**Trustee remuneration**
Trustees' remuneration in the wake of ever-increasing responsibilities

**Cost transparency**
The issues with cost transparency and how change can be effectively implemented

**Value for money**
The potential drivers and barriers to improving pension value for savers

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April 2021

# PENSIONS*Age*

**The leading pensions magazine**

***DB funding code:*** *Where the industry stands on its proposals and what to look out for in the second consultation*

***Employer covenant:*** *Is the regulator's proposed three-to-five-year time horizon for covenant visibility long enough?*

# A little fine-tuning

**How fine-tuning the DC charge cap could open up a new world of investment opportunities**

**Renewables: The opportunities the renewable energy market could hold for pension schemes**

# Editorial Comment

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

The power pension funds have in the fight against climate change continues to be realised, as the past month sees a number of industry companies and asset management firms pledge to become net zero with their carbon emissions.

While a great start, signing up to become carbon neutral decades in the future does not equal 'problem solved; environmental crisis averted'. There is still much more work to be done.

To that end, there are opportunities for pension funds to put their money where their mouth is and invest in renewable energy, as our feature on page 39 explores.

This heightened focus on responsible investment has definitely been sparked by increased regulatory attention, along with societal pressure, from Extinction Rebellion to Greta Thunberg and more.

For the pensions industry, it is also driven by an awareness that it can be used as a member engagement tool – people are interested in how to become environmentally friendly, pensions can be invested in an environmentally-friendly manner, ergo people may become more interested in pension saving generally based upon the environmentally-friendly way their retirement money is invested.

Indeed, last month, Aviva announced the launch of its investor opinion tool pilot, after research revealed that 63 per cent of savers believe pension companies need to be more environmentally transparent in where they invest savers' pensions.

Making efforts to tackle climate change is undoubtedly a worthwhile cause, and pension funds should showcase to members the positive impact retirement savings can have, especially if in turn it can help increase member engagement.

However, another way to increase member engagement, one that would be of even more direct benefit for savers than tackling climate change, would be to ensure that the system of pension saving is equally beneficial for all.

There is still plenty to do here.

This month, The Pensions Regulator (TPR) confirmed plans to develop a longer-term diversity and inclusion strategy and action plan, after its latest data on pay gaps revealed that the ethnicity pay gap has worsened over the past year. However, it did find improvements in terms of the gender pay gap.

Despite this, women retire with 25 per cent to 45 per cent less in their pension pots than men due to an "intrinsically biased UK pension system", recent analysis from Barnett Waddingham finds.

New research from Now Pensions and the Pensions Policy Institute also finds that 43 per cent of working single mums are currently 'locked out' of auto-enrolment. This is due to no longer meeting the eligibility criteria, having had to juggle work, household chores, and schoolwork, and therefore being more likely to have reduced their working hours and falling below the auto-enrolment threshold. The self-employed workers are also 'missing out' on an estimated £4 billion worth of pension contributions every year as they do not receive employer contributions, latest analysis from Interactive Investor highlights.

Working to tackle injustices in the system, the government has recently announced plans for a consultation on regulatory amendments to ensure that a surviving opposite-sex spouse or civil partner of a female member is treated in the same way as a surviving same-sex spouse or civil partner of a female member in public sector pension schemes.

As I write, TPR has just released its newly-published *Climate Change Strategy*, outlining what guidance it will be issuing to help trustees adjust to upcoming changes in climate change-related regulations and revealing its aims and objectives for the role of pensions in the fight against climate change.

The money behind pension funds make them a powerful tool in the fight against climate change and it is right that the money is put to good use in this way. At the same time, it is also important to consider how to wield this power closer to home, to improve the lot of all at retirement. That way, in both a global and individual sense, pension funds can help to 'save the world'.

**Laura Blows, Editor**

COVER FEATURE

Theme: Money matters

45

# A little fine-tuning

**Natalie Tuck examines how some fine-tuning of the DC charge cap could open up a new world of investment opportunities for DC auto-enrolment pension schemes**

## Highlighted features




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**Subscriptions**
Tel: 01635 588 861
£149 pa within the UK
£197 pa overseas by air

**NEW circulation figures**

**Pensions Age now has its new circulation figure from the Audit Bureau of Circulations (ABC). 14,481 (July 2019–June 2020) 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 30,000+ online subscribers (source: Publishers Statement Sept 20). Our print circulation is around 300% higher than the next nearest title, and 500% higher than the third title.**

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ISSN 1366-8366
www.pensionsage.com

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# Dateline - March 2021

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

**3 March** Pensions Minister, **Guy Opperman**, sets out a timetable for the consultation and introduction of regulation in relation to legislation outlined in the Pension Schemes Act 2021. The act received Royal Assent on 11 February and the government is progressing the secondary legislation to enact the changes it contains.

**3 March** Contributions to the **Universities Superannuation Scheme** may need to increase to as much as 56.2 per cent of payroll in order to combat the scheme's deficit, according to an update from the scheme trustee. Its update report confirms that increases in pension contributions would be necessary to maintain the scheme's existing benefits, in light of "persistent low interest rates" and reduced expectations of future investment returns.

**5 March** The **government** confirms that it plans to proceed with an increase in the general levy rate in April, whilst simultaneously introducing four separate sets of rates for defined benefit (DB), defined contribution (DC), master trust and personal pension schemes. It also confirms that it will give consideration to the creation of additional levy categories to reflect the development of future scheme types, such as superfunds, in light of concerns from respondents. The four-rate proposal is highlighted as the preferred option by the government in its initial consultation, as it would 'better reflect' the differing levels of attention devoted by the supervisory scheme against each scheme type. Alongside these changes, the government announces plans to freeze the 2021/22 operating budgets of The Pensions Regulator (TPR) and The Pensions Ombudsman at 2020/21 levels.

**9 March** The UK's DB pension schemes registered a surplus of £14.6bn at the end of February, flipping from a deficit of £65bn one month prior, according to the **Pension Protection Fund (PPF)** 7800 Index. The figure represents the first time in nearly two years that the position of the 5,318 UK DB pension schemes listed on the index have moved into a surplus, as the month saw the overall funding position of the PPF 7800 Index improve to 100.8 per cent from 96.5 per cent.

**10 March TPR** publishes a revised 15-year corporate strategy that sets out its blueprint of future pensions regulation, aiming to 'make workplace pensions work' for savers. TPR says that the revised strategy reflects a fundamental shift in pension saving and will also focus on the short-term challenges posed by Covid-19 recovery. The strategy sets out five priorities that the regulator will immediately start to deliver.

**10 March** The **Pensions and Lifetime Savings Association (PLSA)** updates its Stewardship and Voting Guidelines to reflect changes resulting from the Covid-19 pandemic and new climate-related regulations. It urges pension investors to be 'watchful' this AGM season as to how companies' responses to the coronavirus crisis have affected their governance and workforce practices.

**11 March TPR** launches a consultation on its draft policy outlining how it will use its new criminal sanction powers introduced by the Pension Schemes Act 2021. The guidance sets out how the regulator plans to use its new criminal powers to investigate and prosecute those who avoid employer debts to pension schemes or put savers' pensions at risk. TPR confirms that the onus will be placed on the prosecution to prove that the accused did not have a "reasonable excuse", clarifying however, that this does not mean that the prosecution must identify and disprove "every possible excuse open to someone". Instead, the regulator highlights three key factors, which it will view as 'significant' in defining what constitutes a reasonable excuse.

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

**17 March TPR** launches a consultation on its first steps towards creating a single code of practice for pension scheme governing bodies. The regulator says this consultation would lead to the streamlining of 10 of its 15 codes into an online code that would provide the industry with one up-to-date and consistent source of information on scheme governance and management.

**18 March** The **Department for Work and Pensions (DWP)** publishes a consultation on regulations around TPR's Contribution Notice and information gathering powers, following changes introduced by the Pension Schemes Act 2021. It outlines the draft regulations around TPR's information gathering power changes, including what information interview notices should contain, modifications to how inspection powers may be utilised in multi-employer schemes, and setting out the fixed or escalating penalty rates for non-compliance with information gathering requests.

**19 March** The **government** launches a consultation on proposed measures to allow occupational DC schemes to smooth performance fees within the charge cap, alongside a call for evidence on issues relating to look-through. In particular, it is consulting on a legislative change to the way compliance with the charge cap is measured to give trustees flexibility to smooth such charges over a longer period, in order to help facilitate investment in a diverse range of assets, including illiquid. The consultation, which was announced as part of the government's Spring Budget, is the next step to the *Improving outcomes for members of DC schemes* consultation, which was published in September 2020.

**23 March** The **government** confirms plans to discount guaranteed minimum pension (GMP) conversion as a long-term policy solution for public service pension schemes, and make full GMP indexation the permanent solution. This will mean that public service pension schemes will be directed to provide full indexation to those public servants with a GMP reaching state pension age beyond 5 April 2021.

**24 March** The **DWP** announces a consultation scrutinising the effectiveness of occupational pension scheme trustees' current policies and practices in relation to social factors. The call for evidence, which closes on 16 June, is looking to assess how pension schemes trustees understand social factors and how they integrate considerations of financially material social factors into their investment and stewardship activities.

**29 March** Member contributions to private sector DC schemes grew by 12 per cent between Q2 and Q3 2020, rising from £1.6bn in June to £1.8bn as of September 2020, according to figures from the **Office for National Statistics.** Public sector defined benefit and hybrid (DBH) schemes also saw an increase in employee contributions from £0.6bn in Q2 2020 to £0.7bn in Q3, although there was an 8 per cent decline in private sector DBH employee contributions. Employee pension contributions had previously fallen amid the pandemic, with the spring lockdown bringing an 11.2 per cent fall in member contributions to occupational DC schemes between Q1 and Q2.

**29 March** Technology firms should be held responsible for their role in allowing pension scams adverts to appear on their platforms, the **Work and Pensions Committee (WPC)** says. Following its first investigation into protecting savers five years on from pension freedoms, MPs state that legislation is needed to stop tech giants "profiting from a multi-billion-pound scam industry". The WPC says that regulators were powerless to hold search engines and social media to account, and describes tech firms that were accepting payments to advertise scams and further payments from regulators to publish warnings as "immoral".

News focus

# TPR launches criminal sanction powers consultation

**The Pensions Regulator (TPR) has published a consultation seeking views on its draft policy as to how it will use its new criminal sanction powers, which were introduced by the Pension Schemes Act 2021. The regulator also launched its revised 15-year Corporate Strategy and a consultation on its plans to consolidate its code of practice**

TPR has launched a consultation on its draft policy outlining how it will use its new criminal sanction powers introduced by the Pension Schemes Act 2021.

It sets out how the regulator plans to use its new criminal powers to investigate and prosecute those who avoid employer debts to pension schemes or put savers' pensions at risk.

TPR confirmed that the onus will be placed on the prosecution to prove that the accused did not have a "reasonable excuse", clarifying however, that this does not mean that the prosecution must identify and disprove "every possible excuse open to someone".

Instead, the regulator has highlighted three key factors that it will view as 'significant' in defining what constitutes a reasonable excuse.

This includes whether the detrimental impact on the scheme was an incidental consequence of the act or omission, as opposed to a fundamentally necessary step to achieve the person's purpose, and the adequacy of any mitigation provided to offset the detrimental impact.

Where there was no, or inadequate, mitigation, it will also consider whether there was a viable alternative that would have avoided or reduced the detrimental impact.

The two new criminal offences introduced in the Pension Schemes Act 2021 were the offence of avoidance of employer debt and the offence of conduct risking accrued scheme benefits.

Whilst these are not in force yet, the regulator has confirmed that they are expected to be by autumn 2021.

TPR stated that the two offences outlined in the draft policy will be committed if someone acts, or fails to act, with the relevant intention, or if someone aids or procures another person to do this, and does not have a 'reasonable explanation' for their behaviour.

In particular, the offence of avoidance of employer debt can apply to anyone who prevents the recovery of the whole or any part of a debt due to the scheme under section 75 of the Pensions Act 1995, prevents such a debt becoming due, compromises or otherwise settles such debt, or reduces the amount of such debt.

An offence of conduct risking accrued scheme benefits, meanwhile, can apply to anyone who does an act or engages in a course of conduct that detrimentally and materially affects the likelihood of members receiving their accrued scheme benefits.

The guidance stated: "We expect those we investigate to explain their actions and put forward sufficient evidence of any matters that might amount to a reasonable excuse and will give them the opportunity to do so.

"We expect the basis for the reasonable excuse to be clear from contemporaneous records such as minutes of meetings, correspondence and written advice."

The pensions industry broadly welcomed the consultation, but concerns have been raised about the level of detail included and uncertainty around falling foul of the new rules remained for some.

The draft guidance on new criminal

offences could make it harder for schemes to be rescued and is "inherently vague and subjective" when it comes to explaining what a reasonable excuse is, according to Freshfields.

The law firm raised concerns about TPR's comments on mitigation, which noted that any mitigation provided to offset the detrimental impact would contribute to a person having reasonable excuse.

Further concerns were raised about TPR's expectation that schemes be treated 'fairly' by different parties, which Freshfields said did not take into account the interests of different parties.

A TPR spokesperson responded: "Our approach to these new offences will take account of the policy intent, all relevant facts and circumstances, as well as the response to them and the reasons for actions taken.

"We recognise some restructuring situations events move at a pace and decisions need to be made quickly. If parties involved in those decisions can demonstrate they considered the impact of their actions on the scheme; and either secured full mitigation for any detriment or can demonstrate there was no viable alternative with a less detrimental impact in light of any mitigation provided, they should not be at risk of prosecution by us."

The regulator also published a revised 15-year corporate strategy that sets out its blueprint of future pensions regulation, aiming to "make workplace pensions work" for savers.

TPR said that the revised strategy reflected a "fundamental shift" in pension saving and will also focus on the short-term challenges posed by Covid-19 recovery.

The strategy sets out five 'priorities' that the regulator will "immediately start to deliver".

These include the primary goal of protecting pension savers' investments, which includes working to ensure defined benefit (DB) schemes are funded and can continue to rely on the Pension Protection Fund (PPF), driving consolidation where it is in savers' best interests, quick intervention when contributions are not paid by employers, and protecting savers from scammers and cyber-related risks through collaboration with partner agencies.

The regulator will also work to ensure that savers get good value for their money through suitable investments and reasonable costs, efficient administration and working with regulatory partners to ensure good practice.

Alongside this, it will be publishing a discussion paper to assess value for money for savers.

Ensuring decisions made on behalf of savers is in their best interests was also outlined as a priority, with the regulator expecting increased transparency and increasing its focus on managing savers' exposure to economic risks, including developing a new climate change strategy.

It will encourage innovation and collaboration from the pensions industry, and aim to ensure that TPR is a "bold and effective regulator".

TPR also launched a consultation on its first steps towards creating a single code of practice for pension scheme governing bodies.

The regulator said this consultation would lead to the streamlining of 10 of its 15 codes into an online code that would provide the industry with one up-to-date and consistent source of information on scheme governance and management.

The first phase of the consultation requests industry views on how TPR has proposed consolidating these 10 codes into just one, which the regulator said had resulted in the number of pages being halved.

A draft of the code is available online and TPR said it would be carrying out a series of engagement activities to share further details about the new code and to provide industry with the opportunity to share its views, with trustees, advisers and pension professionals set to be able to sign up to a virtual workshop to discuss modules and content in more detail with experts.

The consolidation of the regulator's codes of practice has been planned since July 2019.

TPR executive director for regulatory policy, analysis and advice, David Fairs, said the new code would "determine how governing bodies should approach governance and administration and provide consistent expectations across different types of scheme set at a level we consider appropriate for any well-run scheme".

The 10-week consultation will run until 26 May and also incorporates changes introduced by the Occupational Pension Schemes (Governance) (Amendment) Regulations 2018.

These include stipulations that trustees must have an effective system of governance proportionate to the size, nature, scale and complexity of their scheme, as well as the need for private sector schemes with 100 or more members to carry out an own risk assessment.

**Written by Duncan Ferris, Jack Gray and Sophie Smith**

# Govt confirms four new pension levy rates; TPR and TPO budgets frozen


**Following its consultation, the government has announced its plans to increase the general levy in April and introduce four differing rates for defined benefit (DB), defined contribution (DC), master trust and personal pension schemes. This proposal of four separate rates was found to be the preferred option following the government's consultation on how to proceed with levy changes**

The government has confirmed that it plans to proceed with an increase in the general levy rate in April, whilst simultaneously introducing four separate sets of rates for DB, DC, master trust and personal pension schemes.

It also confirmed that it would give consideration to the creation of additional levy categories to reflect the development of future scheme types, such as superfunds, in light of concerns from respondents.

This four-rate proposal was highlighted as the preferred option by the government in its initial consultation, as it would 'better reflect' the differing levels of attention devoted by the supervisory scheme against each scheme type.

At the same time, it argued that the proposal would preserve the collective approach underpinning the current levy system, together with the 'inherent simplicity and operability' of a levy system base on the number of members in each scheme.

This option also received the most support from respondents to the consultation, with 18 of the 23 respondents highlighting this approach as 'fairer' and more representative.

In comparison, just one respondent supported option two and one supported option three.

Alongside these changes, the government has announced plans to freeze the 2021/22 operating budgets of The Pensions Regulator (TPR) and The Pensions Ombudsman (TPO) at 2020/21 levels.

In addition to this, the government stated that it will reduce the core element of Money and Pensions Service funding by 25 per cent for 2021/22 that will be chargeable to the levy.

It highlighted these decisions as underscoring its commitment to maintain effective cost control alongside the delivery of a level of funding that allows pension bodies to operate effectively.

The response stated: "It is essential that the pensions bodies receive funding sufficient to allow services to be maintained.

"However, the government recognises that schemes are entitled to expect a level of cost control that takes account of developments in the external environment.

"It accepts that the environment in which schemes are operating is particularly challenging currently."

However, the government has acknowledged that the level of industry engagement that had been intended in a structural review of the levy had not been possible due to 'unavoidable time pressures' flowing from the pandemic, with some respondents to the initial consultation raising concerns over this.

As such, it confirmed that if the restructuring is implemented, the government will monitor its impact and give consideration as to whether any further structural changes are needed 'in light of experience'.

It also noted that a number of respondents had raised concerns around the Fraud Compensation Fund levy, following the recent high court ruling that could affect the scope of the fund.

In response to this, the Department for Work and Pensions confirmed that it is currently considering the implications of the judgment and an appropriate policy response.

It stated that an announcement will be made in due course.

Commenting on the proposals, Smart Pensions director of policy, Darren Philp, stated: "While an increase in the general levy is never welcome, especially during these tough economic times, we are pleased that the government has decided to proceed with the sensible option of more closely aligning regulatory costs with funds raised from the levy.

"While this doesn't wholly address the unfairness of the current levy formula, it is a welcome signal that we needed a new, more proportionate approach for funding regulatory activities."

**Written by Sophie Smith**

VIEW FROM AMNT

**'Nowadays people know the price of everything and the value of nothing.'**

In May 2019, I wrote an article examining how society 'values' people, using as examples the pay differentials of professional footballers and National Health Service nurses. This article now seems somewhat prophetic as, at the time of writing, a row has broken out over pay increases for nurses.

The supporters of higher increases say that the sacrifice and dedication of nurses during the pandemic should be recognised, not only in grateful thanks but also in tangible reward. The government's stance is that only a small increase is possible given the unprecedented spending in 2020.

The argument, in essence, revolves around the words 'value, cost and price'. Value is the regard something is held to deserve; the importance or beneficial effect. While price is the quantity of payment and cost is the amount of money used to produce something or deliver a service.

Normally the edges are blurred when these terms are used but, in regards to the NHS, due to the pandemic, such words have come into sharp relief. So how do we value care, life and dedication; can you place a cost and price on it?

In pension governance the same debate ensues though, perversely, where the price paid for expertise seemingly indicates worth rather than the dedication of the individual. Meanwhile, member-nominated trustees always give good value.

**AMNT member, Stephen Fallowell**

AMNT Association of Member Nominated Trustees

# Govt sets out Pension Schemes Act regulation drafting timetable

**The Pensions Minister has outlined the government's timetable for the consultation and introduction of regulations for the new rules outlined in the Pension Schemes Act 2021. Some consultations have already launched, although there are some regulations, namely around the pensions dashboards, that seem unlikely to come into force until at least 2022**

Pensions Minister, Guy Opperman, has set out a timetable for the consultation and introduction of regulation in relation to legislation outlined in the Pension Schemes Act 2021.

The act received Royal Assent on 11 February and the government is progressing the secondary legislation to enact the changes it contains.

The consultation on regulations for climate-related reporting requirements has already been launched and the regulations will be introduced to parliament in the summer to come into force ahead of COP26.

Consultation on the majority of draft regulations for The Pensions Regulator's (TPR) new powers will take place in the spring, with the powers and new criminal offences expected to come into force in the autumn.

"For the duty to give notices and statements to the regulator in respect of certain events, we will consult on the draft regulations later this year, for commencement as soon as practical thereafter," Opperman noted.

The government will consult on draft regulations for legislation around pension scams and collective defined contribution (CDC) schemes in early summer, with the scam measures coming into force from early autumn.

It plans to consult on pensions dashboards regulations "later this year" and lay draft regulations before parliament for debate in 2022.

"Delivery remains on track for 2023 in line with the plans published by the Pensions Dashboards Programme," Opperman added.

Regulation for defined benefit scheme funding will be consulted on later this year, after the government has engaged with 'key interested parties'.

Opperman stated that the government would be working with TPR as the regulator develops the new funding code, which will be subject to a full public consultation.

Commenting on the Ministerial Statement, LCP partner, David Everett, said: "The government has multiple priorities and each of them requires further regulations or guidance before it can be taken forward.

"The long list of powers arising from the Pension Schemes Act will need new laws in a range of areas and the Department for Work and Pensions cannot physically move them all forward at the same time."

**Written by Jack Gray**

VIEW FROM THE PMI

**The Pensions Act 2004 introduced a formal requirement for trustees to achieve a formal level of competence.**

Whilst existing trust law contains general provisions about the conduct of trustees in carrying out their duties, the Trustee Knowledge and Understanding (TKU) rules introduced a specific benchmark for the technical knowledge displayed by trustees.

Trustees were formally required to be familiar with their scheme's trust deed and rules within six months of their appointment.

To help them achieve this objective, the newly-established The Pensions Regulator (TPR) developed the Trustee Toolkit, an online resource that provided training modules designed to ensure trustees had an opportunity to comply with their new duties.

Fifteen years later, TPR remains as keen as ever to ensure that standards of governance remain high.

One consequence has been the expansion of the professional trusteeship sector, and at the beginning of last year, PMI introduced APTitude. This was the first accreditation service for professional trustees to demonstrate their credentials.

Applicants are required to complete the toolkit and PMI's two existing Certification in Pension Trusteeship examinations. They must also complete a 'fit and proper' test and provide references. For the first time, there is a formal CPD regime for trustees.

PMI remains committed to providing educational opportunities for trustees.

During this year, we will be introducing a number of exciting new initiatives to help trustees to demonstrate their credentials.

**PMI head of policy, Tim Middleton**

# Govt begins consulting on proposed charge cap regulations

**Plans for the consultation were first announced at the Spring Budget 2021. The government is seeking views on a legislative change to the way compliance with the charge cap is measured, with the aim of giving defined contribution (DC) pension trustees more flexibility to smooth charges over a longer period to try and help facilitate investment in a more diverse range of assets**

The government has launched a consultation on proposed measures to allow occupational DC schemes to smooth performance fees within the charge cap, alongside a call for evidence on issues relating to look-through *[for more information, see our cover story on p45]*.

In particular, it is consulting on a legislative change to the way compliance with the charge cap is measured to give trustees flexibility to smooth such charges over a longer period, in order to help facilitate investment in a diverse range of assets, including illiquid investments.

The consultation, which was announced as part of the government's Spring Budget, is the next step to the *Improving outcomes for members of DC schemes*, which was published in September 2020.

It also includes the government response to chapter three of the prior consultation, which stated that the government was 'very pleased' with the level of support received for the proposed measure to provide a prorated easement to performance fees.

As such, it confirmed that it will move forward with a very similar version of the regulations previously consulted on, with an expectation that these will be in place by October 2021.

However, it clarified that the government remains 'open' to finding further ways in which it can facilitate opportunities for DC pension schemes to access private markets, balanced by the importance of the charge cap as a protection for scheme members.

In addition to this, the government response stated that it was 'equally pleased' with the positive reaction to the idea of introducing the option of a multi-year rolling/averaging period to accommodate performance fees for the purpose of the charge cap calculation.

Whilst it acknowledged that some stakeholders had a preference for a longer rolling period of 10 years or more, it stated that this was considered "too long a period" by which fund managers will be able to accurately predict the level of performance fees, and that a longer rolling period could promote greater risk-taking in early years.

It also acknowledged that whilst this is likely to present an administrative challenge, especially for larger schemes with more members, it believes "this is something that schemes will embrace and make work for them in order to take advantage of the investments that can potentially yield greater returns for members".

Alongside this, the government is also seeking views on its position around look-through in relation to charge cap compliance, whether it acts as a significant barrier to investment in alternative asset classes, particularly venture capital and growth equity and, if so, what solutions should be considered.

Whilst this was not an area included in this initial consultation, the government has now launched a call for evidence, after stakeholders raised concerns in context of other questions on performance fees or consideration of physical assets.

Meanwhile, the Department for Work and Pensions (DWP) has launched a consultation on regulations around The Pensions Regulator's (TPR) Contribution Notice and information gathering powers, following changes introduced by the Pension Schemes Act 2021.

Section 103 of the Pension Schemes Act 2021 amends section 38 of the Pensions Act 2004, introducing the 'employer resources test', which will work alongside the existing regime, to assess whether an act or failure to act has occurred for a section 38 Contribution Notice to be issued.

The government is seeking industry views on its proposed regulations as to what constitutes the resources of the employer, and on a suggested process to identify, calculate and verify the value of employer resources for the purposes of the employer resource test.

The DWP has proposed that the resources of the employer will be determined as normalised profits of the employer before tax, and outlined its process of calculating this.

Its consultation also outlined the draft regulations around TPR's information gathering power changes, including on what information interview notices should contain, modifications to how inspection powers may be utilised in multi-employer schemes, and setting out the fixed or escalating penalty rates for non-compliance with information gathering requests.

The government also launched a consultation scrutinising the effectiveness of occupational pension scheme trustees' current policies and practices in relation to social factors.

The call for evidence, which closes on 16 June, is looking to assess how pension scheme trustees understand social factors and how they integrate considerations of financially material social factors into their investment and stewardship activities.

It is expected to help increase policymaker and industry understanding, both of what is currently being done and what more could be done.

The DWP also welcomed the suggestion for the creation of a dedicated council of UK pension schemes, and a requirement for UK pension scheme trustees to explain how their stewardship policies are in members' best interests.

**Written by Jack Gray and Sophie Smith**

## VIEW FROM TPR

**Headlines following the Work and Pensions Select Committee's pension scams report were dominated by calls for global tech firms to do more to fight fraudsters. But the industry can take action now.**

I'm pleased the committee recognised the great start of The Pensions Regulator's (TPR) Pledge to Combat Pension Scams campaign.

Launched last November, more than 200 organisations have already signed up. All publicly pledged to commit to six key principles – including embedding best practice on scam reporting. Some reported changing their processes to make sure they can meet the pledge's principles.

We know some fraud goes unreported by savers and schemes. Reports to Action Fraud, the national fraud and cybercrime reporting centre, fell almost 80 per cent from 2014 to 2020.

We are working with Action Fraud and industry with the aim of making the reporting process clearer and more effective. The Pension Scams Industry Group is also updating its Code of Good Practice. The refreshed code is expected to help pension providers protect savers with information on when and how to report suspicions.

And TPR has introduced scams training for all trustees, as a new module of the Trustee Toolkit, helping them be better at recognising the signs of a scam.

So, as the tech firms get a reminder of their responsibilities, I'd urge the pensions industry not to forget their vital role in the war on scams – and launch their opening salvo now by joining our pledge campaign.

**TPR executive director of frontline regulation, Nicola Parish**

The Pensions Regulator
Making workplace pensions work

VIEW FROM THE PLSA

**Before the Budget there was lots of speculation that there would be major changes to pensions tax relief, in particular the removal of all higher-rate pension tax relief.**

The PLSA spelt out clearly its positions to the Chancellor in advance of the Budget saying more, not less, pension saving is needed.

Fortunately, major changes to pensions tax relief didn't emerge. In fact, the changes announced were relatively sensible.

There were welcome measures brought in with the introduction of green gilts – something the PLSA identified in its *A Changing Climate* report where it called on the government to make it easier for pension funds to invest in a climate aware manner.

Additionally, only relatively minor – albeit still unwelcome – changes were announced to the lifetime allowance. Given the pressure on the public finances, it was not surprising that the government chose to freeze the lifetime allowance. From the Treasury's perspective, it will raise about £300 million per year by 2025-26. About 90 per cent of savers will be unaffected so most people can save in their workplace pension without worrying about the rule change.

Nevertheless, the freeze will affect about 10 per cent of savers, usually those on higher salaries with a lot of pension savings. It will create extra costs for pension schemes; and piecemeal changes like this are unhelpful in sustaining confidence in pension saving.

**PLSA director of policy and advocacy, Nigel Peaple**

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

# Pension scams: MPs call for responsibility from tech firms

**The Work and Pensions Committee (WPC) has finished its first investigation into protecting pension savers, five years on from pension freedoms, concluding that global technology companies should be held to account by the government for allowing pension scam adverts to appear on their platforms**

International technology firms should be held responsible for their role in allowing pension scams adverts to appear on their platforms, the WPC has said.


Following its first investigation into protecting savers, five years on from pension freedoms, MPs stated that legislation was needed to stop tech giants, such as Google, "profiting from a multi-billion-pound scam industry".

The WPC said that regulators were powerless to hold search engines and social media platforms to account for hosting scam adverts, and described tech firms that were accepting payments to advertise scams and further payments from regulators to publish warnings as "immoral".

The report - *Protecting pension savers – five years on from the pension freedoms: Pension scams* – urged the government to act "quickly and decisively", noting that pension freedoms had put savers at risk of a much wider range of scams and fraud.

The scale of pension scamming was likely to be underestimated, it continued, warning that the situation was likely to get worse as the pandemic offered scammers new opportunities.

"The pension freedoms brought more choice for savers on how to use their pension pots, but the reforms have also opened up a whole new world of opportunity for scammers and fraudsters," commented WPC chair, Stephen Timms.

"At the same time, a woeful lack of online regulation has helped them reach more people than ever before.

"The result is an online free-for-all, where scammers can advertise with impunity while the tech giants line their pockets from the proceeds of their crimes."

MPs urged the government to rethink its decision to exclude financial harm from the forthcoming Online Safety Bill.

Furthermore, the WPC warned that the 'fragmentation' of reporting, investigation and enforcement has made combating scams more difficult, and called for the multi-agency taskforce set up to tackle pension fraud to be strengthened.

Finally, MPs called on the Financial Conduct Authority (FCA) to "raise its game" and publish enforcement action information, after they received 'numerous' criticisms that it was not effective in stopping scams, punishing scammers or retrieving money lost to scams.

In response, an FCA spokesperson said: "We will consider the recommendations made, along with our partner authorities. Tackling scams is a priority for the FCA and we have dedicated considerable resources to it over the past few years in both prevention and pursuit."

**Written by Jack Gray**

# DB schemes in surplus for first time in almost two years

**The PPF 7800 Index registered an aggregate surplus for the UK's 5,318 DB schemes in February for the first time in nearly two years**

The UK's defined benefit (DB) pension schemes registered a surplus of £14.6bn at the end of February, flipping from a deficit of £65bn one month prior, according to the Pension Protection Fund (PPF) 7800 Index.

The figure represented the first time since April 2019 that the position of the 5,318 UK DB pension schemes listed on the index had moved into a surplus, as the month saw the overall funding position of the PPF 7800 Index improve to 100.8 per cent from 96.5 per cent.

The figures also show a marked improvement from this time last year, when a deficit of £124.6bn was recorded at the end of February 2020.

Total DB scheme assets came in at £1,740.2bn, down from £1,808.4bn in January, while total liabilities stood at £1,725.6bn, down from £1,873.4bn.

Even so, the number of schemes in deficit still outweighed the number in surplus, with 2,839 schemes in deficit and 2,479 schemes in surplus by the end of February.

Among the schemes in deficit, the amount they fell short was £154.4bn by the close of the month, an improvement on the £212.4bn figure registered at the end of January.

PPF chief finance officer and chief actuary, Lisa McCrory, said: "Improvements were driven by an increase in bond yields which reduced the value of bonds and led to a fall in the value of liabilities and assets. While this is welcome news, it's a reminder of how sensitive funding is to yield movements as many schemes don't completely hedge this risk. Despite this strong position, we recognise the situation remains uncertain."

**Written by Duncan Ferris**

# Appointments, moves and mandates


Dame Helena Morrissey

**AJ Bell** has announced its intention to appoint Dame Helena Morrissey as its new chair, replacing outgoing chair Les Platts. Subject to regulatory and shareholder approval, Morrissey is expected to join the board as chair designate on 1 July 2021 ahead of her official appointment at the firm's next Annual General Meeting in January 2022.

Morrissey will also become a non-executive director, after recently stepping down as non-executive director at St. James's Place. She is currently Foreign, Commonwealth and Development Office lead non-executive director, reporting to the Foreign Secretary. Her previous roles include Legal & General Investment Management head of personal investing and Newton Investment Management chief executive.

The company also announced the appointment of Marks & Spencer non-executive director and Bank of Ireland Audit Committee chair, Evelyn Bourke, as a non-executive director, who will also join the board on 1 July 2021.

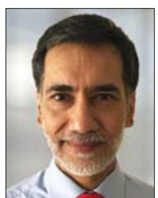

Kalpana Shah

**Just Group** has appointed Kalpana Shah as a non-executive director.

Kalpana brings over 25 years of insurance and investment industry experience, and was elected to the governing body of the Institute and Faculty of Actuaries in 2019. Just Group chair, John Hastings-Bass, said: "She has considerable commercial and insurance experience which will benefit our group and I look forward to welcoming her to the board."


Helen Jones

**LifeSight** has added Helen Jones to its board of trustees to replace Russell Picot. Jones, who will also chair the audit and risk sub-committee, has worked in finance and risk management for more than 30 years, and is currently senior vice president head of audit and assurance with GlaxoSmithKline (GSK). She was a trustee of the GSK Pension Fund for seven years and sat on the company's treasury committee and pension committee.


Ali Tayyebi

**Barnett Waddingham** has named Ali Tayyebi as a partner. Tayyebi will be advising defined benefit (DB) schemes across the UK, with a particular focus on large schemes. He held various roles at Mercer during 30 years with the firm, including leader of the northern region offices for the retirement business, head of DB risk consulting and chief actuary, serving as scheme actuary for several FTSE 100 sponsored pension schemes.


Alex Heath

**The Money and Pensions Service (Maps)** has appointed Alex Heath to its board as a non-executive director. Heath is the founder of CrowdRating, a screening service for equity crowdfunding investors, chairman of Artfinder and chairman designate of Fairer Finance. Maps chair, Sir Hector Sants, said: "Alex's experience of digital innovation will be an invaluable addition to our board."


Leanne Coomber

**Dalriada Trustees Limited** has appointed Leanne Coomber and Aimee Nguyen as professional trustees. Coomber has more than two decades of experience in the pensions industry and was trustee governance manager and scheme secretary for Bayer's £1.5bn UK pension scheme. Nguyen has more than 10 years of experience of working in pensions, and has served as Tesco's DB scheme pensions manager.

**Cartwright** has been appointed to provide actuarial and pension administration services to the Gomez Limited Retirement Benefits Scheme. The pension scheme is for Gomez Limited, a supplier of fresh produce that is ethically and sustainably grown, sourced and delivered.

Cartwright Benefit Consultants deputy head of administration, Clare O'Sullivan, said: "We are delighted to secure the Gomez Limited scheme. This is a great addition to our existing portfolio and we will soon be making the members know they are in safe hands. We are here to answer their queries and provide the support they need."

The firm, which is a specialist for small to medium defined benefit and hybrid schemes, said it had invested heavily to ensure it had best in class systems in place to optimise efficiencies and make sure it was future proofed for the next 20 years. O'Sullivan added: "This system is highly intuitive and we have invested in the in-house resource to support and tailor operations to match our customers' exact needs without having to rely on third-party support."

# Green appetite: ESG and EMD, taking the long view

**Investors with allocations to emerging market debt now need to understand the true impact on developing economies of long run factors like climate change and human capital development**

Governments everywhere are racing to lock in historically low borrowing costs by issuing ever longer dated debt. That presents several new challenges for fixed income investors. Particularly those who own emerging market (EM) bonds.

Not only do bondholders have to weigh up the usual near term factors like political, economic and commodity cycles but, in lending money to sovereigns over extended periods, they now also have to consider the impact of longer term trends, such as climate change and social development. Both can affect creditworthiness in profound ways.

This has called for a new approach; economic and financial forecasts are having to be recast with climate dynamics in mind. Meanwhile, modelled pathways of climatic change are themselves subject to expectations about future technological change as well as the evolution of political thinking in these countries. The number of moving parts only grows as investors realise they also have a role to play in shaping how governments approach making their economies sustainable and low-carbon.

Bondholders have also recognised the importance of taking a long-term view on environmental issues. This is apparent in both the appetite for green bonds – capital earmarked for environmental- or climate-related projects – and, more generally, bonds that fall under the environmental, social and governance (ESG) umbrella.

Governments are happy to meet that demand. Increasingly, they recognise the need to make efforts to mitigate climate change, and given that emerging market economies make up half the world's output, they have a significant role to play in meeting global greenhouse gas emissions goals.

Overall, green bonds generate positive feedback. The rising volumes of green bond issuance highlights investors' willingness to take more of a long-term approach to EM investing. But at the same time, governments are being made more accountable – in order to issue these bonds, governments are having to publish their sustainability frameworks in greater detail. This additional accountability helps to mitigate the political risks that are a key consideration in EM investing. Investors, however, will need to analyse and monitor developments closely to ensure proceeds are used as intended.

For all the sovereign issuance of green bonds so far, a great deal more funding will need to be raised to limit climate change. A significant part of the costs will need to be borne by emerging economies, not least because they are likely to suffer most.

How governments react to long-term issues like climate change or to the challenge of developing their human capital will influence their economies' trajectories and, ultimately, play a role in their credit ratings.

Countries with good, well-structured policies are likely to see their credit ratings improve, which attracts investors, drawing funding into their green investment programmes and ultimately driving a virtuous investment cycle.

All this implies that investors have an active role to play – they can't just passively allocate funding based on index weightings or be purely reactive to policymakers' decisions. The most successful investors will help steer governments towards the path that boosts their credit ratings, gives them most access to the market and improves the fortunes and potential of citizens.

This sort of intensive analysis – using everything from long run macro models to meetings with leaders of youth clubs in impoverished districts – can also help to paint a rounded picture of what's happening in a country.

For EM investors, ensuring all of these cogs mesh correctly is a difficult proposition, especially given that the parts are moving all the time. But by using the full breadth of analytical tools, independent research and shoe leather fact-finding, it's possible to gain a deeper and more profitable insight into these markets than a simple reading of credit ratings or index weightings offers. And, at the same time, influence policy makers to champion their country's sustainable initiatives. Taking a sustainable approach to growth and issuing related bonds, emerging economies can fundamentally change their prospects for the better. It has the potential to be revolutionary for emerging markets and exhilarating for those of us who invest in them.

**Written by Mary-Therese Barton, head of emerging market debt, Pictet Asset Management**

In association with PICTET 1805 Asset Management

VIEW FROM THE PPI

**There is more uncertainty than usual in economic forecasting as experts try to project the recovery from the Covid-19 pandemic.**

Good times, embracing growth and productivity gains are associated with good outcomes, but there could also be a silver lining if some of the more pessimistic views come to fruition.

Income standards such as the JRF funded Minimum Income Standard or the PLSA's Retirement Living Standards identify the income needed to pay for a basket of goods. Price inflation and increasing expectations mean the cost of these baskets will increase over time. A longer, slower economic recovery with more scarring of GDP and wages will slow this increase of the basket prices.

The growth of private pension assets will also be slowed, but for most pensioners the state pension is more crucial. The triple lock has a premium above its constituent parts which is bigger when earnings and price inflations are lower: the lock is more likely to bite, and bite bigger.

Put together, under a slower economic recovery, the state pension will increase more quickly relative to the price of the adequacy baskets. Future pensioners will have a smaller gap to fill between the state pension and target incomes, which more may be able to bridge.

This does highlight questions about the sustainability of the triple lock, particularly if the pessimistic projections do turn out to be prophetic.

**PPI head of modelling, Tim Pike**

PENSIONS POLICY INSTITUTE

PPI

# **Market commentary:** A cautious recovery?

The vaccine rollout process has continued in the UK, with over five million people now having received both doses of the vaccine. And things may also be looking up across the pond, with the United States Congress passing a $1.9 trillion stimulus package, which could have benefits for both the US and markets more widely.

Indeed, Hargreaves Lansdown political expert, George Trefgarne, argued that this injection of money won't only have positive implications for the US, but also for the rest of the world, including the UK. The Organisation for Economic Co-operation and Deployment, for instance, has recently upgraded its estimate for world GDP growth in 2021 by 1 per cent to 5.6 per cent, stating: "Vaccine rollout, although uneven, is gaining momentum and government stimulus, particularly in the United States, is likely to provide a major boost to economic activity."

Trefgarne pointed out that the Bank of England (BofE) has since followed suit, announcing plans to hold interest rates at 0.1 per cent, in light of "stronger than anticipated" developments in GDP growth and the "significant additional support" expected from the US stimulus package.

Indeed, recent figures revealed that UK GDP for Q4 2020 rose 1.3 per cent, with Conister director, Douglas Grant, emphasising that the data is starting to show stability and perhaps some signs of a potential recovery. "The UK remains among the best in the world in terms of vaccination rates but the economy is yet to really feel the long-term effects of many people losing their jobs and businesses disappearing," he added.

Despite this, whilst Trefgarne acknowledged that the stock markets have been volatile in the past month, amid concerns that a rapid recovery could bring inflation, he clarified that a prolonged rise in inflation is "very unlikely".

In fact, AJ Bell financial analyst, Danni Hewson, said that one would be forgiven for wondering why there has been such concern about rising inflation, after recent figures revealed that UK CPI inflation had fallen to 0.4 per cent in February.

She clarified, however, that while lockdown has "dented" some markets, these falls must be put into context. "Shops are still shut, children had yet to return to school and many workers continue to do their jobs from home," she said, continuing: "It's impossible to compare with what's normally expected. The economy has been distorted and many of the measures the ONS usually looks at have been missing.

"Trying to quantify what will happen when lockdown ends is rather like trying to read tea leaves. But February's figures do raise some red flags and suggest inflationary pressures may be brewing.

"Add to that strong wage growth figures, pent up demand and savings for those lucky enough to have missed out on the worst effects of the pandemic and these figures are likely to be the low point. Few doubt the BofE belief that rising inflation is inescapable in the short term and investors and savers should be prepared."

Quilter Investors portfolio manager, Paul Craig, however, said that regardless of specific domestic issues, all central banks are in the same boat and will largely ignore short-term inflationary pressures, emphasising that "now is not the time to worry".

He added: "The BofE will want to try and give the economy time to normalise before acting on rising inflation, and as such it is likely a blip investors will need to learn to tolerate rather than try and act on as they could easily get caught out. We are still a long way off central banks moving interest rates upwards and if inflation does begin to spiral they have the tools available to quash it quickly."

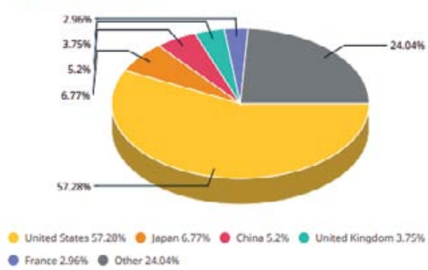
**Written by Sophie Smith**

# Opportunities in China

## Should UK pension schemes have higher equity allocations to China?

The Chinese economy has grown at an impressive rate in recent decades to become the second-largest in the world as measured by GDP, second only to the US and around three times the size of the world's third largest economy, Japan. Recent studies suggest that the Chinese economy will overtake the US before the end of this decade. Yet Chinese companies represented only 5.2% of the MSCI ACWI Index as at 31 December 2020 (source and chart below: MSCI).

COUNTRY WEIGHTS




Many schemes invest in passive developed market equity funds that allocate on a fixed weight basis with a UK bias. As China is still categorised as an emerging market (EM), some schemes will therefore have zero allocations to the world's second largest economy.

It is worth bearing in mind that economic heft is, rightly, not the only criterion for including and then weighting a country's companies in an equity market index, or for sizing pension scheme equity market allocations. A key argument for classifying China as an emerging market is its GDP per capita, which remains comparable to those of other emerging economies, and lower than those of countries in developed market equity indices.

**How do investors gain access?**

Historically only mainland Chinese citizens could buy China A-Shares (the local currency denominated shares of mainland Chinese companies), though this restriction was relaxed initially in 2003, and tellingly in 2014 and 2016 via the stock connect programmes that linked the mainland Chinese exchanges to Hong Kong.

Other ways to access listed Chinese companies are via B-Shares (listed in mainland China and denominated in Hong Kong Dollars or US Dollars) and H-Shares (listed in Hong Kong and denominated in Hong Kong Dollars). Investors can also get exposure to Chinese companies and the Chinese economy via Red-Chips, P-Chips (listed in Hong Kong) and N-Chips (listed in the US).

The allocation to A-Shares in emerging market indices has been increased on a phased basis, to the point where some investors are now concerned about the concentration of emerging market indices to China. Some make the case, which I believe has merit, that as a singularly large emerging market that has its own unique features compared to other emerging markets, China should be considered as a standalone equity market.

**What are the risks?**

Investors in emerging markets always bear a certain degree of political and currency risk in exchange for higher expected returns. When investing in China A-Shares, investors should also be mindful of ESG considerations, geopolitical risk (Sino-US trade tensions have been a feature of the global economic landscape for a while now), and the possibility of state intervention.

As retail investors account for over 80% of the daily trading volume, the market can be more volatile than other emerging markets.

**Where do pension schemes go from here?**

The Chinese economy continues to grow at a quicker pace than the US and other developed market economies and continues to close the GDP per capita gap. As A-Shares now make up a greater proportion of emerging market equity indices, more money will be invested in these companies.

The flow of capital into Chinese assets is also likely to accelerate as China continues to open its markets to foreign capital (limits on foreign ownership of Chinese companies remain in place), assumes greater importance as a financial centre, and a greater proportion of global financial transactions are traded in Chinese Renminbi. It also seems that many fund managers are only now beginning to take more interest in China, suggesting that the flow of capital will increase further as more institutional money is invested.

Given GDP growth, GDP per capita growth, increased weightings within EM equity indices, improved market access for foreign investors, its greater importance as a financial centre and more Renminbi denominated trade, it makes sense for DB pension schemes to consider increasing their allocations to Chinese equities.

I believe that the best way for many schemes to access Chinese equities is via broad, actively managed funds that enable skilled investors to select the best companies from a global or EM opportunity set, such as unconstrained active global equity funds and/or emerging market multi-asset funds.

**Written by Cartwright senior investment consultant, Tom Hawthorn**

In association with CARTWRIGHT

VIEW FROM THE ABI

**How do you solve a problem like the proliferation of small pots? This question has been round the houses for many years, with no obvious answers.**

What has changed is that there are now even more pots. By surveying just a few master trusts, the DWP found that out of 11.4 million deferred pots, 74 per cent of them had less than £1,000, and 25 per cent of them less than £100. But this issue isn't just limited to master trusts – contract-based providers similarly hold a very large number of very small pots, which means the actual figure will be substantially higher.

It is therefore right that this year the government and industry are prioritising work to examine possible solutions. Pensions dashboards will undoubtedly enable people to see all of their (big and small) pots in one place, which could prompt them to do something about them. However, as the findings of last year's DWP working groups showed, it is unlikely that there will be one silver bullet to fix the issue, but rather a package of measures that will require commitment from providers, regulators and the government.

Happily, the appetite to find solutions is there. Last month, the ABI and PLSA set up the Industry Small Pots Co-Ordination Group. This forum will bring together the work of the subgroups, one of which the ABI will chair. This will look at ways of improving the transfer process, often a barrier to the consolidation of pots.

**ABI manager of long-term savings, Henrietta Hughes**

# Soapbox: Scam goals

The subject of scams, already a frequent talking point since the start of the pandemic, has been one of the hot topics this past month. Organisations like the Pension Scams Industry Group (PSIG) have been pushing hard to raise awareness of scams and increase scam reporting activity over the past year, but March saw even more action on the matter than usual.

The month saw The Pensions Regulator calling on pension schemes to report suspected scams following a 'concerning' long-term drop in reporting; Pensions Minister, Guy Opperman, stating that it is 'imperative' that schemes work with PSIG; and the Work and Pensions Committee (WPC) publishing its *Protecting pension savers – five years on from the pension freedoms: Pension scams* report.

As part of the report, the WPC called for international technology firms to be held accountable for allowing adverts from pension scammers to appear on their websites, with the committee calling for legislation to stop the firms "profiting from a multi-billion-pound scam industry".

WPC chair, Stephen Timms, complained that "a woeful lack of online regulation" had allowed fraudsters to reach more people than ever before, calling the situation "an online free-for-all, where scammers can advertise with impunity while the tech giants line their pockets from the proceeds of their crimes".

Without any legislation to force major tech companies into shunning these adverts it seems unlikely that any change will be forthcoming. Social media giants like Facebook, Twitter and Instagram have long faced pressure to be assertive in dealing with online bullying, and abuse of a racist, sexist or homophobic nature.

For example, it now seems the case that after every round of Premier League football fixtures, at least one footballer, manager or pundit will be messaged directly by a moronic fan and subjected to vile online cruelty. The issue is so problematic that, in the final week of March, legendary former Arsenal and France striker, Thierry Henry, quit social media altogether and stated that he would only return if the platforms ceased to be "used as a weapon". The problem is of course not unique to footballers, but their high profiles have raised awareness of the issue in a way that few other groups could.

Technology giants have reporting functions for victims and have repeatedly reiterated their intentions to tackle racism and other forms of abuse, but many campaigners and victims say not enough is being done. However, the social media companies could soon face fines for failing with their duty of care if an Online Harms Bill is passed by parliament.

The response from social media companies to the online abuse problem appears to have been one of condemnation without action, and it is similarly hard to see them taking a more proactive approach to the issue of scammers when doing so will only be a hit to their earnings.

The tech giants need to be pushed into doing the right thing through more aggressive legislation, and not just with respect to clamping down on scammers. Clearly agreeing that more action is needed, Timms has joined with the Financial Services Compensation Scheme and the Personal Investment Management & Financial Advice Association to call for the Online Harms Bill to protect internet-users from financial scams, as well as online abuse.

Written by Duncan Ferris

# Saving: A matter of personality

## Phil Brown explains why learning more about savers will only help the pensions industry

It's fair to say that the first nine years of automatic enrolment have been a success, with 10 plus million more people saving into a pension, but can the same be said for our collective performance when it comes to making those savings last?

The latest round of the New Choices, Big Decisions research that the consultancy Ignition House conducted on behalf of The People's Pension and State Street Global Advisors suggests that there are dramatic improvements that can be made for those savers with funds that are below the threshold where they are unwilling or not able to engage an adviser. The report finds that many of these savers are 'sleepwalking into retirement' with some risking running out of money with up to a third of their retirement left.

Since the advent of pensions freedoms in 2015, our research has focused on a group of savers who are either approaching retirement or are recently retired and have between £30,000 and £250,000 in pension savings. The problems highlighted in the report arise in part because designing an effective pension retirement product for an individual is complex. Skills drawn from actuarial science, economics, and medical science, as well as investment knowledge would help any of us make informed decisions and not too many of us would have all, if any, of those. However, our job is made even harder because, as individuals, we have deep-rooted behavioural biases that make it difficult for us to grapple with risks

such as outliving savings and a lack of appreciation of the effects even a low level of annual inflation can have on the value of savings over time.

Last month, further research identified seven different types of personalities that researchers encountered during the interviews for New Choices, Big Decisions. Each is based upon the decisions taken by interviewees as they approached their retirement. The 'Can Do Better Colin and Clares' typically took all of their money as soon as they could, even though this could see them paying up to 40 per cent tax. Many have little or no knowledge at all when it comes to investments and they have ended up placing all their pension money in a cash ISA with their own bank.

Another significant group, 'Spend it Sally and Simons' were happy to take their money, usually some tax-free cash – to spend on holidays, home improvements, a new car, or a treat for a family member. They would take the rest of their cash in drawdown as and when they need it. 'Winding Down Wendy and Williams' are people in phased retirement with some taking their DC savings in drawdown to act as a 'bridge' until they draw their state pension. The 'Leave it Linda and Larrys' struggled so much to come to a decision about what to do with their pension that, five years on, the pot remained untouched while 'Buy-to-Let Brian and Barbaras' did what it said on the tin.

Risk averse 'Secure Stan and Sues' on the other hand tend to buy an annuity rather than run the risk of running out of money while the small group of 'Help Me Helen and Harrys' were the only ones which sought the help of independent financial advisers.

While there are comparatively few people who are currently retiring with only DC assets, this group is going to increase significantly over the next decade. The innovation required to meet their needs will likely require solutions which combine products and give people more guidance.

Subsequent YouGov polling we conducted supports this view: that nearly four in 10 (37 per cent) of those who are saving for retirement would be prepared to be guided towards taking a pension that was split between giving them a guaranteed regular income (an annuity) and the rest as a flexible income pot (drawdown) after taking the tax-free lump sum upfront.

Now that we understand more about the decisions those approaching retirement make and what they want from a product and a provider, it's important that the industry continues to work on solutions that will future-proof DC retirement.

To read our full report go to; www.thepeoplespension.co.uk/ncbd-report or for further information call us on 0333 230 1310.

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

In association with

VIEW FROM THE SPP

**The Pension Schemes Act 2021 has created significant commentary on the breadth of activity potentially caught by the regulator's powers.**

The regulator is now consulting on guidance that will steer when it will use its newfound teeth. In doing so they provide some reassurance that they are trying to dissuade intentional or reckless conduct, through examples of the types of situations and what might constitute a 'reasonable excuse'.

That said, the lack of clarity on what constitutes business-as-usual behaviour for sponsors, and the absence of guidance on when trustees may be at risk of criminal prosecution, is striking – particularly with many forced into tough decisions while navigating through the pandemic.

History has shown that actions are often considered through the lens of the sensibilities in place at the time of judgment, rather than when actions were taken. In our industry, decisions persist for decades. The lack of a limitation period, and the regulator's own admission that the courts will decide what the law means rather than the guidance, produces a real risk that events are judged with hindsight in which the normal behaviour of today is not considered a reasonable excuse in 20 years' time.

For those questioning whether to respond to this consultation, perhaps the question is "do you have a reasonable excuse not to"?

**SPP DB Committee chair, Tom Yorath**

THE SOCIETY OF PENSION PROFESSIONALS
*leading pension thinking*

# In my opinion

**On the need for pension schemes to share data with the Pension Scams Industry Group (PSIG)**
"I am calling on all pension scheme trustees to support us in the fight against the callous criminals stealing savers' pension pots. While the measures contained in the Pension Schemes Act are a significant step forward, we need government, the individual and industry to tackle this together. Pension schemes have a professional, ethical and moral duty to try and prevent their members being ripped off, and better data-sharing is a vital first step."
***Pensions Minister, Guy Opperman***

**On The Pensions Regulator's criminal sanctions draft policy and consultation**
"The new policy intent is welcome, particularly given the regulator has stated that it is not intended to change commercial norms or accepted standards of corporate behaviour. I hope it will make those who would be tempted to purposely avoid a scheme liability or materially detrimentally affect member benefits think twice before undertaking or advising for such a transaction. That said, it should not act as a deterrent to good commercial practice and still allow employers to run their businesses in a commercial, customer facing and efficient manner with the capacity to undertake merger and acquisition activity."
***Dalriada Trustees trustee, Keith Hinds***

**On concerns that pension schemes could be overestimating liabilities by not fully considering Covid-19's impact on longevity**
"We cannot just ignore 2020 as the ramifications will last for some time. In my view it is too late to wait to measure the likely impact of the pandemic, which has already had a significant impact on mortality and will continue to do so in the years to come. Without consideration of how the pandemic has affected their members, schemes risk overstating their liabilities by as much as 3.5 per cent and ignoring key information when making decisions on risk management and long-term strategy."
***XPS head of demographics, Steve Leake***

**On the Work and Pensions Committee's (WPC) pension scam report, which was published following the first part of its inquiry into pension freedoms**
"We welcome the report from the WPC and will examine the recommendations closely. Pension scammers wreck lives and as we have shown through Project Bloom, only by taking a coordinated, multi-agency approach to education, prevention and enforcement, can we beat pension scammers and protect the retirements of millions of savers."
***TPR executive director of frontline regulation, Nicola Parish***

**On the number of working single mums locked out of auto-enrolment increasing by a third amid Covid-19**
"It is worrying to see that single mothers' ability to save for their futures has been hugely affected by the Covid-19 pandemic, with almost half now ineligible for automatic enrolment. We must ensure that everyone has an equal opportunity to save for their futures and build an adequate savings pot for later in life."
***Now Pensions head of PR and campaigns, Samantha Gould***

# So, you think you have a data strategy. Really?

**Brendan Doherty questions whether current data strategies are truly effective enough to ensure the quality and completeness of scheme data**

For years the pensions industry has used poor data as the excuse for lack of advancement in almost everything. Data inaccuracy has prevented every attempt by the industry to take real advantage of technological advances or respond efficiently and effectively to scheme and legislative demands. From A Day to present day, schemes have dreaded the never-ending need for change because of the great unanswered question – "is my data good enough?"

Faced with this constant question, many schemes have been developing strategies to address their data issues. I've recently read surveys where almost 80% of schemes express confidence in the quality and completeness of their data, often it seems, because they have a data strategy in place; a good step, but a strategy in isolation can lead to complacency.

For example, can you have a data strategy if you don't know where all your scheme data sits? If that seems an odd question, ask yourself this: are any of your calculations being run off-system? How much of your data resides in spreadsheets utilised to calculate data, that is subsequently fed back into your administration system? Does your administrator still revert to paper files to locate missing information for essential tasks?

If the answer to any of these is "I don't know", then you cannot be confident about the effectiveness of your data strategy.

**Cost or investment?**

It's an unfortunate truth that dealing with data issues can be expensive - ask anyone who has commissioned a data cleanse project. It's also true that most data cleanse exercises fix what they can at that point in time but can't prevent, or give insight into, subsequent data quality deterioration. It can be an effective one-time fix, but it certainly isn't a major contribution to an ongoing data strategy. That needs more thought.

So how do you achieve an all-encompassing data strategy? All too often, we look at cost without considering value. However, I would ask how can you quantify what you should invest, and what return it might generate, without a comprehensive view of your data – its accuracy, completeness, location, and likelihood of being corrupted again once fixed?

I would suggest that, like most things that look insurmountable, you can't start to address it until you have openly and honestly faced the issues head-on. With a comprehensive, holistic view of your data, warts and all, you can devise a plan of action – that should be your data strategy and the basis for your investment decisions.

**Benefits for all**

What value can you realise from data investments? I look at this from the perspectives of the three main data stakeholders: trustee, administrator and member. According to your scheme's priorities, with an all-encompassing view of the data, decisions can be made to address issues that will bring benefits at all three levels.

Trustees with accurate data visibility gain the insight to inform decisions regarding their choice of technology, administrator and administration platform, thereby benefitting from reduced costs and improved accuracy and quality. They have greater assurance in the precision of scheme valuations, the potential to greatly exceed TPR data requirements and stronger positions in buy-in and buy-out scenarios, with data risk premiums at a minimum.

The benefits for administrators will be through efficiencies. With more data fit for automated tasks, there will be an increase in accuracy, a reduction in errors and liabilities, queries and complaints, and better performance against SLAs – not to mention better compliance with the data requirements of pensions dashboards. Most importantly, members will get a clear and accurate picture of their benefits, leading to better quality interactions with their administrator and enabling digital access.

Returning to the original question posed above, do you still think you have a data strategy and if so, do you have a comprehensive and holistic view of your data? If yes, well done – you are in a good and somewhat unusual position. If your answer is "maybe not", then your priority must be to attain a comprehensive understanding of your data. Only from there can you make the data strategy investment decisions that will fully support your scheme strategy.

**Written by Intellica CEO, Brendan Doherty**

In association with intellica CONSULT • IMPROVE • SUCCEED

VIEW FROM THE ACA

**In our response to the DWP consultation *Taking action on climate risk: improving governance and reporting by occupational pension schemes*, we welcomed the DWP's response to practical issues identified in its previous paper but stressed the huge changes for trustees addressing this issue and the risks involved with 'spurious data gathering and calculations', and the sheer scale of the challenges presented.**

Overall, there are a number of changes from the initial proposals that are a positive response to some of the practical issues identified and the proposed statutory guidance is helpful. It's clear that the government expects all schemes to start considering climate risks, with the larger schemes needing to disclose first. The guidance is intentionally aspirational at the current time – which we support – and helpfully this has been acknowledged with the repeated 'as far as they are able to' provision.

There remains a lot for trustees to take in and do. They will be relying on an industry that is still working out exactly what is available, what is relevant and how to assess the impact of future climate scenarios.

Our response noted that perhaps inevitably, given the government's ambitions for change and the utter scale of the wider issue of climate change, there remains a risk of spurious data gathering and calculations in this area. We expressed concern at the risk of a herd mentality when it comes to metrics and targets. We also say we have some concerns around the possibility of disproportionately diverting trustee's resources away from focusing on other major pensions risks.

**ACA chair, Patrick Bloomfield**

ACA
ASSOCIATION OF CONSULTING ACTUARIES

# Diary: March 2021 and beyond

### Pensions Age Spring Conference 2021
22 April 2021
Online

The Pensions Age Spring Conference, which has become a must-attend event in the UK pensions calendar, offers pension funds and those working in the pensions sector the chance to learn alongside their peers at one of the most dynamic yet challenging times in UK pensions history. This conference, which is open to pension scheme managers, trustees, FDs, advisers, pension and HR professionals, will offer delegates the knowledge and guidance they need to help them run their pension schemes and meet members' needs.

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

### PLSA Local Authority Conference 2021
18-19 May 2021
Online

The Local Authority Conference is the largest of its kind dedicated to the Local Government Pension Scheme. Speakers in 2021 will include senior policy makers and influencers, high-profile industry figures and people with something to teach us from outside pensions. The varied programme will feature keynotes, interactive roundtables and lightning rounds.

**For more information, visit:**
plsa.co.uk/events-local-authority-conference

### Asset Management Awards 2021
20 May 2021
Online

The Asset Management Awards are designed to recognise outstanding achievement in the UK/European institutional and retail asset management spaces. The awards' objective is to honour outstanding professionals and firms, to recognise, celebrate, and promote best practice, to support continuing development, contribute towards raising standards of asset management and to provide recognition.

**For more information, visit:**
moneyage.co.uk/assetmanagementawards/

### Pensions Age Awards 2021
15 July 2021
London Marriott Hotel, Grosvenor Square

The Pensions Age Awards, which are now in their eighth year, aim to reward both the pension schemes and the pension providers across the UK that have proved themselves worthy of recognition in these increasingly challenging economic times. The awards are open to any UK pension scheme or provider firm which serves pension schemes in the UK. Two new categories have also been added this year, including the Pensions Age thought-leadership award.

**For more information, visit:**
pensionsage.com/awards/

**Visit www.pensionsage.com for more diary listings**

## Month in numbers

## 22%

Research from Aegon has revealed a "worrying and very sharp" reduction in the number of adviser firms offering defined benefit (DB) transfer advice, with 22 per cent of firms currently offering this service, compared to 41 per cent in 2020.

In addition to this, a further 36 per cent of firms that still offer DB transfer advice stated that they expect this to "significantly reduce" volume in the next 12 months, whilst 9 per cent expected to exit the DB transfer advice market entirely in this period.

## 1.45 million

Around 1.45 million savers have had to delay retirement amid the pandemic, according to research from Legal & General Retail Retirement, whilst 1.3 million savers are expected to retire early, prompting concerns over inequality rates.

## £3bn

The government is facing a £3bn bill over the six years to 2025-26 in order to address the "systematic underpayment of state pensions", according to data from the Office for Budget Responsibility.

# Living the dream

**PensionBee CEO, Romi Savova, chats with Duncan Ferris about being fulfilled in her career, being passionate about equal rights and the best way to make the kids giggle**

**What's your employment history (including jobs outside of pensions)?**
Most of my professional experience pre-business school was in finance at Goldman Sachs. I worked in the risk management division at the time of the financial crisis. Then my first job out of Harvard Business School was at Morgan Stanley, where I covered large banks, insurance companies and asset managers from a strategic capital standpoint, working on IPOs, mergers, acquisitions and capital raisings.

**What's your favourite memory of working in the pensions sector?**
I'm still living it! It's incredibly fulfilling to see how PensionBee has changed the lives of people saving for retirement. The UK savings crisis is a big problem to solve but it's what makes me want to come to work. Being on the right side of change, particularly in financial services, is also very motivating. Over the years I've learned that as long as you have the consumer on your side and are doing the right thing, you can take on huge battles and win.

**If you did not work in pensions, what sector do you think you would be in instead?**
Probably law and fighting for equal rights. Some of the things I have seen in the past few years have made me really angry and I think it's important to always have a job with purpose.

**What was your dream job as a child?**
When I was growing up I wanted to be a

human rights or criminal lawyer. Sometimes I feel like I'm actually doing that job in the pensions industry, campaigning for the rights of customers and calling out injustices.

**What do you like to do in your spare time?**
Since starting PensionBee I've become a mum to a little boy named Ari and a girl named Gia, so you can usually find me doing whatever it is they want to do. Running a company while raising a family has been exceptionally demanding and there's never any spare time, but I couldn't imagine my life without either of them.

**Do you have any hidden skills or talents?**
My singing and nursery rhymes are really popular at home and we make up 'naughty' rhymes to traditional tunes. It's a great joy to make your kids laugh.

**Is there a particular sport/team that you follow?**
My dad and I occasionally watch tennis together. I've played since I was a kid so it can be quite fun, especially when a match gets really tense near the end.

Editorial credit: Denis Makarenko / Shutterstock.com

**If you had to choose one favourite book, which would you recommend people read?**
I've recently had Lily Cole's *Who Cares Wins,* recommended to me and am looking forward to finding a few quiet hours to read it.

Editorial credit: Tinseltown / Shutterstock.com

**And what film/ boxset should people see?**
*Framing Britney Spears.* Through the lens of today, it's grotesque.

**Is there any particular music/band that you enjoy?**
I usually listen to pop while running to keep my energy levels high.

**Who would be your dream dinner party guests?**
Dinner party? My mind hasn't adjusted to the post-Covid world. Ideally someone who brings their own children, as the best kind of dinner parties are the ones that allow you to engage in at least a bit of adult conversation.

**Is there an inspirational quote/ saying you particularly like?**
Make savings a habit! The earlier you start and the more regularly you do it, the better outcomes you have in the long-term. That's really what it's about. I think if there's anything you can teach yourself to do, it's absolutely that, and future you will obviously thank you.

**Written by Duncan Ferris**

# Shifting approach to pension fund strategies an opportunity for gold

**Depressed bond yields coupled with low interest rates have further heightened concerns over meeting long-term liabilities. In response, investment into private markets and alternatives by pension funds looks set to increase. World Gold Council senior analyst, Krishan Gopaul, reviews the key findings from a recent World Gold Council/*Pensions Age* poll and highlights why gold might provide an answer**

In many ways you could be forgiven for thinking 2020 never ended. While optimism has risen recently, with many hopeful that the worst is over, there are nonetheless several significant risks which investors must still face.

The development and ultimate roll-out of vaccines has been a giant leap in the global fight against Covid-19 but concerns around the long-term well-being of the global economy continue to dominate the agenda. Governments have unleashed unprecedented amounts of fiscal stimulus and central banks have committed to keeping interest rates low in the short term, as well as indicating a greater tolerance for higher levels of inflation.[1]

These actions, while understandable, could have far-reaching consequences for investors. Expanding budget deficits and growing money supply may increase inflationary pressures, while prolonged periods of loose monetary policy may impact asset performance and distort asset allocations for years to come.

For pension funds the stakes are particularly high. With depressed bond yields reducing income and low interest rates inflating future liabilities, this has led to more fund managers considering increasing portfolio allocations towards alternative investments. A recent snap poll conducted jointly by the World Gold Council and *Pensions Age* highlights how portfolio strategies are expected to evolve in response to the new financial environment.

Respondents indicated that they planned to increase allocations to infrastructure (56%), private equity/debt (36%) and real estate (14%), at the expense of more mainstream asset classes such as equities and, to a lesser extent, cash. Findings from Willis Towers Watson also show that by the end of 2020 alternative assets accounted for 26% of all pension fund assets, up from 23% in 2019.[2]

While these asset classes have the potential for greater returns, thereby helping to plug the funding deficit in the UK, our analysis has revealed that they can be associated with lower levels of liquidity and higher levels of volatility.[3] This represents a significant risk for pension funds aiming to achieve their funding targets and manage costs.

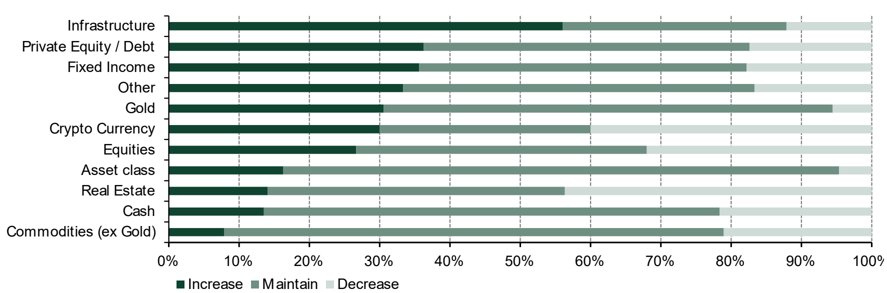
Gold, on the other hand, is still relatively under-owned by pension funds, and the findings from the poll confirm this. Less than a third (31%) of respondents hold an allocation to gold, and of those that do, 69% only had an allocation between 1-2% of their overall portfolio.

**"Gold's unique characteristics could bring multiple benefits to a pension fund portfolio"**

With many pension funds looking to de-risk their long-term liabilities, there is a need to protect yield as well as generate it. For this reason, we believe that an investment in gold can address these concerns. During periods of heightened risk and uncertainty, gold has historically benefitted from flight-to-quality flows, providing both positive returns and helping to reduce portfolio losses. The gold price, measured in pounds sterling, has increased by an average of almost 12% per year since 1971[4], and over multiple time periods since then gold has outperformed a number of equity, fixed income, and commodity indices. This is significant given gold does not pay a coupon or dividend since, and as a hard currency, it carries no credit risk.

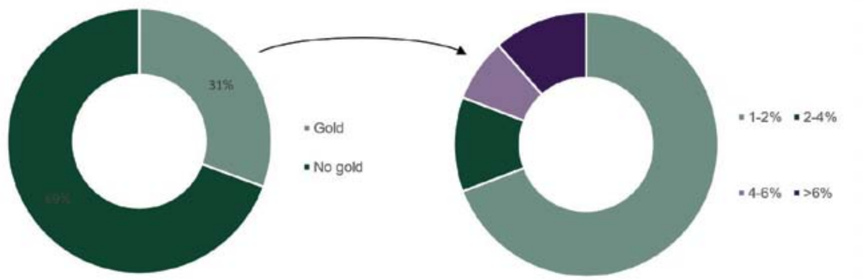
The global gold market is large and

***How do you think your asset allocation will change during 2021?***




*Source: World Gold Council*

*What percentage of your portfolio is currently allocated to gold?*




*Source: World Gold Council*

liquid, meaning it can be bought and sold with relative ease when liabilities need to be met. Average trading volumes – which include estimated OTC flows and exchange-traded volumes - increased to over $180 billion per day in 2020; up from $145 billion per day in 2019. Furthermore, gold's liquidity profile is a well-recognised attribute amongst respondents, with almost two-thirds (65%) perceiving gold as a liquid asset.

Gold is a proven and effective portfolio diversifier. Our analysis demonstrates that gold generally has a positive correlation when equities rise but, crucially, a negative correlation during risk-off periods. And this correlation to risk assets does not only work in times of crisis; gold's dual nature as an adornment and an investment supports gold's long-term price trends through income growth.

However, nearly three quarters of respondents (72%) also associate gold with greater levels of volatility. As with any asset, an allocation is by no means risk free, and its price may fluctuate in the short term. But over the long term, gold's annualised volatility has averaged 16-17%, substantially less than other traditional asset classes such as equities and fixed income.

**ESG and climate related investment**

Environmental, social and governance (ESG) issues are increasingly top-of-mind for investors. In fact, impact awareness is now often intertwined with risk and return. When asked, 79% of respondents agreed that ESG factors are decisive in shaping their asset allocation strategy.

These are not just driven by societal expectations, but also by continued changes to legal and regulatory frameworks. In a series of coordinated statements in November 2020, the UK government, and regulatory authorities (such as the FCA and the Bank of England) confirmed the direction of travel regarding regulations around sustainable finance. Greater reporting requirements and disclosures for pension funds in relation to climate-related risks and impacts have been introduced.

Here too, gold can play a role: 71% of those surveyed disagreed with the statement that gold does not meet ESG requirements according to their investment policy. This highlights the strides the gold mining industry has made to ensure that gold is produced sustainably and sourced responsibly. Key market participants across the supply chain have developed and adhered to a range of industry initiatives and standards, boosting confidence in the provenance of gold as a responsibly sourced asset. There is also strong evidence that gold can play a constructive role in mitigating climate-related risks, helping to enhance portfolio resilience to climate change impacts.[5]

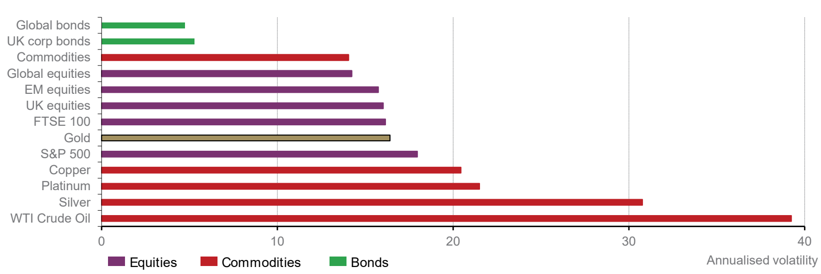
**Conclusion**

Pension funds continue to face a raft of challenges, forcing a shift in both their investment approach and asset allocation strategies. To navigate the new financial landscape ahead, both traditional and alternative investments should be considered to help balance risk, return, and impact.

Gold's unique characteristics, which help set it apart from other mainstream assets, could bring multiple benefits to a pension fund portfolio; not only helping to manage overall risk but as a means of diversifying returns over the long term.

**For more information about The World Gold Council visit www.goldhub.com or contact Claire Lincoln at claire.lincoln@gold.org**

*Average daily volatility of several major assets since 2000**




**Annualised volatility is computed based on daily returns in pound sterling between 31 December 2000 and 31 December 2020. Computations of total return indices for S&P 500 Index, MSCI Daily Gross EM, MSCI Daily Gross EAFE, LBMA Gold Price PM, Bloomberg Commodity Index, LBMA Silver Price, Bloomberg WTI Crude Oil, Bloomberg Barclays Global-Aggregate Index, S&P GSCI Copper Official Close Index, S&P GSCI Platinum Index, Bloomberg Barclays Global-Aggregate Total Return Index Value Unhedged, MSCI UK Gross Total Return Local Index, S&P U.K. Investment Grade Corporate Bond Index Total Return. Sources: Bloomberg, CBOE, COMEX, World Gold Council*

**Written by World Gold Council senior analyst, Krishan Gopaul**

In association with WORLD GOLD COUNCIL

[1] FT: Fed to tolerate higher inflation in policy shift (August 2020) and The ECB begins its shift to a new inflation goal (October 2020).
[2] Willis Towers Watson, Global Pension Assets Study – 2020
[3] www.pwc.co.uk/press-room/press-releases/pwc-pension-funding-index-new-funding-approach-could-leave-db-pension-schemes-70bn-in-the-black-analysis-shows.html
[4] Gold began to trade freely following the end of Bretton Woods in 1971
[5] World Gold Council, Gold and climate change: The energy transition, December 2020

The World Gold Council/Pension Age survey was conducted in Feb 2021 and participants were from 85 UK Master Trusts, DC and DB schemes.

# Managing your inflation demons

**Fears of a rise in inflation may be keeping trustees up at night but, with the right approach, pension funds can do their best to ensure they are well protected, whatever the future brings. Francesca Fabrizi explores**

**Summary**

- There is clear evidence that the fear of a rise in inflation is heightened at the moment.
- There are both temporary and permanent reasons for this.
- A 1 per cent rise in inflation expectations across the curve for a scheme with a 20-year average inflation sensitivity will increase their liabilities by 20 per cent.
- Most schemes may be prepared but some more than others.
- There are numerous ways schemes can manage their inflation worries.

Pension scheme trustees are having to re-think all areas of what they do as the ripple effect of Covid-19 continues to reverberate every aspect of their portfolios and investment strategies.

Inflation is just one part of the puzzle that needs to be considered and, while it is risk that has always been on trustees' minds, 2020 has pushed their inflation worries to another level.

"A significant proportion of UK pension scheme liabilities are inflation-linked, so a rise in inflation expectations/pricing increases the size of those schemes' future liabilities to pensioners", says Insight Investment head of market strategy, Robert Gall. And whilst some pensions may have caps and floors on their inflation commitments, generally a rise in inflation, if unhedged, would lead to a worsening in a scheme's funding position, he warns.

What this could all mean in numbers, adds Gall is that "a 1 per cent rise in inflation expectations across the curve for a scheme with a 20-year average inflation sensitivity will increase their liabilities by 20 per cent".

Union Investment head of fixed income, Christian Kopf, describes the impact of higher inflation as an erosion of the real value of pension assets; while in addition, he says, "higher inflation volatility could weigh on stock market valuations".

Of course, inflation risk is nothing new, and the industry has been building hedges for this risk for over a decade, adds Gall, "so it is a risk that, for most schemes, is controlled and managed".

Despite this, there is clear evidence that the fear of a rise in inflation is heightened at the moment, with a number of reasons for that increase in concern. "Some of those reasons are temporary," says Mercer head of asset allocation, Rupert Watson, and some more permanent, "and it is important to distinguish between the two".

In terms of the temporary, he says, we are about to see a largish jump in inflation measures in most parts of the world, including the UK, as economies re-open. "This has nothing to do with so-called economic fundamentals, but is solely because economies are reopening. For example, the price of hotels, airfares – the sorts of things that last summer were very cheap – this summer, will go up."

We will also see, argues Watson, a number of things as measured on a yearly basis go up, such as petrol prices. "This time last year when oil prices were down $20, a litre of unleaded was somewhere near £1. Now, a litre of unleaded is somewhere near £1.20. That's a 20 per cent increase."

It is also possible that there is a further spike in inflation this year as consumer spending on certain things "goes berserk", he warns. "People are itching to get out and, because of that, there might be a shortage in supply of the sorts of things we want to do. Businesses, not least because they have been shut for some time and have been struggling, may take the opportunity to put their prices up while we, as consumers, are likely to be less price sensitive. That might lead to a temporary increase in the price of certain things."

Looking further ahead, there are reasons to believe that we may be entering a slightly higher inflation environment, says Watson, and that, in part, centres around central bank desires. "I have a lot of sympathy with the view that the level of inflation is a policy choice and that governments and central banks choose the inflation rate. They can't exactly say 'we want x per cent' and it will happen, but over a long period of time, they have a lot of control over the inflation rate. Also, having spent the last several decades saying lower inflation is good and we need to guard against any kind of inflation, now there is a more balanced message that we need to ward against deflation," he says.

"We have seen the US Federal Reserve moving to an average inflation target, emphasising that inflation has under-shot over the past 10 years or so and that, going forward, they wish to make back any shortfalls in the inflation rate, their so-called average inflation target. That suggests looser policy at least in the short- to medium-term than would otherwise be the case, leading to slightly higher inflation than in the longer time horizon."

The UK and other countries have not followed that quite so explicitly, he says – they are all making more noises, reinforcing that too low an inflation rate is as much a problem as too high an inflation rate, "and so policy, we think, is generally shifting in the direction of higher inflation".

Finally, he adds, there are some fundamental reasons that are shifting in the direction of higher inflation, including some aspects of de-globalisation: "Companies rethinking their supply lines is, at the margin, mildly inflationary. We shouldn't overplay that, but outsourcing everything to the cheapest possible point in the world does not make sense if there are vulnerabilities and fragilities in supply chains."

Of course, there also remain lots of deflationary forces out there, he adds, ranging from automation and lots of things related to technology, and they will continue to exact a deflationary force.

To summarise, he comments: "Our best guess in terms of the profile of inflation is that we get a reasonably sharp pick-up in inflation this summer that ultimately proves temporary, and then we go back to slightly more normal levels of inflation for a period of time, meaning a year or two. Then, as we move to 2023/4 and the second half of the decade, we will see slightly higher inflation than we saw before the Covid-19 crisis.

"That means, in practice, the US being a bit above its US inflation target, possibly the same in the UK, and in the Eurozone and Japan, inflation remaining below target but perhaps not as below target as they have been.

"All in all, we are forecasting higher but not high inflation – but of course there are a range of potential outcomes, and some of the higher inflation outcomes are a little more likely than they were a couple of years ago."

**Pension fund concern**

So, how worried are pension funds and how worried should they be? "Pension funds should always be worried about a potential rise in inflation, given the nature of their liabilities," Legal & General Investment Management (LGIM) head of rates and inflation strategy, Chris Jeffery, argues. "The question now is whether they should be more worried today than normal.

"Fiscal policy has not been used as the primary demand management tool for decades, but that all changed in 2020. We're sceptical that this will fundamentally alter the inflation outlook, but a plausible case that it might is enough to raise concerns that are impacting inflation markets today."

In terms of how significant the potential impact could be, Jeffery comments: "US household income is running around 3 per cent above the pre-crisis trend. Enhanced unemployment benefits and stimulus cheques have left the average US household in better financial shape than if the pandemic had never occurred. Moreover, the US Federal Reserve is committing to be more tolerant of short-term high inflation than in previous cycles."

In the UK, there are not the same fundamental concerns, he adds, "but the lack of inflation-linked supply is an issue with the Debt Management Office's remit for the next fiscal year, including plans to issue just 11 per cent (or £33 billion) in inflation-linked bonds."

Highlighting a further influential factor, Kopf argues that, in the UK, people are also underestimating the potential effects of Brexit. "We believe the hit to cross-border supply chains will be much broader and be far more severe than people think. It's a structural change to the economy and, as a result, we would expect the UK to face higher and more persistent inflation than elsewhere."

In continental Europe, for instance, he expects inflation to start trending down again in 2022 since the driving forces behind rising prices, such as supply-side issues related to the reopening from the pandemic, are generally transitory in nature. "But this is unlikely to be the case for the UK", he warns. "It makes a difference whether certain goods are temporarily in short supply or whether you face continuous issues in getting goods across the Channel. Over time, however, the UK economy should be able to restructure and supply-side inflationary pressure will thus come off slowly after several years."

**Options for managing inflation risk**

So, what help is at hand for managing inflation risk and are pension funds doing enough? Generally, inflation is one of the things that clients are very conscious of when they think of the different risks that they face, says Watson. "Pension funds have liabilities – they tend to take great care on the matching side, on the bond side, of their total portfolios to line up their inflation exposure on their asset side so it roughly matches their exposure on their liabilities.

"In terms of growth-type assets, such as equities, one of the things we have been talking to our clients about is ensuring they have enough inflation protection. We have a view as to what will happen, but of course ultimately there are all sorts of things that are unforecastable, and we never advise clients to structure their investments so as to meet a particular outcome. We encourage them to think about structuring their portfolios so they are in a good position whatever the outcome is. Part of that is thinking about what happens if inflation is consistently above target; do they have a significant degree of diversification, and protection against all outcomes?"

One obvious way to manage inflation concerns is to explicitly hedge inflation risk, adds Jeffrey. "Diversifying into foreign assets, and retaining the associated currency exposure, is a way to reduce idiosyncratic UK inflation risk. Investors should consider a diversified basket of real assets: equities, real estate, infrastructure and commodities are all examples of assets whose returns are directly or indirectly linked to inflation. Holding nominal assets alongside inflation-linked liabilities is the most important thing to avoid during any bout of rising inflation concerns."

Gall also highlights the benefits here of liability-driven investment (LDI): "By owning UK government index-linked bonds, schemes can build very close hedges to their liabilities and manage this risk. Most of our clients have built significant LDI portfolios and hedged a large part of both their interest rate and inflation risk, locking down this problem and removing the potential for an inflation shock to their funding position."

The average corporate pension scheme, he argues, should be well protected (hedged) against the impact of rising inflation on the liabilities. What is less certain is the impact of high inflation on non-hedging assets such as equities or credit. Pension schemes hold around 20 per cent in equities and 40 per cent in credit. If higher inflation impacts the profitability of corporates (for example, due to debt affordability), these assets might be adversely impacted.

"Local Government Pension Scheme funds do not have capped inflation-linked increases and have very low levels of hedging, so they are much more exposed on the liability and asset side (they generally also have much higher equity allocations)," he concludes.

For Kopf, the easiest thing to do would be to enter into inflation swaps. He comments: "We are explicitly mandated by many of our clients to hedge pension fund liabilities against rising inflation. In addition, we observe that asset owners are becoming more interested in these type of hedges, since inflation is rising in the euro area, after several years of low inflation."

BESTrustees president, Alan Pickering, highlights that different types of scheme will have different approaches: "Those who are on a journey plan which includes matching as part of a de-risking strategy will have to review the relationship between matching and growth assets. There is always an opportunity cost in the latter if increased fire power is being used to protect against all risks.

"We must also not lose sight of the impact of inflation on defined contribution (DC) scheme members. This is particularly pertinent during the consolidation and decumulation phases. Where possible, we will need to take account of the cohort effect and engage in some segmentation so that we can take account of the proportion of later life income which comes from a pension scheme. The state pension and index-linked saving certificates may provide sufficient protection for certain segments of our DC population."

In terms of whether pension funds today are generally doing enough, Jeffrey says it is hard to say. "On average, we have seen inflation hedge ratios rise steadily in recent years as part of a broader de-risking journey. However, that average masks significant disparity across schemes. Smaller schemes, for example, typically have less inflation protection than larger schemes.

"Corrupting the words of George Orwell, 'all schemes are prepared, some are more prepared than others'."

**Written by Francesca Fabrizi**

# Ending the game of cat and mouse

**Lang Arm Capital Partners (LACP) co-founders, John Owens and Steve Holt, chat to Sophie Smith about the inefficiencies in the institutional sales market, and how their new third-party marketing firm is making its mark with new ideas, despite the pandemic**

"A game of cat and mouse" that has become "hugely inefficient for asset owners, and hugely inefficient for asset managers". This is how Lang Arm Capital Partners co-founders, John Owens and Steve Holt, describe the institutional sales market. "And the biggest losers in the game are innovative but lesser-known investment managers who struggle to raise capital in this environment," they add, with these realisations prompting the launch of their firm earlier this year.

**So, how exactly is LACP working to differentiate itself, and improve the efficiency of the current process?**

"It's really competitive selling investment capabilities to UK institutions, and the third-party marketing space is also a competitive market," explains Holt. "But LACP is proving to be highly differentiated, primarily because of our hands-on institutional sales experience, the relationships we have built up over a combined 50 years of selling, and our focus on clients with private markets and real assets expertise."

"We know the people to talk to, we know their needs and requirements, and we believe they trust us," Owens adds, continuing: "We have worked in-house for asset managers for years, and we've experienced the inherent inefficiencies and slowness to adapt. An outsourced model allows us to adapt far more quickly by choosing to work with asset manager clients with capabilities that are highly relevant to the challenges faced by pension funds right now. The way the institutional market works means that these asset managers will struggle to get their ideas in front of asset owners without expert assistance."

The commitment LAPC makes to asset owners is highlighted as yet another point of differentation, as Holt explains that asset owners who talk to the firm can expect a "knowledgeable approach". "We won't waste their time trying to sell the unsellable, we'll bring them new ideas they won't see elsewhere, and we will take no for an answer," he says.

New managers and new ideas are a recurring theme here, as Holt warns that not enough of each are getting through to investors. "By working smarter, there's a win-win for pension funds here. More funds should make their investment requirements clear to the market, encouraging approaches from innovative managers with relevant capabilities and discouraging time-wasting approaches that don't meet a current need."

**What's been the industry reception?**

Their message seems to have resonated with the industry, as Owens describes the reception from asset managers as "phenomenal", with 80 per cent of new clients approaching the firm directly.

"The support we've had from our industry peers has also been phenomenal and very complimentary, because they see the benefit of directing asset managers to us as long-term relationship-focused guys," Owens says. "Our fundamental role is to build the profile of the people we represent over the long-term, not just a short-term product sell."

This also feeds through to the pair's engagement on key trends, with the firm advising clients on the importance of taking measurable action on ESG issues or adjusting fund terms to demonstrate alignment and best practice. Owens says: "Our clients typically have limited experience of the UK institutional market, and what pension funds expect from their managers. It's in their best interests and ours that we anticipate problems and help them present their capabilities in the best light."

"The investment landscape changes all the time," Holt adds, "and investors' requirements evolve to meet these changes. So we as a business need to evolve, ensuring our client list refreshes regularly with the best new ideas and managers. I think that will be good news for the pension funds we sell to and it will be good news for us."

"The primary objective of pension funds – to invest to pay pensions – hasn't changed," Owens emphasises. "But the industry is certainly more sophisticated than ever, and we aim to introduce at the margin all these interesting things that will eventually become mainstream."

"As a business, we think that new and interesting ideas are more valuable to investors than brands" Holt says. "People stayed with brands in the early stages of the pandemic, but we're now moving into a new environment and hopefully the new ideas will win through."

**Written by Sophie Smith**

# Sustainable Investment Summit review: A turning point for responsible investment

**Francesca Fabrizi looks at the key themes presented and discussed at this year's Sustainability Investment Summit**


The Sustainable Investment Summit was launched to offer pension funds, insurance companies, charities and corporates the opportunity to share ideas with their peers and other thought-leaders in the responsible investment (RI) space, at a time when sustainability is well and truly at the top of the investment agenda.

This year's event, despite having to take place virtually, welcomed hundreds of delegates who joined online to hear presentations from some of the leading names in RI, learn more about current and future trends, and ask questions about the best ways to meet their sustainability objectives.

The one-day conference, which was chaired by *Insurance Asset Management* editor, Adam Cadle, covered a range of topics and asset classes, yet one message shone through in each of the presentations – that 2020 had been a turning point for sustainability and, while the concept of RI is well and truly on investors' radars, change is afoot with many exciting developments taking place for the better.

The conference began with a presentation from International Institute for Environment and Development (IIED) director, Laura Kelly, who looked at the opportunities for public and private investment to support a greener Covid-19 recovery.

Covid-19, climate change and biodiversity are having huge impacts on how we all live, explained Kelly, as she set the scene: "What we are experiencing now is really challenging – Covid has wreaked havoc on the world's economies. At the same time, the climate and biodiversity crises are deepening and resources to combat climate change and nature loss are urgently needed.

"In 2019, the UN assessment panel on biodiversity said we were in danger of losing a quarter of the world's species within the next 10 years. That's really serious," stressed Kelly. "Meanwhile, the climate crisis – evidenced by the climate variability we are seeing even here in the UK – is affecting us all. Of course, it is affecting people in the poorest and most vulnerable countries too – people in Bangladesh, for example, are used to seasonal floods, but now the floods are so strong that their land is being washed away."

Kelly went on to look at how the private and business sector can help address these issues. "The governments talk about 'building back better'; in the UK, Europe and the US there are some great commitments being made. Meanwhile there are major companies making commitments to net zero. So how do investors support that while ensuring they are delivering returns for their investors, but also re-delivering impacts for people and the planet?" she asked.

Next to present was Pictet Asset Management client portfolio manager, thematic equities, Jennifer Boscardin-Ching, who talked about investing in the energy transition space.

As momentum builds to tackle climate change, she said, governments worldwide, including the US, UK, EU, China and Japan, are planning huge programmes to tackle both the climate emergency and air pollution, through the transition from fossil fuels to zero-carbon alternatives. This will spur investments into the clean energy industry.

"This is a very exciting time", she explained: "After many years, we have reached an inflection point where it is possible to have a positive impact through your investments, a positive impact on the environment, on the planet, while at the same time having positive financial performance. 2020 will be remembered for the beginning of the Covid-19 crisis, but also for this inflection point."

She went on to highlight how recent government announcements globally coupled with technology innovation will enable profound changes; while wind and solar have actually reached cost parity with fossil fuels in recent years and in fact are expected to be far cheaper in the future. She asked what would need to happen to enable net-zero CO2 emissions by 2050; and talked delegates through the broad types of investment opportunities available within clean energy, as well as the potential for performance.

"The energy landscape has changed. These clean energy solutions are becoming the most cost competitive already today and definitely into the future and the forces that are supporting the clean energy transition, from a political, public and economic perspective, are also growing increasingly stronger. We are at a period where public opinion, political will and technological innovation are now finally coming together to produce a number of inflection points in clean energy and this has resulted in true secular long-term growth for decades to come."

The future and growth of ESG integration was the topic next on the agenda, as BlackRock director and lead product strategist, Sam Tripuraneni, discussed the impact of 2020 and the changes in behaviour towards embedding ESG into portfolios. He identified drivers of long-term return associated with ESG issues, and how by integrating them throughout BlackRock's investment process, they have been creating solutions for their clients to achieve sustainable investment returns.

He also shared a rundown of what happened in 2020 from a global sustainable standpoint, and looked at what we are seeing in terms of adoption in the UK pensions industry.

"The broadened focus on E, S and G issues, its amplification by Covid-19, and the tectonic shift in consumer investor preference has accelerated us down the path to a new normal. While plenty of uncertainty remains, what is increasingly clear is that the 2020 experience will irreversibly transform the way businesses operate and the way individuals invest and plan for years to come.

"With difficult days still upon us, the challenge now is to keep our sights on the positive change that's ahead, to constitute to be a force for good, and to search for innovative ways to better serve members and stakeholders into the long term."

The topic of asset screening was next under the spotlight, with CMS partner Jae Fassam and senior associate, Thibault Jeakings, looking at the use of asset screening as part of the ESG toolkit and its place on the sustainability agenda.

They looked at the role of asset screening in sustainability; what is meant by asset screening and the different types that they see; and the risk of challenges by employers and members. They also considered what the trustee duty looks like and how it has evolved over time, and how trustees can start delivering on the sustainability agenda in a way that fits with trustees' fiduciary duty.

"Screening can give trustees a generally easy route to setting general rules for their investments and imposing sustainability standards," said Jeakings, "without requiring them to spend disproportionate amounts of their limited time considering the issue. However it also holds dangers for trustees due to the fiduciary duties to which they are subject and the risks of complaints from both members and employers if they breach those duties."

Fassam added that much of the new law coming in, particularly on measurement and disclosure and the metrics that trustees can use for that, can be helpful for trustees. "It is going to give you a base, and an understanding of your strategy that is going to be specific to your scheme, specific to your investment beliefs and you are going to have to build on that and engage with the sustainability agenda to deliver your benefits in the long term. From that, it is going to be easier to originate your own factors within the framework of your own scheme and therefore the origin of those factors that you are taking into account."

The next keynote speaker of the day was Climate Disclosure Standards Board, managing director, Mardi McBrien, who focused on the reporting aspect of ESG and what to expect in 2021.

She provided insight into the current state of play in sustainability reporting, as the space adapts to meeting the need for a global set of standards, while highlighting the challenges of meeting the data gap in climate-related reporting, as well as what tools companies can use to enhance and adapt how they report.

"In 2021 the sustainability reporting landscape has shifted gears yet again, and is accelerating more quickly than ever – more quickly than any of us even directly involved in reporting could have guessed," she stated.

"To lean on the words of Mark Carney last year, over $170 trillion of private capital is waiting for disclosure. That private capital has the capacity to turn the trajectory to a huge degree and if we can allocate resources efficiently, it can cause a huge effect globally. We aren't there yet and, as exciting as developments in recent years have been, too many companies don't yet consider themselves able to incorporate climate data into mainstream reports. Companies are talking the talk, but action isn't always there and this is a huge challenge yet

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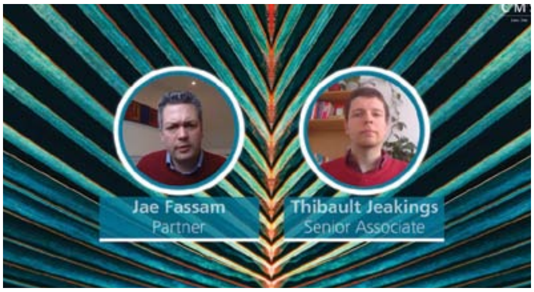



to be overcome. The best ways that companies that prepare for all the developments that are coming is to start using tools, resources and framework standards that already exist."

Wind energy took centre stage next, as WindEurope CEO, Giles Dickson, gave an overview of wind energy projects in Europe today, the benefits wind energy brings to the environment, Europe's economy and local communities, and the role it will play in delivering the EU's Green Deal and climate neutrality by 2050.

"Wind energy is going to dominate our electricity mix, our energy mix in the future. A huge increase in wind capacity is also coming. This is going to create huge investment opportunities," he said.

In terms of the sustainability of wind energy, he explained how the energy amortization time for construction, operations and disposal of wind compare favourably to other options such as Hydro and Solar PV, and is improving. Meanwhile, its impact on wildlife and biodiversity is also low and new measures are being developed all the time to minimise this.

He went on to describe what the wind sector is doing to improve diversity, as well as the positive impact – financially and economically – it has had on local communities to include its provision of jobs. Finally he heralded the positive impact on Europe's GDP.

"We are an industry that is bringing economic benefits to Europe, we are benefitting local communities, we are environmentally sustainable, we are mitigating any environmental impacts that we have and of course we are zero carbon. We are delivering the energy transition and the climate neutral Europe that we all aspire to."

The World Gold Council was next to present, as director, climate change lead and market relations, John Mulligan, took to the virtual podium to summarise the current understanding of gold's climate impacts and potential contribution to the mitigation of climate risks. This included gold's status and prospects on the path to a net-zero carbon economy and its possible role as a risk mitigation asset in the context of various climate scenarios.

Mulligan commented: "Some delegates today might be questioning the relevance of gold to the climate agenda. Does gold have any role to play in a world that is increasingly being shaped by climate change? Can it contribute or respond to the need of investors to better mitigate climate related risks? Such questions led us to examine our own understanding of climate change and its likely impact on gold as an asset, and on the wider gold market, and that led us to a dedicated program of work that has been based on detailed research."

Mulligan went on to look at gold's carbon footprint and how the decarbonising of mining power will lead to the decarbonisation of gold. "This means making net-zero gold is a potential realistic prospect," he added.

Next, HSBC Global Asset Management senior responsible investment specialist, Sandra Carlisle, focused on the future for sustainable investment, looking beyond public markets to emerging opportunities in blended finance and natural capital.

"What blended finance really means is that we stop working in silos. We develop public and private sector partnerships with multinational development banks, national development banks and other development finance institutions to find solutions for investors to enable them to invest with impact in developing and emerging economies and in alignment with their Paris goals, the SDG agenda (where relevant to them); and in a way that enables the investor to achieve a suitable risk adjusted return."

She then went on to look at natural capital – a newly emerging area of the market. She explained: "The opportunity here is to invest in nature and create nature-based investment solutions that both give you an alternative asset class, with attractive long-term returns, decorrelated from other asset classes, that also enable you to invest for impact."

The final keynote speaker of the day was ShareAction chief executive, Catherine Howarth, who looked at achieving impact: the next chapter in the story of responsible investment. Catherine laid out a pathway for the future evolution of responsible investment practice, focusing on stewardship of public and private companies to drive their ESG performance.

"Everyone watching today will be aware just how dynamic the field of sustainable and responsible investment has become in the past couple of years, but we do need to bear in mind that the UN PRI was developed nearly 15 years ago and there is a hunger to evolve practice and to think about responsible investment in a more ambitious direction.

"I think that is going to be about achieving impact through responsible investment. We will move, in the next few years, beyond just seeing ESG as about the management of financially material risk and very much about achieving positive social and environmental impacts, many of which ultimately address systemic risk – so it all ties together very well."

**Written by Francesca Fabrizi**

# The next big thing

**Summary**
• Interest in the renewables market is increasing rapidly, whilst the market itself is maturing and becoming more attractive for pension schemes.
• Further investment is still needed to support broader climate commitments, but renewable investments can be a great starting point for ESG considerations, including social.
• Regulatory changes will be needed to encourage investment in some aspects of the renewables market, and the government is already considering solutions.

**Amid increasing investor interest, Sophie Smith explores what opportunities the renewable energy market could hold for pension schemes, and the key challenges still to overcome**

Interest in the renewables market has been growing for some time, with research from Octopus Renewables revealing that the vast majority (92 per cent) of pension schemes are planning to increase their allocations to renewables over the next three to five years, with 46 per cent expecting renewables to become the most attractive investment amid the pandemic.

Indeed, Octopus Renewables co-head, Alex Brierley, emphasises that there has "absolutely" been increased interest in the market, with new investors making their first steps into the market almost every week. This may be unsurprising, as Alpha Real Capital head of renewables, Will Morgan, describes the renewables market as being attractive for pension schemes for several reason, stating: "Renewable energy infrastructure is an attractive secure income real asset with predictable cashflows, significant inflation linkage and good duration."

Octopus Renewable's research finds that 91 per cent of pension schemes cited the prevailing low interest rate environment and volatility in equity markets as pushing them to seek uncorrelated sources of higher yield, whilst just under half (46 per cent) were looking for 'stable and predictable' cash flow from renewables.

Renewables are not only an opportunity from an investment perspective, however, as Brierley says that there is also the benefit of the responsible investment story, with a further 76 per cent of pension schemes pointing to pressure from millennials as causing a boost in demand for renewables.

**Renewed market interest**

"From a member engagement

perspective, environmental concerns have been moving up the list of concerns for everyone, but we have seen more from younger people, and generally more publicity on the impact of climate change in the past few years," adds Redington investment consulting team managing director, Carolyn Schuster-Woldan, arguing that demonstrating how a DC member's benefits are helping towards the energy transition may also encourage greater engagement levels.

More broadly, Schuster-Woldan points to pension schemes as having an important part to play in the energy revolution needed to meet the countries net-zero commitments. Agreeing, Renewity head of research, Stephan Breban argues that "UK pension plans can be a significant player in providing the necessary capital to help transform not just UK, but global, energy provision to greener, carbon-neutral solutions, displacing the existing ageing, dirty, fossil fuel-based generation".

Indeed, Alpha Real Capital's research previously found that 64 per cent of pension schemes expect institutional investors to increasingly divest their portfolios of companies in fossil fuel industries over the next three years, with 56 per cent doing so because they believe returns from traditional energy companies will fall and become 'riskier' amid the transition to cleaner energy.

And these considerations may be particularly important amid the pandemic, as Octopus Renewable's research found that Covid-19 has significantly slowed the pace of divestment from fossil fuels, with institutional investors, on average, divesting just 1.9 per cent of their overall portfolio in 2020, compared to the 5.7 per cent forecast.

Alongside this, the pandemic has demonstrated the role of renewable markets as a "safe haven", with Glenmont Partners co-founder, Peter Dickson, predicting a growing number of opportunities in the renewable markets for pension schemes, arguing that these offer stability and certainty, unlike carbon-intensive industries that are at risk of becoming stranded assets. "In times of volatility like we have seen in the pandemic recently, anything that gives security of pricing will have added attractiveness for groups such as pension schemes," he says.

**Navigating the market**

Yet despite the positives, obstacles remain. "From a DC perspective, liquidity (or the lack of it) remains the largest challenge, alongside scale of investment, fees and the interaction with the DC charge cap," says Schuster-Woldan. "These can only be addressed by further changes in regulation to promote longer-term, less liquid funds in DC accounts."

Breban, however, highlights the portrayal of liquidity as a significant obstacle as a "red herring", arguing that pension funds have very predictable cash outflows and should be planning to meet these with corresponding cash inflows.

"Resorting to selling assets to meet liability payment is a symptom of poor planning," he continues. "Pension plans need cashflows far more than they need liquidity." Adding to this, Brierley argues that these are "relatively illiquid assets", explaining that there is a huge amount of interest in the market, which means there are liquidity options, given three to six months to find a buyer.

Furthermore, whilst he acknowledges that there are investor concerns around merchant price power risk, he emphasises that there are solutions, such as the creation of diversified portfolios that are not all exposed to the same part of merchant risks or the use of hedging structures to mitigate risk.

Scale, on the other hand, remains a critical challenge. "Only scale can deliver for investors sufficient country, technology and investing stage diversification," Breban argues, stating that in the UK, even the largest specialist renewables managers might struggle to deploy over £200-300 million into the market in a year, regularly, without materially affecting market or at least asset pricing. "If we are to expand the deployed renewable energy capacity at the speed we need," he argues, "then something has to change."

In particular, Breban suggests that trustees seek solutions that are themselves structurally scalable at speed and of scale in terms of their nature. Multi-manager platforms, for instance, he says can fit the bill and provide the earliest and broadest deployment across multiple managers, spreading execution risk and delivering the earliest return on capital and greatest stakeholder impact.

And whilst renewable energy can offer help in terms of carbon considerations, Schuster-Woldan is keen to stress that carbon commitments are only one facet of ESG investing. "We expect more pension fund trustees to focus on the social impact of their investments as more data and approaches become available," she says, highlighting this as especially pertinent following the Covid-19 pandemic, which has seen inequalities in society brought to light.

**Creating an impact**

"When capital flows into the sector, it's not just on the decarbonisation benefits," Brierley emphasises however, explaining that renewable energy can also have a positive impact on communities around assets, the biodiversity of the region, and act as a creator for jobs. Agreeing, Breban argues that renewable energy is a perfect fit for ESG. "It ticks all the boxes," he says. "It creates jobs, it is supporting dynamic research and development in the sector, it improves health by reducing pollution, it reduces climate displacement."

Although Dickson acknowledges that each project should be considered on its individual merits, clarifying that not every project is equal, he adds that, unlike other areas of ESG investing, renewable energies are one that face no threat of greenwashing. "For renewable funds like ourselves," says Dickson, "there is no ambiguity about the sustainability of Glennmont's clean energy funds and there is no possibility of being accused of green-washing when your assets are 100 per cent renewable energy."

"For some clients," Morgan adds, "it may also be about contributing towards national infrastructure policy, namely the net-zero target by 2050, and the 10-point plan for a 'green industrial revolution.'"

Indeed, the government recently launched a consultation on the DC charge cap as part of its 'build back better' plan, in an effort to smooth performance fees and facilitate investment in broader areas, including green infrastructure. Speaking to *Pensions Age*, Pensions Minister, Guy Opperman, says: "One way pension scheme trustees can manage climate risk is to positively invest in climate-related opportunities including renewable energy firms and infrastructure, which stand to benefit from the urgent transition to net zero.

"I am committed to encouraging pension schemes to think about the benefits of renewable energy investment without diluting member protections or reducing returns, not only by legislating to require that trustees take action on climate risk, but also by driving DC consolidation, and making clear that costs related to holding infrastructure assets do not contribute to the DC charge cap."

**A growing movement**

Campaign groups have also been supportive of the trend towards renewables, with Make My Money Matter CEO, Tony Burdon, arguing that all pension schemes should explore the possibility of investing in renewable energy. "Not only is this good for our planet, but for member returns too, as we expect the green economy to grow significantly over the coming decade," he says, calling on schemes to follow the example of Nest ahead of COP26.

These hopes may soon be fulfilled, as Morgan predicts a "healthy increase" in the level of investing from pension funds in renewables, noting that the renewables market more broadly is growing rapidly and providing more investment opportunities for investors.

"It is also maturing rapidly, making it more appealing for pension funds," he adds. This is echoed by Dickson, who explains that the deep market potential and balance of yields and turn provided by the asset has prompted it to mature significantly.

Furthermore, whilst Brierley notes that there has been a consistent fall in returns from renewable assets over the course of the past 15 years, he clarifies this should not be seen as a negative. "This is a maturing market, and it should be expected", he says, emphasising that increasing interest has prompted greater competition, with oil majors also being bought into the market via low-carbon strategies.

Despite the fall in yields, Breban argues that they have nonetheless been consistently very attractive comoared to corporate debt, particularly on a risk-adjusted basis.

"The combination of good margin yields from income over long durations gives a strong uplift for pension plan cashflows and funding levels, whilst lowering risk," he says. And although he acknowledges the market's relative immaturity, he highlights this as a significant benefit, stating that there are still significant opportunities to further improve the technology, and enhance returns in future.

"Advances in technology should make it cheaper and easier to create renewable power," adds Schuster-Woldan, agreeing that further developments for storage technologies in particular are essential to enable the next phase of the energy transition.

**Written by Sophie Smith**

**Getting the turbine spinning**

Nest has appointed Octopus Renewables to boost its investment in clean energy infrastructure, with £250 million expected to be committed this year in the UK and Europe, as part of a potential £1.4 billion investment by the end of the decade. The mandate will target deployment into renewable energy projects and the associated infrastructure, predominantly in the UK and Europe, to support the transition to a net-zero economy. As part of this, Octopus Renewables will arrange investment deals directly with the owners of renewable infrastructure projects, negotiating bespoke deals to ensure members are "suitably rewarded" for injecting new funding.

Nest chief investment officer, Mark Fawcett, highlighted investing in renewable infrastructure as a "win-win for all involved", emphasising that the "strong foundations" of this kind of investment should help achieve "great returns" as well as acting as a direct investment in the future of the planet.

"Anecdotally, the reaction we've had from speaking to members, including over social media, has been extremely positive," a Nest spokesperson adds, emphasising that many members welcome the chance to use their pension to help reduce the impact of climate change.

They also explain that whilst there are barriers for DC pension schemes accessing assets like unlisted infrastructure equity, such as fees, Nest's scale puts it in a very privileged negotiating position, stating: "Octopus Renewables have been able to present a solution which matches our needs – they'll create a diversified portfolio for Nest of infrastructure projects in the UK and Europe, focusing primarily on solar and offshore wind farms. We are also about to appoint two further infrastructure equity mandates who will also include some exposure to renewable assets, as they aim to be diversified across all the major sub-sectors of the infra market."

# Continuing a journey

**Carmarthenshire County Council, host authority for the Wales Pension Partnership (WPP), treasury and pension investment manager, Anthony Parnell, discusses the pool's recent work on responsible investment and the steps it is looking to take in future**

**There has been increasing momentum around responsible investment (RI) and environmental, social and governance (ESG) issues in pensions, particularly in relation to Local Government Pension Scheme (LGPS) funds, such as those included in the Wales Pension Partnership (WPP). So, can you tell us a bit more about the progress and recent steps taken by the pool in relation to fossil fuel investments and climate change?**
Equity sub funds within the WPP were launched a couple of years ago so work is ongoing on the calculation of the weighted average carbon intensity (tCO2/$m Sales) and carbon emissions (tCO2/£m Invested). Continual engagement with the managers (via Link the operator, and Russell, the investment management solutions provider) within the sub funds occurs and some exclusions, not divestments, have been instigated. Decarbonisation overlays have also been initiated since the sub funds were launched.

**Exclusions are clearly an important aspect in your responsible investment strategy. How have you worked with investment managers to integrate these?**
A manager in one of the global equity sub funds has set up a new product, called a Paris Aligned Fund, which excludes certain fossil fuel companies. It is not just because we've been asking for it, in general this manager is very proactive in the area, so they are suggesting it to the majority of their clients. The manager will transition the investments from the current product to this new one in the next few months.

There is also another manager in the global equity sub funds who has taken WPP's views on board and are looking to exclude certain companies within the mandate.

I think the key with the current sub funds we have set up in global equities is that the managers are taking their responsibilities regarding climate change very seriously and moving towards a low-carbon environment, and they're definitely engaging well with us.

The managers are open to dialogue and they understand the expectations from WPP. For instance, if there are any companies in the energy sector that the managers feel they cannot invest in because of high carbon, they will engage with them initially. Divestment is the last resort in most circumstances.

**What specific benefits come with engaging as a pool, and how do you navigate the logistics of presenting a cohesive voice?**
We are probably at £20 billion in assets under management (AUM) now, so we've definitely got more weight behind us, as opposed to engaging on an individual fund basis.

We don't engage directly with companies. Our investments are outsourced to managers, so they engage on our behalf and in line with our responsible investment and climate risk policy. With a manager in this area, they definitely want to engage more with us now as a group, because they know the value of doing it.

We've got Robeco as a voting and engagement provider and they provide engagement voting services for the whole pool, which is good. We've all got investments in different sub funds in the pool but when you accumulate them all together there's a lot and Robeco are doing all that engagement for all the stocks we've got, so that's a heck of a step forward, and we know that carbon footprint and fossil fuels are high on Robeco's engagement as well.

The WPP have appointed Robeco as a voting and engagement provider and they provide engagement and voting services for the whole pool. All eight Welsh funds have got investments in sub funds within the pool and Robeco are doing engagement for all the stocks.

WPP is also a member of the Local Authority Pension Fund Forum (LAPFF) in its own right and values the corporate responsibility and engagement opportunities this organisation provides.

We have also got an RI subgroup at the WPP, and they take all these issues on board and liaise with Link, Russell and Robeco on behalf of the WPP. They then communicate it back to the Officers Working Group and the Joint Governance Committee. Having the subgroups has definitely helped us to focus in this area.

**It sounds like there is a lot of importance placed on cooperation and using this to maximise the effectiveness of these engagement activities. Can you tell us a bit more about how you've collaborated with the broader industry on RI issues?**
We collaborate with the other pools as well in certain areas, so we do not necessarily work in isolation as a pool, we

also collaborate with other LGPS funds, and the Scheme Advisory Board.

What we're really looking for is for the whole of the LGPS to work together on this issue, because it's an issue that affects us all. Some funds are at different levels, but having the pool brings you all up to a similar level.

**And how do you balance the views of each fund within the pool, particularly in relation to responsible investment issues?**

When we drafted the RI document, we got together as eight funds. We all have our individual policies and investment strategies, but in general terms the WPP RI policy is the overarching umbrella policy, which every fund follows, but they can have their own nuances on local issues. Some funds will have some local renewable energy projects or solar panel projects that they want to invest in, for instance, so we are not being too prescriptive in what funds can do.

It is important when we're talking about pooling, and the WPP specifically, that we still class ourselves as being LGPS and being a public organisation. We've still got member involvement in our decisions and member communication, which is important. We are also going down even to employer level in some areas to engage with them and communicate with them on the pooling work that has been done so far.

**Considering this placement as a public organisation, is there an increased focus on local projects?**

We are always asked about what Welsh projects are available, currently there are investments in renewables and solar panels within Wales via the WPP and individual funds with their managers.

We are looking at other potential Welsh projects currently, and obviously, the local and national Welsh impact is definitely in the forefront of our minds when any project becomes available.

Fossil fuels and carbon footprint is a global issue, and whilst we can feed into the global side of it, it is down to everybody to work together in this area. It's down to the organisations who want us to divest quickly to work with us and the experts in developing and progressing slowly to get to the Paris-aligned objectives.

**What are the next steps and priorities for WPP in a post-pandemic landscape?**

The drafting of the RI climate policy risk document is just the start of our journey. The WPP is looking to become a signatory to the UK Stewardship Code by the end of 2021, which will be a good step forward. Robeco is still developing engagement opportunities for us. We are also reviewing all our policies at least annually. We're currently reviewing our responsible investment and climate risk policies and building on new areas there.

We are working with Hymans Robertson, our oversight adviser, to have a base metric and start to build up a report so that when we have to start Taskforce for Climate-related Financial Disclosures (TCFD) reporting we're ready. We have already started work in this area. It's important to remember that the WPP is only four years old, and our equity sub funds are only two years old, so there is more work to do to continue the journey.

**Written by Sophie Smith**

**Summary**
• Although now well-established in the DC auto-enrolment system, the 0.75 per cent investment charge cap is in need of some fine-tuning to help schemes realise their full investment potential.
• The government is consulting for the second time in 12 months on the details of the cap in order to make it easier for schemes to invest in illiquid assets, in particular those that support the green transition.
• It has proposed the smoothing of performance fees over several years and is also seeking views on its position around look-through in relation to charge cap compliance.
• Despite wide support for the consultation, there are concerns that some schemes, particularly larger master trusts, would not take up the increased flexibility if offered, due to competitive restraints to keep charges lows.

# A little fine-tuning

**Natalie Tuck examines how some fine-tuning of the DC charge cap could open up a new world of investment opportunities for DC auto-enrolment pension schemes**

There's never been a better time for DC pension schemes to consider innovating their investment strategy, so says the Minister for Pensions and Financial Inclusion, Guy Opperman. That may be true, but many auto-enrolment DC schemes feel limited in what they can invest in because of the 0.75 per cent charge cap.

As a result, the government has launched yet another consultation on the fine print of the charge cap with the aim of enabling DC schemes to invest more broadly, in particular in illiquid assets, venture capital and growth assets.

**A necessary protection**

The charge cap was first introduced in April 2015 to much controversy in the industry; one professional trustee at the time described it as a "blunt instrument" that could lead to "unintended consequences", which he warned were "very bland products".

Six years later and the government is concerned about a lack of innovation within DC funds – namely a lack of investment in illiquid assets such as green infrastructure.

"Investment in emerging sectors like green infrastructure or innovative British companies fits well with the long-term horizons of DC schemes, and are vital to helping sustain employment, our communities and the environment," Opperman said in his foreword to the government's consultation.

If it was reckless, the government could just kill off the cap, but it knows it is a necessary protection for DC members. Now firmly embedded within the DC auto-enrolment system, it also has much more industry support.

Now Pensions director of policy, Adrian Boulding, says the provider "fully supports the charge cap" as it "provides valuable protection to consumers who are automatically enrolled into a pension scheme that their employer, rather than the consumer, chooses".

The government's own *Pensions Charges Survey 2020* also confirmed that the charge cap has helped to drive down costs for members and ensure they continue to receive value for money on their investments.

Despite such support, there is no denying that the cap is in need of some fine-tuning to help it play in harmony with the investment potential of DC schemes. As Opperman noted in his foreword, investment in green infrastructure of innovative British companies fits well with the long-term nature of DC investments. However, he said the UK falls "behind our global partners in our commitment to these asset classes domestically and the economy as a whole suffers from it".

**2020 consultation**

The government's current consultation, looking at performance fees and look-through, is its second consultation on the charge cap in a 12-month period. Last year, it consulted on the charge cap figure of 0.75 per cent, whether to include transaction costs in the cap and the abolishment of flat fees on auto-enrolment pension pots under £100.

Following the consultation, it decided to go ahead with the latter, and keep this minimum figure under review, with a view to increase it at some point in the future. For now the charge cap percentage will remain the same and transaction costs will not be included.

Pensions and Lifetime Savings Association (PLSA) head of DC, master trusts and lifetime saving, Alyshia Harrington-Clark, says the association welcomed the government's commitment to maintaining the cap at the current level. It believes that lowering it would reduce sophistication and dampen innovation in default investment strategies.

"Our most recent research supports previous PLSA and third-party research, which demonstrated that most schemes are operating well within the charge cap. Average PLSA member charges were previously found to be 0.46 per cent. Pension schemes value the headroom this affords them to take appropriate investment choices," she explains.

When it comes to transaction costs, from a provider perspective, The People's Pension director of policy, Phil Brown, says they are published on its own website. For him, transparency is the "right approach" rather than including them in the current charge cap.

"We believe that transparency is the right approach because if you include transaction costs within the management charge structure, this could create the unintended consequence of a scheme being unable to shift asset allocation if doing so was in the interest of members,

or alternatively, not being able to switch assets in reaction to a prospective large scale, adverse change in their value."

However, in the eyes of the government, and many in the industry, these changes were not enough, with more tweaks necessary for DC scheme investments to realise their full potential, So, as Boulding notes, the government has put the cap "under the microscope again".

**New possibilities**

As part of the new consultation, the government is consulting on measures to allow schemes to smooth performance fees within the charge cap, alongside a call for evidence on issues relating to look-through.

In regards to performance fees, it wants to change the way compliance with the charge cap is measured to give trustees flexibility to smooth such charges over a five-year period. It proposes using a rolling average to allow schemes to exceed the 0.75 per cent cap from time to time without facing consequences. If the changes are approved of by the industry, then it expects to implement the new rules in October 2021.

However, the government clarified that it remains open to finding further ways in which it can facilitate opportunities for DC pension schemes to access private markets, balanced with the importance of the charge cap, as a protection for scheme members.

Alongside this, the government is also seeking views on its position around look-through in relation to the charge cap, whether it acts as a significant barrier to investment in alternative asset classes, particularly venture capital and growth equity, and if so, what solutions should be considered.

"It has been raised with the government that the current position on look-through in relation to closed-ended investment structures reduces the attractiveness of such products amongst DC pension scheme trustees. I want to understand whether this a consensus view of the industry and the changes the government could consider to release investment in such products whilst maintaining the integrity of the charge cap," Opperman wrote in his foreword.

"There is a drive and desire within government and the pensions industry for DC pension schemes to look at more sophisticated and diverse investment strategies that could enhance member outcomes – in particular, to consider illiquid assets and infrastructure," says The Investment and Savings Alliance (Tisa) head of retirement, Renny Biggins.

Historically, DC schemes have had little to no exposure to private markets, Harrington-Clark says. Indeed, the *Pension Charges Survey* found that

two-thirds of providers have no direct investment in illiquids within their default arrangements. The other third had a small proportion, typically between 1.5-7 per cent, with the majority of these assets property-related. Harrington-Clark believes that compliance with the charge cap has, at least in part, contributed to this constraint.

"We have found the charge cap has meant advisers are less likely to recommend the use of a fund with a performance fee in a default fund, except where only a maximum, capped performance fee is eligible to be paid on the underlying fund…. The charge cap alongside the public discourse on costs and charges, and as yet no consistent way to measure and compare value for money, has encouraged trustees to focus on reducing costs rather than seeking performance."

Explaining the limitations of performance fees, Pinsent Masons legal director, Michael Jones, says: "Managers' performance fees must all be included within the cap. The structure and frequency of performance fees depend on asset class, fund type and vary by manager, but generally speaking, performance fees do not fit neatly with either the prospective or retrospective method of charge cap assessment because they are based on investment return; they vary significantly throughout the year; and they are typically event-based, instead of being valued at regular intervals.

"As a result, trustees have been cautious to diversify into private markets due to uncertainty around calculation and frequency of performance fees, particularly for members joining or leaving the scheme during the charges year where the charge cap needs to be pro-rated and trustees need to ensure compliance for any combination of joining or leaving date."

**Mixed response**

Despite the consultation being largely welcomed by those in the industry, there is still doubt that what is being proposed will actually make a difference.

For example, regardless of the outcome, master trusts, particularly larger schemes, tend to have "set scheme-specific, notional charge caps" far below the 0.75 per cent charge cap due to competitive pressure, Jones explains. *The Pension Charges Survey* found that the average large master trust charges 0.4 per cent on average, which ties in with the PLSA's figure of 0.46 per cent.

Brown backs this up as he says the proposed measures "are not likely to substantially increase the flow of funds from DC master trusts into expensive asset classes where managers commonly charge performance fees".

"Moving meaningful funds into these asset classes currently would raise master trust charges above the level employers and members would find acceptable. It would be more feasible if government did more to encourage the consolidation of schemes as very large schemes are better equipped to bear the higher costs without increasing the charges to members," Brown says.

However, Standard Life Assurance head of workplace strategy and commercial, Mateo Urquijo, thinks there needs to be a shift in the emphasis on cost as it's "vital" that pension funds offer diversified portfolios that have the potential to provide the level of investment returns people are looking for as they save for their later years. In particular, Urquijo believes it is important that pension funds are able to invest in areas that contribute to the economy and ESG challenges as we look to 'build back better' from the pandemic.

"In this respect, there needs to be a shift in the market as the investment cost will undoubtedly be more than the cap for wider assets. There will need to be a greater desire for, and acceptance that, there are some options which will cost more, and add value that is worth paying for. Providers are only one part of this equation; trustees and advisers are also crucial if we are to avoid the focus being significantly on cost, which is only one element of a scheme's decision making."

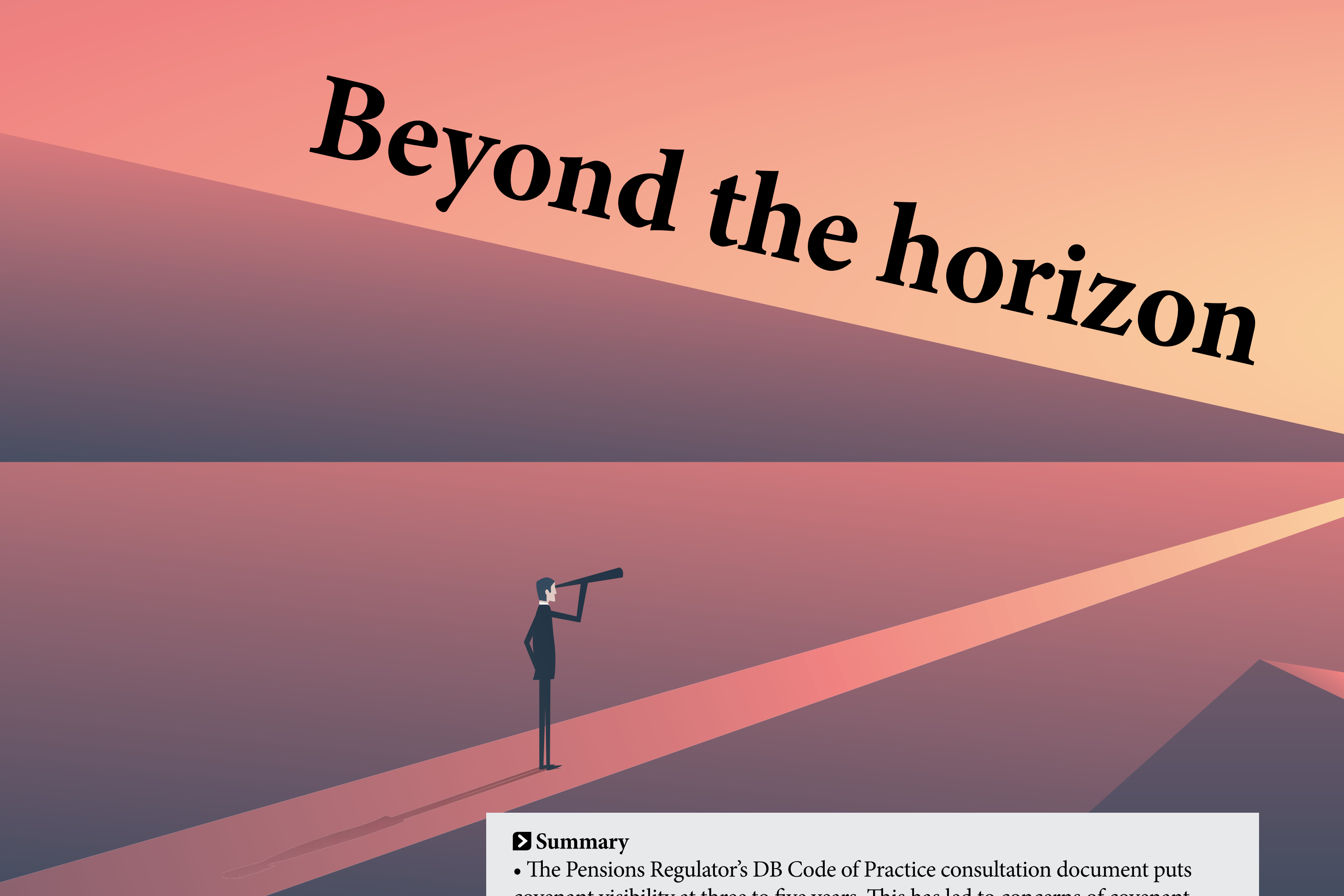
In addition, Jones believes the consultation is "narrow" and does not address the bigger issue of how DC schemes invest. For example, he says most DC schemes invest through unit-linked funds purchased within an insurance wrapper, which are caught by the Financial Conduct Authority's (FCA) permitted links rules and restricting the types of investments that insurers can make for their customers.

"Whilst the new conditional permitted links remove some of the restrictions on the type of illiquid assets, such as removing the requirements to realise unlisted securities in the short term; and set an overall limit of 35 per cent on the proportion of the fund that may be invested in those assets (excluding permitted land and property), operationally, platforms are set up for daily dealing and regular pricing of investments, which makes investment in illiquid assets difficult," Jones says.

Therefore, he says more encouraging work is being done on a wider level with the Productive Finance Working Group (PFWG) and HM Treasury review into the structure of investment funds, which will hopefully lead to systemic, structural change.

**Written by Natalie Tuck**

# Beyond the horizon



**Summary**

• The Pensions Regulator's DB Code of Practice consultation document puts covenant visibility at three to five years. This has led to concerns of covenant reliance being watered down. TPR has clarified that is just promoting trustees looking at a range of future scenarios as good risk management.

• While it is recognised that looking at covenant beyond five years can be difficult, trustees tend to look at employer covenant strength in relation to the maturity of the scheme. Covenant visibility is also dependent on the sponsor's business sector, so a one-size-fits-all approach is difficult to achieve.

• A change to the covenant regime may impact the sponsor/trustee relationship and effect investment strategies.

• Trustees also consider other long-term, low-visibility risks to the scheme, such as investment returns and member longevity. However, employer covenant visibility is considered the greater risk.

• A second TPR consultation document, addressing concerns from the first consultation is due in the second half of the year.

**The Pensions Regulator's proposal that covenant visibility is only three to five years for most schemes has caused concerns that reliance on the covenant may be watered down. Laura Blows considers the implications of a change in covenant emphasis and how schemes determine covenant time horizons**

The Pensions Regulator's (TPR) DB funding code proposals has been subject to much debate, particularly with regards to its fast track or bespoke funding options. But the code's viewpoint on the time horizon of employer covenant visibility has also generated conversations.

While the *DB Funding Code of Practice* consultation document does not contest that trustees of schemes with stronger employer covenants can afford to take more risk and so assume higher investment returns, it states that it thinks it is "inappropriate to assume indefinite reliance on the covenant" and instead "this should be limited to the period over which there is good covenant visibility". The document proposes that "for most schemes, practical considerations will limit visibility to three to five years (and sometimes less)".

## Concerns and clarifications

In January, TPR released its interim response to the *DB Funding Code of Practice* consultation. While there was general support for the principles and regulatory approach proposed in the consultation, it noted concerns that the three-to-five-year covenant visibility expectations may result in the reliance on the covenant being watered down, as well as what a greater trustee focus on covenant visibility would mean for schemes' ability to rely on covenant beyond the medium term.

Some respondents may have been taken aback, Aon partner and head of the covenant team, Aidan O'Mahony, says, because "the implication that you only have covenant visibility for three to five years may mean schemes need to start de-risking or being more conservative with investments earlier than expected – and if you have an open or immature scheme, why on earth would you automatically limit your investment risk and expected returns".

Stoneport Pensions head of covenant, Jacqui Woodward, agrees that the concerns stated in the consultation's interim response arose from the perception that TPR was pushing a de-risking agenda for both closed and open schemes.

"In fact, under the bespoke regime as set out in the consultation it is perfectly possible, and right, that you can take account of the employer covenant beyond five years," she explains.

Speaking at the recent PLSA 2021 Investment Conference, TPR executive director of regulatory policy, analysis and advice, David Fairs, stated that there may have been confusion about the regulator's intentions.

"We have said that covenant horizons are only visible for a period of three to five years and some people have interpreted that as that you can't take any account of it after that period. But that really was not what we were saying," he clarified.

"We are saying that if the covenant horizon is only clearly known for three to five years, doesn't it make sense, as part of good risk management, to look at what happens beyond that three-to-five-year period, if there was some deterioration in the covenant?"

Speaking to *Pensions Age*, Fairs adds: "In many cases it is not possible to predict what the covenant will look like in the longer term. Covenant strength can remain unchanged for a number of years but can also reduce relatively fast or, in extreme examples, disappear entirely very quickly.

"We are not suggesting the employer covenant will necessarily weaken in the longer term but, given trustees have no certainty it won't, it is prudent to look at potential outcomes if the covenant deteriorated and what that would mean for the scheme. Looking at a range of future scenarios is just good risk management. From that, it might be appropriate for trustees to assume less reliance on the covenant beyond the medium term to avoid taking on more risk than the scheme can support."

## Time horizons

The Employer Covenant Practitioners Association (ECPA) does not think five years should be regarded as an absolute limit for covenant visibility, "given the wide range of realistic potential sponsor longevity horizons, which is entirely situation-specific", its spokesperson says.

Also, the assumed longevity of many, but not all, sponsors can well exceed five years – and implicitly has to for the scheme to deliver its benefits to members. "Reliance on the covenant afforded by the employer is likely to be required for a period significantly longer than the period of the payments arising under an agreed recovery plan," the spokesperson explains.

However, the regulator's view of a three-to-five-year timeframe being appropriate is still broadly in line with views across the pensions industry, Sackers associate director, Nigel Cayless, says. "Despite the uncertainty created by the pandemic, not to mention Brexit, which could make it harder to assess employer covenant over the longer term."

So how can trustees determine what might just be short-term blips to the employer covenant, and what may actually damage it three to five years down the road, or beyond?

According to O'Mahony, TPR is rightly acknowledging that it can be difficult to project three to five years ahead, "or even three to five months for financial forecasts currently – but it doesn't turn good companies into bad companies when you have a downturn", he adds.

DHL Trustees chair, Peter Flanagan, echoed this viewpoint at the PLSA Investment conference, stating that "low visibility does not equate to no covenant".

When considering covenant timeframes, "as a trustee I would typically want to consider covenant in the context of the life of the scheme, which can be several decades", Dalriada Trustees professional trustee, Keith Hinds, says.

"I believe the regulator recognises the greater chance of accuracy in shorter-term forecasts and the challenges around accurately predicting longer-term financial performance of sponsors, hence the comments around consideration and preparedness for off-forecast performance in the longer term."

HS Sole Trustees director, Ray Martin, agrees that it is important for trustees to consider the strength of the employer covenant in the context of the period it will be needed.

"The stronger the funding level and the funding basis then the less reliant the trustees are on the covenant and the shorter the period they need to consider in assessing it. However, if there is a weak funding position the trustees need to consider the strength of the business supporting the pension scheme over many years, even multiple decades," he explains.

To consider this long-term covenant strength, Hinds suggests that trustees would want to receive a range of information from their covenant adviser, such as the sponsor's competitive advantages and disadvantages, scope for technical innovation and disruption, the level of re-investment in the business versus distributions to shareholders, access to capital for investment in the future and sector positioning.

"When we start analysing sponsor covenant we start with their sector," O'Mahony says. "For instance, if the sponsor is a regulated utility why would you have a three-to-five-year view when your utility returns are predictable over a 30-year horizon?"

PLSA head of DB, LGPS and investment, Tiffany Tsang, agrees that it is evident that visibility or long-term confidence for employer covenant varies significantly between industries.

"Some employers may have extended covenant visibility (over 10 or 20 years), such as in the higher education sector," she says, "while some, such as retail, may not have visibility much further than 12 months. As a result, it is important that the future funding code reflects these variations and does not by design or accident result in a one-size-fits-all approach."

**Implications**

If trustees did need to de-emphasise reliance on the employer covenant, be it due to regulator attitude, sector risk or other reasons, what implications may this have?

One area it may impact is the sponsor/trustee relationship.

"Having spent the past 10 years or so fostering collaborative relationships between sponsors and trustees, framing any discussion on sponsor strength in this way *[that trustees can only consider employee covenant visibility to be about five years]* is only going to serve to heighten emotions and weaken those important relationships," Woodward warns.

"There could well be a tension between the needs of the sponsor to invest in its business and the funding needs of the scheme to reach a funding target within five years," the ECPA spokesperson adds. "This will require an open and constructive dialogue between trustees and sponsor."

One query raised at the PLSA Investment Conference was whether assuming a clear covenant horizon of five years or fewer may result in a different pattern on investment risk-taking – such as taking 'high' levels of investment risk in the first five years while the covenant is clearly visible and then de-risking to a low risk, low dependency portfolio.

However, according to O'Mahony, "it is hard to have a fixed date, to say five years from now come hell or high water that we'll have fully de-risked; that's too dogmatic and unachievable".

Over the past 10-15 years, there has been a significant shift towards investment de-risking as DB schemes have matured and aimed to match assets and liabilities, so the majority of schemes are not particularly seeking higher-risk investments, Tsang points out.

"There is a risk of taking too prudent a view on longevity and causing excess strain on the sponsor through high cash contribution requirements to support a low-risk investment strategy," the ECPA's spokesperson says. "This may in turn weaken the sponsor. A balance needs to be struck."

Instead of taking the five-year proposal literally, O'Mahony suggests trustees see it as recognising that most DB schemes are maturing quickly, "so it makes sense to get the scheme to as low a risk as possible before scheme cashflows potentially become negative".

This is not a new idea, Cayless adds, as understanding the covenant should always underpin the trustees' approach to the level of investment risk and scheme funding.

"The key questions for trustees are, does your covenant support the risk your scheme is running and are you considering the time you have for investments to repair any damage (ie how mature is your scheme)?," he says.

Whilst it is useful to have some level of prescription in TPR's approach, "it is important to recognise there is no 'one-size fits all' solution. Schemes will be looking at strategy for the long term, or with their endgame in mind, so context will be critical", Tsang adds.

**A unique risk?**

Context is clearly critical and employer covenant is not something considered in silo when managing the scheme. Trustees must consider a number of other factors, such as investment risk and longevity predictions, both of which are also difficult to predict long term with any accuracy. So what makes determining the time horizon of the employer covenant unique?

According to Flanagan, speaking at the PLSA Investment Conference, "many I spoke to during the consultation also felt that covenant visibility was no worse than that of investment return, inflation or mortality. All of which require long-term assumptions well past the time there is any certainty of outcome".

Whilst these other risks, such as investment and mortality, are very long term they are supported by the covenant and thus, as long as the covenant remains sound, they should be manageable, Woodward says.

"The key issue with the covenant is that it can go to zero. Members may live longer but not forever – the covenant, however, can completely disappear."

The issue of *[covenant]* longevity is very important, the ECPA spokesperson says, "but there is a risk that problems with forming a medium- or long-term view can be overplayed".

"As the ECPA recommends in its paper on sponsor longevity, longevity can be evaluated – but then dynamically monitored (just like other aspects of scheme funding such as investments). Trustees should look to form an understanding of sponsor longevity as part of their covenant assessments in the same way that they consider asset and liability modelling and scenario analysis."

O'Mahony contrasts employer covenant risk with bank lending – "they have the security to lend to thousands of companies, so if a few go bust, it doesn't really matter. For a pension scheme, it only has the one employer, so if that employer goes bust that's a big deal; the concentration risk for the scheme is huge".

According to O'Mahony, the issue with just considering covenant visibility as three to five years is if you think about the big pension failures in recent years, BHS and Carillion, "their problems were not that they couldn't see three to five years ahead; there were other issues going on".

So, the question is why is covenant so important?, he asks. "The answer is because the scheme isn't fully funded. If all schemes were fully-funded on a low-risk basis you wouldn't care if they were attached to regulated utility company or high street retailer."

**Change ahead?**

As a general trend, O'Mahony can see the need for a more robust probing of the covenant and being more aware of the potential instability and longevity of sponsors, "but you can hardly say that's an amazing new trend that's only been discovered in the past year".

He expects TPR's three-to-five-year covenant visibility proposal to be 'softened' as "if it is ratified, it would have huge implications, with changes such as more demand for gilts, an equity dump, bigger calls on cashflows, potentially pushing employers into insolvency, and the need for contingent assets".

Instead, he "wouldn't be surprised if the final DB funding code goes back to highlighting how the sustainable growth of the employer is also important, that sector views are important and that the maturity of the scheme needs to be considered – a more nuanced approach".

Flanagan also stressed at the PLSA conference that any changes to the covenant regime "must be proportionate".

We will find out how proportionate any changes will be in the second half of the year, which is when the regulator says its second DB funding code consultation will be released. It will feature a full summary of the responses to its first consultation, and the approach taken in light of these responses.

"As part of our DB funding code consultation we are considering this issue *[of covenant time horizons]* and plan to set out ideas of how it might be incorporated into fast track while leaving room for trustees to explain longer-term visibility through bespoke," Fairs says.

This second consultation will likely be eagerly received, as, Woodward says, "TPR appears to have fallen into a philosophical quandary by trying to formally define covenant visibility similar to the Schrodinger's Cat paradox – will the sponsor still be around in five years or not or both? The answer is likely both for most sponsors – it will be around but not in its current form".

**Written by Laura Blows**


# Laying down tracks

**Summary**
• While support is strong for the principles behind the proposed funding code, there are concerns about pressuring schemes into the fast track compliance route.
• Another major concern is that a lack of flexibility in this route will refocus schemes onto 'box-ticking' rather than protecting member benefits.
• Schemes need to be thinking about the future, but attempting to get a headstart on complying with the code at this stage could amount to wasted time.

**Duncan Ferris sounds out where the pensions industry stands with TPR's proposals for its DB funding code and which issues to look out for in the regulator's second consultation**

We are currently in the defined benefit (DB) funding code waiting room, sitting around while The Pensions Regulator (TPR) work on their preliminary code equivalent of a 'difficult second album'. The industry enjoyed quite a few of the tracks on the first release, but some facets of the decision to split DB funding compliance into fast track and bespoke routes have raised concerns. The proposal would mean that some schemes would qualify for a standardised approach or 'fast track', while those on the bespoke route would be assessed on a case-by-case basis. Those who opt for the latter would have to justify this choice.

With the interim response to the first consultation released in January, TPR has confirmed that a second consultation will take place in the second half of 2021. But will it be music to our ears?

**Concerns**

In its interim response to the feedback, TPR said it had received "general support" but noted that some concerns had been raised about the proposed twin track routes.

ACA Pension Schemes Committee chair, Peter Williams, says: "On the first consultation, we were generally supportive of the proposals, whilst noting that many of the key details had not yet been defined – and those details are likely to make a difference to the success of the new regime. The second consultation, now expected in the second half of this year, should provide the extra details.

"We were concerned that there could be too much pressure for fast track equivalence, even under the bespoke approach, with the risk that TPR might use its powers if the divergence from fast track was deemed too significant."

Similarly, XPS Pensions consulting actuary, Heidi Webster, also states she is "supportive of the principles proposed to regulate the expected changes to government rules on long-term funding strategy", but raised concerns about "the focus on fast track as a 'yardstick' against which a bespoke submission would be tested".

She explains: "Whilst there will be merits of this in some circumstances (for example those schemes who are relatively close to a fast track position, but who perhaps do not meet one of the criteria), this may not be appropriate in all cases.

"For example, trustees of a scheme with a robust cashflow-driven investment funding strategy would be required to test this against a set of criteria that may not reflect their funding strategy. If trustees are expected to carry out the analysis relative to fast track, this could result in additional (perhaps unnecessary) costs."

Additionally, Society of Pension Professionals president, James Riley, says he had been concerned by the watering down of covenant, which is "an integral part of scheme funding and we want that to be retained" and called for "some allowance for covenant over the long term".

TPR acknowledged these issues and more in its interim response to the consultation, but stated that some of the concerns raised "stemmed from misunderstandings around what we had proposed" and added that this confusion would be cleared up during the second consultation.

**Flexibility**

Perhaps the most notable concern raised by the industry was a perceived lack of flexibility afforded by the proposed fast track route, something that is available under the current regime. This is made even more problematic through the already mentioned concerns that the bespoke route would be 'benchmarked' against the fast track.

Williams explains: "Maintaining the current scheme specific funding flexibility is vital to support the sustainable economic growth of employers. It is important that fast track is not seen as the default option and that the bespoke approach to demonstrating compliance offers a genuine and viable alternative, without being overly onerous.

"This is even more important now, as the economy recovers from the impact of Covid-19."

Looking at the broader picture, Lincoln Pensions director, Emily Goodridge, says: "A more regimented approach risks shifting the focus from protecting member outcomes to 'box-ticking'. The bespoke track still offers flexibility but the increased costs of explaining a non-standard approach may mean smaller schemes ultimately have less flexibility than the larger schemes."

Riley states that the need for flexibility goes beyond the simple issue of scheme size, noting that otherwise identical schemes might have different priorities based on factors such as their sponsors and their investment strategies.

Outlining the investment ramifications of the loss in flexibility, he comments: "There is a risk that some of the investment parts of the code push people to invest in particular ways that are not optimal in terms of an economic perspective, but are optimal in terms of the regulatory perspective.

"You've seen this with Solvency II in insurance, where insurers all invest in a certain way because the regime requires them to. Now actually, there are lots of assets out there that might be attractive to insurers but they simply can't invest in them because of Solvency II. What you don't want is to push pension schemes into investing in a particular way to meet the requirements rather than how they think is right."

The key issue here is that schemes face unique issues, so using the same parameters for large portions of the landscape could undermine the individuality of each different scheme and the circumstances which they face.

Again, TPR appeared to touch upon this issue in its interim response, showing consideration for the difficulty of individual situations in its recognition of "the significant impact that Covid-19 has had on employers and schemes during 2020 and beyond", adding that it would "certainly take account of the impact of Covid-19 when we carry out our impact assessment and develop fast track guidelines for consultation".

**Preparation**

While there are still concerns about the content of the funding code, is it worth pension schemes taking action now to get ahead of the game when it comes to complying with a new funding code?

Webster says: "Whilst the new funding requirements are not yet in force, we know that it may be advantageous to start setting longer-term goals and the journey plan early, particularly as TPR has suggested there may a fixed timeframe for schemes to get to their target. Starting to plan early means trustees and sponsors may have more flexibility and choice."

Williams agrees: "It is sensible for trustees to consider the long-term objectives for their scheme. Under fast track we agree that aiming for low dependency once the scheme is significantly mature is reasonable."

Goodridge comments: "A legally binding long-term objective sends a clear message that 'kicking the can down the road' cannot continue indefinitely, and that additional sponsor support may be required if risks in a strategy crystallise."

However, this issue of it being legally binding is of vital importance for any trustees or sponsors looking to jump the gun, as it is worth noting that this is not a 'fastest finger first' situation.

Consequently, Riley is less than enthusiastic about rushing to prepare before the reveal of the final version of the code. He first notes that it "makes sense" for "the vast majority of schemes" to be looking at their long-term targets, but emphasises that doing this for regulatory reasons might be unwise because "we don't really know what is expected of us".

He adds: "There runs a risk that you go down a route of selecting your long-term objectives and when you read the new code of practice you might need to revisit it. Yes, people should be doing it, but I would be a little bit nervous about anyone documenting anything too formally until I had actually seen the code of practice."

**Written by Duncan Ferris**

# Looking ahead

**PMI president, Lesley Alexander, explains to Laura Blows the institute's future goals for the training and development of the pensions industry**

**How did the PMI adapt its original goals for the past 12 months in response to the pandemic?**
We really had to ask ourselves how we move forward as a body that delivers face-to-face education and qualifications, including rigorous exams and continuing professional development for our members, along with events and networking. All of those things that normally we would do in the course of the year, how so we move them from a live to a virtual event successfully, at the same time as asking all our staff within PMI to deal with their own personal issues of how they are affected by the pandemic. I really must applaud the PMI team as they have made the most fantastic efforts in adapting to a new way of working and delivering webinars and training and networking opportunities online and still being able to continue with planned launches, for example our group in Northern Ireland – so not everything we had originally planned to do this past year went out of the window.

Covid-19 actually accelerates our progression to putting our exams online. Like every organisation that's trying to do these new things at speed with the backdrop of a global pandemic, we are honest in saying there were one or two teething problems, but these things have been ironed out and getting better. Some of our stakeholders have needed more time to adapt with getting their students into the online environment with exams but we are now seeing that take up being back where it should be with the exams.

This is the way we have to move forward as it is much more representative of the education system that our younger members have come from. We want to be able to build on the skills that they already have when they come out of education and develop their careers to provide the kind of training/development/qualification in which they feel comfortable.

**So will the PMI's future offerings be a mix of face-to-face and online support?**
I'm a fan of using a mixture of different methods; I don't think there is a one-size-fits-all. I know there are many people who are absolutely itching to get back face-to-face with people. They 'zoom in and zoom out' where they are exhausted by the constant online presence that we all currently have and they want the ability to interact with someone one-on-one and ask questions. But for people that may not find it easy to get to the face-to-face meetings they require, enabling them to share the same standards of input, information and education, is a good thing.

**How is the PMI helping drive the trend for the increasing professionalism of trustees?**
I would like to draw out the distinction between professionalism and professionalisation. Professionalism is about having all of the skills and competencies around your trustee board to ensure that people are doing a good job in the best interests of their members. I am a big fan of that. What I am less in favour of is increasing professionalisation. This is because I think it might potentially create a narrowing of the people that are actually involved in the governance of UK pension schemes.

The qualification that we have for professional trustees is a really good qualification. It came out of the professional standards working group that we worked with, the Association of Professional Trustees, and we are proud of it. It is an independent qualification coming from an accredited, regulated organisation. Its about testing technical competence and it goes alongside the trustee knowledge and understanding from The Pensions Regulator's (TPR) trustee toolkit, but really importantly, it has a module on soft skills. I don't think we should underestimate the importance of soft skills in a trustee board environment. In the past maybe there's been an assumption that technical competence translates into a full skillset, that someone is able to chair and contribute fully and encourage others to contribute fully. My experience tells me that there are some trustee boards where that does not always happen. So there is definitely a need to harness the benefits of that additional coaching and training.

**Along with soft skills, are there any other 'internal' areas of focus for trustees to consider, or 'external' factors to be aware of?**

TPR has recently issued its consultation on the new consolidated code of practice, where it is going to move from many differentiated codes over the past 15 years and put them into a combined code. The proposed new code of practice has different modules within it, including one called 'the governing body'. This will be I think quite new for some DB schemes. So this may well be a stepping stone for some changes in behaviour and looking at how trustee boards themselves operate. From an internal perspective they will be expected to have things like a remuneration policy. I think perhaps the regulator is aiming for the same kind of standards that apply to a corporate board in the UK to trustee boards as well.

And then with the Pension Schemes Act and other legislation, these will be looking externally at how trustees deal with climate change reporting, for example, and ESG. While trustees have had to say in their Statement of Investment Principles what their policy is and how they actively look at ESG factors when making investment decisions, it's now become much broader. This will be a big area of additional training, not just for trustees, but for other pension professionals who have only been dealing with ESG issues in the periphery. ESG is no longer just an investment piece but also a communications one, regarding the information that is given to members, as this is an issue that people do care about and will engage with.

**On the note of engagement, what more can the industry do to encourage people to enter the pensions industry as a career, instead of falling into it, as so many do?**

We do not perhaps sell ourselves as well as we could. As when people do get into pensions, no matter in what way, they always say how they didn't realise there was so much to the area and how interesting it is. We do not show that it is an intellectually stimulating career and at the same time dealing with something that is vital to the wellbeing of society. Perhaps if we got that over to people we might find that we attract people more easily into the profession.

**Please could you provide a progress update about the PMI's mentoring programme?**

As 'older' people in the industry, we have a responsibility to share what we have learnt, to pass on our wisdom to those that are following in our footsteps. At the same time, we are learning from new members of the industry, about what their challenges are and how they are coping with the technical learning. I'm very pleased that we had good feedback from both the mentors and the mentees of last year's programme and we doubled the size of the programme this year.

**Looking ahead, how would you describe the evolving nature of the industry?**

What will the future look like? Tony Blair famously said 'education, education, education'. TPR has gone for 'consolidation, consolidation, consolidation'. I imagine that the trend we have seen towards consolidation, particularly the move from single employer DC trusts to master trusts, will continue. Also, with the recent Pension Schemes Act and other regulations that have come in, the consolidation on the DB side may well start to happen soon.

If I look at the skillsets on trustee boards, I'm asking myself if we could bring in more expertise, such as environmental scientists or people with backgrounds in medicine or social care; a broader scope to enable the best investment decisions to be made.

In my brave new world, we are going to have dashboards that are delivered on time, that speak the language consumers speak and help them engage personally with their savings. We really could be harnessing technology to get all of their savings in one place so that they can be more comfortable around decision making. And then they would be in a better position to get one-to-one guidance or advice at retirement. So in the next five years I would like to see much more help for people as they come to draw their money down at retirement.


**And what will be the future plans for the PMI and for yourself as president?**

Lesley Carline is such a hard act to follow as president. She set in train some great initiatives for PMI, of which we are all immensely proud. We are still in a consolidation phase and working through the last year of our strategy we set up nearly five years ago. This year, with our advisory council, in the summer, we will be looking at our next three-to-five year strategy, looking at how we can continue to meet the needs of our members and have that voice for the professionals that work in pensions as far as their professional development concerns and how we can support trustees with their training and development needs. As for me, in my own small way I just want to make a difference to the way in which the institute is viewed and how we support all of our stakeholders.

**Written by Laura Blows**

**Summary**
• The pensions industry seems to be in unanimous agreement that a trustee's role has become more complicated and knowledge levels have had to improve.
• This has led to a need for more highly skilled trustees and chairs, creating a debate about whether remuneration is sufficient to attract and retain the needed expertise.
• Increased responsibility could potentially lead to a rise in the number of sole professional trustees.
• Research has suggested that the trustee gender pay gap has shrunk in recent years, although there seems to still be an issue with female representation on trustee boards.

# More bang for your buck

**With the latest spate of regulations coming into force this year following the introduction of the Pension Schemes Act, trustees' jobs have become more complex. Jack Gray investigates trustees' remuneration amid this increasing responsibility**

The role of the pension trustee is evolving rapidly. An increase in regulation, and expectations from The Pensions Regulator (TPR), around what is expected of trustees has made the job more demanding. This is likely to lead to an increased need for professional trustees, whose expertise is required to ensure the pension scheme is running efficiently.

PwC's recent *Trustee Pay Survey* finds that trustees are amongst the lowest paid roles in pension scheme management. It reveals that the average pay was £54,000 per annum for a trustee board chair and £30,000 for a non-chair trustee in 2020.

Although average pay has increased across all roles, according to the study, pay for trustees sitting on both boards and committees has reduced slightly since 2018. Trustee time commitment has risen from an average of 17 days a year in 2010 to 26 days in 2020.

The *Pension Chair Remuneration Report,* by Barnett Waddingham and Winmark, finds that pension chair remuneration remained 'static' in 2020, with an average pension chair salary of £47,305, following a three-year period of average increases of 3.3 per cent per year.

Over half (59 per cent) expected no change in their salary over the next year, while 34 per cent expected an increase and 7 per cent expected a decrease. Despite this, 39 per cent felt their current remuneration did not adequately reflect the complexity and pressure of the role. Additionally, 34 per cent believed that pay levels were a key recruitment barrier compared to 24 per cent in 2019.

**Evolving role**

"The role of the professional trustee has evolved significantly over the past few years and, as a result, has become more time consuming," begins APPT chair, Nita Tinn.

"We can attribute this change in workload to a number of factors, not least the need to be more vigilant with regards to pension scams, as well as TPR's increased focus on governance.

"Requirements for Taskforce for Climate-related Financial Disclosures (TCFD), for example, as well as increased pressure to put ESG at the core of trustee investment strategies, call for a much broader skillset. While Covid-19 has also required trustees to look more closely at risk, and will result in longer-term implications on the way we govern schemes."

PMI director of policy and head of external affairs, Tim Middleton, agrees that the role of trustees has become more demanding in the past 20 years.

"A clear consequence of this has been a steady increase in the appointment of professional trustees", he continues. "It

would therefore be fair to say that the role of trusteeship as a whole has become more demanding and that the number of professional appointments has increased as a consequence."

Willis Towers Watson head of pensions governance, Jenny Gibbons, adds: "The work of a trustee has become more difficult and more time consuming over recent years with additional requirements around climate implications or DC governance in particular. They're also operating in an increasingly complex external marketplace where investment monitoring and decision making is more demanding, and they're planning for, processing and responding to fast-moving, critically important funding and covenant changes for their schemes. Additional requirements are being layered on top of that, for example around GMP equalisation."

Despite this, Middleton notes that this has not deterred the number of individuals joining the profession, as the longer-term role for professional trustees is expected to expand.

Dalriada Trustees professional trustee, Greig McGuinness, argues that the increasing governance requirements will "not necessarily" lead to more trustee time or work, but is likely to lead to a greater reliance on advisers for "anyone other than the most engaged full-time professional trustee".

**Going solo**

"There was an increase in sentiment that chairs are underpaid - 34 per cent agreed that remuneration levels were too low to attract sufficiently skilled chairs and trustees," says Barnett Waddingham partner, Danny Wilding.

"This had increased from 24 per cent in 2019. A similar proportion agreed that remuneration does not adequately reflect the complexity of the role (39 per cent of trustees) and remuneration does not adequately reflect the pressures of the role (36 per cent of trustees)."

McGuinness adds that the "vast majority" of affiliated trustees are not paid for the role directly, as many are employees of the sponsor and perform their duties during work hours.

He continues: "It has been debated whether some level of remuneration should be the norm, especially for pensioner members, and whether this would improve lay trustee supply and governance. You can understand why a company, if paying anyone to be a trustee, might prefer to appoint a professional, and therefore I expect that sole trusteeship will spread faster than the remuneration of lay trustees."

Middleton agrees, noting that the number of firms offering sole trusteeship services is likely to expand, as scheme sponsors find the responsibilities of effective scheme governance becoming increasingly time-consuming and onerous.

"Either lay trustees will need to be paid more, as they will be increasingly unwilling to take on the training required and the increased responsibility, or else we will see an acceleration of the move to professional trustees and sole professional trustees in particular," says Wilding.

"In practice we may see both of these things in tandem."

"To the extent that trustee remuneration reflects the additional value they are able to create through carrying out their role effectively, it feels appropriate for remuneration to be increased to account for this additional value," notes Gibbons.

"The requirements currently being consulted on in TPR's single modular code of practice around disclosure of trustee remuneration policies will increase transparency and comparability of trustee remuneration, and may drive further price competition."

**Mixed gender diversity progress**

The difference in remuneration between male and female trustees appears to be narrowing, with the *Trustee Pay Survey* stating that female chairs' average pay increased from £45,000 in 2018 to £68,000 in 2020, overtaking the average male chair salary of £50,000. Independent professional female trustees' remuneration was also found to have risen "significantly" since 2018.

However, representation seems to be going in the other direction, with only 14 per cent of respondents to the *Pension Chair Remuneration Report* being women, a 4 per cent fall from 2019.

"There was no evidence of a gender pay gap as, over the lifetime of the Winmark survey, female respondents have consistently received higher remuneration than their male counterparts," says Wilding. "Nevertheless, only 14 per cent of the 2020 survey respondents were female, suggesting there does remain scope to increase female representation amongst trustee boards."

McGuinness concludes: "We are not aware of a trustee pay gap based on gender/ethnicity etc. However, there remains a lack of diversity on many trustee boards and with some professional trustees, which we have a duty to rectify."

**Written by Jack Gray**

**Summary**
• The well-received work of the CTI has improved cost transparency and highlighted some remaining issues that could yet be ironed out.
• Improving technology through automation could be an important step towards improving cost transparency, although some in the industry prefer the 'personal touch'.
• There is broad support from the asset management community for the changes implemented by the CTI, boding well for future cost disclosure developments.

# Crystal clear

**Duncan Ferris examines cost transparency, looking into the issues that remain for the pensions industry, what kind of changes can be effectively implemented and how likely further action is**

The Cost Transparency Initiative (CTI) was established in 2018 to standardise asset managers' disclosure of costs and charges to institutional investors. The primary parties involved in its formulation were the Pensions and Lifetime Savings Association (PLSA), the Local Government Pension Scheme Advisory Board and the Investment Association (IA), which each continue to support the independent group today. So, does this mean that the issue of cost transparency has been consigned to the past, existing merely as a memory of a problem long-solved?

## Hurdles

The CTI launched a set of standards and free-to-use templates in 2019, with the hope that these would be adopted across the industry to help trustees to scrutinise and challenge costs and performance of asset managers and other pension service suppliers. In June 2020, it launched additional tools to supplement these and stated that it had seen a good level of take up from a range of different schemes.

Summing up the impact of the CTI, Mercer senior investment consultant, Hemal Popat, says: "We are in a better place than we were two years ago. When we request information we get it and we get a more complete picture of overall costs than we used to get."

However, it appears that some issues do persist.

Local Government Pension Scheme Advisory Board secretary, Jeff Houston, comments: "Work still needs to be done around fund of funds and some aspects of private markets to ensure that templates can reflect costs at all levels. Managers still need assistance and guidance in understanding the templates so that they can be efficiently completed and asset owners need help to understand what the data is telling them and therefore what questions to ask."

Houston's comments are reflected by Caceis product specialist, UK pension funds, Scott Foster, who comments that the introduction of CTI templates "helped to shine a light" on previously overlooked areas.

He continues: "On the ground at Caceis we are seeing a high CTI submission rate of 75 per cent. However, we still have to directly query around 90 per cent of all data we receive. We would link this to teething issues associated with adopting the relatively new and extensive CTI data templates.

"Having said that, data submitters and data collectors are working together to iron these out, with a real focus on high data quality and added context on the data being key. At this stage, simply requesting a fully completed CTI template doesn't guarantee an accurate or complete data set."

CTI chair, Mel Duffield, says: "Schemes also need to know how best to use the costs and charges data they receive. Some of the feedback we are getting is that simple comparisons (or benchmarks) of typical costs for certain types of schemes might assist them in calculating whether or not they are getting overall value for money. We will be considering possible further guidance, or other assistance in this area."

National Grid UK Pension Scheme investment operations manager, Darren Sadek, agrees, stating: "It's always good to know full costs when running any business, but what do you actually do with the information when you have it? The costs have always been there, so care needs to be taken when presenting to trustees and suitable context must be provided."

He also notes that the National Grid scheme's "vanilla investment structure" with regulated UK-based fund managers has allowed it to use a specialist firm to provide "full cost details", while some schemes with a more varied portfolio "have issues sourcing timely data".

Looking at the issue from the other side of the fence, Investment Association (IA) senior adviser, Mark Sherwin, comments: "For us as asset managers providing the information, talking from the point of view of our membership, which is more the mainstream asset managers as opposed to the niche private equity and real estate worlds, there is a very high level of engagement with this process and a very high level of data being provided."

Looking at the involvement of pension schemes, Duffield acknowledges that, while "a high percentage are already making use of the CTI templates", not all schemes are yet using CTI as smaller schemes in particular "may not always have the same level of in-house resource or support from advisers". She adds: "Our intention is that CTI is ultimately adopted market-wide and that all schemes will have access to accurate, and easily comparable costs information."

**The way forward**

With this knowledge about the problems that remain when it comes to cost transparency, the next logical question is how to combat the problems from here.

Houston seems to indicate that advancement in technology might be the next step, stating: "Greater automation of data extraction and delivery rather than hand completion of templates would be a step change as would the ability to bulk deliver template data for multiple mandates."

Foster comments that "automatically creating and distributing CTI templates that are machine readable" promote a more streamlined process in the delivery and timeliness of accurate cost data, adding that CTI templates have already improved the process of data collection.

However, he continues: "Even though we believe technology can help, we still find that hands-on analysis from cost transparency specialists to validate the data we are receiving is invaluable to the integrity of the CTI reports that get shared with trustees and committees. This added confidence in the reports can be a real value add when making value judgements and investment decisions."

Sherwin states that the current system "does the job" but adds that it could be "slicker in terms of the sophistication of the data transfer". He continues: "At the moment it relies heavily on the Excel spreadsheet format, which contrasts with the retail funds world where there is equivalent cost data exchange that is very much systems driven, with machine readable files going out and being taken in by the distributors of retail funds."

Popat is of a similar mind, commenting: "It is not that the technology hasn't been invented. It's more that internal infrastructure needs to be upgraded by managers."

Duffield comments that recent CTI discussions with schemes and asset managers show that "the majority of managers have updated their systems and are well equipped to provide data in the CTI format when requested", but concedes that the process is one of "continual improvement".

She adds that the CTI is continuing to "identify possible new types of investment or services for which schemes may find additional costs data or guidance to be helpful" and explains that the organisation is "currently looking at developing further data fields or templates in relation to custody services, and also to help managers report the costs of underlying funds".

Popat states: "The progress to date has been really positive but as an industry we have still got some way to go, and that's everyone from pension funds themselves actively using this data, to transforming what we have at the moment, which is static information, into something that really drives actions and change in terms of what clients are doing."

**Friction?**

In order to gauge how likely further developments are, it is perhaps important to consider how willing asset managers have been to cooperate with the pensions industry on the subject of cost transparency.

Foster notes that the CTI "has the direct support of the IA", which has "helped promote the CTI templates throughout the UK asset management community".

He continues: "Overall, with the CTI's take up of 75 per cent within 18 months, we believe that it has been well received. Any friction between schemes and asset managers are largely related to the CTI adoption teething issues described earlier."

Houston echoes this sentiment as he points out: "The vast majority of asset managers have adopted transparency as a natural progression in client service. It is a challenge but one that managers are rising to. There are some issues with some managers but in the main these are technical/resource rather than policy.

"I think managers perhaps see cost transparency as a useful rehearsal for future requirements around stewardship and climate reporting."

Judging from the level of cooperation required in the formation of the CTI and the high level of adoption of transparency measures, it seems the industries can look forward to working together on further developments.

Regarding the CTI's backing of improvements in the standard of technology, Sherwin comments: "We've been through the first reporting cycles last year and we're now going into the second one. Once that has been completed there will be enough experience to focus in more on the detail. It's a little bit early at this point, but I think that is the next big step to take."

**Written by Duncan Ferris**


**Summary**
- The Financial Conduct Authority (FCA) published a consultation on driving value for money (VFM) in pensions in the summer of 2020 after finding concerns with the way some Independent Governance Committees (IGC) operate.
- The government and regulators have been taking steps on improving VFM in pensions, such as through consolidation.
- However, there are issues that need to be resolved to help drive better VFM, including the proliferating small pots problem.
- Concerns have been raised that too much focus on reducing costs will impact VFM and member outcomes.

# Getting your money's worth

**Value for money (VFM) in pensions has come under increased scrutiny over the past 12 months, with the government and regulators looking to address issues in this area. Jack Gray analyses the potential drivers and barriers to improving pension value for savers**

VFM in pensions has been creeping up the priority list as more people begin saving into DC schemes. This has led to changing regulation that will require DC pension trustees of schemes with less than £100 million of assets to assess whether their scheme offers VFM and, if not, to either wind up and consolidate, or make improvements.

In the summer of 2020 the FCA launched a consultation on a clearer framework for value assessments and a requirement for IGCs to compare their company's schemes against others in the market.

Around the same time, the government published a call for evidence on how effective pension costs, charges and transparency measures are at protecting member outcomes and providing VFM. These consultations, alongside an increased drive towards consolidation and the recent government decision to scrap flat fees on auto-enrolment pension pots worth £100 or less, shows the appetite for change is growing.

However, industry figures warn that a narrow focus on costs and charges is detrimental to achieving better VFM, alongside a lack of measurement and comparison, and the growing number of small deferred pension pots.

## Achieving VFM

"For DC schemes, VFM is often driven by scheme size and that is why we've seen engagement in DC master trusts continue to increase in recent years and expect that to increase into the future," explains Willis Towers Watson head of OneDB, Gareth Strange.

"There is already significant regulation for DC master trusts and the level of that regulation has seen the number of master trusts in the market reduce from 90 to 37, partly due to the requirement for authorisation. We believe this will see greater VFM for members in DC schemes."

PLSA head of DC, master trusts and lifetime saving, Alyshia Harrington-Clarke, adds that scale is a "significant driver" of VFM, as the more people participate in workplace DC schemes and minimum automatic enrolment contributions increase, it is expected that the growth in assets will generate cost savings.

"Schemes with more funds under management can negotiate better terms and lower fees," Harrington-Clarke adds. "Very large funds can also more efficiently access asset classes that are more difficult for smaller schemes to participate in such as private and real assets."

Harrington-Clarke notes that although scale helps in providing VFM, smaller schemes can still offer VFM in comparison to larger schemes if they are run efficiently.

Additionally, she highlights that although the charge cap is an "important saver protection", average charges are closer to 0.45 per cent due to trustees acting in the best interests of their members and "healthy competition" in the market.

LGIM head of DC, Emma Douglas, adds: "Value isn't just about charges and can be improved by better and more engaging communications, enhanced investment performance and scheme governance, smoother administration and access to a wider range of benefit options."

"Consolidation can sometimes lead to better VFM for members but not always," explains Hymans Robertson head of governance consulting, Laura Andrikopoulos. "A simplistic approach does not recognise the reality that not all schemes will be offered the same pricing when consolidating to larger overall arrangements and that valuable benefits in hybrid schemes can be lost."

Strange notes that VFM is "a more opaque concept" in DB schemes, but points to analysis by the Society of Pension Professionals that suggests members in poorly-run DB schemes could be 15 per cent worse off than those in well-run DB schemes.

"It is therefore important that DB trustees also consider whether the decisions which they make provide members with the best outcomes," he adds.

## Barriers to improvement

For further progress to be made, Harrington-Clarke explains that a balance of regulation needs to be found. She warns that a passive approach risks causing harm to savers and could damage consumer confidence. "But for a healthy, functioning market it is important that compliance costs don't become so prohibitive that they lead to higher saver costs or act as a barrier to innovation or new market entrants," she says.

"DC schemes have historically had little to no exposure to private markets, and compliance with the charge cap has, at least in part, contributed to this constraint.

"The charge cap alongside the public discourse on costs and charges, and as yet no consistent way to measure and compare VFM, has encouraged trustees to focus on reducing costs rather than seeking performance."

Douglas states that while costs are an important measure, "VFM is more than just costs and we believe more attention should be given to risk-adjusted returns and member outcomes".

"The more expensive asset classes, which may bring more diversification and better returns, might not be included in the default strategies due to the focus on costs as the main driver of VFM," she continues. "This focus tends to lead to simpler solutions with less attention paid to investment strategy. A poor investment strategy may result in a significantly worse member outcome."

Andrikopoulos adds that trustees' VFM assessments tend to focus on what members pay for and do not require any consideration of sponsor contributions.

She states: "Regulations and guidance need to encompass a more holistic definition of value such that member outcomes are at the heart of the matter; this would also entail greater focus on contribution adequacy, which is a key driver of value for members.

"Investment performance is a vital part of the equation. Fund managers and asset classes that consistently outperform are worth paying more for."

Another barrier identified is the increasing number of small, deferred pension pots. "Already we have more deferred members than active members, and the research that Now Pensions sponsored at Pensions Policy Institute last summer predicted that by 2035 we will see 27 million small, deferred pots," says Now Pensions director of policy, Adrian Boulding. "The effect of the Covid-led recession could now easily double that number."

"These small pots all cost money to administer. It doesn't matter whether the charges are explicit or hidden, a world in which multiple small pension pots are legion will depress VFM for everyone."

## Playing the long game

Andrikopoulos believes that there is a lack of focus on member outcomes within regulations and guidance that ask governing bodies to consider VFM, "meaning those bodies are not necessarily asking the right questions, ie what truly improves member outcomes and therefore contributes to greater value".

"VFM is subjective," states Tisa head of retirement, Renny Biggins. "What one individual deems an important aspect of VFM will not necessarily feature in another individual's list of priorities.

"We acknowledge that the list needs to be finite and practically allow for an VFM assessment to take place by scheme trustees, which should include costs, net investment performance, administration, and quality of communications."

Sustainability may need to be considered for long-term member outcomes. Schemes are still able to pursue an ESG-friendly strategy while providing VFM, says Willis Towers Watson head of sustainable investment, Adam Gillett.

"We believe that sustainable investment is central to long-term successful investor outcomes, and therefore schemes should be pursuing strategies that integrate ESG and apply effective stewardship as a core part of what they do.

"It's certainly the case that many strategies currently over-claim, over-sell and over-price their sustainability credentials, and it is therefore important that schemes are clear in their expectations and understanding of the strategies they implement, and view ESG as an integral part of that."

**Written by Jack Gray**

# Levying fairness

**The government recently confirmed that it will continue with its planned general levy increase this month, whilst simultaneously introducing four separate sets of rates for DB, DC, master trust and personal pension schemes. *Pensions Age* asks for your views on this new levy system**

During a period in which pension schemes are anxious to minimise operational expenses, any increases to levy costs will be a cause for concern. However, it is reasonable for the government to align the costs of regulation closely to the levy system which funds it. By adopting four separate rates, the government has arrived at a solution that distributes the burden of funding regulation in a manner that is genuinely more equitable. Furthermore, that the government is considering the introduction of additional rates in the future to accommodate the cost of regulating newer forms of pensions arrangement shows an ongoing commitment to flexibility and fairness. In view of this, the pensions industry should support the new levy system.

**PMI director of policy and external affairs, Tim Middleton**

This emerges from a highly-constrained consultation exercise. Some concessions have been made in setting separate rates for master trusts, other occupational DC, and DB schemes, besides personal pensions. Increases have been set for the next three years, rising steeply. The case for the increase is arguably well founded; increasing the budgets of the bodies funded by the general levy is less justifiable.

Partially acknowledging this, for next year only the operating budgets of The Pensions Regulator and the Pensions Ombudsman are frozen at their 2020/21 levels. The Money and Pensions Service will get 25 per cent less from the levy than in 2020/21. These temporary reductions might be seen merely as sops to assuage the industry's wider concern about the levy.

Despite the Department for Work and Pensions' promise a year ago "that further increases in the levy rates would follow a wider review of its structure and the review would be informed by engagement with the industry", this didn't happen – and isn't going to happen. Disdaining the industry response that a fundamental review – with industry involvement – remains essential. The DWP intends no more than to "give consideration as to whether any further structural changes are required in the light of experience". This is unacceptable.

**Aries Insight director, Ian Neale**

Given the steep rise in corporate default rates over the last year, the PPF has been quite justified in moving away from its regular multi-year levy setting approach for DB schemes. Its new, more flexible approach, allows levies to adapt to the changing effects of the pandemic. While default rates have risen like they did in the financial crisis, tech bubble and 1990s recession, what is unlikely to be the same is how long insolvencies will continue for. Last year we saw travel and leisure firms fold. Now we're seeing more aerospace and defence. The longer the effects of Covid-19 are felt, the more other industries could be impacted. Default rates therefore may be more drawn out during this cycle. They will be affected by the length of stimulus packages, virus mutations as well as vaccine rollout and efficacy. While the PPF has said it will move back to its multi-year approach by 2023/24, this may well need to be kept under review. As these defaults occur in certain industries, pension scheme assets should be diversified away from the sector of the scheme sponsor, something fiduciary managers with the transparency and control of underlying holdings can provide.

**SEI Institutional Group client strategy director, Alistair Jones**

The biggest issue with the new general levy system is that levy payers have no oversight of how the money raised is spent. They simply have to pay the levy invoice when it arrives.

What is needed is an industry forum, consisting of pension scheme stakeholders and the Department for Work and Pensions, that scrutinises and oversees value for money in each of the areas the levy is spent on – after all, this is exactly what is being asked of DC scheme trustees in assessing value for money for members, for example. Why shouldn't the same apply in relation to the levy?

If this happened, I think there would be more industry confidence that money was being spent in the right areas to do the right things, as well as in the size of the levy being appropriate for different types of pension scheme.

**Aon head of UK retirement policy, Matthew Arends**

At Nest, we recognise the critical work of the levy-funded bodies and the need to ensure their proper funding. We welcome any work by the levy-funded bodies to improve cost transparency, which should help demonstrate more precisely where levy liabilities should fall. We are keen to ensure that our members do not bear a disproportionate burden of levy costs, and think that over time this may mean re-examining the per-member basis of the general levy.

**Nest director of strategy and corporate affairs, Zoe Alexander**

Over recent years, the remit of The Pensions Regulator has considerably deepened and expanded, with the Money and Pensions Service – soon to be under the umbrella brand of MoneyHelper – playing a vital role in encouraging the public to engage in savings and pensions.

The pensions market has evolved, more complex financial market conditions need to be endured and governance standards rightly continue to be strengthened. The government projected that the levy deficit currently stands at £80 million in 2021 and without change would grow by around £50 million per year. It was therefore inevitable that levy revenue would have to increase so that pension scheme members and their benefits are suitably protected.

In terms of the four new levy rates, in principle, it makes sense that the structure of each levy aligns to the expected expenditure. In particular, it is right to distinguish between occupational DB and DC schemes (excluding master trust) due to the regulatory and governance challenges facing DB schemes. This is starkly highlighted by the fact that circa 90 per cent of the additional levy revenue arising from the changes is expected to come from DB schemes.

**Fidelity International head of pension products, James Carter**

# Pensions history

## Property as an investment for pension funds

3 April 1974 found George Ross Goobey back in South Africa, after his visit eight years previously, speaking to the Association of Pension and Provident Funds of South Africa on 'Property as an Investment for Pension Funds'.

He considered that long-term investment in property and in property unit trusts for pension funds was being recommended because it was expected that the income from the properties over the years would, in the long run, exceed the income from a similar investment in ordinary shares. This was even after allowing for the fact that increases in rents would be deferred by the nature of the length of the rent reviews and even though dividend increases might occur yearly.

Twenty-five years before the fixed interest concept became popular, rent reviews were as long as 42 years. Property investors were being denied an earlier reversion to the very greatly increased rental values that were taking place. The accepted normal rent review period moved down first to 35 years, then to 28 years, 21, 14, 10, seven and subsequently five.

Another facet of property investment and its suitability to pension funds, to which he drew attention, was the fact that property for pension funds often came in large lumps, which should be less of a problem for them than many other types of investor. This was because the cashflow over the next few years could so easily be determined with a pension fund. Rather than miss an opportunity for investing in a property, which might require more cash than was immediately available for investment, pension funds ought to be more willing to consider borrowing until the accruing funds were received to fund the investment.

**The Pensions Archive Trust chairman, Alan Herbert**

## Fun and games

### Wordsearch

| | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| V | O | S | C | P | A | C | E | G | R | A | H | C | S |
| R | A | S | E | L | B | A | W | E | N | E | R | U | M |
| E | N | L | U | G | O | A | C | O | S | T | S | E | Y |
| M | O | R | U | T | R | Y | L | I | U | T | R | C | E |
| U | I | K | R | E | R | T | E | U | A | H | N | O | D |
| N | T | Y | H | U | F | Q | A | I | O | E | Y | P | O |
| E | A | O | M | R | E | O | N | T | R | M | U | O | C |
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CHARGE CAP
COSTS
COVENANT
FUNDING CODE
INFLATION
REMUNERATION
RENEWABLES
SUSTAINABILITY
TRANSPARENCY
VALUE FOR MONEY

### I know that face...

Answer at bottom of page


I know that face... Answer: Pensionbee CEO, Romi Savova

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