bonds, so then people also move up into high yield and equities as well and property, he explained.

"An additional thing the Fed has been able to do this year is also for the first time buy corporate bonds and also backstop the high-yield bond market as well," Cunliffe added.

"That has created an easier environment in the credit market, which has also taken away some of the concerns the market would have had around insolvency. It has not completely cancelled this risk, but has created some breathing space for corporates to refinance themselves and for credit investors to feel more comfortable to hold corporate debt.

"But, in a sense, it's also postponing what could well be a more challenging environment for the corporate sector in the second half of the year. So we are not out of the woods yet as far as the corporate bond market is concerned."

The blurring of the line between fiscal and monetary policy is an additional risk, he added, as the only way the approach that central banks have adopted can work effectively is if the additional borrowing that central banks are financing can be financed at very low levels of interest.

So, what does this all mean for pension fund investors?

"Sadly, for pension funds it is hard to see us getting out of this very low interest rate environment for the foreseeable future," Cunliffe said. "For pension funds, a very long-term low bond rates also imply a very low discount rate, which means that from a liability side of a pension fund there are costs involved."

"Investment markets have been very difficult this year in particular and it is very difficult to be confident what the outlook is going to be from now on," Charles Stanley Asset Management head of fiduciary management, Bob Campion, added.

"For any pension scheme investor, the idea that they can have an investment portfolio with static assets that remains unchanged is very difficult in these very changing circumstances.

"So you need to be nimble and monitoring conditions all the time. It is very difficult for trustees to do this on their own, even with advisers, so we firmly believe that a fiduciary management approach is a great help for pension schemes as it means you have a professional team monitoring scheme needs and market conditions for you and can adapt to changes."

Charles Stanley Asset Management's fiduciary management clients certainly receive a very efficient investment strategy with a dynamic process, "which is very much led by our team's analysis", along with a very hands-on and comprehensive service, Campion stated.

"The fiduciary management service has three key principles," he explained. "We pride ourselves on providing bespoke portfolios for all our pension schemes. We are independent in our analysis and use of investment products and we are highly transparent in everything we do."

It is these core values provided by Charles Stanley Asset Management that make its fiduciary management service of great assistance for schemes investing in a time of Covid, and beyond.

CAMBRIDGE ASSOCIATES

Managing volatility

In the latest *Pensions Age* podcast, Laura Blows speaks to Cambridge Associates head of European pension practice, Alex Koriath, about the Covid-related market volatility and how pension funds can prepare for the challenges ahead

This year has been a rollercoaster investment journey, Cambridge Associates head of European pension practice, Alex Koriath, says in the *Pensions Age* podcast, *Managing volatility.*

Markets fell at unprecedented speeds, with most markets having declined by around 30 per cent in March, only to rally back and regain most of these losses, "especially in the US where we have seen new highs on the Nasdaq", he explains.

"Of course, this has been driven by the coronavirus pandemic, which no one, even with the best crystal ball, had seen coming."

Indeed not. For instance, we entered this year on the back of a 10-year bull market with many asset classes being expensive and highly valued, Koriath says.

As a result, Cambridge Associates had been working with pension fund clients over the past year on diversifying portfolios, building in different return drivers and more resilience. "Not because of coronavirus, but based on our assessment of an expansive market," he explains.

"Now, looking back it would have been quite profitable to rebalance at the end of Q1 into equities, to participate in the bounce from the lows. But that is the benefit of perfect 20/20 hindsight."

Investors may not have expected such a volatile ride this year, but they have to accept they are on this ride and take the necessary precautions. "You wouldn't enter a rollercoaster without a safety bar, right?" Koriath says. For investors, that safety belt is governance.

Examples of good governance are having a strategy or journey plan to define where a pension scheme wants to go, and having an understanding of how to react to certain scenarios, and then the ability to execute the plan.

"For instance, a contrarian approach to asset allocation is rebalancing," Koriath says. "In the current crisis, schemes would have benefited from rebalancing into risky assets following Q1's lows. However, buying risky assets after they have fallen so much is difficult from a behavioural finance perspective."

The use of fiduciary managers does address some of these governance challenges, Koriath adds.

Another help can be investing in private markets.

"Private markets held up relatively well and right now Cambridge Associates sees some interesting opportunities for pension schemes in the asset class," Koriath explains. As private markets are illiquid, this prevents panic sellers from selling at the wrong time and thereby it addresses a behavioural finance issue, he adds.

However, while many investors focus on equity markets, pension funds cannot afford to ignore inflation, Koriath warns.

"While we don't see any immediate inflationary pressure around the corner, it is worthwhile remembering that there has been huge central bank intervention and stimulus programmes from governments across the globe. These were absolutely needed at the time of the crisis but we think there are a number of scenarios where the stimulus and the additional debt that comes with that can very well lead to inflationary outcomes in the long term, and so it is worthwhile to scenario plan for these," he explains.

Planning for this now would be a good use of pension schemes' time, as a quick v-shaped recovery is unlikely, Koriath predicts.

"Even with a successful vaccine, we think that we are in for a recession over the next couple of years. Too many jobs have been lost, too many industries scarred and damaged," he says.

"Over the longer term, when we will return to pre-Covid GDP levels and start growing from there remains quite uncertain. The stimulus action across the world has been very helpful and has been the right medicine for the middle of the crisis but it has pretty unknown long-term side effects, such as inflation or austerity. The long-term picture is not so clear."

So what can pension schemes do? Koriath recommends being prepared for a range of different scenarios, "including the dreaded hyperinflation and stagflation".

"And also, do not neglect governance. Do not enter the rollercoaster without the safety belt."

Cambridge Associates head of European pension practice, Alex Koriath

To find out more about this subject, and to listen to the podcast, please visit www.pensionsage.com

Lifeboat rescue

With company insolvencies on the rise, Jack Gray investigates how and why affected schemes can enter and exit the Pension Protection Fund (PPF)

Entering PPF assessment may not be a pleasant situation for a pension scheme or its members, but there is still a chance that it will exit the PPF and members will receive benefits higher than PPF compensation levels. If, during the assessment period, a scheme is found to have or be able to secure sufficient assets to buyout benefits above the PPF payment level of 50 per cent, it can leave the pensions lifeboat.

"It is possible for a scheme to enter the PPF assessment period with insufficient assets, but by way of recoveries, the scheme assets become sufficient to allow the scheme to buyout benefits at or above PPF levels," explains PPF panel manager, Helen Beckinsale. "It may be that a scheme's liabilities also adjust when the assessment period tasks are carried out and the scheme is able to buyout."

According to the PPF, around 10 schemes entered and left PPF assessment in 2019/20. One such example is the Countrywide Farmers Retirement Benefits Scheme, which entered PPF assessment in March 2018 following the insolvency of Countrywide Farmers, before exiting the lifeboat in November 2019 after securing sufficient assets and agreed a £100 million bulk annuity deal with Legal & General (L&G).

The transaction, known as a PPF-plus buyout, allows for greater benefits than would have otherwise been provided by the PPF.

Describing the process, L&G Retirement Institutional director, pension risk transfer, Dominic Moret, says that scheme advisers typically look for assets of around 105 per cent of the PPF compensation level before approaching the insurance market.

"Advisers of the scheme would approach insurers and ask them to quote on providing benefits at the level they are provided in the PPF," Moret continues.

"If it is affordable for the scheme to be able to purchase those benefits from the insurer, so that rather than falling into the PPF the scheme will come out of PPF assessment and move to have their benefits provided by an insurer."

Moret notes that although the members will likely end up with a lower benefit than they may have been expecting from the scheme, it is higher than if they had fallen into the PPF.

The process length can vary significantly, with the time between the Countrywide Farmers' scheme entering PPF assessment and securing a buyout being under two years, whereas the Nortel Network Pension Plan began PPF assessment in 2009 before securing a £2.4 billion buyout in October 2018.

"The length of the process is largely determined by the timing of future recoveries to the scheme as trustees are unable to determine each member's individual uplift until all proceeds are received," says Beckinsale.

Regarding the Nortel deal, Moret notes that although members received benefits lower than they would have done without their company's fall into administration, the members valued the "certainty" following almost a decade of anxiety.

Company insolvencies have been on the rise due to the Covid-19 pandemic, with more expected in the near future, which is likely to see the number of schemes entering PPF assessment increase.

"Over recent years we have seen an increase in the number of PPF-plus cases that are being brought to us," comments L&G Retirement Institutional director, pension risk transfer, Rachel Cutts. "It is widely reported that many employers are struggling at the moment, so it does seem we are going to see more of them in the future too."

The number of potential PPF-plus deals may increase in the coming months and years, but Cutts warns that these types of transactions can be "complex".

"It really is quite an involved process and scheme scenarios can vary greatly," she concludes.

Written by Jack Gray

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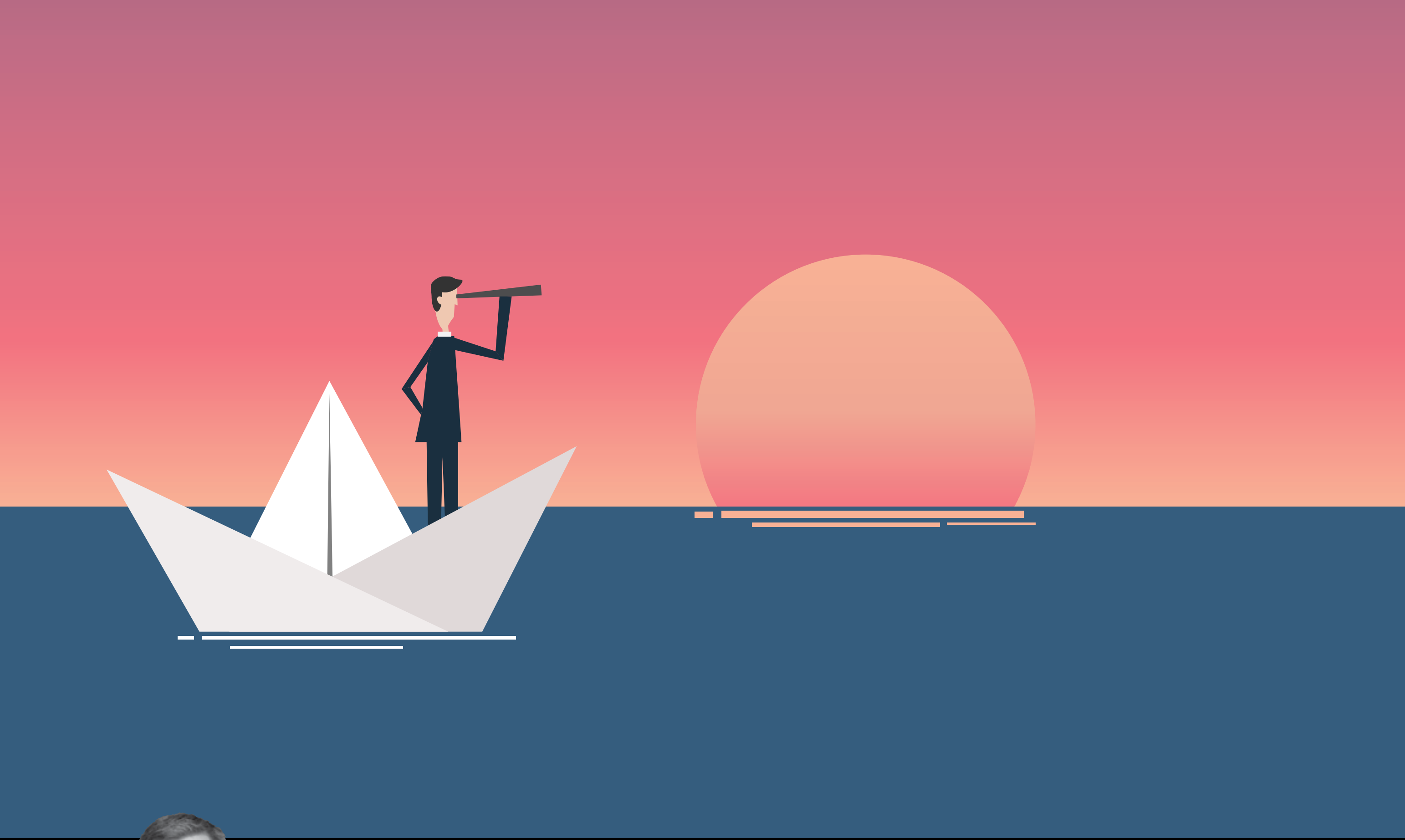
Global high yield bonds continued to offer value *– Mike Della Vedova explores where the high yield opportunities remain, despite recent spread tightening* ***p36***

Bonding responsibly *–Bonds are common investments for pension funds, but the current environment has created a great opportunity for institutional investors to ensure that their credit market securities are helping the planet as much as possible* ***p38***

Credit focus:

Broadening horizons



T Rowe Price portfolio manager, Mike Della Vedova

Global high yield bonds continued to offer value

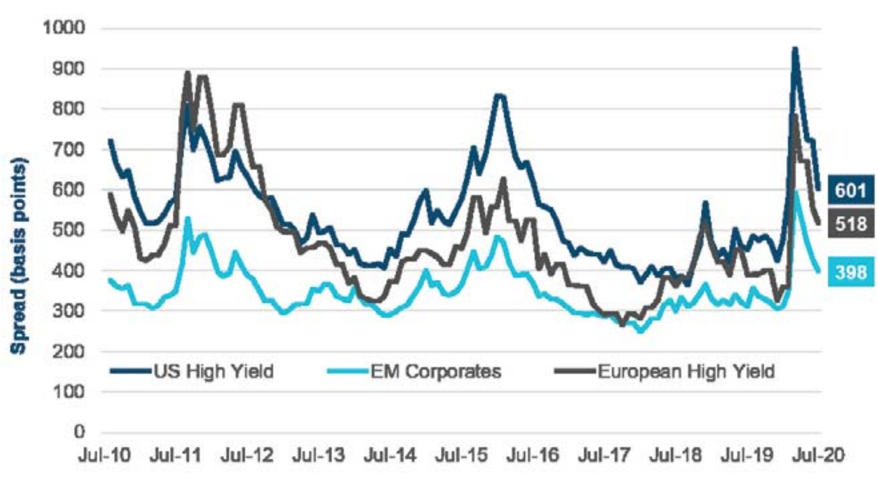
Mike Della Vedova explores where the high yield opportunities remain, despite recent spread tightening

After widening dramatically at the height of the coronavirus market sell-off in the spring, high yield bond spreads have narrowed again in response to aggressive government stimulus packages and improving economic data. The question is: given that valuations have recovered, is there still value in the high yield market?

We believe there is, but we also acknowledge that the nature of the opportunity in the high yield market has changed. Although credit spreads have yet to recover to their pre-coronavirus levels and therefore have room to rally further, this may not occur for a while yet and, when it does, it is likely to be much less dramatic than the tightening of the past few months. The great buying opportunity that arose when high yield bonds sold off aggressively in the early days of the coronavirus shock has passed.

Instead, we expect a period of slowly improving conditions as life gradually returns to normal in most countries. Further outbreaks of the coronavirus are likely, but these will probably result in localised lockdowns rather than the country-wide restrictions imposed during the first wave – and will therefore be significantly less damaging to the global economy. A vaccine may become widely available early next year, but even if it does not, we believe that governments and health authorities will have the tools to deal with new outbreaks without resorting to draconian measures. In this environment, spreads may hover around current levels, with pockets of volatility, for some time to come – meaning that attractive income is still available.

Spreads are wider than before pandemic



As of July 31, 2020

Past performance is not a reliable indicator of future performance.

European High Yield—ICE BofA European Currency High Yield Constrained Excluding Subordinated Financials Index; US High Yield—J.P. Morgan Domestic High Yield Index; EM Corporates—J.P. Morgan CEMBI Broad Diversified Index. Source: J.P. Morgan & Bank of America/Merrill Lynch

Automakers and casinos could be set to bounce back

An improving economic environment is not a risk-free one, however. Large numbers of high yield issuers have been hit very hard by the coronavirus shock and some will never recover. Based on an in-depth analysis of the balance sheets of all the companies we follow, we are anticipating a default rate of 9 per cent for the US high yield market in 2020, and around 5 per cent for the European high yield market. Although they are lower than the 12.2 per cent and 6.1 per cent default rates respectively predicted by rating agency Moody's [1].

Assuming we are correct in anticipating a slowly improving economic environment, which high yield sectors offer the most potential in our view? Defensive sectors such as packaging and cable have delivered strong performance during the crisis and we think it will probably continue to perform relatively well, albeit not to the same degree as before. Instead, we think the next phase of the recovery will most likely be led by companies in sectors that have been hit hard by coronavirus and are currently trading at a significant discount, but which have the cashflow to weather the storm and emerge stronger.

The automotive sector, for example, has been severely impacted by the coronavirus because of forced factory closures, its dependence on discretionary spending and the collapse of some of its key markets, particularly in Asia. Rating agencies have downgraded billions of dollars' worth of debt owed by automakers and the sector continues to face steep challenges, but it also offers significant potential upside. In particular, manufacturers of auto parts such as seats and other interior features are trading at significant discount and appear in a good position to recover strongly. All cars require interior parts, so these firms have good prospects regardless of the extent to which electric cars disrupt the market.

While online gaming companies have performed well during the coronavirus pandemic, physical gaming companies such as casinos have been forced to close and are trading at significant discount. There may be an opportunity to invest in casino firms that have enough liquidity to survive for at least two years and reap the benefits as lockdowns are eased. The services sector in general is broad and diverse, and has a number of attractive and idiosyncratic companies with the potential for considerable upside in our view.

Fallen angels have deepened the opportunity set

It is not just a matter of identifying the sectors with the potential to rebound, however; it is also important to identify the likely winners and losers within those sectors. A firm with a weak balance sheet and poor cash flow is unlikely to survive a steep, industry-wide fall in demand, particularly if it lacks the ability to raise new capital. Another company in the same sector that has a stronger balance sheet and better cashflow may be able to weather the storm and emerge stronger the other side. We do not believe that the amount of leverage a company has is particularly important in determining its ability to survive a crisis; what ultimately matters is its ability to meet its coupons and interest payments until its revenues recover.

Identifying such companies will be the key to successfully navigating the high yield bond market in the period ahead. For those who can, there will be plenty of opportunities available. Rating agencies are likely to continue downgrading large quantities of BBB bonds to high yield, depending on the path of the economic recovery. Automakers, leisure, restaurants, hotels, airlines and retail firms will bear the brunt of this. Among these fallen angels will be some multibillion-dollar companies whose business models remain robust and whose liquidity will enable them to survive until demand picks up again. There are also many smaller, long-standing high yield issuers whose prospects were steadily improving before the coronavirus crisis and will continue to do so afterwards.

Although spreads have tightened, we believe that the additional spread offered by BB bonds over BBB-rated debt adequately compensates investors for the additional credit risk. What's more, if we are correct in our view that any future outbreaks of the virus are likely to be met with only localised lockdowns, the high yield bond market is likely to benefit as consumers slowly resume their former spending habits and a number of badly-hit sectors begin to recover.

Written by T Rowe Price portfolio manager, Mike Della Vedova

In association with T.RowePrice

[1] The discrepancy is partly explained by differences in methodology. While Moody's places a lot of emphasis on the amount of leverage a firm takes on, we prefer to assess a company's ability to survive by examining its balance sheet and cash flow. Many highly leveraged firms in industries that face severe sales slowdowns have been downgraded by Moody's and other rating agencies.

Bonding responsibly

Bonds are common investments for pension funds, but the current environment has created a great opportunity for institutional investors to ensure that their credit market securities are helping the planet as much as possible

Bonds are one of the key investments for any pension fund, with fixed income assets often being used to balance volatile equity investments. With the world going through a pandemic crisis and markets remaining unpredictable, there has perhaps never been a better time to consider integration of environmental, social and governance (ESG) factors into credit market investment.

As this feature will demonstrate, this consideration is very much in vogue, can offer value and is undergoing an evolution as the coronavirus crisis rattles on.

Popularity

In an indication of the growth of ESG investment in the credit market, ratings agency Moody's has forecasted that debt based on environmental, social and governance principles could climb as high as $375 billion in 2020, up by almost a sixth on the year before.

Principles for Responsible (PRI) senior analyst, Felix Soellner, says: "Traditionally, the credit market has lagged behind the equities market in the ESG product offering but, with over $80 trillion of institutional monies on the credit side, this focus has been shifting towards managing credit relationships in alignment with ESG requirements."

T Rowe Price portfolio manager, Mike Della Vedova, states: "ESG has been part of our investing DNA for many years, even before it became known as ESG. The different factors that constitute ESG are important elements within our research process when determining valuations and long-term performance."

Soellner states that although in some cases "ESG risks have been incorporated on a fundamental level for a long time" there has been "material changes in how this analysis is being carried out through the increasing formalisation and systemisation" of integration.

MSCI executive director and factor strategist, Hitendra Varsani, also produces evidence of increasing demand, noting that MSCI has more than 320 fixed income indexes linked to ESG through its partnership with Bloomberg and Barclays, and "launched our own suite of ESG linked corporate bond indexes at the end of last year" due to client demands.

Varsani concludes: "In the context of ESG adoption in equities, the credit market is still in its infancy, but this is changing. We see increased demand from asset owners, asset managers, broker dealers, wealth segment, as well as pure credit index providers in either using the ESG ratings directly or index linked solutions."

Process

Now that we've seen how ESG integration is increasingly popular in the credit market, it's worth considering how it is actually achieved by investment professionals.

Della Vedova explains that, at investment management firm T Rowe Price, the multi-structured process consists of the ESG team evaluating individual companies and sharing their findings with credit research analysts, analysts incorporate ESG factors into their independent issuer valuations and ratings and a portfolio manager balances out ESG factor exposures at the portfolio level.

He adds that the company's ESG teams have created specialist tools to "systematically analyse the ESG factors that could impact our investments", stating that "the foundation of the analysis is a proprietary flagging tool called the Responsible Investing Indicator Model (RIIM)" which covers around 13,000 securities.

While he comments that the processes behind the asset manager's Global High Income Bond Strategy "naturally incorporate an analysis of each company's ESG factors and tend to yield an ESG-friendly portfolio", he adds that the investment team works closely with ESG specialists and screen the portfolio with the RIIM "at regular intervals".

Della Vedova notes: "This helps us understand the ESG characteristics of the portfolio and makes us aware of any exposures to specific ESG factors or how these ESG factors may impact a company's business operations and market performance."

ESG integration is one thing, but can how are returns influenced by taking these factors into account?

Value

Della Vedova is reassuring in the face of this query, commenting that integration "should have a positive impact on returns for investors as they will contribute to a more holistic view of the company", adding that companies that poor ESG factor scores "can have a significant detrimental impact on performance in both the short and longer term".

However, Soellner warns that incorporation "can create extra costs", although he adds that these can be mitigated by "the benefits of using ESG to support the bottom line and creating an opportunity set for the credit side".

He adds: "If investors are willing to accept lower coupons on their bond investments, then this judgement would most likely be based on a fundamental belief that the issuer is of higher credit quality than a comparable low ESG-performing peer.

"Applying a haircut to the interest paid is therefore a tool to appropriately valuing a bond and its credit risk. Increasingly, this type of mechanisms is utilised to monitor and reward ESG performance over time."

Varsani comments: "There is an increasing body of literature that demonstrates ESG factors have brought defensive characteristics, such as some positive correlation with credit ratings, tighter OAS, and low volatility."

In terms of a current examination of the value on offer from 'sustainable' investment in the credit market, MSCI's *Corporate Bonds Through a Factor and ESG Lens* blog post shows the finance company's ESG Leaders and ESG Universal indexes achieving marginally higher returns than its USD IG Corporate Bond Index over the first half of the year.

Varsani adds: "During the first quarter of this year, sustainable investing in corporate bonds showed defensive characteristics and helped mitigate drawdowns in both the investment-grade and high-yield universes."

Considering this apparent robustness in the face of a worldwide pandemic, its also worth considering how the extreme conditions of Covid-19 have affected factoring ESG into credit market investment.

Pandemic

Soellner argues that the 'social' aspect of ESG factors have been a particularly relevant consideration in the midst of the coronavirus crisis.

He explains: "Signatories spent significant time managing relationships and structuring payment holidays and effectively redirecting a majority of their engagement activities to crisis management. Those actions include providing additional liquidity to keep business operations afloat and staff employed and keeping their employees safe, to redirecting products and services to benefit public and private health care providers.

"The question around the licence to operate became a very human one as corporations started to see the need to support the communities they are operating in. Fundamentally, the current crisis will not reinvent the way investors are addressing ESG concerns in their investments but rather, sharpen their focus on crisis management, including a more granular assessment of ESG materiality."

Della Vedova agrees, pointing out that when businesses are struggling financially they "may look to cut costs in areas such as health and safety, jeopardising the safety of employees", which he adds "demonstrates the importance of thorough analysis on ESG factors, particularly through periods of uncertainty".

Della Vedova notes: "The underlying ESG factors are unchanged and should still be monitored in the same way and with the same mindset. However, the prevailing economic conditions mean it is worth placing an even greater emphasis on ESG within a company."

This is backed up by an assessment from ratings agency Moody's released in mid-August, which noted that a record $3 billion-worth of social bonds were sold to credit managers in the year's second quarter, while the issuance of green bonds slowed.

Approaching the issue from a slightly different angle, Varsani offers insight into how MSCI have rethought ESG factors in the wake of the pandemic, with the company's ESG Research team having created 10 charts considering the 'new normal' from various angles.

He comments: "These topical issues range from society to reconsider what a dangerous job looks like, seeking out green buildings, social inequalities as less educated workers face a choice between layoffs or working in close proximity to others.

"Perhaps one of the most critical issues is the increased focus on climate related issues and the potential signs of more disasters to come."

Written by Duncan Ferris

In association with T.RowePrice

Keep calm and carry on

With the Department for Work and Pensions' (DWP) consultation on the defined contribution (DC) pension default fund charge cap and standardised cost disclosure having closed on 20 August, Jack Gray analyses the industry's thoughts on the proposals

Summary

• In the government's review of the charge cap in 2017, it made a commitment to re-examine its scope and level in 2020.
• The majority of respondents do not support making changes to the current level of 0.75 per cent within the default arrangements or including transaction costs in its scope.
• However, the consultation did spark debates around the appropriateness of certain charging structures, especially on small pension pots.
• Suggestions for making standardised cost disclosure templates mandatory receive a mixed reception.

In 2017, the government carried out an assessment as to whether the charge cap on DC pension schemes' default funds of 0.75 per cent of funds under management, introduced in 2015, was appropriate. After considering opinions from across the industry, it concluded that the cap was operating as intended and decided to leave it at the level set two years earlier, with a promise to re-review in 2020.

A second consultation ran from 25 June to 20 August 2020, which also sought views on the effectiveness of costs, charging structures and transparency measures in protecting member outcomes.

It appears that most industry experts do not believe the charge cap needs to be lowered, despite the 2016 *Pension Charges Survey* finding average charges of between 0.38 per cent and 0.54 per cent, but the consultation did raise concerns around charging structures and cost transparency.

Lowering the cap

The charge cap's introduction in 2015 has helped protect auto-enrolled savers from complex charging structures and high charges. AJ Bell senior analyst, Tom Selby, describes its introduction as a "necessary response given the dynamics of the market, in which millions of savers make no active choice and therefore exert little, if any, demand-side pressure on the pension provider".

Following the findings in the DWP's 2016 survey, it may be assumed that lowering the cap to around 0.55 per cent would make sense. However, industry experts have expressed concerns that reducing the cap could stifle innovation and good governance as it limits providers' space to develop.

"Do we automatically cut it to 0.55 per cent? No, that is probably not appropriate," says Dalriada Trustees professional trustee, Paul Tinslay.

"We have far more savers going into DC schemes and the sizes of DC pots are going to massively increase over the next decade or so. With that in mind, it would be difficult to say 0.55 per cent at this stage looks good because everybody is there but could realise in three or four years' time that that is not enough."

Tinslay notes that a certain amount of "wriggle room" is required in line with the increasing costs of improving governance and market development, and to help new providers coming into the marketplace.

TPT Retirement Solutions director of DC, Philip Smith, adds: "I could see a situation where if you did lower the charge cap it might slow the introduction of more sophisticated investment strategies.

"I know a lot of people think long and hard about including alternatives in their investment strategies and struggle because it is typically higher than the current charge cap for a lot of alternatives and it would certainly be higher than 0.55 per cent.

"I do not think there is any need to change it. There is a good, healthy level of competition."

A further impact of lowering the charge cap could be an increase in consolidation, as schemes would need a greater scale to operate at the lower price point.

Selby notes that the DWP will be wary of the impact lowering the cap may have of "soft offerings", such as member communications.

Widening the scope

The government's consultation also sought views on whether transaction costs should be included within the charge cap. This was also considered in its 2017 review, with the government concluding that it was not necessary at the time in order to allow the Financial Conduct Authority's (FCA) new rules on transparency to bed in.

Additionally, it was decided that the "difficulties in calculating certain 'implicit' transaction costs meant they should not be included", according to Selby. "Since then the FCA has agreed a measure of transaction costs, so it makes sense for the government to revisit that decision," he adds.

However, in responses to the DWP's most recent consultation, the same concerns around the stifling of innovation and progress have been cited as reasons not to include transaction costs in the charge cap.

"It seems to be clashing with the direction of travel that the industry was trying to head in," explains Barnett Waddingham head of DC and workplace wealth, Mark Futcher. "DC needs to take advantage of economies of scale and therefore be able to invest in different asset classes that we think will generate better returns, control volatility, and increase diversification. But those asset classes come with very different charging structures and strategies."

Futcher warns that the inclusion of transaction costs could make trustees act cautiously, not embrace new ideas and "hunker down" around more traditional investments. Capping transaction costs could mean products that schemes feel deliver better value in the long term may be inaccessible.

Taking the initiative

To improve cost transparency in the pensions sector, the DWP issued proposals to increase the usage of the Cost Transparency Initiative (CTI) templates. The government wanted opinions on whether the templates should be made mandatory, whether trustees should be required to report on their use of CTI templates to The Pensions Regulator, or if they should remain voluntary.

"We continue to struggle to get data in a timely fashion," says Futcher. "Not everyone is using the template that most of the industry agreed on. There were some quite big asks of the fund management industry to put all this data together, they still have not got these systems in place. I would give it a bit more time, but we do need that compliance and transparency over costs."

Tinslay agrees that the adoption of CTI templates should be encouraged, as a uniformity allows for a "meaningful measurement" of transparency, while Smith says he probably "falls on the site of mandatory" but warns this would pose challenges.

"You can make it mandatory, but how easy is it to get hold of the information that you need and how certain are you that it is right?" Smith notes. "I think that is a challenge. It is a challenge for everyone, not just a DC challenge."

Protecting the small

Discussions around charging structures within the consultation has led debates on the issue of the growing number of small deferred pension pots and the impact that certain structures, such as flat fees, can have on them.

"We really need to be addressing the growing issue of small and deferred pots," warns Now Pensions CEO, Patrick Luthi. "Resolution of high numbers of small, deferred pots could, in time, lead to improvements being made in the level and structure of the charge cap."

The rising number of small pots has led to some industry experts, such as LCP, to call for a ban on member borne flat fee charging structures, as they can erode the small amount of savings in these pots.

However, Luthi disagrees: "The answer to the problem of flat charges is not to ban them, but rather to solve the problem of small pots and then to re-examine the case for changing the charge cap and/or its structure. We are calling for the creation of a taskforce and are looking at setting a level below which charges cannot be levied, therefore preventing members' pots from being charged out."

Written by Jack Gray

Back to school

Duncan Ferris speaks to Pensions Management Institute (PMI) president, Lesley Carline, about using technology to navigate the pandemic, updating qualifications and pessimism in the industry

What are the PMI's current goals?
The goals of the PMI haven't really changed. Our goal is to keep pushing the message of raising the standards of professionalism within pensions. How we do that has been evolving. It's been evolving in terms of how we deliver our education piece. We have reviewed our qualifications and what came back from our clients was that they love our qualifications but how we delivered them needed to move on, so we started the process of moving to online qualifications. This has since been escalated a bit.

We had already trialled online qualifications whereby people sat the qualifications on computers in exam centres and luckily we had trialled eproctoring, where the computer is the invigilator. Trialling that really helped when Covid-19 hit. Not all our qualifications are online yet, but they will be by the end of the summer. Some are a bit more difficult than others to put online. Multiple choice is fairly simple but vocational qualifications where people get marks for demonstrating how they come to their answers, such as testing their ability to do calculations, are a bit trickier.

As part of our pursuit of lifelong learning we have enhanced our range of qualifications with top-up qualifications and are also looking to provide training courses in specific topics. Its also merged into the commercial development area where they're looking at what we put on in terms of roundtables, seminars and conferences.

We had a five-year strategy to move the PMI forward and we are in year four of that and we have delivered on the majority of it. It's not just about increasing our membership and getting ourselves in a good financial position. It's about lifetime learning, thought leadership pieces, giving back as part of our societal aims and nurturing new talent through things like our mentoring programme.

How has Covid-19 changed the way in which the PMI interacts with members?
We were always planning to go online with some of our webinars and seminars, but Covid-19 forced our hand a bit. We're looking to do a roundtable on cyber-security as it is such a hot topic at the moment.

I'm amazed that the team at PMI came up with the trustee fortnight after events that we had hundreds and hundreds of people registered for had to be cancelled. Rather than doing a full day conference they did a topic a day over two weeks. In fact, it extended beyond the fortnight because they kept finding useful topics.

Our defined contribution symposium, which will be in its third year this year, is probably going to be

online. We have always had an administration conference because it's a topic that is quite often neglected. You get lots of conferences about investment, funding and legal stuff but admin is quite a complex topic. We extended it to be admin and fintech, which was a very useful move.

I think, as an industry, we have been quite slow adopters of technology and if you talk to systems providers the resistance isn't from them in terms of developing it, but rather from the take-up and use of it. I think Covid-19 is really going to change the way in which trustees view technology. Traditionally, some of them have been quite hesitant.

Has the pandemic also affected some of the PMI's projects, such as the launch of your trustee accreditation programme?

It didn't delay the accreditation process, but it did delay the accreditation. Individuals could do their fit and proper test, criminal test and upload their references online, but they still had to sit their qualification. This delayed things as the PMI didn't believe in a provisional accreditation and our regulator, Ofqual, does not believe in provisional accreditation because it could look like people were just buying their qualifications. So, we decided that entrants had to take the exams.

The first Certificate in Pension Trusteeship exams were sat in February online and in a centre. Covid-19 meant we couldn't do these centre-based examinations. We went to our eproctoring supplier and said we needed their technology as soon as possible, but they were inundated with requests from countless institutions. We were probably delayed by about six weeks, with the first Covid-19 eproctoring exams in May. So, we were delayed but not by too much and we have been holding exams throughout the summer, with quite a lot of people sitting them.

Can you give me any details on the PMI's planned diversity and inclusion initiative?

We're in discussions with a partner about the initiative. It would be so easy for us to put our diversity and inclusion policy up on our website and have the PMI live by it, which we do, but I think it's important that we provide a channel for education and leadership rather than just there and say we've done it. So, we want to provide a platform on how we can achieve diversity and inclusion within our industry.

There are some really good initiatives out there but there are also too many happening in isolation, so the PMI has the ability to use our reach to try to bring all those pieces together into something cohesive for the industry. I can't really tell you too much about it now because the ink isn't dry.

Has the pessimism noted by the PMI in its June *Pulse* survey results changed over the summer?

Personally, I think professionals are still pessimistic. We've been tracking people's expectations with the *Pulse* survey. We have run it four times now and the first four questions have been the same. We're going to be delivering something called the pensions tracker, which will display the trend of professionals' satisfaction over a period.

When asked how satisfied they were by pensions policy, comments from our respondents have included; "very little progress", "Pensions Bill delayed again", "Pensions Bill overtaken by Covid", "MPs have not found time for the Pensions Bill", "Pensions Bill is needed but not perfect". It's all about this sort of delay – the problem is not the policy itself, but rather that nothing is happening.

There has been quite a low level of satisfaction on the pensions policy side of things, but it has since come back up, mainly because of the way The Pensions Regulator (TPR) handled Covid-19. I think 75 per cent of respondents said they were quite pleased with the way TPR has handled the pandemic.

Why are pension professionals concerned about how the Pension Schemes Bill will affect their work?

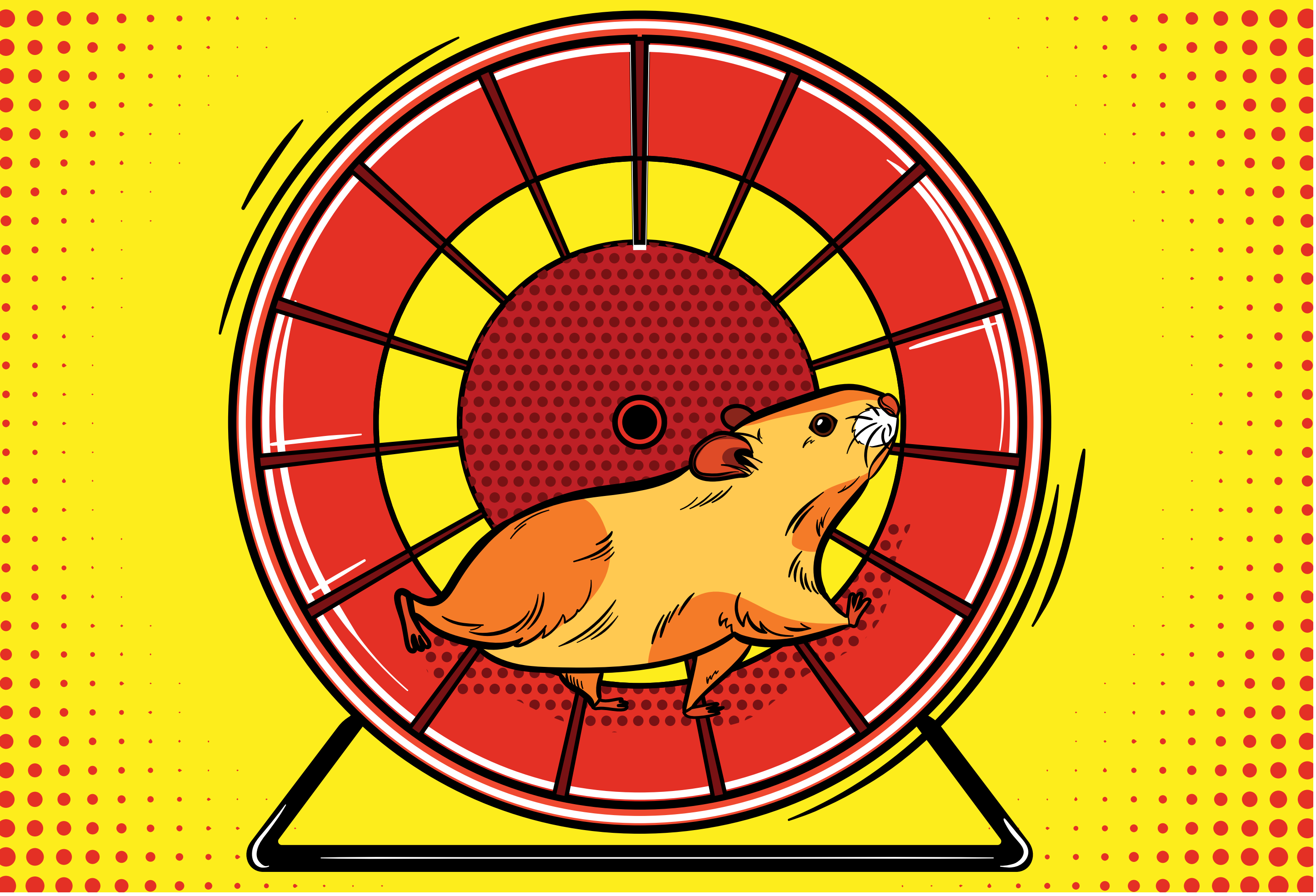
The major concern is around clause 107, which is the clause that basically is written in criminal law terms. It states that you can be charged as a criminal if you do something that recklessly endangers the benefits of a member. It's really written harshly and it's written quite wide, with the aim being to capture those that play at the edges of the law.

Unfortunately, it is relying on TPR to produce guidance because you could find your scheme actuary being criminalised for providing advice, or a trustee guilty for not acting on advice, or you could be guilty of endangering members' benefits by doing something that you have been advised to do. Just changing a discount rate could be seen as problematic as it is so wide-ranging.

The Joint Industry Forum has written to the Department for Work and Pensions and members of the House of Lords have been notified as we have been trying to get some reassurances about this wording, because we don't want a situation where a pension scheme trustee or an adviser is too frightened to do anything unless there is a lawyer in the room.

However, there is still a lot to welcome in the Pension Schemes Bill, particularly around dashboard, of which I am a big fan.

Written by Duncan Ferris



Spinning faster

Laura Blows explores the pace of reform within the pensions industry and whether trustees are struggling to keep up

Summary
• The pace of policy and regulatory reform has been 'breathless' in recent years, with criticism that some regulatory developments are short term in their outlook.
• There are concerns around the time and costs of complying with reform, along with unintended consequences, such as companies moving away from trust-based schemes.
• Trustees may struggle to balance between what the law requires, what the regulator suggests and the fundamental interests of their scheme when implementing change.
• Regulation can sometimes be too prescriptive, with tension between small schemes who may want or need more direction, and larger schemes that want and can manage flexibility.
• Policy and regulation focusing on the 'big picture' is desired, with scheme allowed to find apply their own methods of achieving goals.

The wheels of pension reform have been spinning ever faster for many decades, but the past few years has seen it really increase in speed.

Making changes

"Pensions policy and regulation has never stood still," Sackers partner, Peter Murphy, says. "Many will regard the Maxwell scandal as a particularly pivotal event, which drove many of the initiatives in the early to mid-1990s with the aim of better securing members' benefits. But the pensions landscape has continued to evolve in a multitude of quite fundamental ways since then, driven by changing policy and backed by increased regulation."

Aon partner and head of UK retirement policy, Matthew Arends, agrees that the pace of regulatory change to UK pensions in the past few years has been "breathless".

"Think of the existential crisis caused by freedom and choice, the advent of DB consolidators or the Code of Good Practice on Incentive Exercises," he says. "And for DC schemes, there have been, for example, the introduction of the charge cap, DC chairs statements and increases to minimum auto-enrolment contribution rates. Each of these developments has caused deep and widespread implications for every occupational pension scheme. And further change is coming in the form of the Code of Practice on Scheme Funding, further environmental, social and governance, (ESG) requirements and the dashboard, to name just three."

Whether new regulation is needed or whether existing structures – many of which are quite new – should be left to bed down is a question posed by State Street Global Advisors head of pensions and retirement strategy, Alistair Byrne. He references the charge cap consultation as a case in point *[for more information see page 40]* as most large schemes are already below the charge cap price, "so it is not clear that further legislation is required".

Changes to policy and regulation can be a reaction to high-profile cases, "on the perceived weaknesses in the system shown by these unusual cases", DLA Piper legal director, Craig Looker, says. "Changes are made to address those weaknesses and rolled out to every scheme, but those changes may be unnecessary for most schemes."

Ultimately, for Arc Pensions Law partner, Rosalind Connor, the pace of reform is "inevitably both too fast and too slow".

"Some changes are proposed with very little warning," she explains, "whereas others, such as the treatment of DB consolidators, seem to drag behind the movement of the markets."

The Pensions Regulator (TPR) is aware of the many reforms that have occurred in the industry in recent years.

"We acknowledge the pensions landscape has been through a prolonged period of change, and we are committed to driving all trustees to constantly review and develop their knowledge and skills, and to improve diversity and inclusion on trustee boards," its spokesperson says.

SEI head of institutional group, EMEA and Asia, Ian Love, sympathises with trustees and the various regulatory bodies "for the sheer amount of changes they have had to respond to or shepherd through".

TPR's spokesperson highlights the sheer volume of work itself has gone through as an organisation, having made "significant progress in transforming our organisation so we are a modern and 21st century regulator, fit for the challenges we face, delivering on a growing remit and changing risk landscape, and protecting workplace pensions most effectively with the resources we have".

On the trustee side, "I've never heard a trustee or employer suggest there is too little pensions regulation. But I've heard lots of complaints that there is too much," Isio partner, Mike Smedley, adds. "Individual policy changes may be well-intentioned, but in practice layers upon layers of complexity have been added over the years. Promises of simplification have not been fulfilled."

Love states that "when you consider the vast array of regulatory developments, they all have clear merits in isolation", citing the master trust authorisation process as an example that most would agree has the right intentions as a standalone regulation.

"What causes concern," Love says, "is both the cumulative effect of the many regulations that trustees and schemes are having to keep pace with, and the unintended consequences that each regulation may bring. The old adage 'not seeing the forest for the trees' rings true here."

Consequences

One knock-on effect for regulators to be aware of is that of 'regulatory capture' Love advises, whereby regulation "favours large, established market participants and erects impossibly high barriers" to entry for potential new entrants.

"This is not unique to pensions, but as the recent CMA review demonstrated, the pensions industry is one that cannot afford to close itself off to innovation and fresh competition. The sector is afflicted by many challenges that need new solutions. The regulators and the industry should welcome novel ideas if members can receive greater outcomes and increased security," he says.

Not only is red tape risking creating a barrier to new entrants, it may also be driving others out of the industry.

PTL managing director, Richard Butcher, wonders whether increased consolidation may drive schemes towards consolidation. "I am not against consolidation per se but I'd rather it be for the right reasons. Some schemes may not need to consolidate but end up having to do so because of the pace of regulatory change, which I think is a shame."

Another example is the continued drive for better security of members' DB pensions leading to changes to employer debts on exit, as well as to employers' funding obligations, Murphy says. "This has come at a huge and unexpected cost to many employers, both directly and indirectly through payment of levies for the PPF to provide an ultimate safety net for members. It has perhaps also come at a significant cost to members, with the offering of DB pensions accrual well and truly on the decline," he suggests.

On the DC side, it has resulted in companies exiting their trust-based DC scheme, to pass on its increased governance, risk and cost burden, Isio partner and head of DC pensions, Richard Birkin, adds.

The money aspect is a significant one for pension schemes. According to a Pension Management Institute (PMI) survey in January, 34 per cent of pension professionals believe that the cost of regulation is too high and are concerned about its increasing cost. However, 39 per cent thought that the cost of regulation was "about right".

TPR's spokesperson states that it committed to meeting its statutory duties effectively, while providing value for money for stakeholders.

However, pension schemes are shouldering an incredible cost burden to comply with the raft of regulations, Love says. And beyond the direct costs, there is a fair amount of opportunity cost involved as well. "Schemes could have deployed the same amount of pounds and pence to other key, strategic and potentially transformative initiatives – or simply having more of that money remaining in the scheme," he explains.

Trustee response

Scheme trustees also face that issue of resources being pulled in different directions.

As Butcher says, "regulators and the Department for Work and Pensions (DWP) forget that pension trustees answer to many different paymasters, so we could do with joined-up governance."

Efforts have been made to improve this though, with TPR's spokesperson noting that working with industry stakeholders and government partners is a "firm priority" for the regulator, particularly with the Financial Conduct Authority (FCA).

"For example, we engaged extensively with the FCA throughout 2019-2020, including on a very successful joint campaign highlighting the threat of pension scams, and published a joint statement (also with the Money and Pensions Service) to increase awareness of scams during Covid-19," they add.

Arends usually sees trustees responding to change in one of three ways. They either 'get busy' and rise to the challenge, 'get help', where they outsource some or all of the responsibility for change to a third party, such as a master trust or fiduciary manager, or they 'get simple' by complying in the minimum way possible in order to manage the cost and time required to comply.

"This is perhaps where the unintended consequences of rapid policy change begin to emerge," he adds.

"The biggest challenge for pension schemes is the constant change and tinkering with policies," Smedley says. "It's difficult and expensive for trustees to keep up with moving goalposts. And even worse it can distract trustees from more important issues. GMP equalisation is a great example of a regulatory burden that adds significant work with very limited benefit. Trustees would much rather use that time and money to do something more meaningful. Increased disclosure is hard to argue with, but does it add value if no-one reads it?"

According to Connor, trustees are caught between what the law says, what the regulator or other interested parties suggest they should do, and the fundamental interests of their scheme. "These are all competing for their time and attention, and time and money is spent sorting out the competing positions, before even starting to implement."

Whether spending that time and effort complying with a certain regulation will even generate a benefit to the scheme is sometimes subject to debate.

"A lot of the proposals and ideas are of course good ones, and many well-run pension schemes look at a lot of what is presently required of schemes and think firstly that they are already quite compliant, and secondly that they are glad that others are being required to do this too," Connor says.

"However, there are problems and challenges even for the best run schemes with compliance from time to time, and other, perhaps smaller and less well-resourced schemes can find it a significant challenge."

There is always tension between small schemes who may want or need more direction, and the larger ones that want and can manage flexibility, Smedley agrees. There also needs to be more consideration to applying regulation equally across small schemes and large schemes, he adds.

Connor also notes that there is a great deal of scepticism on whether the schemes that can best benefit from direction and guidance, those without regular advice and input from experts, will be at all compliant, "leaving a risk of over-engineering for schemes that are already in the right direction, whilst those most in need of guidance remain oblivious to what is asked of them".

To counteract this 'obliviousness' has arguably been to make policy and regulation more rigid.

"A fundamental issue with pensions policy and regulation is that it is always highly prescriptive," Looker says. "The concept of setting out principles and guidance for schemes to follow and then leaving it to the schemes and their advisers to work out the best way to achieve that in practice seems never to form part of our pensions policy. This results in lengthy and complex rules to be followed, which dampens enthusiasm for change. These rules risk becoming just a list of boxes to be ticked at great expense to schemes in terms of both time and adviser costs."

Looker states ESG regulation as a good example of this. "The prescriptive rules and laborious process set out for schemes around ESG distract from the genuine benefit of considering these issues as part of pension scheme's investment decisions," he says.

Since last year, trustees must meet new UK regulations from the DWP to explicitly consider climate change and ESG in investment decision making, and as of October this year, develop implementation statements that show how they have achieved what they have set out to do.

"Many trustees are still building their knowledge in what is a rapidly developing area *[ESG],*" Columbia Threadneedle Investments senior analyst, responsible investment policy, global research, Chris Anker, comments. "Combined with the associated costs in addressing these issues concurrently in a relatively short timeframe, there is a risk of sub-optimal implementation," he adds.

For Butcher, the implementation statement may be too prescriptive, as a small scheme may have to spend time and cost to fill it in, "when the reality is that small schemes can do very little to influence what their fund manager does, but they still have to comply with this".

However, in contrast, he highlights the flexibility in other regulations, such as the DB funding code, with its bespoke and fast-track options.

The more prescriptive regulations are, "the more you end up with churn out like a sausage factory", he warns, "as opposed to trustees thinking about strategic objectives and how to achieve them".

We may already be at 'sausage factory' stage, Butcher adds, with too much regulatory focus currently on the 'output' instead of the 'input' and 'outcomes' of good governance – "by which I mean providing legislative and regulatory framework to ensure that governance is of a high quality and continues to be so to deliver good member outcomes. Let's not worry about the bit in the middle, 'are they complying with that schedule, have they produced that statement in these words etc', as that just ties people up in knots".

Looker agrees that all schemes would benefit from a wider review of what is expected of pension scheme governance as a whole and then a policy change toward setting schemes free to find their own path to achieving it. "The regulatory regime should sit behind this to police the few schemes that do not comply, rather than seeking to impose specific actions on schemes at every stage."

TPR's spokesperson notes that its consultation and response to its *Future of Trusteeship and Governance* work "saw a record 114 responses and showed broad support for our view that all savers should benefit from efficient and well-run pensions, with the right people in place to make good investment decisions and deliver value for money".

However, Connor thinks that there is not enough recognition of trustees' efforts generally.

"There is a growing suggestion that pensions regulation puts no store by the duties of trustees, and how seriously those duties are adhered to, or by the professional expertise or judgment of advisers," she says. "Regulating on specifics may of course do something to prevent those specific problems, but in practice, ensuring that trustees and their advisers look at the big picture and do the right thing for their schemes and the schemes' beneficiaries leads to much better outcomes. This message seems increasingly lost in the current regulatory climate."

Focus and direction of reform

A challenge to seeing the bigger picture is possibly the increased focus on short-term issues.

"The problem is that pension schemes are pushed to focus on the latest issue, and it is easy for them to lose sight of the overall objective – providing members' benefits – in the scrum to keep up with the latest campaign," Connor says.

Love describes the timing mismatch that has arisen as "one of the key challenges with modern pensions regulation".

"The nature of many of the regulatory developments is highly short term. Pensions, by their very nature, need to have a long-term perspective," he says.

"Trustees understand that their guardianship must reflect their long-term and, in some cases, 50-year obligations to members, but they are increasingly judged quarter to quarter. They have quarterly meetings, annual funding updates, three-year valuation cycles, and may have the regulator looking over their shoulders on a regular basis. This creates a mindset where short-term incentives can dominate."

The regulator "explicitly and directly providing guidance that emphasises the importance of long-term outlooks" may help with this, he suggests, as "trustees may feel more empowered to give primary consideration to longer horizons".

Looking to longer horizons may be needed – if not always enjoyable. In June, PMI's *Pulse* survey found 60 per cent of pensions industry respondents remain "pessimistic" about the direction of future pension policy following the current pandemic, (particularly clause 107 of the Pension Schemes Bill, and whether this could criminalise normal DB scheme management and consultancy services).

However, Butcher does think the wheel of regulatory change is broadly heading in the right direction; the only issue is the speed of the spin.

"The concern is that we may spend a lot more time dealing with regulatory compliance, which distracts from the strategic work that could improve member outcomes," he explains.

"Therein lies the problem," Arends adds. "Not so much the direction of travel, because that will always be debated, but if the pace and breadth of change is too fast, it will discourage schemes and the industry as a whole from doing anything other than the minimum. Policymakers beware!"

Written by Laura Blows

Fixed Income Guide:

Revealing opportunities

Featuring:

- The current fixed-income opportunities in a Covid-19 world
- Whether high yield make sense for UK pension funds
- ESG integration within fixed-income portfolios
- The impact of corporate downgrades on the high-yield bond market
- Company profiles

Summary

- Fixed income offers huge variation from both the public and private sectors, such as government and corporate bonds and asset-backed securities.
- The asset class has been on a 'roller-coaster ride' during the first half of the year and has been impacted by Covid-19.
- However, looking over the long term, allocation to fixed income has increased significantly over the past 16 years.
- Current opportunities range from multi-asset credit mandates, taxable municipal bonds in the US, real assets, index-linked bonds to asset-backed securities.

A bumpy ride

Like most asset classes, fixed income has been impacted by coronavirus, so where are the current opportunities? Natalie Tuck reports

"Fixed income assets have gone through a roller-coaster ride in the first half of this year," says Insight Investment fixed income specialist, Isabelle Meyer. Like most asset classes, fixed income has not been immune to the financial impact Covid-19 has had on most of the sector.

Fixed-income markets include huge variation of securities from both the public and private sectors, explains MFS Investment Management institutional fixed income portfolio manager, Owen Murfin. This includes bonds from state and regional governments, corporations, and some physical assets such as hotels or receivables from credit card loans – the latter two are known as asset-backed or structured.

Impact of Covid-19

Due to such a varying degree of offerings, fixed income has seen different impacts as a result of Covid-19. For example, Meyer says that global investment-grade (IG) credit saw the biggest sell-off since the global financial crisis with unprecedented speed and little chance to react.

TwentyFour Asset Management head of institutional business, Alistair Wilson, also notes that within fixed income, the pandemic has seen central banks "slashing interest rates as they attempt to steer their economies through a deep recession".

"Given our macro outlook, we believe bond investors will be faced with an ultra-low yield environment for much of the next decade, with income once again a scarce commodity. With rates set to remain at low levels for some time to come, in our view government bonds will be of more limited use to fixed income investors going forward," he says.

LCP partner, Dan Mikulskis, notes that for a short period of time in April and May of this year, Covid-19 related stresses caused the yields available on corporate bonds to increase. He says some schemes were able to take advantage of this, but this was short-lived and the support from central banks has pushed these spreads low again.

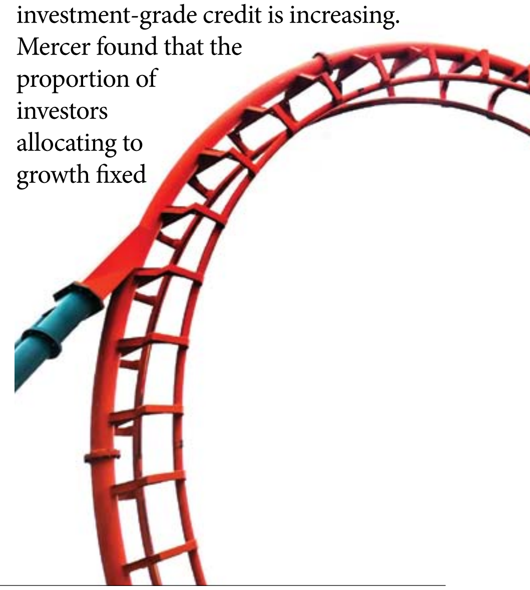
In addition, Meyer notes that the high-yield market has seen several "fallen angels", which were all centered around the autos, oil and retail sectors. Mikulskis adds that this has increased default worries in these sectors, whereas others continue to strengthen but offer lower returns.

On a more positive note, policy response from global governments and easing of lockdown has helped markets in general recover, and "we are almost back to pre-Covid levels," Meyer notes. Wilson is in agreement, noting that the "swift response" from central banks and governments has helped markets recover strongly.

A steep incline

Coronavirus aside, looking over a long-term period, fixed income is on the rise; Mercer's *European Asset Allocation Insights 2020* report reveals that allocation to bonds has increased from 34 per cent in 2004 to 55 per cent in 2020. This year, 76 per cent is allocated to government bonds, whilst 24 per cent is invested in corporate bonds.

In addition, the report reveals that growth fixed income, which includes strategies expected to generate returns in excess of government bonds and investment-grade credit is increasing. Mercer found that the proportion of investors allocating to growth fixed



income stands at 47 per cent in 2020, compared to 37 per cent in 2019.

Within that, multi-asset credit rose from 16 per cent to 22 per cent of total assets invested, high yield from 10 per cent to 21 per cent, emerging market debt from 18 per cent to 28 per cent, absolute return from 16 per cent to 21 per cent, private debt from 11 per cent to 16 per cent and secured finance from 4 per cent to 7 per cent.

"You can see from this there has been a massive switch to contractual income for most schemes, particularly in the private sector, and this makes sense as they mature. We would expect this trend to continue as schemes move assets from equity markets over time," Wilson says.

The appeal, he says, is that fixed income can provide pension schemes with a reliable stream of income for meeting their long-term liabilities. "Historic exposure to equity markets were driven by expected long-term returns but these tend to be more volatile and we are, of course, in a scenario where equity income is coming under increasing threat."

Current opportunities

Currently we're at a "critical juncture", says Cambridge Associates head of European pensions, Alex Koriath. He notes that pension schemes could face scenarios ranging from deflation, a benign reflationary growth to the dreaded stagflation.

"Consequently future return opportunities in fixed income will be different in divergent scenarios and a diversified allocation should be the focus for pension schemes. We also think that despite already low real yields, index linked bonds or other real assets may prove useful in a higher inflation scenario."

Mikulskis sees opportunities in multi-class credit mandates: "For investors looking for higher returns in fixed income we have been allocating to multi-class credit mandates, which can go anywhere for opportunities including lower-grade companies and emerging markets.

"We have also made allocations to asset-backed securities (for example bonds backed by mortgages or loans to smaller companies). These can offer more value as they are less readily traded."

For those schemes that want to match liabilities, Wilson says that traditional government bonds currently provide very limited income, and particularly with expected high levels of issuance, we may even see more volatility associated with them in future years.

"An investor could instead look to move down the risk spectrum into investment grade and then high yield and emerging markets. Asset-backed securities, often a very misunderstood asset class post the global financial crisis, themselves provide a very wide spectrum of risk opportunities and often at a premium to other areas of the bond world due to – what we prefer to call – the analysis premium."

In addition, Murfin says there are a number of sectors that can still offer compelling yields relative to their risk. "Examples include areas like taxable municipal bonds in the US and certain parts of emerging market bonds and structured bond market. We have also been encouraged by moves in Europe towards greater fiscal integration and remain positively positioned in European periphery bonds."

For DB schemes that are focused on future cash flows, AXA Investment Managers head of portfolio solutions, Sebastien Proffit, believes that corporate bonds "satisfy all the pre-requisites for reliable cashflow generation".

"They offer a predictable cashflow profile with no floating payments, along with duration exposure and a premium over government bonds. This, in addition to their relatively liquidity and flexible nature, forms a compelling argument for pension schemes consider corporate bonds as the fundamental building block within their cashflow-driven strategy."

Written by Natalie Tuck

Aiming high

James Lindsay asks whether high yield make sense for UK pension funds

2020 has shown us that just when you think government bond yields cannot go any lower, they in fact can. And with central banks willing to do whatever it takes to support the economy, including the potential for negative rates or yield curve control, we believe rates are unlikely to rise significantly anytime soon. This is likely to depress yields and fixed income returns, challenging pension funds to meet their return thresholds.

For investors seeking higher fixed income returns, high-yield bonds – those with credit ratings below BBB – have unique characteristics that make them worthy of consideration. There is a case to be made for including them in a well-diversified portfolio, since the asset class has historically delivered a risk-return profile somewhere between higher-quality investment grade fixed income and equities.

High yield represents a nuanced pocket of the fixed-income market that may reward those who invest in the asset class with discernment. That's because high-yield bonds can experience volatility in times of market stress. The asset class is characterised by a cyclicality that reflects the economic cycle, since credit risk is a key determinant of total investment returns.

High-yield issuers often face a higher likelihood of defaulting on bonds relative to investment-grade issuers. Unlike losses due to price changes, losses from default involve a realised loss of capital that cannot be regained in the future. As a result, investing in high-yield bonds requires an understanding of the nature of the cyclicality and volatility of the asset class alongside prudent security selection.

Investors demand a higher yield from below investment-grade issuers as compensation for this potential loss. The additional yield over developed market sovereign and investment grade corporate bonds may help UK pension funds achieve their funding goals.

What's the key to successful high-yield investing? We believe that avoiding losers is more important than picking winners. This is because the risk-reward profile of bonds is asymmetrical; the downside of a poor credit investment is substantially larger than the upside of a good one.

High-yield research focuses on company and industry-specific risks. Certain industries have persistent structural characteristics – good and bad – that can impact long-term performance across issuers. Passive high-yield investment strategies mimic sector representation in benchmarks, ignoring fundamental differences across industries. Sector positioning can be an important lever for adding value and mitigating risk.

Investing in this market requires prudence, an eye for identifying inflection points, and favouring certain companies as well as sectors. We believe mitigating downside risk is critical for generating strong total returns when investing in high-yield bonds.

The key is actively picking high-yield bonds that offer sufficient compensation for the credit risk associated with owning below-investment grade bonds. Active managers with deep research expertise are well-placed to assess credit risk, particularly at an inflection point such as now – and in doing so make investments that can help UK pension funds achieve their risk-return targets.

For more information about high yield as well as other fixed income and equity opportunities, please contact James Lindsay on JLindsay@MFS.com.

Written by MFS head of UK institutional sales, James Lindsay

In association with MFS®

How can ESG integration work in fixed income?

TwentyFour Asset Management explains its approach to ESG integration within its fixed-income portfolios

At TwentyFour, ESG – environmental, social and governance – factors, are a critical component in our investment process.

We believe ESG can be essential in helping to minimise long-term risks to the value of our investments, improving risk-adjusted returns for our clients and ensuring their capital is invested responsibly.

As ESG investing has grown, it's become clear that across the asset management industry there are many different interpretations of what constitutes ESG investing, and how it should be implemented. This can be confusing for investors trying to select a manager that matches their objectives.

"TwentyFour's growing presence in the pensions space has been achieved by understanding client needs and responding quickly to them. Our active approach to assessing ESG risks can be time-consuming, but we believe is essential for giving clients the clarity they need."

Graeme Anderson, Chairman and Portfolio Manager, TwentyFour Asset Management

Integration

We follow an **integration** approach to ESG, which means ESG analysis is built into the regular investment process for all our portfolios; our portfolio managers evaluate the ESG risks associated with every company whose bonds they consider adding to a portfolio, and how these might impact the value of the asset over time.

For true ESG integration, we believe portfolio managers have to be accountable for this process and do their own ESG analysis. As an active asset manager, we wouldn't feel comfortable relying solely on an external ESG data provider, or even a standalone ESG team within the business. We want our whole team to know the ESG risks of the credits they track inside and out.

So how does this work in practice?

Every day, TwentyFour portfolio managers use a purpose-built relative value tool called Observatory to scan the global universe of fixed income and select bonds, and the ESG scoring is built right into this software.

Designed in-house at TwentyFour, Observatory is like our very own search engine for the global universe of fixed income. Observatory stores key metrics on over 30,000 bonds from companies and governments around the world, allowing instant relative value comparison from issuer to issuer and from bond to bond.

"We've never been shy in engaging with companies, regulators, central banks and governments when we feel it is in our clients' interest. Our Observatory system allows us to document these interactions and be transparent with our clients about when, why and how we went about them."

Chris Bowie, Partner and Portfolio Manager, TwentyFour Asset Management

ESG factors are integral to this relative valuation process, and sit right alongside more familiar bond characteristics such as yield or maturity.

As a starting point, we populate Observatory's ESG fields with data from a third-party provider, which gives us information on more than 6,000 public companies across 400 ESG data points.

But as we've said, we don't want to rely solely on third-party data. All commercially-available ESG databases are drawn from publicly listed firms. But many corporate bonds are issued by private companies, meaning around 40 per cent of the most widely used global credit indices aren't covered.

Therefore, our external ESG database informs our ESG scoring, but the PMs' own work is there to fill in the gaps, and to override the database if necessary, in response to new developments. This means we arrive at a combined ESG score for each bond issuer, which is heavily dependent on the portfolio managers' own ongoing credit work.

How do we arrive at this combined score?

We start with the basic building blocks of ESG.

Environmental risks, for example, might include a company's level of emissions or its waste management policy. **Social** factors might include things like equal pay, human rights and ethics policies, while **Governance** risks typically relate to a company's treatment of its stakeholders; staff, customers and capital providers.

This initial assessment can give us a good idea of a company's ESG performance relative to its peers, but we think it's important to go further, which is why TwentyFour's integration model incorporates more qualitative ESG risks such as **Controversies** and **Momentum**.

Controversies tend to be related to specific events or actions that point to poor behaviour and might be a risk to investors in the future, such as a firm with a history of accidently polluting the environment or being found guilty of predatory pricing.

In considering **Momentum**, meanwhile, we want to understand whether a company has a credible plan to improve any weaknesses we identify in its ESG credentials. For example, we have previously afforded positive momentum

"We believe companies that can demonstrate a clear path to a better outcome should be supported by capital markets, and this is why TwentyFour's active approach to ESG allows for more nuanced considerations like momentum."

Charlene Malik, Portfolio Management, TwentyFour Asset Management

to an energy producer with a multi-year plan to dramatically reduce its use of coal.

We believe companies that can demonstrate a clear path to a better outcome should be supported by capital markets, and this is why TwentyFour's more active approach to ESG allows for more nuanced considerations like momentum.

It also places a greater importance on **Engagement** with issuers, which we believe is the most effective method by which bondholders can influence corporate behaviour on ESG issues.

We've never been shy in engaging with companies, regulators, central banks and governments when we feel it is in our clients' interest. Observatory allows us to document these interactions and be transparent with our clients about when, why and how we went about them.

Finally, this ESG integration model gives us a platform for creating funds with explicit sustainability goals. With these mandates we move the bar higher, using a careful combination of positive and negative screening to positively reward the firms with the best combined ESG scores, while ruling out the companies or even entire industries that score poorly. We launched our first such sustainable fund in early 2020 and expect to launch more of these in the next few years.

We believe this more active approach to ESG integration is best suited to our culture as an active, high conviction and specialist fixed income asset manager.

We think it is the best way to help protect our clients from long-term risks to the value of their investments, while ensuring their capital is always deployed responsibly.

Our unique Observatory tool makes certain these risks are a part of the conversation at every step, making ESG a truly integral part of the investment process at TwentyFour Asset Management.

Written by Graeme Anderson, chairman and portfolio manager; Chris Bowie, partner and portfolio manager; and Charlene Malik, portfolio management, TwentyFour Asset Management

The downgrade dilemma

Khuram Sharih considers the impact of corporate downgrades on the high-yield bond market

As fears around the coronavirus pandemic hit financial markets in March, investment grade (IG) and high yield (HY) credit spreads gapped to around 350 basis points (bps) and 1,200bps, respectively. Nearly all asset classes generated negative returns during this period. But just as quickly as markets collapsed, so did they rally as major fiscal stimulus packages were unveiled.

With credit now well off the lows, attention is turning back to credit quality, fundamentals and the potential impact on IG and HY credit. Downgrade risk is of material concern, particularly given the relative market sizes: global BBB corporate debt is over $4.5 trillion, compared with the $2 trillion global HY market.

The BBB segment has grown through a combination of rising leverage, more aggressive financial policies, M&A and positive ratings migration. Both HY and IG have grown markedly, but the growth of the BBB market has been particularly notable, bringing into question the quantum of downgrades that the HY market could absorb.

Estimates suggested c. $700-800 billion in potential downgrades. However, when looking at the composition of IG debt, these aren't materially different from previous shocks. Notably, in the corporate bond market ex-financials, the highest risk components of the IG index are small i.e. retail /leisure. That said, there will be some volatility as fallen angels enter the HY market, particularly if we experience a large inflow from cyclical sectors such as autos, transport and energy.

Such downgrade estimates sound alarming, but some of the major downgrade events that the HY market experienced over the past 20 years saw similar migrations. In the US corporate bond market alone, c. $400 billion of bonds were downgraded to HY during both the autos downgrade cycle in 2005 and the global financial crisis. Moreover, the HY market is much larger now than it was in 2005 and 2008/9, and possibly better placed to absorb the large inflows.

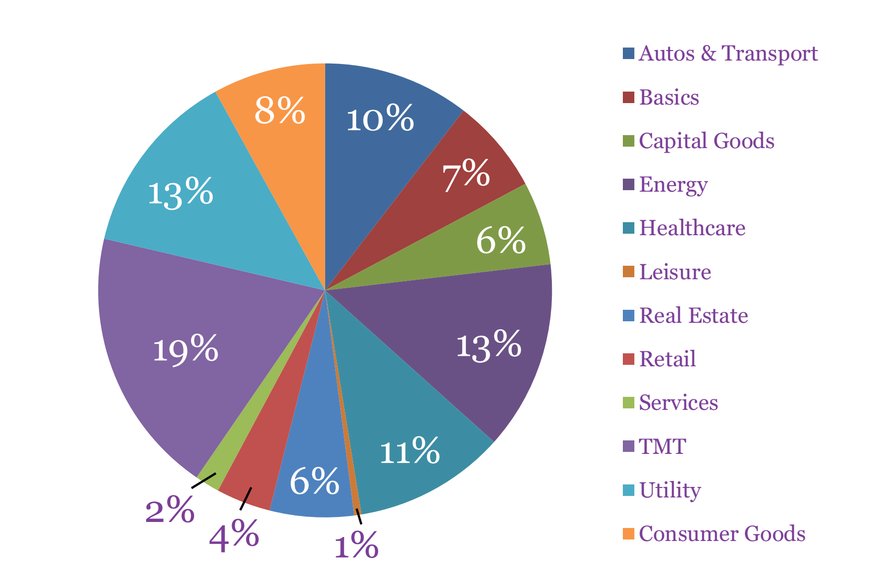
Historically, the average rate of bonds downgraded to HY has been 4 per cent by value. However, during major events, this has approached 10 per cent. If we take current estimates of $640 billion in 'at risk' debt, and include a further $250 billion in emerging markets bonds, that would mean up to 8.5 per cent of IG debt is at risk of downgrade, which would be in line with past peaks.

From an HY perspective, the 'fallen angel' debt would represent a fairly substantial portion of the market. Historically, about 22 per cent of the HY market has entered the asset class, but during peak downgrade cycles, the percentage of HY debt that comes from such downgrades can be as high as 50 per cent. This was experienced in 2003, following the TMT downgrade cycle and 9/11.

Downgrade risk can be assessed sectorally as well taking into consideration historical downgrade cycle trends and the sector distribution within corporate IG bonds. As illustrated (figure 1), of the top five sectors in the IG index, three are more defensive and would likely face fewer downgrades – even if they were to be hit, they would have good cross-over investor support.

The more cyclical sectors have a higher probability of downgrade. Based on sectoral analysis, we estimate c. $750 billion in corporate bonds (ex-financials)

Figure 1: Investment grade market by sector % ($, ex-financials)



could potentially enter the market. This would represent around 35 per cent of the current global HY market, in line with the peaks of previous cycles.

The impact of this potential downgrade cycle can also be viewed from a debt maturities perspective. We would see a considerable increase in maturities in the first couple of years, but this will gradually taper off as we get to the mid-part of the curve before increasing again due to the longer duration nature of IG debt.

Despite the potential increase in near-term HY debt maturities following a downgrade event, the recently-announced Federal Reserve (Fed) programme to repurchase short-dated US bonds of fallen angels should be supportive and help to manage the absorption of this large quantum of debt.

A potential post-downgrade sector composition would also show some notable changes to the debt distribution. In particular, we would likely see an increase in some sectors that are much smaller in HY than the IG market, such as TMT, autos, energy, utilities and healthcare.

The incremental debt from first order pandemic-affected sectors, such as retail and leisure, represent a small fraction of IG debt and therefore larger downgrades from such sectors should be absorbable. There could be potential considerable new HY opportunities in historically less-cyclical, higher-valuation sectors, such as TMT and healthcare. This in turn could be supportive for spreads by attracting interest from IG investors.

Technicals could also be supportive due to benchmarking and ETF demand. Additionally, some companies may implement more conservative financial policies to help reinstate their IG rating – particularly those that would benefit from shorter-term financing and commercial paper-type programmes.

Additionally, estimating that the HY market will lose 15-20 per cent of bonds through defaults over the next few years, a further c. $300 billion to $400 billion in non-performing debt will exit the HY market and therefore improve the quality of the overall HY index. Moreover, these defaults are likely to be skewed towards the more structurally challenged or cyclical sectors, improving the overall composition of the HY index.

Although $750 billion in downgrades would represent a sizeable element of the HY index, the composition would be strengthened over the medium term, while the inflow net of defaults into the index would likely be $350-$450 billion. Fallen angels will have overall better balance sheets, higher ratings and a longer maturity profile compared to existing HY constituents. This, coupled with a more favourable sector representation, should support HY spreads.

The risks from downgrades are further mitigated by:

- Demand for HY has been strong as evidenced through year-to-date inflows.
- More liquid downgrade constituents re-weight the market as fallen angel credit qualities are often better than existing constituents, which can attract a wider range of investors.
- Fallen angels have historically been good investments: data demonstrate that following a major downgrade cycle, HY credit spreads have normally rallied.
- Downgrades have been flagged for some time and the pace of downgrade still appears to be manageable.
- Monetary and fiscal policy measures have also been supportive of the credit markets, including the purchases of HY bonds announced by the Fed and European Central Bank.

In conclusion, despite the potential for large downgrades from IG to HY, we don't believe there will be a material impact on spreads. While uncertainty is likely to persist, the combination of quick fiscal and monetary policy intervention coupled with the changing dynamics of the HY and IG markets, means that the HY market is better positioned to absorb the pressure from ratings migration.

We believe opportunities will persist in the HY asset class and, rather than being seen as a negative, the downgrades should be seen positively in diversifying and improving the quality of the market.

For the complete analysis, please read our report: 'Buy or sell: the downgrade dilemma'.

Written by Royal London Asset Management senior fund manager, global credit, Khuram Sharih

In association with

ROYAL LONDON ASSET MANAGEMENT

Company Profiles

MFS

In 1924, MFS launched the first open-end mutual fund in the United States, opening the door to the markets for millions of everyday investors. Since then, we have grown into a full-service, global investment management firm offering fixed income, equity and quantitative solutions to financial advisors, intermediaries and institutional clients around the world. Headquartered in Boston, MFS has investment offices in Hong Kong, London, Mexico City, São Paulo, Singapore, Sydney, Tokyo and Toronto. As of 30 June 2020, MFS managed £410.5 billion in assets on behalf of individual and institutional investors worldwide.

What sets MFS apart from other managers is our commitment to a single purpose: to create long-term value for clients by allocating capital responsibly. Through that sense of responsibility and the strength of our investment platform, we strive to protect our investors' assets and our clients' reputations. Our powerful investment approach combines collective expertise, thoughtful risk management and long-term discipline to uncover investment opportunities that drive sustainable value for investors. We call this Active Intelligence®, and we support it with our distinct culture of shared values and collaboration. That means bringing together teams of diverse thinkers to actively debate ideas, assess material risks and uncover what we believe are the best investment opportunities in the market.

TwentyFour Asset Management

TwentyFour Asset Management is a £19 billion* specialist fixed income investor and boutique of the Vontobel Group, headquartered in the City of London. Since inception in 2008, we have built a strong reputation for performance, expertise and innovation in the bond markets.

Our product offerings are for both professional and institutional clients, covering open-ended funds, closed-ended funds and segregated mandates, with many tailored specifically to the needs of pension schemes. Our portfolio management teams cover three distinct business areas – Multi-Sector Bonds, Outcome Driven and Asset-Backed Securities – which work closely together.

The firm's goal is to provide investors with maximum risk-adjusted returns, whilst maintaining a strong focus on capital preservation throughout the economic cycle. We are fixed income specialists – it is the only asset class we manage. All our resources and people are trained on trying to deliver the very best outcomes for our clients in our chosen sector.

*as at 31.07.20

Royal London Asset Management (RLAM)

Royal London Asset Management (RLAM) is one of the UK's leading fund management companies, investing across all major asset classes and providing bespoke solutions to meet a broad array of client objectives. Since our inception in 1988, we have built a reputation as an innovative and high-performing fund manager. Our track record and exceptional client service have been recognised with a number of awards. We are proud of the people we employ, the performance we have delivered and our wide-ranging group of clients.

Our fixed income team is regarded as one of the UK's leading managers of sovereign and corporate bonds, offering a range of pension products and OEICs. The team adopts a collegiate process focused on identifying valuation opportunities by using its in-depth market knowledge to explore a wider range of investments than many of its peers. It is the experience and skill of the team that sets us apart, providing an edge in a highly-competitive market.

We offer a diverse array of credit strategies, such as: sterling and European investment grade, ethical, duration hedged, buy & maintain, bespoke cashflow matching, sterling higher yield and global high yield. We also offer a range of government strategies: UK gilts, UK index-linked gilts, overseas government bonds, cash plus, and index-linked and bespoke LDI.

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Pensions Age

Pensions Age is the leading title targeting UK pension funds and their consultants. Published monthly in print since 1996, and daily online, we invest heavily in our circulation and content to ensure we are the clear market leading title. Our in-house editorial team of Francesca Fabrizi (Editor in Chief), Laura Blows (Editor), Natalie Tuck (Associate Editor), Jack Gray (News Editor), Sophie Smith (Reporter) and Duncan Ferris (Reporter) ensure we cover the latest news and topical industry issues to help our readers make the best informed decisions.

www.pensionsage.com is the leading website for pension funds, and we look to cover the breaking stories as they happen. With over 24,000 subscribers to our email newsletter service; we offer our readers an unrivalled service. At the core of this is high quality, news-breaking journalism combined with in-depth knowledge of the target market and heavy research into data.

Pensions Age runs highly successful conferences, and the Pensions Age Awards.

We also publish *European Pensions*, which targets those managing pensions funds across Europe, as well as hosting the European Pensions Awards and Irish Pensions Awards.

PENSIONSAge

A commitment to a better tomorrow

Lothian Pension Fund CEO, Doug Heron, discusses the fund's recent responsible investment (RI) commitments and how the fund has been guided by all its stakeholders

Environmental, social and governance (ESG) issues have been rising up the agenda for pension scheme trustees, with an increasing number of campaigns working to specifically raise awareness with members. However, with research by the Society of Pension Professionals revealing earlier this year that nearly all (95 per cent) schemes have made no ESG portfolio changes, it can be encouraging to see some schemes publicly committing to these issues.

The Lothian Pension Fund (LPF), Scotland's second largest Local Government Pension Scheme (LGPS) fund with over £8 billion assets under management (AUM), is one such fund. It recently publicly upped its commitment to responsible investment, with the launch of its new statement of responsible investment principles.

The scheme's statement focused on six principles, broadly focusing on ESG factors, and the UN Principles for Responsible Investment (PRI). It emphasised that it would act "as an agent for positive change", as well as working with other like-minded partner funds to enhance the effectiveness of implementing PRI and achieving industry best practice.

But what exactly does all this mean and what will the impact be for members? LPF CEO, Doug Heron, sits down with *Pensions Age* reporter, Sophie Smith, to discuss what these principles and promises truly mean for members and what the next steps may look like in a post-Covid-19 world.

What does the launch of the statement of responsible investment principles mean for the scheme and its members?

The launch hasn't heralded a new way of thinking within the fund, we've always had responsible investment embedded in our investment process, but it has given us a way to more publicly declare our commitments and to create a more transparent mechanism for setting targets and reporting our progress against them.

We're active on a number of RI fronts at the moment but just one example is looking more closely at how we measure the carbon intensity within our portfolio as a way of ensuring the companies we invest in are heading in the right direction.

What encouraged the LPF to establish the new statement of RI principles?

It's clear to us that our stakeholders – not just members, but our sponsoring employers and our board and committee members – have an interest in how we invest and how we act as an investor.

Creating a clear set of principles helps with transparency and communication and allows our oversight bodies to hold us accountable for delivering against those principles. It's been well received and we've been commended on it, but it's not a PR move – it provides a framework for our engagement efforts and our actions here lead to companies making improvements in their ESG performance.

A key point within your statement of responsible investment principles was that you wanted to ensure that you invested in a way that the average member would see as "fair and responsible". Considering this, how do you balance individual member views, and the broader idea of responsible investment?

We have more than 90,000 members so the reality is that there will always be individual members who have expectations we're unable to meet for a variety of reasons, beyond the fact it's impractical to canvass views across such a diverse population. But we do interact with members often enough to get a feel for what's important to them and we operate under a board that includes member representatives, so we're well connected to member views.

In practice there isn't a great deal of balancing required – members want to know that the fund's assets are secure and that our investment activities are responsible with direct or collaborative engagements where we have concerns, rather than disinvestment.

Can you tell us a bit about how the scheme uses engagement, rather than divestment, to encourage change, and how you incorporate ESG into ownership policies?

In practical terms, we can be invested in several hundred companies at any time and so we must rely on specialist research firms to provide us with ESG monitoring reports, to supplement our own analysis.

When concerns are identified in our analysis, we will form a view as to the best course for achieving the outcome we seek. Often that's working with other investors, for example as part of Climate 100+ or through the Local Authority Pension Fund Forum (LAPFF), which is the body for local authority pension funds, or in some cases we'll seek to meet with management directly and share our views. We come to such interactions well-informed and clear on the response we expect from management.

We never take a table-thumping approach and we're willing to be patient, so it's often a steady dialogue in a supportive relationship that best serves progress.

What has the scheme undertaken to address climate change issues in particular?

We're an active member of Climate Action 100+ and, together with others, we've successfully filed resolutions to annual general meetings (AGMs) of major firms.

Beyond that, a key part of our statement of RI principles is that we will not deploy capital to debt or primary capital issuance for companies who are not Paris-aligned. That's a clear signal to corporates that such a position will become increasingly untenable.

How has the pandemic impacted the fund's investment strategies, and its objectives in relation to responsible investment?

We're an open fund that takes on several thousand new members each year and must plan to pay pension benefits well into the next century. As a result our investment horizon is very long term and even something like a pandemic doesn't cause us to shed our investment beliefs and take a series of short-term actions. So you might say we've held a steady course and as others took action to limit losses in late February, we remained invested and participated in the recovery.

Our objectives on RI remained in place throughout and we were pleased to see many examples of our investee companies protect the wellbeing of their employees, make resources available to public pandemic response efforts. An extension of this now will be to look closely at whether companies who've taken advantage of public funds really had to do so and I expect to see high profile repayments to the Treasury taking place instead of dividend raises.

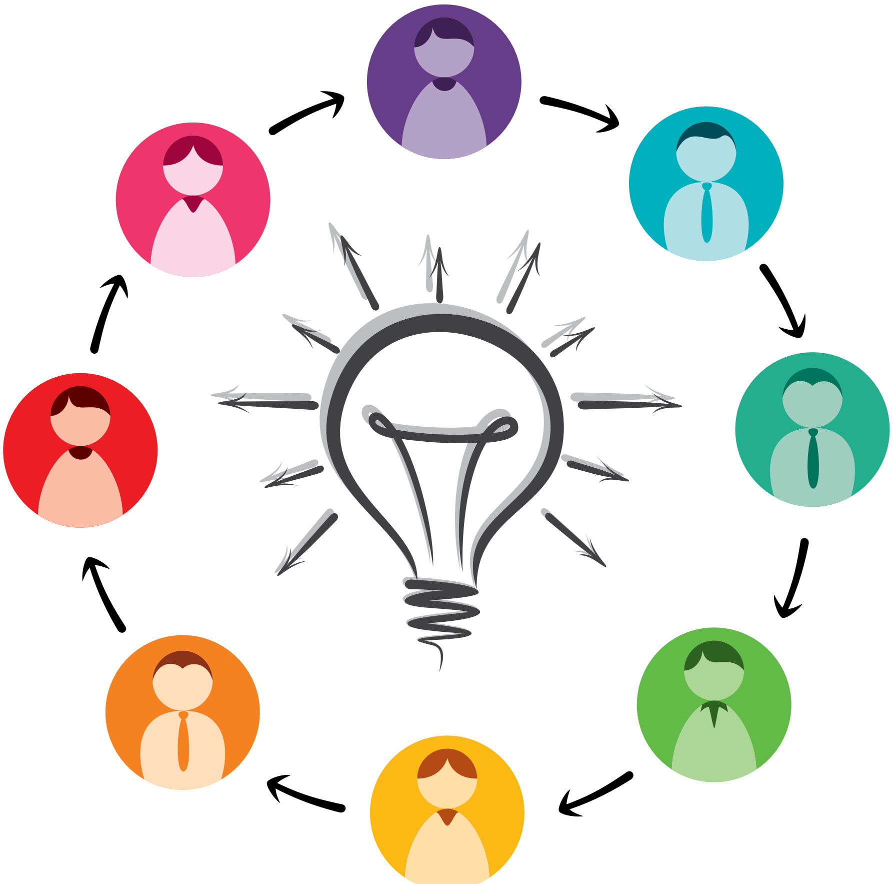
What are the next steps amid a post-Covid recovery, for responsible investment and the LPF?

Global events in the past nine months have to some extent been a distraction from ESG as companies have battled with other challenges and governments have taken steps to avoid corporate failure and a resulting spike in unemployment.

There's also been a practical consideration when it comes to things like single-use plastics (which we've previously lobbied against) and the need for strict standards of hygiene in PPE production.

When we put the pandemic behind us, I think companies will be cut much less slack and investors will look again at ESG and ask whether management teams are making enough progress. For us, we continue to believe a partnership approach works best and so we'll keep engaging with our investee companies in a meaningful and supportive way and I hope we continue to make a difference.

Written by Sophie Smith



Sharing pensions brain power

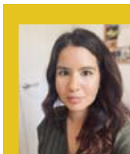
With the stresses and strains of working in the pensions world seemingly never-ending, Francesca Fabrizi looks at the mentoring schemes available in the pensions space today

Many believe that the concept of mentoring originated with the character of Mentor in Homer's *Odyssey*. In this Ancient Greek poem, Odysseus entrusts his young son to the care of Mentor, his faithful companion, when he goes to fight in the Trojan War. While those working in the pensions industry may not quite be at war, recent events – coupled with ever-changing regulation, confusing jargon and choppy markets – might make them feel as though they are constantly fighting a daily battle.

Luckily, they are not alone – mentoring, which is defined as "a supportive learning relationship between an individual who shares knowledge, experience and wisdom with another individual to enrich their professional journey", is readily available in the pensions space. A number of industry bodies have set up mentoring schemes for their members, to include the PMI, the ABI and NextGen, while consultancies and investment managers alike are involved in programmes which are designed to help their employees learn from their more experienced peers.

And while it's fair to say that mentoring is not as widespread in the pensions space as it perhaps could be, it is certainly growing, with bodies such as the AMNT planning to launch a mentoring scheme for members in 2021 as part of its ongoing commitment to trustee support and education. Likewise, while some associations do not officially offer a scheme, they may well be involved in mentoring in other ways. The ACA, for example, doesn't have a formal mentoring programme in place, however many of those involved with the association, whether they are officers, main committee members or technical committee leads, will almost certainly mentor a range of colleagues in the industry.

Pensions Age spoke to a number of the established mentoring programmes available in the pensions space to gather their thoughts on how their schemes are run, what value they are adding from a mentor and mentee perspective, and whether the pandemic has made the need for mentoring evermore acute.



Pensions Management Institute (PMI) membership development manager, Nisha Harley

What inspired the launch in early 2020 of the PMI's Mentoring and Development Programme?

The PMI created the programme with the intention to offer members the opportunity to develop their skills by connecting with other, often more senior, professionals in the pensions industry with the aim to enhance their professional career development and widen their network.

The programme has been sponsored by B&CE master trust, The People's Pension, who believe it contributes to the continuation of the highest industry standards, helps with knowledge transfer, and encourages collaboration within the sector.

The PMI was also keen for the initiative to stand out from other mentoring programmes by partnering with the Institute of Leadership and Management (ILM) who have provided a platform that gives the mentees the opportunity to also improve their leadership skills by accessing their eLearning platform MyLeadership with 49 interactive modules, webinars and reading materials. More about their framework can be found at: www.institutelm.com/learning/leadership-framework.html

How much interest did the programme receive?

The programme was very well received – we received more applications than spaces available for this very first programme (maximum 20 pairs). The programme started off with a launch event at the PMI offices, with the intention of pairs meeting in person for their mentoring sessions. Due to the pandemic, the programme had to adapt to the new way of working, which has meant that all pairs have conducted their meetings virtually. While this has changed the structure of the programme, every pair has adapted well and individuals have made the most of their sessions, with some pairs having more frequent meetings than originally set out by the programme requirements.

What have been the main benefits?

From the feedback received so far, most mentees have found the ILM programme working very well alongside their mentoring sessions as they can choose from 49 modules to complete. One mentee enjoyed the ILM programme so much that they completed all the learning modules within the first couple of months.

Having access to the mentor's skills, years of experience and knowledge has been described as invaluable. Mentors have taken the opportunity to discuss the challenges they have faced in their careers and shared the learnings of how they overcame these with their mentees. Mentors have also seen this as an opportunity to share their expertise and give back to the industry.

Could you offer any examples?

Corey Cook from Quatchi Enterprises was the first mentee to complete all 49 ILM MyLeadership modules and during the challenging Covid-19 period he was able to find the time whilst taking his young children to the park every day to work through all the modules. This is a fantastic achievement and a great example of successful multi-tasking.

Is this something you will continue to offer next year?

Definitely, and we will consider increasing the number of spaces available to open it up to more pairs. We would also like to thank The People's Pension as they have been fantastic in supporting this initiative from the start. We're also extremely pleased to find that the ILM platform has proven to be a great learning resource for our mentees. We look forward to reviewing success of the full year's programme in March 2021 and setting up arrangements for our next programme.

NextGen head of the mentoring and training sub-committee and Aon principal, Karina Klimaszewski

Please outline the main aims of NextGen's mentoring scheme

NextGen's mentoring scheme aims to promote greater skill sharing and learning through others' experiences. We connect our members with hand-picked mentors to provide support on specific projects, aspirations or areas to develop their careers, matching them based on experience and their specific requirements so that both parties can get the most from the experience. Our first cohort launched earlier this year and we plan to launch our second cohort towards the end of the year.

What inspired the launch of the scheme?

Many of us on the committee have seen the benefits of mentoring first-hand. However, it is usually easier to connect with someone within your organisation rather than externally, particularly when you are more junior. That's where NextGen's mentoring scheme comes in. We help the next generation of pension professionals to connect with a pool of mentors from across the industry, while also helping to expand their networks.

Also, we work across the industry; it doesn't matter if you are a lawyer, consultant, administrator or blogger – anyone can sign up. Our aim is to connect people from slightly different but complementary backgrounds so that they can get valuable independent viewpoints and advice.

How much interest has the scheme generated?

There has been lots of interest. We first presented the concept at a special mentoring panel event for our membership in November 2019 where we introduced some of our mentors who discussed how mentoring has helped them throughout their careers. We then launched our first cohort earlier this year, with around 30 matches. It has been extremely positive to have had so much support from those in the industry who are willing to give their time to support the next generation, and also to see the number of those who have put their hands up to get involved.

We are really pleased to have made so many successful matches already, and we'll be launching our next cohort towards the end of the year. We don't have a set number of spaces, but we ideally want an equal number of mentors and mentees. We invite anyone interested in becoming a NextGen mentor or mentee to register their interest via our website: www.nextgennow.co.uk/mentoring

Could you offer any examples of people who have benefited?

Our mentors and mentees come from a range of backgrounds such as consultants, investment managers and advisers, covenant advisers, industry bodies, lawyers and pension managers. In the feedback we have received, mentees have said that they really value being paired with someone outside their organisation, and remarked that it has challenged them to both ask better questions and tackle topics they may not have felt comfortable covering with someone within their own firm. Mentors have also found it beneficial seeing things from a fresh new point of view over the course of their discussions with mentees. The programme has also been helpful in developing a greater understanding of the range of roles available in an industry that can seem quite complex when you first enter.

Association of British Insurers (ABI) assistant director and head of human resources, Emma Phillips

Which mentoring schemes is the ABI involved in?

The ABI supports several external mentoring schemes, including He for She and INvolve, with members of our executive team being assigned as mentors for external colleagues. Further details of the ABI's involvement in He for She can be found at: www.abi.org.uk/news/blog-articles/2019/05/heforshe/

Whilst our own colleagues sometimes sign up to these schemes to be allocated a mentor, we also have our own internal mentoring scheme. This was launched almost two years ago in 2018 and provided a framework in which all members of staff at any level could be allocated a mentor, either from within or outside the ABI.

What value does the ABI place on mentoring schemes?

Mentoring can play a hugely important role in people's development, no matter whether you are starting out in your career or you are in an executive position. It provides the opportunity for professional and personal learning in a manner that's tailored to the needs of the individual participants. It is not just the mentee who benefits either. There is a great deal that can be learnt by the mentor as well, not least from gaining new insights and perspectives. We are committed to supporting schemes both internally and externally, especially those which support diversity and inclusion as there is always more that we can and need to do in this area.

Willis Towers Watson (WTW) global inclusion and diversity director, Caroline Turner

Please outline what the WTW mentoring programme entails?

The WTW investments business has had a formal mentoring programme for colleagues for many years. The programme allows colleagues at every level to volunteer to be a mentor, or indeed request a mentor for themselves. The programme involves a pairing process which takes into account the needs of the individual in terms of what they are trying to achieve. For example, a colleague in our team in Manila could be looking to gain global exposure and could therefore be paired with a colleague in the UK. Similarly, we make specific pairings based on diversity characteristics if a colleague would like to be paired with someone who may have had similar experiences to themselves.

What inspired the launch of the scheme?

We believe that mentoring is a critical part of colleague development and creates an additional level of support beyond the line manager. We believe that colleagues need opportunities to focus on their own career development in parallel with focusing on their immediate objectives within their team.

How much interest has the scheme generated since launch?

The programme is very well established in EMEA and is becoming more so in our other regions. It has developed as expected but we are looking to focus more now on being able to analyse the tangible benefits for colleagues. For example, we would like to look at whether mentoring is specifically influencing progression for diverse talent.

Could you offer any examples of people who have benefited?

Most of our colleagues really benefit from the mentoring programme, and some build long-term relationships that extend even if they leave the firm. I happened to be speaking to a female colleague recently and she was saying how invaluable it is to be able to talk openly to people who have had a similar experience in their careers; her female mentors have been role models that have helped her navigate many difficult situations.

We are also looking for ways to enhance the power of mentoring in our business. Our colleagues also have access to mentoring opportunities through the wider business. For example, we offer new parents a mentor to support them through that journey. We are also participating in a reverse mentoring pilot at the moment.

We participate in various industry mentoring initiatives too, whereby our colleagues act as mentors and ambassadors for young people looking to start a career in investments. This is particularly important for young people who may not typically see this as a career open to them.

Personal Finance Society (PFS) chief executive, Keith Richards

What inspired the launch of the Connect Programme?

This was first launched for our PFS members where the need for soft skills and succession planning has become just as important as technical competence. Our aim was to promote ongoing professional development and learning for members within a digital space enabling a wider community of matching mentees with mentors. Essentially, we have created a virtual community of professionals within financial planning and insurance and given them the opportunity to connect and learn from one another. The platform has been running since June 2019.

What are the main benefits of the programme?

Overall, a big benefit for members is that they can widen their network and learn from like-minded professionals, all from the comfort of their own space. The programme offers both face-to-face and digital meetings, therefore working around busy schedules. There are many other advantages – mentees can gain valuable insight into the different routes available to achieve their career goals from someone who has experienced similar challenges. Meanwhile, mentors can pass on their knowledge to develop the next generation, consequently improving their coaching and leadership skills.

Has the programme evolved at all since launch?

Connect is continuously evolving to meet the needs of our members. We utilise their feedback from surveys to amend or add new features which hopefully improves user experience. There are some exciting new developments in the pipeline for the rest of 2020 and in light of the recent pandemic, timing couldn't have been more relevant to keep a professional network connected.

How important is it for individuals to have access to a mentoring service?

There is an increasing demand to set up mentoring schemes for less experienced professionals, who lack the knowledge and often the soft skills that are required to align with the technical competence that they learn through qualifications.

While professional support is available to new and aspiring advisers through training courses, conferences and networking events, Connect provides a unique opportunity to speak to an experienced practitioner on a one-to-one basis. No matter what stage of our career we are at, we can all benefit from the valuable experience someone else has gained over many years. In bringing professionals together, Connect facilitates the sharing of knowledge and practical experience as part of the core soft skills which are often missing in a more technical focused CPD environment.

Russell Investments global head of talent development and HR operations, Scottland Jacobson

Please outline what Russell Investments offers in terms of mentoring

Any associate can request a mentor through their manager who agrees additional coaching will be of value. Associates identify skills, knowledge, and/or behaviour they wish to develop and may request a specific associate to be their mentor, or a mentor from a specific region, role, diverse background or department. HR then works to identify an appropriate mentor and makes the match – setting parameters around the number of meetings, responsibilities and expected goal setting and outcomes – and tying back to the manager at the conclusion to ensure ongoing coaching. It has been in place for many years.

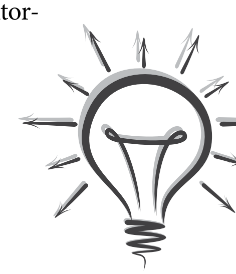
What inspired the launch of the scheme?

Mentorship has always been important at Russell Investments. Line managers coaching and developing their associates is always first priority, but associates can always benefit from broader coaching and mentorship based on specific areas of development – and being exposed to others can expand their network within the firm and also build awareness around culture and inclusion. Developing your own associates and growing them within the firm is key to any company's success.

Could you offer any examples of people who have benefited?

There have been many success stories – and I can think of long-standing connections that have formed, and have seen many associates demonstrate new skills or move into new positions. One case study was an associate who wanted to move more into a client-facing role, yet recognised she needed to develop stronger communication and decision-making skills. She worked with a mentor over a year and sought feedback from many others. In the end, she achieved a significant financial qualification, received incredibly positive feedback from peers and superiors during her year-end review, now has more opportunities to engage with clients, and won a global associate recognition award nominated by her peers and manager.

Our programme has evolved into an ongoing 'by request' format as we recognised that associates may need mentoring at any time and not solely within the timeframes set by the programme. Our experience with traditional mentoring has also led us to focus on additional mentor-based programmes such as reverse mentoring focused on diversity, as well as newer programmes that further tie to sponsorship and advocacy.



Written by Francesca Fabrizi

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PGIM REAL ESTATE

European real estate markets 2020 faced with the crisis – *The outbreak of Covid-19 quickly translated into a severe shock for the global economy and real estate markets. Yet three trends in particular support a more optimistic outlook* ***p68***

Securing an income post-Covid-19– *With income investing increasingly proposed as an investment strategy for pension schemes, Sophie Smith looks at how it could support defined benefit (DB) schemes in a post-Covid world* ***p70***

Investing for income focus:

A steady approach

PGIM Real Estate head of European investment research, Greg Kane

PGIM REAL ESTATE

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European real estate markets 2020 faced with the crisis

The outbreak of Covid-19 quickly translated into a severe shock for the global economy and real estate markets. Near-term indicators of performance have turned sharply downward, and the situation is fast-moving. Notwithstanding those uncertainties, three trends in particular support a more optimistic outlook

European property values are under pressure because of the upcoming severe recession, and there is no doubt that Covid-19 will weigh on the outlook for the rest of this year and beyond. Despite restrictions on activity, the transactions market has held up relatively well compared to the sharp decline seen at the beginning of the global financial crisis in 2008 and 2009, although deal volume in 2020 is set to be down significantly compared to the total recorded last year.

An important factor in assessing how quickly the markets will recover is the level of capital raising in the run-up to the crisis – together with the question of how much contractually committed capital is still available. The volume of capital raised will decline significantly in the middle of this year – not least because of low or negative returns and physical constraints on due diligence reviews. Nevertheless, the positive start to the year indicates that the level of capital raised this year as a whole is likely to remain high, and a return to more-normal levels can be expected in the fourth quarter.

The returns environment is likely to remain subdued in the next cycle – not least because interest rates cannot continue to decrease to support capital growth. Despite the uncertainties outlined here, three trends in particular offer reasons for optimism.

1. Early recovery for office markets with low vacancy

Office is one of the most-cyclical real estate sectors, with headline value swings driven by factors that can vary through the cycle. The factors include, for example, large property sizes that require substantial available financing, delays in the provision of new supply and the structuring of large corporate leases that affect demand for labour.

The encouraging sign for office markets is that most locations are starting with very low vacancy rates, although the nature of the downturn means that demand could pull back sharply in the near term, pushing availability upward. Some persistence to vacancy is possible depending on whether the crisis leads occupiers to realise they can reduce their space footprints without detrimental impacts on output. As in prior cycles, markets that can keep vacancy low are set to have the earliest and most-pronounced recoveries. There is a great deal of uncertainty around future demand, but such markets as Berlin, Munich, Paris and Vienna all started the crisis with very low vacancy and look set to be among the earliest to recover. Liquid central business districts and markets that can keep vacancy rates low throughout the crisis represent potentially rewarding investment opportunities during an office market recovery.

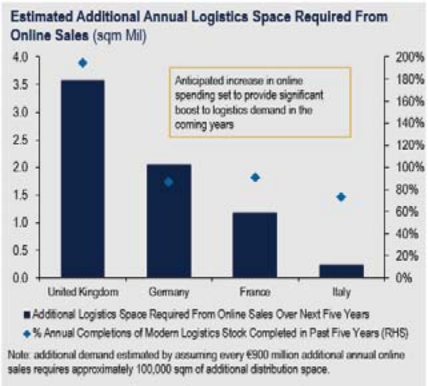
2. Structural trends that favour the logistics and residential sectors

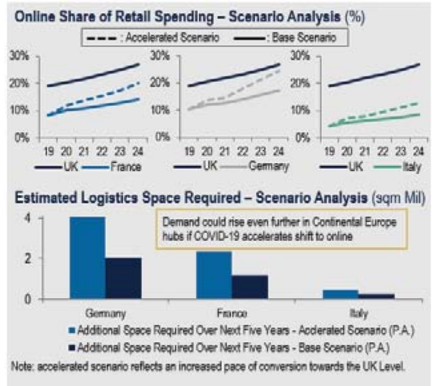
Rising online spending and a growing need for provision of modern residential stock in major cities are set to provide ongoing opportunities for investors. Through the cycle, a further move toward online retail is set to benefit the logistics sector. An increase in online retail activity requires a greater amount of logistics and warehousing space to deliver goods in a timely manner.

Based on an analysis of existing space usage among major international online retailers, additional annual online sales of €900 million will require about 100,000 square metres of logistics space. The following graph shows how that figure translates into potential additional space requirements in the next five years across a number of major European markets.

Based on the analysis, significant additional space is set to be required in major distribution corridors in the United Kingdom, where the share of online sales is above the shares of many countries in Continental Europe. The volume of new space required is elevated compared with the recent pace of completions.

Significant requirements are also set to be forthcoming in other European markets, and they could be further boosted if Covid-19 affects consumer behaviour – not least in the near term because physical shopping is set to remain restricted for some time – and accelerates an already ongoing shift toward a rising share of online retail.





Sources: PMA, Oxford Economics, PGIM Real Estate. As of May 2020. **Figures and information provided are estimates subject to change.**

Logistics demand in the major markets of France, Germany and Italy would grow twice as quickly under an accelerated scenario in which they approach UK levels of online penetration more rapidly.

A potential opportunity for investors relates to housing provision in dense urban areas. Many major European cities have grown rapidly in recent decades, and inevitably, some of the housing stock has been left behind. Combined, London and Paris have about 650,000 households living in overcrowded conditions.

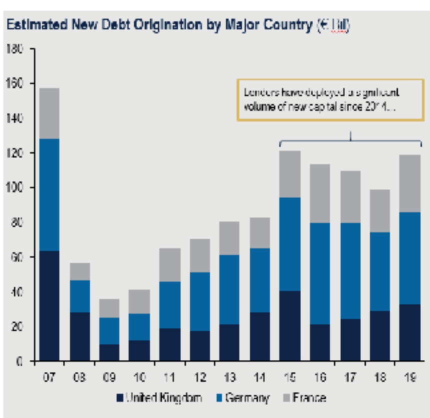
3. A continuously increasing lending volume since 2014

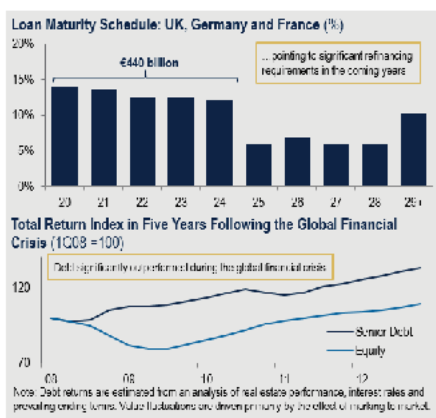
The volume of lending to real estate in Europe's major markets has become elevated in the past few years. In total, a combined €565 billion of new debt has originated in France, Germany and the United Kingdom since 2014, primarily reflecting elevated transactions activity rather than the use of leverage, which has been constrained during the past cycle.

Non-traditional senior lenders might be able to make use of the refinancing of existing loans, whereas for alternative debt, one of options could be to capitalise on market distortions. The latest Cass Business School *UK Commercial Real Estate Lending Report* (April 2020) shows that new business typically accounts for about half of all lending activity when the refinancing of existing loans is considered.

During a downturn, funding gaps can arise as a result of mismatches between lenders' capacities for new business and borrowers' requirements to deal with maturing loans — a situation exacerbated by falling equity transaction liquidity that makes a sale-driven exit difficult. In total, €440 billion of loans is due to mature during the next five years in the United Kingdom, Germany and France combined.

Senior debt tends to outperform in a downturn. Given the risk premium required, we believe there is a strong case for investors to increase exposure to debt in their real estate allocations – at least until uncertainty materially reduces.





Sources: Cass Business School, International Real Estate Business School, Cushman & Wakefield, European Association for Investors in Non-Listed Real Estate Vehicles, PGIM Real Estate. As of May 2020. **Figures and information provided are estimates subject to change.**

Written by PGIM Real Estate head of European investment research, Greg Kane

In association with PGIM REAL ESTATE

Securing an income post-Covid-19

With income investing increasingly proposed as an investment strategy for pension schemes, Sophie Smith looks at how it could support defined benefit (DB) schemes in a post-Covid world

When thinking of a pension, many simply think of the income they will have in retirement. This is an expectation that pension scheme trustees, especially those of DB schemes, must work to meet and protect in a sustainable way. As Willis Towers Watson managing director, Alasdair MacDonald, highlights however, many DB schemes are getting very mature, and in turn are paying out a substantial portion of their assets every year in benefits, which must be done at an acceptable level of risk, requiring close cashflow matching.

Lane Clark and Peacock (LCP) partner, Dan Milkulskis, notes that as DB schemes mature, they have tended to seek returns more from contractual sources like bonds, rather than being overly dependent on equity markets and shares. Income investing is one such approach, which is viable primarily for medium to large, well-funded, mature schemes that expect to continue to pay benefits, rather than transfer to an annuity provider, Dalriada Trustees professional trustee, David Fogarty, highlights.

A maturing landscape

However, LCP investment partner, Mary Spencer, points out that many DB schemes are going through challenging times as a result of the pandemic, with a recent survey by LCP revealing that 57 per cent of responding pension schemes had seen either their funding level (23 per cent), covenant (28 per cent), or both (6 per cent) deteriorate as a result of the pandemic.

She emphasises that, against this backdrop, trustees looking after a DB scheme may need to make some "difficult decisions", with the same survey revealing that changes to investment risk was the most common change in response to the ongoing pandemic.

"Typically, this would start with understanding the impact on covenant," she explains, "as any risk being taken within the scheme's investments is effectively underwritten by that covenant strength." Spencer notes that once this is understood, and whilst ensuring excessive risk is not being taken, trustees can focus on the challenge of closing the funding deficit over time, which would typically involve allocating to a range of different assets, some more reliant on income than others.

Indeed, PGIM Real Estate head of business development EMEA, Faris Mansour, emphasises that amid an "uncertain and low yield environment", pension fund investors have increasingly focused on lower volatility income-focused strategies with downside protection.

Opportunity in crisis

"Real estate debt is now widely appreciated for offering a compelling alternative to traditional investment-grade and high-yield public fixed income," he states, adding that demand for real estate lending has continued to grow as investors increasingly see the benefits of the collateral and transparency real estate debt offers, while providing premium returns for equivalent risk.

A number of factors have further underscored the investment opportunity for real estate amid the pandemic, according to Mansour, such as bank retrenchment, exacerbated by regulatory pressure, and sponsors needing continued or new sources of capital.

Considering these uncertain market conditions, Mansour emphasises that real estate lending strategies post-Covid-19 should remain focused on core asset classes, with a disciplined focus on largest and most liquid markets, and cyclical opportunities from market re-pricing in low vacancy office locations.

He adds that rental income growth and value creation through active asset management by specialist sponsors, as well as a focus on structural trends, particularly in logistics and living sectors, should also be areas of focus in real estate lending strategies post-Covid.

"In that context," Mansour explains, "we expect that borrowers and investors alike will continue to focus on partnering with institutions that provide long-term, proven fund management and execution track records with demonstrably strong performance and relationships across market cycles."

A shift in pace

Redington investment consulting director, Nick Lewis, argues however, that the pandemic has not impacted strategic rationale, but rather has altered the affordability, as well as further emphasising the importance of prioritising diversification and flexibility.

"An 'endgame' portfolio that focuses on high quality assets with contractual cashflows remains the target for a significant number of DB pension schemes," he explains, arguing that those with a weakened covenant as a result of the pandemic will be considering

Creating a sustainable income?

During the lockdown period, there has been an increased focus on environmental and social issues, and pension investments are no exception, with the emergence of consumer campaigns such as Make My Money Matter. MacDonald agrees that environmental, social and governance (ESG) factors have been thrust into the wider consciousness, noting in particular that a greater understanding around the social aspect has emerged throughout the pandemic. He adds that whilst DB schemes may not see the member drive for this investment type that defined contribution (DC) schemes would, this has not stopped it from being integrated into portfolios.

"Corporate bond managers who have been managing these cashflow portfolios for a very long time just naturally think about ESG issues," he argues, explaining that longer-term downside risks are a natural consideration in long-term lending.

Indeed, Milkulskis notes that bond investments can frequently exert significant influence on companies, even though they don't carry the same voting rights as equity and arguing that fixed-income investing is "highly aligned with ESG integration".

MacDonald meanwhile, highlights that property assets that generate income are also generally "very good impact investments" and can create a positive impact to society, as well as in terms of return. Agreeing, Mansour emphasises that ESG is an "integral part" of property investments and is comprehensively incorporated across the acquisition process, management, and maintenance of all assets.

"Additionally, on an ongoing basis, data collection and benchmarking are prioritised so that we can accurately assess the environmental performance of the property and pursue data driven strategies to continually improve our consumption metrics," he continues, also noting resilience to climate change as a "critical" consideration.

The environment is not the only concern however, as Mansour emphasises that the impact on the local community is also considered, highlighting the importance of ensuring active management to ensure the property is well-positioned to foster stronger community relations.

bringing in their planned time horizon to reach this portfolio in order to reduce their reliance on the sponsor "sooner rather than later".

Lewis notes that a "slightly unusual quirk" of the pandemic market-sell off in Q1 2020 saw some schemes actually get closer to this objective. He highlights the example of pension schemes who are heavily invested in liquid alternative assets that sold off less sharply than, for example, investment-grade corporate bonds, explaining that as a result, the affordability of endgame portfolios had improved, despite a fall in funding levels, with some schemes able to de-risk into these portfolios in early Q2.

MacDonald, meanwhile, remains unconvinced that the pandemic has made much of a difference in aggregate, although he agrees that there have been individual changes of pace. He explains that whilst some clients find they can no longer afford to de-risk into cashflow matching strategy, other clients whose sponsor has weakened are left with no alternative.

Adding to this, Fogarty agrees that the Covid experience is likely to have slowed the pace, clarifying however that income investing more broadly has been proposed more frequently over the years, with many schemes looking to judge the effectiveness of such approaches in a post-Covid world. He adds that even within those schemes who are already pursuing income investing, there has also been a surge in the range of bond type investments being considered, although "time will tell how resilient these different types have proved".

It seems then that whilst the pandemic may have bought shifts in affordability and pace, it has also bought opportunities for those schemes looking in the right place.

Written by Sophie Smith

In association with PGIM REAL ESTATE

Pensions endgame: Levelling up

Although still rare, longevity swap to buy-in conversions are on the increase as schemes look to make the next step on their de-risking journeys. Natalie Tuck reports

Over the past five years, there has been just eight longevity swap to buy-in conversion transactions completed, but three of those have been in 2020 alone, LCP data shows.

Still a rare phenomenon, these transactions are becoming more popular as schemes that previously completed longevity swaps look to make the next step on their de-risking journey. Pension Insurance Corporation (PIC) chief origination officer, Jay Shah, notes that many schemes enter into longevity swaps with the expectation of converting to buy-in when their funding position improves or they receive attractive buy-in pricing.

"It is not surprising that over time we are seeing an increase in the number of these converting to buy-ins. Buy-in pricing has also improved over that period. The natural maturation of pension schemes (ie the average age of members increasing given schemes are largely closed to new members) also makes buy-ins more attractive," he adds.

Most recently, LV= Employee Pension Scheme converted a longevity swap, held with ReAssure, to a £800 million buy-in with Phoenix Life. The longevity swap had been reinsured by Swiss Re, which will continue to cover the longevity risk by providing reinsurance to Phoenix Life.

Hymans Robertson partner, Richard Wellard, explains that usually in a longevity swap there are three parties – the pension scheme, the reinsurer that takes on the longevity risk and some intermediary structure that sits in between (that may or may not hold some of the longevity risk itself).

"In theory, there are a few different ways that a longevity swap could be converted to a buy-in. In practice, all cases to date have involved the pension scheme entering into a buy-in with their chosen insurer and, at the same time, arranging for the reinsurer to continue to hold the same longevity risk as before, but now taking it from the chosen buy-in insurer rather than the pension scheme."

Wellard explains that buy-in insurers generally like to transfer longevity risk on to reinsurers. The challenges come from the fact that insurers typically arrange the contractual terms for this transfer between themselves and their chosen reinsurer.

"When a pension scheme is looking to convert a longevity swap to a buy-in, it is effectively taking to the buy-in insurer a particular reinsurer counterparty and a particular set of contractual terms that the insurer did not chose and may not suit their specific needs. So, there is naturally a process where the insurer and the reinsurer need to reach agreement on how to adjust the contractual terms the pension scheme agreed when the longevity swap was originally put in place," he explains.

Whether this is complex or not, depends on the terms of the original longevity swap. Generally, however, Wellard says that all parties are well motivated to reach agreement – the insurer wants the new buy-in business and although the reinsurer is not gaining any new business from the conversion, they have and want to maintain strong relationships with the insurers.

"One thing to note is that some pension scheme longevity swaps involve more than one reinsurer, so conversion could involve reaching this agreement between multiple parties," Wellard says.

In terms of the length of time it takes to complete the process, Shah says it is between three and six months from the point that it is agreed that a longevity swap is to be converted, the buy-in insurer has been chosen and the outline of the conversion has been agreed.

Written by Natalie Tuck

Strong bonds

Summary
• The length of relationship between a pension scheme and its providers varies, but often lasts many years.
• Regular reviews and monitoring are recommend to ensure the relationship remains suitable for the scheme.
• There is arguably scope for more innovative products to be offered to pension schemes.
• Consolidation of providers does not seem to be detrimental to choice, with a breadth of smaller, niche suppliers available to schemes.
• Clear communication is essential to maintain positive working relationships.

Laura Blows considers how those managing a pension scheme can obtain good working relationships with its providers and advisers

No two relationships are the same. But no matter their nature or purpose, often the same tricks and tips can help improve any type of bond.

Pension schemes are no exception and often experience a mix of relationship styles with their providers.

Duration

According to Pasa chair, Kim Gubler, advisory relationships tend to be long standing. "Often there's no real notice period, but they are sticky relationships and tend to change only if there has been a corporate change in either the scheme sponsor or the firm – or if the firm's advice becomes out of kilter with the scheme," she explains.

In contrast, the employer covenant adviser may be hired on a one-off basis, and with lawyers and actuaries "you are buying into the grey hair experience", CEM Benchmarking client relationship manager, John Simmonds, says, "having them understand your needs and working with you face-to-face". While with fund managers "it is probably more black and white, less about the soft skills, as you pay a lot of money for them to beat benchmarks", he adds.

The nature of the relationship with the administrator may fall somewhere in between.

Admin contracts usually start at around three or five years, Gubler says, which then usually goes into a rolling contract, with some form of market review taking place between seven and 10 years.

Yet Aries Insight director, Ian Neale, suggests that the scheme/admin relationship can be the "most volatile", due to the ever-increasing focus on costs. "If a pension scheme is getting dissatisfied with the price or frequency of errors, they then tend to put it out to tender and accept the lowest price," he explains.

Moving administrators is a decision that should not be taken lightly, Dalriada Trustees senior professional trustee, Alison Stewart, warns, due to it being a big undertaking to change administrators, "so you want to try and fix the relationship before moving".

Monitoring

For those doing so, Simmonds recommends being very clear during the procurement process and onboarding what the schemes objectives are and what they want to achieve.

Once the relationship is established and ongoing, its long-term nature can provide many benefits for a scheme. For instance, Stewart highlights the importance of schemes having the "right fit" with their providers, especially for DB schemes looking towards the end game; "having that good partnership, as the scheme and provider will be working together toward that end goal. There may be bumps on the road, but a good provider relationship will help you overcome them."

The 'bumps' may also be within the relationship itself. As SPP president, James Riley says, "where we see problems most often is not understanding each other's expectations and the value in what each other provides".

To help avoid this, Gubler suggests making sure contracts are up to date and include the services you need and none that you don't. "Old contracts are a trustee's worst enemy," she warns.

Riley recommends holding informal reviews about a scheme's providers. "These can be simple desktop reviews on an annual basis, and then a rolling triennial review that is a bit more formal, or even going out to the market to see what it's like and what other providers are offering," he suggests.

However, Simmonds warns against regularly doing a formal tender, as "there is a risk of undermining the relationship if you went to tender every few years".

Gubler agrees that rolling internal assessment reviews are becoming more prevalent, where different suppliers are reviewed according to the scheme business plan.

"In the meantime, administrators tend to be measured on SLAs (or if problems arise, how often they are and how they're rectified). Few schemes have formal ongoing monitoring for other advisers. The firm often offers an annual review by a senior person where the client can discuss how the relationship is going, any problems arising and changes needed," she adds.

While Stewart believes it should be the providers themselves approaching the pension scheme manager or trustees with suggestions for improving processes, she also suggests that those managing the scheme keep an eye on what is out there in the market, in terms of new developments, to not become complacent with what is being offered.

"You should think about what other providers are offering, as it is the trustees' responsibility to keep abreast of industry developments," she says. "It doesn't need to be complex but can just be things like looking at how to streamline processes. Even if the provider relationship feels ok, it is still important to check and see what is out there on the market."

Innovation

Those that do so may not be happy with what they find. According to a survey conducted by Cushon (formerly Smarterly) in January this year, nearly 65 per cent of employers believe that existing pension providers are not doing enough to offer new, progressive products, with the same percentage of respondents stating that the UK pensions market is 'crying out' for fresh ideas.

Speaking at the time, Cushion head of proposition, Steve Watson, said: "Pensions legislation has changed dramatically in recent years, which combined with financial pressures has seen a move away from defined benefit (DB) to defined contribution (DC) schemes. But the products themselves have remained the same and there is very little innovation in the market.

"With employees now legally obliged to enrol their employees into a pension scheme, existing providers are under very little pressure to innovate. They still seek to compete on cost, of course, but with a captive audience, providers see no need to design ground-breaking products or offer outstanding levels of service – they know that there is ample business out there to share around."

This criticism feels unwarranted, according to Riley, as he notes that innovation is increasing with developments such as the dashboards, even if it does lag behind other sectors like online banking, which already offers dashboard-like services.

Neale would not place the blame for the arguably slow pace of innovation on the pensions industry, "as it is beholden to the pace of regulation and legislation. For instance, collective DC could be very important as an innovation but it still does not have the legislation in place yet for it to develop".

There is also a danger of trying to do too much and over-complicating things, which we have seen in the past for members, Simmonds warns, "so you need to be careful what you wish for with innovation, as complexity can overwhelm".

In defence of the industry, "there are definitely schemes and trustees that want innovation but I'm not sure that the majority actually do," Riley says. "If asked if they want more innovation I'm sure they will say yes but I'm not sure they are actually seeking that out from their providers."

Provider choice

Cushon's January survey also found that 63 per cent of employers would like to see a new disrupter enter the pensions market.

Stewart would "love to see a company like Amazon come into the market without that previous industry background, to see how they would approach things differently".

However, Riley finds that sponsors and trustees can be quite conservative about their appointments "but we are now seeing a trend where people are more willing to cast the net more widely amongst the market than they previously would have done, being more open minded towards smaller firms".

He expects new entrants to the market on the platform saving, auto-enrolment and dashboard sides, and less so in 'traditional' sectors such as actuarial services and administration.

For Riley, rather than the lack of 'disruptive competitors', a greater concern is provider consolidation, with its implications around the lack of choice and potential conflicts of interest.

"Corporate activity has been going on a while and I don't see it stopping, but market consolidation could eventually be a concern," Gubler says.

"At the moment we're seeing small and mid-sized firms upstreaming to fill gaps created by this M&A activity, which means there are still options. But small schemes coming to market with a single service could find their choices are limited. DB dominance in the UK market has meant disrupters haven't been able to gain enough of a foothold yet but as DC begins to take over, we could see FinTech firms eyeing up the pension sector."

Whether the relationship is with a provider large or small, for a short period of time or for many years, communication is fundamental.

For Neale, building relationships by actually picking up the phone and talking to each other can make a big difference, compared to just pinging across an impersonal email.

No matter the method in which it is done, the most important thing is having that conversation. As Gubler says: "Often relationships go wrong because a scheme's needs change, but the advice doesn't. So make sure your adviser knows your needs have changed. They can't read minds!"

Written by Laura Blows

Summary

• During an Aon webinar, 59 per cent of the pension professionals polled said they considered combining GMP conversion and PIE to be a positive solution.
• The combination can lead to cost savings and a reduction in complexities.
• It is important to make sure however that PIE is an appropriate thing to do in its own right.
• It is essential to also consider whether GMP conversion itself is right for the scheme.

Killing two birds with one stone

Francesca Fabrizi looks at the potential benefits of combining GMP conversion with Pension Increase Exchange (PIE) exercises, while also highlighting when it might not be the right thing to do

The challenges surrounding GMP equalisation continue to rattle on and, in the eyes of the pension scheme and the wider industry, anything that can make the process more fruitful or more efficient can only be a good thing. That is why a recent suggestion from Aon that coupling GMP conversion with Pension Increase Exchange (PIE) exercises could bring about positive outcomes has come as welcome news.

When asked during an Aon webinar, 59 per cent of 124 pension professionals polled said that they considered combining GMP conversion and PIE to be a positive solution. Aon head of member options, Kelly Hurren, explains why: "Combining GMP conversion and PIE allows you to encourage members to engage and make an active decision on the shape of benefits they want, reducing the risk of complaints about forced change from GMP conversion; support members with IFA advice; and increase the proportion of benefit that can be included in the PIE, offsetting the implementation costs and potentially some of the GMP equalisation costs too."

So, in some cases, there could be a multitude of potential positives. In addition, she says, for schemes that already have PIE, offering GMP conversion with PIE is a straightforward and natural extension of the current options already available to members.

LCP partner, Alasdair Mayes, agrees that the combination has potential benefits, reinforcing the view that, if already offering PIE at retirement, applying it with GMP conversion at retirement makes sense for efficiency reasons "as you are doing similar calculations anyway; it is clean, as it avoids dual records and you can sweep away the complexities of GMPs". Plus, the pensions tax issues associated with GMP conversion are very similar to those of a PIE and are more manageable at retirement than for a pre-retirement exercise.

Finally, he adds, "if you are not already offering PIE, but you think it might be of interest, you could introduce it and wrap up GMP equalisation with it".

From theory to practice

As good as it sounds, however, how much of this is being seen in practice or is expected to be seen going forward? Hurren comments: "There is a growing appetite now to start tackling the thorny issue of GMP equalisation and a combined PIE exercise can put a positive slant on an otherwise daunting project. We have already seen a small number of early movers complete combined exercises, with one example (albeit with a relatively generous PIE offer level) resulting in 61 per cent of members engaging with the IFA and 43 per cent of members accepting the PIE offer."

Aon also has a number of clients committed to offering a combined exercise later this year and an increasing number of clients are actively working towards doing so.

"Given the clear benefits to members, trustees and sponsors, where conversion is the favoured method, we expect a combined GMP conversion and PIE exercise to be a very common solution," she adds.

Similarly, Mayes expects the vast majority of LCP clients with an existing PIE option to combine it with GMP conversion going forward; while ITM chief innovation officer, Maurice Titley, has also seen the option of combining a PIE exercise with conversion being put "on the table", though he has yet to see a scheme decide this is definitely the route they will take.

Considerations

As with anything positive, however, there will always be potential drawbacks, or at least considerations to be made to ensure that it is the right thing to do.

First of all, explains Hurren, there is a clear decision to be made between dual records and conversion methods. "A dual records method of GMP equalisation will be the right approach for schemes that want to only change benefits for members where they are directly impacted by GMP equalisation; and/or ensure that equality has been fully achieved, even with the benefit of hindsight", she says.

Hayes also makes the point that, however many positives there may be to combining conversion and PIE, you would want to make sure PIE was an appropriate thing to do in its own right.

"It does not make sense to introduce a PIE simply because of the need to equalise for GMPs. That would be the tail wagging the dog. A PIE normally involves a fundamental change in an individual's benefits. It might be right for some but not for others.

"Equalisation, on the other hand, might have little or no impact on the benefits of many members. It is possible to use GMP conversion to equalise for GMPs without a PIE. We are finding lots of clients are keen to use GMP conversion to equalise, avoid dual records and sweep away the complexities of GMPs without making big changes to members' benefits. This minimal interference approach has been going down well."

So, he reiterates, before introducing a PIE you should make sure it is an appropriate thing to do in its own right for your scheme and your members, not least to avoid potential issues in the future: "There is a risk of complaints for decades to come. You should therefore be aware of the Code of Good Practice. Ideally you would make available for your members a pension specialist IFA no matter whether it is bulk exercise or an ongoing at retirement option. And don't forget the uncertainty in the future level of RPI. In a PIE you are locking in current inflation expectations and the prospect of RPI reform and Covid-19 means there is a fair bit of uncertainty."

Cost savings versus other factors

The thought of saving money will almost certainly be music to anyone's ears, particularly in the current market, and Titley agrees that there will be cost savings from combining GMP conversion with PIE if a member option exercise is planned in any event.

In practice, however, these savings may not be as great as one might think, he warns, as much of the costs of preparation for GMP conversion will relate to data preparation to enable accurate valuation and conversion of benefit entitlements, and once this work is carried out for GMP conversion, then it will not need to be repeated for a later PIE exercise. Savings, he adds, would more relate to the communications and implementation process for the options exercise.

It is worth stressing, also, that the exercises have one important difference: GMP conversion is an enforced process where a member does not have the option of retaining the 'status quo'.

Titley explains: "Not being able to present the 'status quo' to members will be disruptive to cautious members who would naturally be the first to say no to any change of pension benefit, or those that would simply not engage in a member options process."

Also, in ITM's experience, members above a certain age are often treated differently in PIE exercises – for example, being required to opt-in before receiving details of their offer – and, again, this could not really work the same way in this case, he argues.

"We assume a 'default' change to pension benefits would need to be proposed that would apply if members did not engage with the process. It could therefore be better for member experience and communications to keep the two stages separate so that members are more trusting of the 'default', which would simplify both communications exercises, and the fact that a PIE is to be offered in the future could still be flagged at the point of GMP conversion so that it is no surprise to interested members who then receive their offer further down the line," he says,

Choosing the right path

To summarise, therefore, how can anyone know whether this is the right road to go down? Titley says that, in addition to ensuring member communication is as good as it can be, the key point to consider is whether or not GMP conversion itself is right for the scheme.

"In considering this, we would recommend that all important factors are considered, and that it is not evaluated primarily as a potential cost saving, either in terms of combining member options exercises or avoiding having to implement dual records. This is because there are also significant costs to a conversion route, including data preparation up to a buyout standard, updates to scheme processes on administration platforms both for those members converted, and also for those who are not converted (for example deferred members)."

If member options exercises are being integrated with GMP conversion, he adds, then it is even more important that robust plans and timeframes can be agreed with all parties, and this includes the administrator. There is no doubt that administration platform changes following GMP conversion are much more significant than those following a traditional PIE exercise, so the dependency on the administrator is more critical, he stresses.

"Following on from this", he says, "our main tip would be to look closely at your administrator's readiness to implement changes to their admin process and platforms post-GMP equalisation, and understand what the likely costs and timescales would be for carrying out the required work to support either dual records or a GMP conversion approach. In doing this it will be useful to agree with your advisers how GMP conversion would be implemented for deferred members, and any active members, because this is where hidden costs can appear when processes are updated."

Written by Francesca Fabrizi

Uniform or unique?

Following warnings that the pensions industry could face a 'multi-million pound compliance bill' to meet potential dashboard data standards, *Pensions Age* asks: Should pension information be 'cut and pasted' from annual statements onto the dashboard for ease, but risking inconsistency of scheme information, or should data be standardised, meaning more work but easier understanding and comparison for dashboard users?

Consistency of information across defined benefit (DB) schemes is not viable, and the reasons are linked to another challenge, which is level of detail.

The 'features' of DB benefits are too numerous and complex to explain here, but include issues such as NRAs, GMPs, equalisation rules, pension increases, bridging pensions, anti-franking, transfers-in, AVCs, divorce settlements, partial retirements, scheme pays deductions etc. To name just a few.

So how do we deal with consistency and detail?

Consistent without detail is superficially attractive; a single 'estimated retirement income' is easy to ask for. But for most DB schemes that means a massive simplification. Easy to understand and compare, but simplified to the point of being misleading.

Consistent and detailed is a different proposition. It's far more costly, as every complexity of every scheme needs revisiting to fit a new approach. There are no resources waiting in the wings to develop this, so other projects would be cancelled. And every member is then shown something that is different from what they've seen before.

Inconsistent but detailed is what we currently have, but with many members out of touch with their schemes. If the only thing the dashboard did was to reconnect members with their 'detailed but inconsistent' benefits, that feels like a big step forward that we should embrace.

Aon partner, Paul McGlone

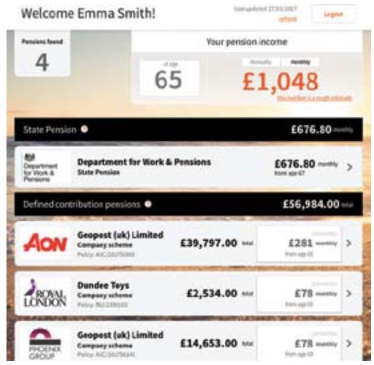
The priority should be to get a find and view dashboard up and running in beta test as soon as is reasonably possible, where it can be fine-tuned. We think schemes should be given a choice between calculating an estimated retirement income from a current defined contribution (DC) pot or, alternatively, using stored data from annual statements. We don't see this as posing a major problem with workplace DC pensions and believe these are acceptable, given the need to progress the project, which is in the interests of consumers everywhere.

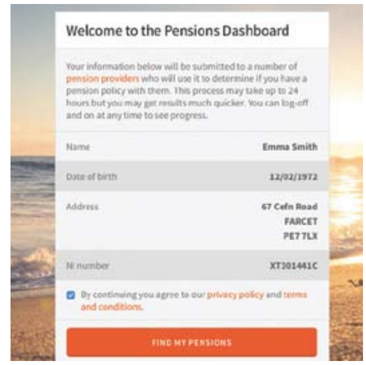
The People's Pension head of policy, Tim Gosling

We should remember what this programme is for. It is not a 'compliance' project. The purpose is to reconnect members with pensions they have lost, or perhaps never knew they had. Pasa advocates approaching the programme in two phases: Reconnect everyone to their pensions as a first phase. A full market-width 'find' service. Then, a prioritised roll-out of the additional information that members will find useful. This may be a view of their current values, for example, or a projection to retirement.

There is no doubt that some schemes will have some work to do to better provide the information that their members want. However, we work in an industry that lacks any form of standardisation across benefit statements. Many schemes do not provide them at all for large sections of their membership. Dashboards cannot solve that problem. That is for industry to align on. Our suggestion in the interim is that it may be more achievable to treat a dashboard visit as the member asking for a single retirement quote. That way, any investment in cleaning data and automating that process is useful for standardising and complying with a dashboard request, and the further processing of that member when they seek further quotations, or proceed to retirement.

Pasa Pensions Dashboard Working Group chair, Chris Connelly





The key principle is that this is customer data and they have a right to access it. This has been enshrined under GDPR and as consumers have the ability to make Subject Access Requests (SAR), this is work that pension providers should have undertaken already. A SAR may go well beyond the content of a benefit statement and can cover any personal information an organisation holds. There is no hiding behind antiquated systems or past underinvestment in technology and data management.

As with Open Banking, if the industry embraces the opportunities afforded by data standards and Open Finance, costs can be reduced; risks mitigated and consumer outcomes improved. If scheme members can self-service; obtain more coherent information from more secure systems and improve their financial wellbeing as a result, the pensions industry should not just see this as a compliance burden but rather an opportunity to modernise. A failure to adapt may, perhaps even should, see the industry consolidate to those that can properly serve the needs of dashboard users.

Moneyhub CEO, Samantha Seaton

Whilst we cannot predict every consumer need that dashboard providers will eventually support, benefit forecasts will be essential. These forecasts must be fit for purpose, support a deep understanding of underlying entitlements, and provide consistency across different pension arrangements. And they should be prepared on properly governed principles. Simply repurposing existing illustrations from statements risks misleading consumers about the nature and value of their benefits.

Ultimately, the diverse needs of future users cannot be met solely through provider data. Estimates of income, or any other metrics that dashboards supply, must eventually sit within a properly governed ecosystem to determine and adapt to meet consumer needs. Provision of secure core data to support this should be a central objective of the dashboards project - for the benefit of both savers and the wider ecosystem.

We see the future of the dashboards as a thriving environment where many platforms and services make use of the data that we provide for a wide range of purposes, many of which are not yet envisaged. The investment we make today will help drive innovation in the future, empowering greater decision making and planning amongst savers.

Phoenix Group head of proposition, Neil Hugh

Pensions history

Pension funding in the ’70s

“Now that the Crossman Plan has been decently interred with its implied threat to the future growth of occupational pension schemes, we can once again turn our attention to considering how we can best build up the pension funds committed to our care, especially as the new government has pledged its support for occupational pension funds.”

These were the introductory remarks made by George Ross Goobey 50 years ago when addressing a pensions seminar in September 1970 on pension funding in the ’70s. He was referring to Richard Crossman’s pension plan that fell by the wayside with the Conservative Party 1970 General Election win.

In sharing his views on pension funding, Ross Goobey stated that his simple objective in pension fund investment was to try obtain the best long-term investment result. The real crux of the problem was establishing the annual growth rate of dividends in the future. Over the past 50 years there had been an upward change in the proportion of profits that companies had declared as dividends and less had been ploughed back to finance future capital developments.

He saw a tendency for governments to pass onto companies, rather than individuals, the cost of the vast government expenditure. In the previous year’s budget an increase in Corporation Tax to 45 per cent was imposed, as well as greatly increased Selective Employment Tax. It was for this reason that he did not imagine that the rate of annual growth in dividends in the future would be greater than it had been in the past. It therefore needed to be considered whether the high rates of return available on fixed interest securities did not themselves provide a certain protection against inflation. His main message was that he did not think that equities would necessarily provide for pension funds the best answer to inflation in the ’70s.

The Pensions Archive Trust chairman, Alan Herbert

Fun and games

Wordsearch

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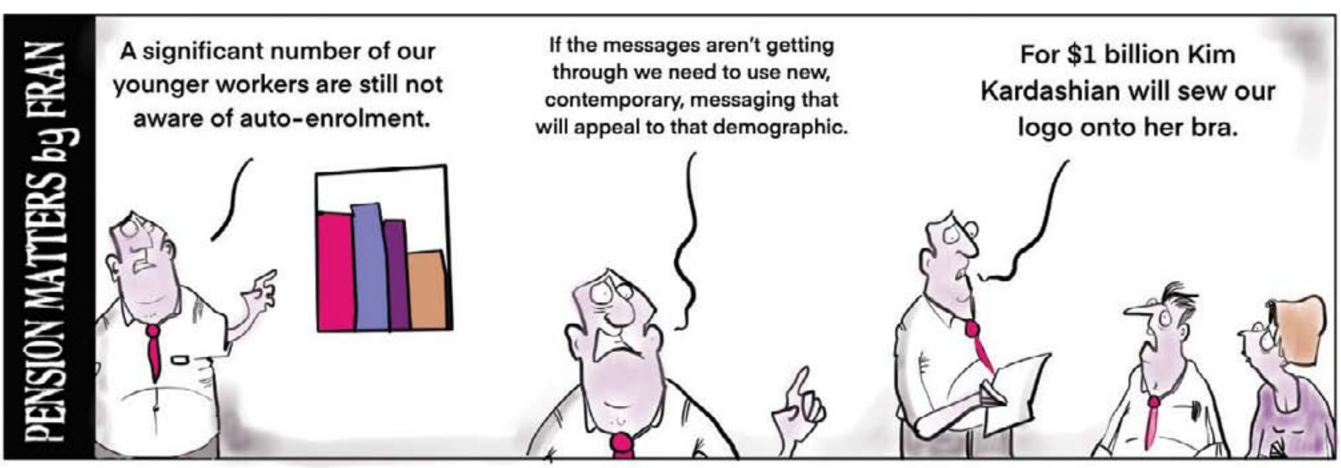
CHARGES
CREDIT
FIXED INCOME
GMPS
LONGEVITY SWAPS
MENTORING
PIE
PROVIDERS
REGULATIONS
RELATIONSHIPS

I know that face...

Answer at bottom of page



I know that face... Answer: PPI head of policy research, Daniela Silcock

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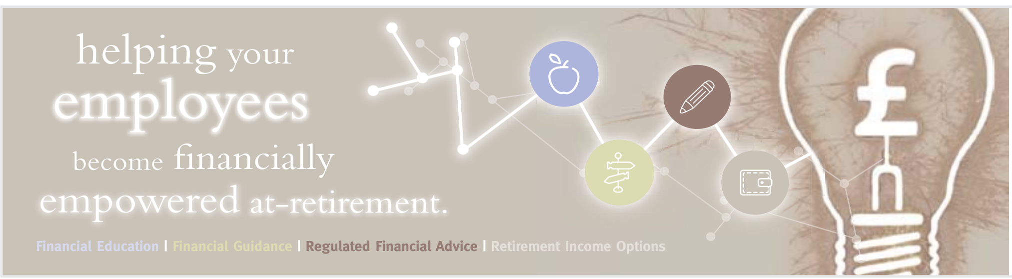

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