Viewpoint

The official journal of the Pensions and Lifetime Savings Association

Issue 1 2016

NO MORE NORMAL

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

CHIEF EXECUTIVE'S Viewpoint

Joanne Segars

BY THE TIME THIS EDITION OF Viewpoint **LANDS ON YOUR DESK, THE CHANCELLOR WILL BE PUTTING THE FINISHING TOUCHES TO HIS 2016 BUDGET.**

The big question for us is 'will it be (another) big Budget for pensions'? All the signs suggest that it will – and that more tax change is on the horizon. You may well be thinking that we've been round this loop before. And you'd be right. We have. But this time, many millions more savers could be affected by the Chancellor's plans than we've seen before.

TWO WRONG ANSWERS

Mr Osborne is currently mulling two options: a flat rate of tax relief payable to everyone – say set just above the basic rate of tax at 25%; and an ISA-style tax system which would see tax levied up front.

The argument goes that a flat rate of tax would be fairer, only hitting those on top salaries. But in fact anyone earning over £42,385 will find themselves worse off. They'll find themselves facing a tax bill on their and their employer's contributions. The Treasury said their consultation looking at the options for reform is all about incentivising saving; but that sounds like a pretty big disincentive to save to me.

IT IS THE BIGGEST PRIZE IN PENSIONS, AND ONE WE SIMPLY CANNOT AFFORD TO PUT AT RISK

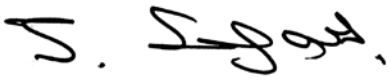
The second option – a tax-exempt-exempt system – would give an immediate boost to the Chancellor. It would also require today's savers to take an enormous bet that a future Chancellor would not be tempted to tax pensions when they fall due. I am not sure that will instil confidence in many.

THE THIRD WAY

Our view remains clear: while a pensions tax grab might bring benefit to the Exchequer in the short term, longer term it means lasting damage to the Government's finances, to schemes and above all else to savers. That's the last thing we need as we work to bring 1.8 million small and micro employers and nearly 5 million workers into pensions through auto-enrolment. It is the biggest prize in pensions, and one we simply cannot afford to put at risk.

So our message to the Chancellor has also been clear – that on 16 March, Budget Day, he has a third option: he could choose no change.

That's the right thing to do for the economy and for savers. We hope he listens.



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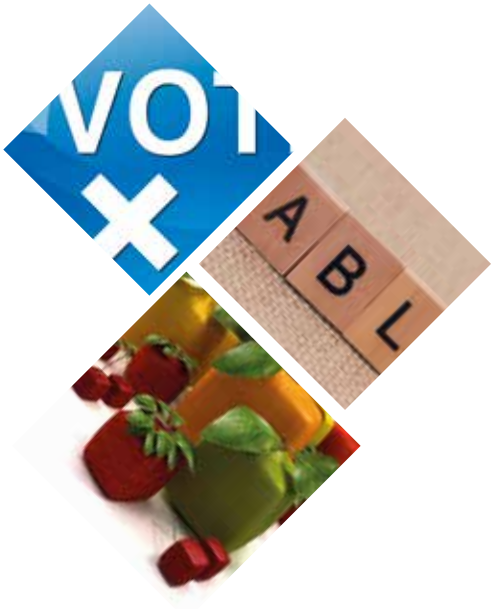

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Viewpoint **UPDATE**

Transfer fees and a Retirement Quality Mark are in the spotlight.

THE LGPS INVESTMENT REGULATIONS

The Association welcomed the Government's recent proposals to remove the arbitrary limits on the amount Local Authority funds can invest in certain types of legal structures. We have argued for some time that such limits are prescriptive and out of date. But Government may have gone too far. In particular we would argue that the regulations need to make some reference to the ultimate purpose of the investments: the fiduciary duty to pay members benefits.

The Association also has some concerns about the broad powers being taken by Government to direct funds' investments. There is a risk that such broad powers, combined with the lack of an explicit fiduciary duty, could ultimately be used by a future government to direct what funds invest in, with limited regard on the impact to the payment of members' benefits and the costs to employers and members. The Association's full response can be seen on our website.

TRANSFERS AND EXITS

Following the freedom and choice reforms the Government launched a consultation on *Pension transfers and early exit charges* in July 2015. The consultation focussed on early exit charges, the lack of clarity in the process for transferring pension savings from one scheme to another, and uncertainty around the provision and need for financial advice when making transfers. The Government has now responded to that consultation, and we welcome their commitment to publish guidance for trust-based schemes on how to improve transfer times. The Association published a blueprint for achieving faster transfer times in its consultation response and we remain committed to this.

We will continue to push the Government on whitelisting – certifying in advance that all participants in a transfer are legitimate pension schemes and not financial criminals. Making transfers safer opens the door to making them much faster and also reduces costs.

Our full response to the *Pension transfers and early exit charges* consultation can be found at **www.plsa.co.uk/PolicyandResearch/DocumentLibrary**

THE DC CODE

We have responded to The Pensions Regulator's consultation on the new DC code. The new draft code is a significant improvement on its predecessor, being both better drafted and significantly less prescriptive.

However the standards on common and conditional data continue to be of concern. The draft code also suggests shortening the window schemes have to invest members' money from five days to three. The Association has made representations on both issues. A covering letter argues for changes in the way master trusts are regulated, suggesting that a common approach is needed to address risks to scheme members posed by the disorderly failure of a master trust.

The letter and the consultation response can be found on our website at **www.plsa.co.uk/PolicyandResearch**

IN THE NEWS

CRUISES AND LAMBORGHINIS... OR JUST A SET OF NICE TEETH AND A FACELIFT? WHAT THE OVER-55s ARE REALLY BLOWING THEIR PENSIONS ON.

Unattributed, *Daily Mail*

TO FUEL THE PENSIONS REVOLUTION, WE NEED TO PUT PASSION INTO PENSIONS

Simon Rowell, *CityAM*

ALTMANN RULES OUT SCARY PENSIONS ADVERTISEMENTS

Shirin Aguiar, *FT Adviser*

Wow. @yanisvaroufakis is going to be a keynote at @ThePLSA's investment conference in March. I wish I was attending this year.

And you're never too old to increase your #pensions contributions either.....well maybe if you're 75 you can stop

I'm just trying to play Smurfs Village and Noah is trying to explain pensions and retirement funds to me

NO MORE NORMAL

Joanne Segars discusses the challenges of freedom and choice.

ON 6 APRIL LAST YEAR THE WORLD, AS THOSE OF US IN THE PENSIONS INDUSTRY KNEW IT, CHANGED FOREVER. AND MORE IMPORTANTLY, IT CHANGED FOR THE 2.8 MILLION MEMBERS OF DC PENSION SCHEMES. NOW THERE WAS NO MORE NORMAL.

What came next was, of course, freedom and choice. That sounds like an unmitigated plus – and it would be true, if only 'freedom and choice' equated to 'clear and simple'. Unfortunately that's far from the case and there are plenty of bear traps out there.

What is clear and simple is the goal I set out last year when we relaunched this Association: to help everyone achieve a better income in retirement.

IF ONLY FREEDOM AND CHOICE EQUATED TO CLEAR AND SIMPLE

While it is a clear and simple goal it is not necessarily an easy one. But it is one we intend to achieve – more than ever before, people need support. We need to understand pension freedoms from the perspective of the saver. We have to understand their needs and talk to them in language that makes sense to them. And we must start understanding what a good retirement looks like for them – not what we want to deliver for them.

To help us achieve that understanding, last year we launched our *Understanding Retirement* research programme. The first results of the programme revealed that savers broadly supported the changes. However, they were worried about making bad decisions and fearful of running out of money. Now, we have published the first major market-wide survey of who did what and why in the first six months of the pension freedoms. *Pension Freedoms: no more normal* focused on the 2.8 million people with at least one DC pot not yet in payment – the first cohort, or pioneers, of the pension freedoms.

We defined three groups:

- **Actioners** – the early adopters, a distinct and affluent group, many with experience of self-invested personal pensions (SIPPs) or income drawdown;
- **Investigators** – those who are assessing their options; the largest group, with limited experience of drawdown and limited DC savings but largely reliant on DC and other savings for an income in retirement; and
- **Inactives** – the most vulnerable group, many still working, and the most reliant on limited DC savings to provide an income in retirement – but with the lowest levels of financial confidence.

The research findings clearly warn against placing too much weight on the experiences of the actioners as it's clear they are by no means representative, nor of the longer-term challenging trends that could emerge. It is the inactives that speak most clearly of the longer-term challenges created by low levels of retirement savings married with the lowest levels of financial confidence.

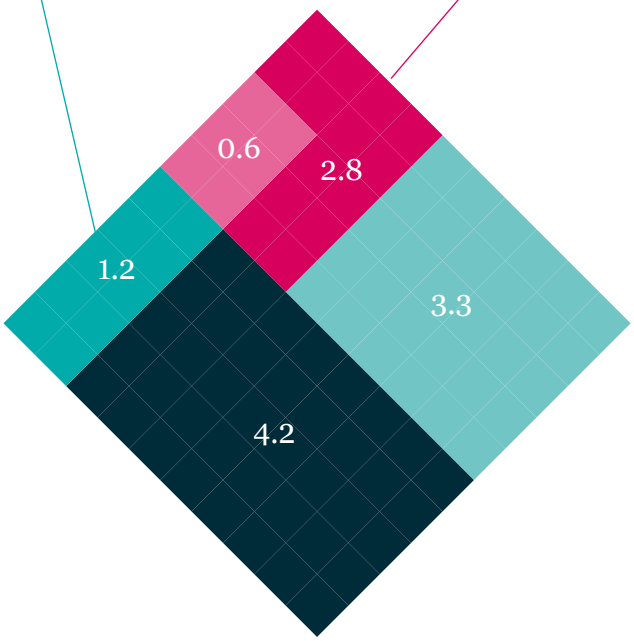
So how do we give them the best support? Someone has to map the new pension freedom territory to allow savers to cross it confidently. And this research underlines the importance and value of our proposal: quality-assured products, a Retirement Quality Mark, combined with strong signposting by trustees and providers to help savers spot reliable products that are likely to work for them – effectively providing a map that clearly shows the various routes available to them.

Visit **www.plsa.co.uk/Policyand Research** *to download Pensions Freedoms: No More Normal, Understanding Retirement Wave II*

PENSION FREEDOMS: WHO GETS TO CHOOSE?

Some of the
1.8 million
people with DB pensions can also transfer if they want to use the freedoms – 5% have done this so far

11.5 MILLION PEOPLE AGED 55-70



No private pension

Fully retired and drawing all private pensions

Defined benefit pension only

Defined contribution

2.8 million
DC savers in scope...

...with

£238 billion
of pension savings

On average, each person has

1.5
DC pots
62% have just 1 pot, 13% have 3 or more

On average, people have

£86,000
of DC savings
But the majority have much less wealth, 55% have £30,000 or less, half have less than £17,500

28%
are already getting income from another pension
Split equally between those with a DB pension in payment, those with an annuity and those in drawdown

85%
have other savings and investments
39% have share-based savings (Share ISAs or direct holdings), 16% own a second property

70%
are debt-free
Most with outstanding debt have mortgage debt (25%)

Of the 2.8 million DC savers in scope...

0.6
million have done nothing yet

1.8
million are investigating

0.4
million have accessed their pension

(more information overleaf)

All figures are from Pensions and Lifetime Savings Association research undertaken in October 2015 with over 2,000 people aged 55-70; data are weighted to be representative of the UK population

PENSION FREEDOMS: WHAT HAVE PEOPLE DONE?

400,000 PEOPLE HAVE USED THE FREEDOMS: THEY'RE NOT TYPICAL

Wealthier

Median DC wealth = **£30,000** (compared with £17,500)
22% own a second property (compared with 16%)
25% also have DB wealth to access (compared with 20%)

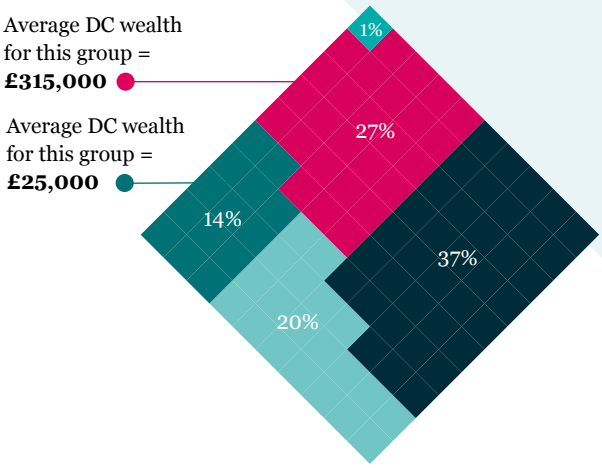
Already getting a pension

72% already drawing a pension income (compared with 32%)

More confident

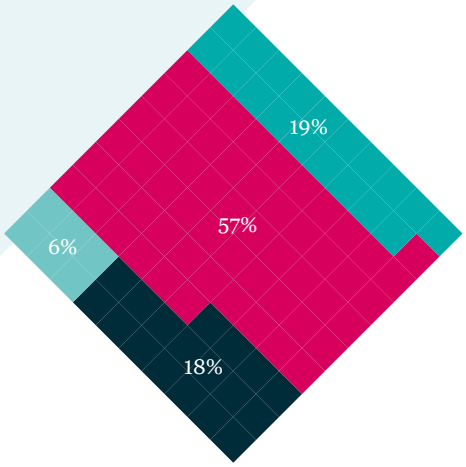
But still not very confident – **35%** high on confidence (compared with 28%)

WHAT HAVE THEY DONE?



- Tax-free cash only
- Annuity (with or without tax free cash)
- Cash only (with or without tax free cash)
- Drawdown only (with or without tax free cash)
- Combination of cash, annuity and drawdown

HAVE THEY SPLASHED THE CASH?



- Saved or invested it all
- Spent it all
- Saved some and spent some
- Donated or other combination

Most have saved; **60%** of those saving are saving in current accounts or cash ISAs

WHO'S HELPING WITH DECISIONS?

40%	24%	18%	12%	5%	2%
contacted their pension provider	paid for advice	spoke to friends and family	used newspapers to research	spoke to a Pension Wise guide	met a Pension Wise guide face-to-face

All figures are from Pensions and Lifetime Savings Association research undertaken in October 2015 with over 2,000 people aged 55-70; data are weighted to be representative of the UK population

IAS Calc
Integrated Actuarial Solutions

In recent years the revolution in computing hardware and the ability to host software in the cloud has offered exciting opportunities to software designers. In turn this has impacted on many traditional business models and is now creating further opportunities for the DB pensions industry.

Whether your scheme is large, small or very small, trustees, boards and sponsors can now use the most sophisticated software that has previously been available only to schemes with large resources.

'We've looked at software systems before and they are far too expensive for our limited budgets.'

IAS Calc has been designed from the outset to offer a cost effective solution that is sensitive to the needs of smaller schemes and organisations concerned about controlling costs.

'But actuarial calculations are too complicated and no-one here will be able to use the software.'

We beg to differ! IAS Calc software does not require specialist actuarial skills and can be used after minimal training. If you can use a smartphone or access your emails through a computer, you can use our system.

But we've always had a good relationship with our Scheme Actuary.

Processing your own calculations doesn't mean that you have to replace your existing scheme actuary. Indeed, tPR expects trustees to be able to challenge the scheme actuary's advice and the only way that is possible is if you can see and understand for yourself why different scenarios produce different outcomes.

21st Century software enables DB Schemes to control costs and improve performance.

Processing actuarial calculations is as simple as A x B x C

The basic principles underlying pension liability calculations are not complex and in broad terms may be considered as the result of multiplying 3 numbers together. In any year and for each member the fundamental calculation is:-

- A - amount of the pension to be paid; multiplied by
- B – the probability of payment; multiplied by
- C – a discount factor representing the time value of money

This calculation is repeated for all of the different types of scheme pension for all members for each year that pensions are expected to be paid – possibly 80 or more years into the future. Modern actuarial software will process millions of these types of calculations and produce results in minutes – or even seconds.

The modules denoted by A, B and C represent the actuarial assumptions typically described in the scheme's Statement of Funding Principles. Sensitivities and what-if scenario results can be produced using options from simple drop down menus – within seconds.

Looking to the future

We expect the role of scheme actuaries to evolve; their advice on strategic issues will continue to be vital and they will continue to provide formal certification for the core valuation results. However, the number crunching, scenario testing and routine monitoring will be processed using software unique to your scheme. Trustee boards and sponsors will have the opportunity to run their own modelling scenarios and generate their own reports while enabling their professional advisers to access a common platform.

If you are a scheme operating in a cost sensitive environment but at the same time want to maintain the highest levels of governance please feel free to contact us to find out more.

Integrated Actuarial Solutions
www.iascalc.com
0845 230 0159

OUR DATA DRIVEN APPROACH GIVES US A UNIQUE INSIGHT INTO RISK.

EVENT	PENSIONS AND LIFETIME SAVINGS ASSOCIATION INVESTMENT CONFERENCE 2016
LOCATION	EICC EDINBURGH
DATE	9-11 MARCH 2016
STAND	NO. 8, THE LENNOX SUITE
PERSONNEL	5

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Find out how the study of big data helps us to separate the truth from the fiction in the market.

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wintoncapital.com

INTERVIEW: LESLEY WILLIAMS

The new Chair of the Pensions and Lifetime Savings Association shares her thoughts on the landscape she'll be working in.

Q:

YOU'VE TAKEN OVER AS CHAIR OF THE PENSIONS AND LIFETIME SAVINGS ASSOCIATION AT A TIME OF GREAT CHANGE FOR PENSIONS AND THE ASSOCIATION ITSELF. HOW DOES/WILL THE PENSIONS AND LIFETIME SAVINGS ASSOCIATION DIFFER FROM THE NAPF?

A:

We've changed because pensions are changing – and we have to think differently so we can keep helping our members. We want to create a stronger voice by representing the new people who are joining our world as a result of automatic enrolment, and we've already launched a new type of membership through Pension Solution. We'll launch new products to support our new and existing members in helping savers, and we'll partner with business members to develop new offerings. Importantly, we'll undertake robust research to help us all to better understand how savers see pensions and lifetime savings.

Q:

AS WE MENTIONED, IT'S A TIME OF GREAT CHANGE AND 2015 WAS ANOTHER VERY BUSY YEAR FOR PENSIONS. WHAT ARE THE HIGHLIGHTS?

A:

One of the highlights for me has been the speed with which the industry responded to the introduction of flexible retirement. In a very short space of time, schemes and providers have managed to change their processes, develop new defaults and adapt their communications to support a change that no-one saw coming and that was, frankly, at odds with the fundamental design of UK pensions.

Most uplifting, however, has to be the growing number of people who are saving for a pension as automatic enrolment continues its successful roll-out.

Q:

AND WHAT HAVE BEEN THE BIGGEST CHALLENGES?

A:

I think we have all been very worried about savers not understanding the consequences of the new freedoms, and as a result there have been a variety of reactions – some schemes have almost rejected the flexibilities, continuing to offer annuities, some have allowed them, some have provided solutions. The challenge of education has been a hot topic, but simply saying that education is the only answer does feel as if we are ducking the issues. Our purpose is to help people secure incomes in retirement, but in reality no-one really knows yet how to ensure the best outcomes in this new world. I'm confident that we will find solutions, but the challenge is ongoing.

Q:

THE PENSION LEGISLATION THAT HAS BECOME KNOWN AS FREEDOM AND CHOICE HAS BEEN MOST WELCOME. BUT WHAT HAVE BEEN THE CHALLENGES FOR IMPLEMENTATION?

A:

I've covered some of this above and think much of the implementation response to date has been positive, although those governing pension schemes need to monitor their members closely to make sure that their defaults are aligned with member behaviour – it's no good targeting annuity purchase if all members are choosing to take cash! I'd like to suggest that the calls for the mass availability of flexible products are premature. Given that most DC pensions are still very small we have time for innovation and to build highly efficient solutions over the coming years. Let's avoid a less-than-perfect knee-jerk reaction.

Q:

WHAT STILL NEEDS TO BE DONE TO ACHIEVE GOOD OUTCOMES FOR INDIVIDUALS?

A:

Thorough research, such as our Understanding Retirement research, is essential. I believe that at-retirement defaults – that are simple in the hands of savers, even if they are complex under the bonnet – could be the right way forward. However, I have learned that my best work is achieved when I observe and listen to my scheme members and respond accordingly, rather than guessing!

OUR PURPOSE IS TO HELP PEOPLE SECURE INCOMES IN RETIREMENT, BUT IN REALITY NO-ONE REALLY KNOWS YET HOW TO ENSURE THE BEST OUTCOMES IN THIS NEW WORLD

Q:

DB SCHEMES CONTINUE TO CLOSE, AND SOME EMPLOYERS ARE USING MASTER TRUSTS AND GPPPS FOR THEIR MAIN DC SCHEMES. WHAT DO YOU THINK THE FUTURE HOLDS FOR SINGLE-EMPLOYER TRUST-BASED DC?

A:

I have mixed views. On the one hand I believe that there are economies of scale to be had, but on the other my experience is that employees are more likely to join and engage with a pension scheme provided by a trusted employer. Whether the future lies in large master trusts or in a mix of scheme types, one thing I am sure about is that good governance is vital. We must ensure that our schemes of the future are governed by those with the time, skill and independence to secure good member outcomes.

Q:

HOW HAVE DC SCHEMES COPED WITH THE NEW CHARGE CAP?

A:

I'm not sure that's the right question to ask. The introduction of a charge cap has brought with it a flurry of activity and the accompanying administrative cost for DC schemes, and the schemes themselves seem to have coped – but I wonder how members of schemes have fared. I'm sure that, for the most part, it is members who have picked up transition costs as investment funds have had to change; and, even without transition costs, my members are certainly experiencing a lower net return than they would have, had they stayed in our pre-charge cap funds.

Q:

AUTOMATIC ENROLMENT HAS BEEN VERY SUCCESSFUL SO FAR, BUT DO YOU THINK THAT AS IT STANDS IT WILL BE ADEQUATE TO DELIVER GOOD OUTCOMES FOR PEOPLE?

A:

As long as the contributions rise and the state pension plans unfold as planned, then the resulting outcomes for lower-paid people look good. Those on higher earnings are not adequately provided for by automatic enrolment, unless they are prepared to stand a significant drop in income (noting also that significant drops in income have a detrimental effect on the economy!), so at some point the UK needs to consider whether and how to address that. For the time being, though, I'd like to see well governed auto-enrolment fully rolled out and embedded without other distractions.

Q:

ONE OF THE BIG POLICY DECISIONS OF 2016 WILL BE WHETHER TO MAKE CHANGES TO THE TAXATION OF PENSIONS. WHAT ARE YOUR THOUGHTS?

A:

Tax on a pension is currently deferred until it becomes income in the hands of the recipient. Pensions are not tax-free! To me this is utterly logical. It encourages people to save for retirement, which is essential, and it means that people pay tax on their pension income as it is received, to support the requirements of society at that time. (I appreciate that many people appear to be unaware of the way pension taxation works, but people I talk to do understand that pension saving is a good thing and that 'good' feeling comes from the tax treatment.)

As the Pensions and Lifetime Savings Association response to the consultation explains, a reversal of this will ultimately reduce taxation income and is unsustainable, and the alternative proposal of conversion to a single rate of tax is an inappropriate way to redistribute tax benefit that undermines pensions provision in several ways.

As well as these reservations, I have some more parochial concerns about more expensive change. My own employer has plenty on its business agenda and I wonder whether it will continue to want to support a generous pension scheme in the face of yet more regulatory cost.

Q:

HOW DO YOU SEE THE LANDSCAPE OF PENSIONS CHANGING?

A:

I rather hope the landscape will stay the same for a bit!

WE MUST ENSURE THAT OUR SCHEMES OF THE FUTURE ARE GOVERNED BY THOSE WITH THE TIME, SKILL AND INDEPENDENCE TO SECURE GOOD MEMBER OUTCOMES

A TIME FOR CAREFUL PLANNING

Lesley Titcomb explains how TPR is supporting trustees in an uncertain environment.

THE PENSIONS LANDSCAPE IS CHANGING. MANY DEFINED BENEFIT (DB) SCHEMES ARE RAPIDLY MATURING, AND MORE AND MORE ARE BECOMING SIGNIFICANTLY CASHFLOW-NEGATIVE. WE KNOW THAT MANY SPONSORS AND TRUSTEES WANT TO WORK TOGETHER TO ADDRESS THESE ISSUES – TO SECURE SUSTAINABLE SCHEMES THAT DELIVER GOOD MEMBER OUTCOMES OVER THE DECADES TO COME. WE WANT TO HELP, AND ARE COMMITTED TO EXPLORING CREDIBLE NEW IDEAS WITH THE PENSIONS INDUSTRY TO ACHIEVE THIS.

As defined contribution (DC) replaces DB, the DC market is gathering scale and momentum but many trustees are just getting to grips with the challenges of delivering improved member outcomes. And DB funding pressures remain as the new paradigm of 'lower for longer' (interest rates) continues to be realised. Meanwhile investment markets have not been kind; volatility and uncertainty remain the order of the day.

These are challenging times for pension schemes and every trustee board has, in addition, to deal with the unique circumstances of their own scheme arrangements. However, one thing we expect from all trustees is good governance. That includes good governance of the scheme's investments.

We have started a debate within the industry about how to be a good 21st century trustee. Research we published in the autumn showed that trustees want to increase their knowledge and understanding of the developing investment and risk management universe to enable them to deliver better outcomes for their members. This is a challenge for us, trustees, investment consultants and fund managers.

Our recently-published draft DC code of practice sets out in principle what we expect of trustees regarding investment governance and value for members. We will supplement this with practical guidance. Trustees must understand the differing needs and objectives of their schemes – one size does not fit all. They should offer suitable strategies to enable members to meet their varying needs for fund growth, for savings protection and – to the extent that it is reasonable – for different forms of income when they want to take their benefits.

Trustees must understand what the key drivers of member outcomes are and regularly consider how outcomes might be improved in the light of market, product and provider developments. Trustees, consultants and fund managers should work together to ensure that real value for members is delivered.

DB FUNDING CODE OF PRACTICE

Our DB funding code of practice sets out how we expect trustees and employers to work together flexibly to achieve balanced funding outcomes. We focus on the management of risks to scheme funding, so that risks from scheme funding and investment strategy are supportable by the employer's covenant. We have recently published our guidance on integrated risk management. There, we suggest a practical framework for assessing, monitoring and managing these key risks; and emphasise the importance of contingency planning in case risks come to pass.

We know from working with schemes and their advisers that many schemes' funding levels will benefit if interest rates rise faster or further than markets predict. And many schemes base their investment and funding strategies around a central assumption that this will be the case. However, good risk planning should include asking (and answering) the question: "*What will we do if we are wrong and rates do stay lower for longer?*" We expect advisers to make their key assumptions clear, and for trustees to understand the significance of these to their advice. Trustees should feel confident to challenge their advisers robustly.

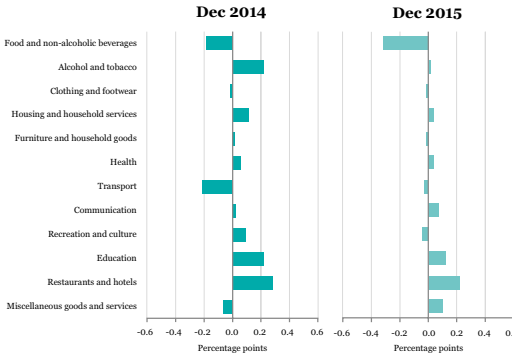
TRUSTEES MUST UNDERSTAND THE DIFFERING NEEDS AND OBJECTIVES OF THEIR SCHEMES – ONE SIZE DOES NOT FIT ALL

We are aware many schemes are cashflow-negative, and we want schemes in this situation to plan carefully for how they will generate cash flows to pay benefits. These are challenging times for pension schemes, especially regarding scheme investments. While we have clear expectations of trustees, we continue to offer help and guidance.

Lesley Titcomb is Chief Executive at The Pensions Regulator

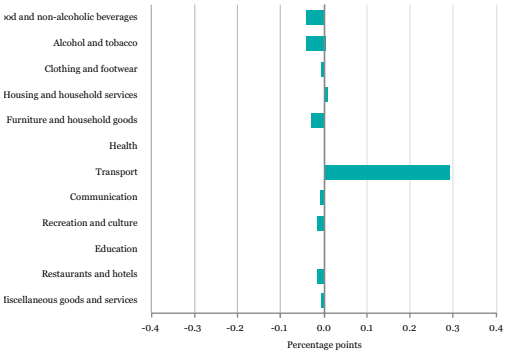
ECONOMIC INDICATORS

CONTRIBUTIONS TO THE CPI 12-MONTH RATE: DECEMBER 2014 AND DECEMBER 2015



Note: Individual contributions may not sum to the total due to rounding.
Source: Office for National Statistics.

CONTRIBUTIONS TO THE CHANGE IN THE CPI 12-MONTH RATE: DECEMBER 2015

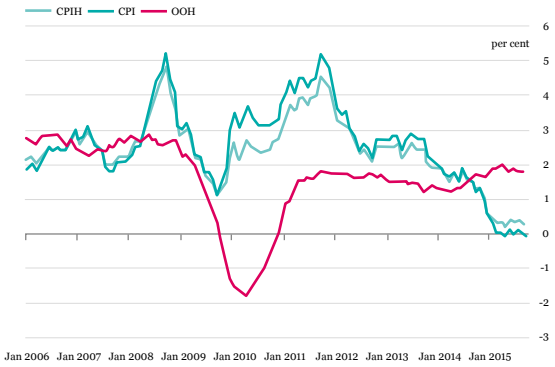


Note: Individual contributions may not sum to the total due to rounding.
Source: Office for National Statistics.

CPI 12-MONTH INFLATION RATE FOR THE LAST 10 YEARS: DECEMBER 2005 TO DECEMBER 2015

Source: Office for National Statistics.

CPIH, OOH COMPONENT AND CPI 12-MONTH RATES SINCE JANUARY 2006



Note: The National Statistics status of CPIH has been discontinued.
Source: Office for National Statistics.

CPI INDEX VALUES, 1-MONTH AND 12-MONTH RATES: DECEMBER 2014 TO DECEMBER 2015

		Index[1] (UK, 2005 = 100)	1-month rate	12-month rate
2014	Dec	128.2	0.0	0.5
2015	Jan	127.1	-0.9	0.3
	Feb	127.4	0.3	0.0
	Mar	127.6	0.2	0.0
	Apr	128.0	0.2	-0.1
	May	128.2	0.2	0.1
	Jun	128.2	0.0	0.0
	Jul	128.0	-0.2	0.1
	Aug	128.4	0.2	0.0
	Sep	128.2	-0.1	-0.1
	Oct	128.4	0.1	-0.1
	Nov	128.3	0.0	0.1
	Dec	128.5	0.1	0.2

Key: - zero or negligible
1. All Items Consumer Prices Index

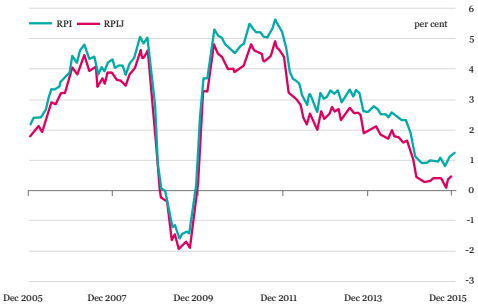
CPIH AND OOH COMPONENT INDEX VALUES, 1-MONTH AND 12-MONTH RATES: DECEMBER 2014 TO DECEMBER 2015

		CPIH[1] Index1 (UK, 2005 = 100)	OOH Index[1] (UK, 2005 = 100)	CPIH 1-month[1] rate	OOH 1-month[1] rate	CPIH 12-month[1] rate	OOH 12-month[1] rate
2014	Dec	125.9	115.6	0.0	0.2	0.7	1.7
2015	Jan	125.0	115.9	-0.7	0.2	0.5	1.9
	Feb	125.3	116.0	0.2	0.1	0.3	1.9
	Mar	125.5	116.1	0.2	0.1	0.3	2.0
	Apr	125.8	116.3	0.2	0.1	0.2	1.9
	May	126.0	116.4	0.2	0.2	0.4	1.8
	Jun	126.1	116.6	0.1	0.1	0.3	1.9
	Jul	126.0	116.8	-0.1	0.1	0.4	1.8
	Aug	126.3	117.0	0.2	0.2	0.3	1.8
	Sep	126.2	117.2	-0.1	0.1	0.2	1.8
	Oct	126.4	117.3	0.1	0.2	0.2	1.8
	Nov	126.4	117.6	0.0	0.3	0.4	1.9
	Dec	117.8	117.8	0.1	0.2	0.5	1.9

Key: - zero or negligible

1. The National Statistics status of CPIH has been discontinued pending work by ONS to investigate and improve the method for measuring owner occupiers' housing costs in this index. The improvements from the resulting development work are being introduced as part of this release with the historical back series revised back to 2005.

RPI AND RPIJ 12-MONTH RATES FOR THE LAST 10 YEARS: DECEMBER 2005 TO DECEMBER 2015



Note: The RPI has been de-designated as a National Statistic.
Source: Office for National Statistics.

RPI AND RPIJ INDEX VALUES, 1-MONTH AND 12-MONTH RATES: DECEMBER 2014 TO DECEMBER 2015

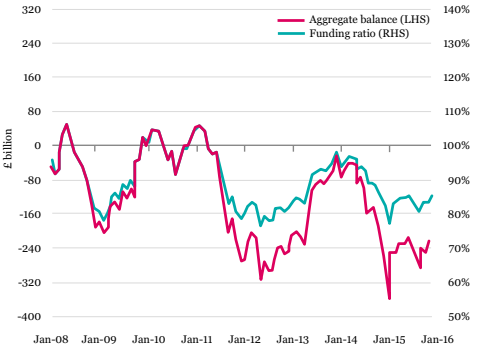
		RPI[1] Index1 (UK, 1987 = 100)	RPIJ Index (UK, 1987 = 100)	RPI 1-month[1] rate	RPIJ 1-month rate	RPI 12-month[1] rate	RPIJ 12-month rate
2014	Dec	257.5	238.6	0.2	0.1	1.6	1.0
2015	Jan	255.4	236.5	-0.8	-0.9	1.1	0.5
	Feb	256.7	237.2	0.5	0.3	1.0	0.4
	Mar	257.1	237.4	0.2	0.1	0.9	0.3
	Apr	258.0	238.0	0.4	0.3	0.9	0.3
	May	258.5	238.5	0.2	0.2	1.0	0.4
	Jun	258.9	238.7	0.2	0.1	1.0	0.4
	Jul	258.6	238.4	-0.1	-0.1	1.0	0.4
	Aug	259.8	239.4	0.5	0.4	1.1	0.5
	Sep	259.6	239.1	-0.1	-0.1	0.8	0.1
	Oct	259.5	238.9	0.0	-0.1	0.7	0.0
	Nov	259.8	239.1	0.1	0.1	1.1	0.3
	Dec	260.6	239.8	0.3	0.3	1.2	0.5

1. In accordance with the Statistics and Registration Service Act 2007, the Retail Prices Index and its derivatives have been assessed against the Code of Practice for Official Statistics and found not to meet the required standards for designation as National Statistics. A full report can be found at: http://www.statisticsauthority.gov.uk/

Note: The RPI has been de-designated as a National Statistic.
Source: Office for National Statistics.

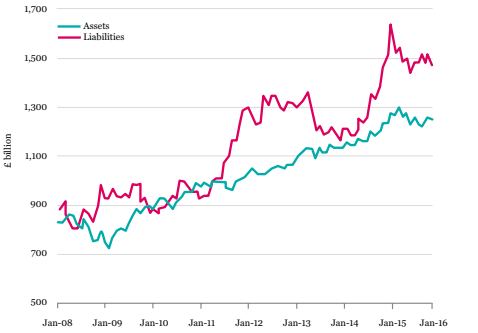
PPF 7800 INDEX DECEMBER UPDATE

Historical aggregate balance (assets less s179 liabilities) and funding ratio of schemes in the PPF universe.



Source: Pension Protection Fund.

Historical aggregate assets and s179 liabilities



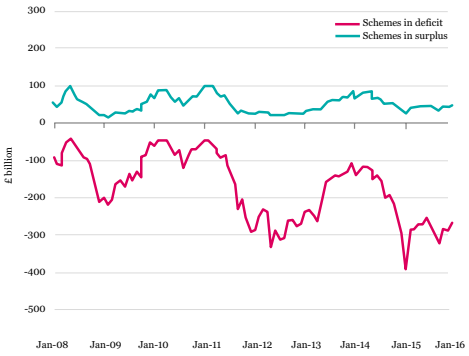
Source: Pension Protection Fund.

FUNDING COMPARISONS

	December 2014	November 2015	December 2015
Aggregate balance	-£266.3bn	-£249.4bn	-£222.4bn
Funding ratio	82.3%	83.4%	84.9%
Aggregate assets	£1,236.6bn	£1,253.8bn	£1,247.5bn
Aggregate liabilities	£1,502.9bn	£1,503.2bn	£1,469.8bn

Source: Pension Protection Fund.

Historical percentage s179 basis (surplus) for schemes in deficit (surplus)



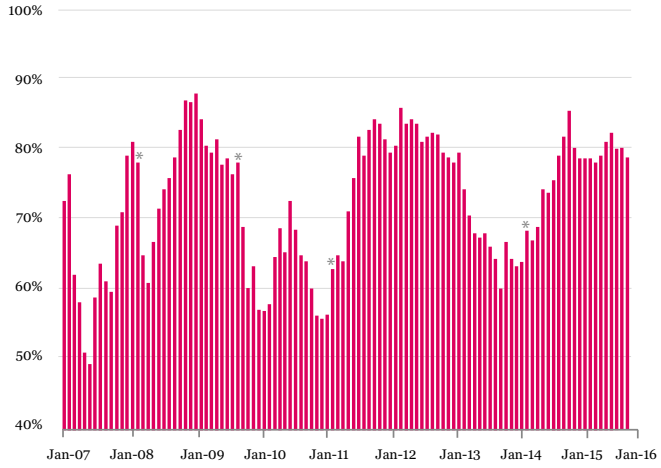
Source: Pension Protection Fund.

SCHEMES IN DEFICIT (SURPLUS)

	December 2014	November 2015	December 2015
Number of schemes in deficit	4,936	4,715	4,679
Deficit of schemes in deficit	£300.7bn	£289.5bn	£265.8bn
Number of schemes in surplus	1,121	1,194	1,266
Surplus of schemes in surplus	£34.3bn	£40.1bn	£43.4bn
Number of schemes in universe	6,057	5,945	5,945

Source: Pension Protection Fund.

Historical percentage of schemes in deficit on a s179 basis



Note: the changes to assumptions in March 2008, October 2009 and April 2011 reduced the number of schemes in deficit by 473, 714 and 253 respectively, while the changes to assumptions in May 2014 raised the number of schemes in deficit by 259.

Source: Pension Protection Fund.

Linklaters

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Pensions Investment Practice

Linklaters' Pensions Investment Practice is an accessible single source of expertise on the full range of matters relating to the investment of pension funds. We apply our extensive experience to make sure each project is delivered successfully with individual trustee goals in mind.

We understand regulation, tackle risk and supply insight and innovation.

CHIEF EXECUTIVE QUESTION TIME

Pensions and Lifetime Savings Association Chief Executive **Joanne Segars** answers questions from members.

THE GOVERNMENT HAS OUTLINED PLANS FOR A SECONDARY ANNUITY MARKET TO BE CREATED IN 2017. WHAT CHALLENGES AND RISKS WOULD COME WITH THIS IF INTRODUCED?

Edwin Mustard, Partner, Shepherd and Wedderburn

You can see the development of a secondary annuity market as a natural extension of the 'freedom and choice' reforms we've supported. But as we're discovering there, ensuring savers have genuine freedom to choose is proving tricky. We're concerned that the same could be true for a secondary annuity market. One of the biggest challenges seems to me to be ensuring there's a mechanism which means the people selling back their annuity feel they get a fair price for it – we've already seen from our research on Understanding Retirement (see page 6) that savers are worried about being "ripped off" (in their words). It would also mean sellers would need to take financial advice – not least so they were aware of the benefits of a regular, guaranteed, income they would be giving up.

In short, Edwin, there's a lot more thinking we need to do to develop this market in a way that works for both buyers and sellers.

WHAT DO YOU BELIEVE TO BE THE UNDERLYING DRIVERS OF THE FCA'S ASSET MANAGEMENT MARKET STUDY FROM WHERE THE PENSIONS AND LIFETIME SAVINGS ASSOCIATION IS POSITIONED? IS IT REQUIRED AND IF SO, PRINCIPALLY WHY? WHAT KEY CHANGES WOULD YOU EXPECT TO BE MADE?

Ken Harvie, Head of Consultant Relations, Unigestion

We've certainly supported the scope and direction of the FCA review which picks up on many of the points we've already made to the FCA and others in response to the wholesale market review in 2014. It has to be right that trustees have a full and transparent view of the costs and charges – including transaction charges – they face. We're working closely with the team at the FCA as the review develops, and I'm looking forward to hearing Tracey McDermott, acting CEO at the FCA, set out what she wants to achieve from the review when she addresses our Investment Conference next month.

GIVEN THE INCREASED FOCUS ON DC GOVERNANCE AND THE WORK ALREADY DONE BY THE PENSIONS AND LIFETIME SAVINGS ASSOCIATION, WHAT SUPPORT WILL THE ASSOCIATION BE GIVING TO ITS MEMBERS ON AN ONGOING BASIS?

Louisa Knox, Committee Officer, Scotland Group

Good question, Louisa. I've always been clear that great pension schemes rely on great governance. And that's true whether they're DB or DC schemes. It's one of the reasons it's a key factor against which schemes are assessed for the Pension Quality Mark. Supporting good governance is one of the priority areas for action for the DC Council this year. We'll be developing some good practice guidance and looking at the factors that make a good trustee board. Of course, we'll also be feeding into the Regulator's work on the 21st Century Trustee. I'd love to hear the views of our Scotland Group and other Local Groups on this topic.

REPRESENTING THE INTERESTS OF OVER 1,300 PENSION SCHEMES TO REGULATORS AND GOVERNMENT MUST LEAVE YOU WITH LITTLE TIME TO SWITCH OFF. WHAT DO YOU LIKE TO DO IN YOUR SPARE TIME AND WHERE DO YOU LIKE TO VENTURE ON HOLIDAY?

David McGibbon, Chairman, Calmac Pension Fund

Far and wide, David! This year we're off to Indonesia for a couple of weeks. Last year we went to Namibia, which was absolutely fantastic – beautiful scenery and amazing wildlife. It's a fabulous way of indulging my other hobby – photography. All tips for future destinations welcome.

If you have a question you would like to ask Joanne or Chair, Lesley Williams please email **jane.dawson@plsa.co.uk**

AWARENESS REVOLUTION

Anthony Hilton argues that uncertainty, inflexibility and a generation heading for the exits pose a serious problem for the future of pensions – and radical change is needed.

HUNDREDS OF MILLIONS OF POUNDS IS LEAVING THE PENSION SYSTEM, WITH NO ONE HAVING A CLEAR IDEA WHERE IT IS GOING

WHEN PEOPLE WERE FIRST GIVEN THE RIGHT TO DO WHAT THEY LIKED WITH THEIR PENSION SAVINGS LAST SUMMER IT WAS INEVITABLE AND PREDICTABLE THAT THERE WOULD BE A DASH FOR CASH, AS THOSE WHO WERE SERIOUSLY SHORT OF MONEY TOOK ADVANTAGE OF THIS NEW AND UNEXPECTED SOURCE. THE FIRST FEW MONTHS SAW THE CASHING-IN OF SAVINGS BY TENS OF THOUSANDS OF PEOPLE STILL SOME WAY SHORT OF THEIR OFFICIAL RETIREMENT DATES.

It was however equally likely that things would calm down once this pent-up demand had worked through the system. That is also what has happened. There was a drop in people doing this of some 13% between the first and second quarters to just under 180,000, according to figures from the Financial Conduct Authority.

This is more than you would expect from the pure demographics, but enough of a drop to suggest that the direction of travel is towards a level which correlates more closely with the numbers approaching retirement.

It is also clear that in spite of vigorous efforts to advise the public to shop around, two-thirds of those who want a guaranteed income are still not actively looking for the best deal before they buy – much to the chagrin of the specialist providers of enhanced annuities, who think they would have a significantly higher market share if more of the public knew what they offered.

The even stronger message however is that there has been a sharp and sustained drop in the purchase of annuities of any kind, and this implies that pension freedoms are working best for those who do not want a pension. Hundreds of millions of pounds is leaving the pension system, with no one having a clear idea where it is going.

SETTING AN EXAMPLE

Most comment in this area focusses on the challenges associated with early withdrawal – the problem of securing a guaranteed income, and the difficulty of providing affordable and effective mass market advice – or concern that we risk repeating the social disaster which has blighted parts of annuity fee Australia, where it appears that as many as a third of over-65s have exhausted their pension savings and run out of money after only a few years. First-time visitors to that country are said to be increasingly struck by the number of people well past retirement who are now supplementing their income by working part-time as taxi drivers.

What we should also be worried about however is the message all this gives to young people. They are urged on all sides to start early and enrol in a pension scheme, but how much attention are they going to pay to these exhortations when they see so many people from their parents' generation grabbing the chance to get their money out? If pensions are such a good idea, why are so many who have tried it now rushing for the exit?

This is clearly very unfair on the pensions industry, but appearances matter. The subtleties will be lost on most young people – they will simply see a lot of apparently dissatisfied customers.

It does not stop there. It is the bane of the pensions industry that the Chancellor changes the rules every year – sometimes making pension saving more attractive, but more often going the other way, and always making it more complicated.

Again he is unaware – or does not care – about the wider impact this has. If you talk to young people about the tax advantages of pension saving, for example, they will tell you it counts for very little. This is not because the tax break is seen to have no value, at least by those who have taken the trouble to understand the system. It is because it is seen as having no permanence, since the Chancellor keeps changing the rules. If the tax treatment of pension contributions has been messed around with every year for the last five years, then do not expect today's 28-year-old to have any faith in it remaining intact for the next 40 years which have to pass before they reach retirement age.

IT IS A CLICHÉ THAT MARKETS HATE UNCERTAINTY – BUT IT IS ONLY A CLICHÉ BECAUSE IT IS TRUE

FLEXIBILITY PREMIUM

The issue actually goes beyond tax. It is a cliché that markets hate uncertainty – but it is only a cliché because it is true. People like to know where they are, and the more certain they are about what is going to happen next the more comfortable they feel. The corollary of this is that they put a premium on flexibility, so that if something does go wrong they can do something about it. It is in our DNA that we suffer from loss aversion – we experience more pain from a loss than we enjoy pleasure from a gain – and part of our defence mechanism is to avoid being locked into an investment from which there is no easy escape.

However a pension plan is, or always has been until now, the model of a long-term investment from which there is no escape. This was well understood in earlier years when government appreciated that people would need a strong incentive if they were going to be persuaded to lock their money away without recourse for 30 years or more. This incentive came from two sources. It was provided by the tax relief on pension contributions (and in those days you also got tax relief on the premiums on life insurance policies of more than 10-year duration as government applied the same logic) and it came also from the fact that the employer was also required to pay into the employee's pot.

But of course now that the tax relief has been devalued by uncertainty it no longer acts as an incentive. Employers' contributions in the DC world are also tiny in comparison with what they used to pay in the age of defined benefit, and count for nothing at all among the millions of self-employed. Much as we urge people to embrace pension saving, the downside of a long-term savings contract is now much more obvious and the advantages much less certain. If people want to save they gravitate much more comfortably towards an ISA.

SELLER BEWARE

The pensions industry has a habit, when confronted with such client inertia, to make the case for more financial education. If people don't save they need to be taught to appreciate the merits of pension investment. This may be how North Korea works: if you do not appreciate how talented the great leader is, you will be taken away and 'educated' until you do. But under capitalism the customer is always right, not in need of education. So if a product does not sell, then it should be changed and made more attractive until it does sell.

This is where the pension industry needs to go if it is to capture the hearts and wallets of the young. There needs to be more opportunity to access pension pots in early years – as for example in New Zealand where they can be mobilised as a deposit for a house purchase. There needs to be greater use of guarantees so people have more certainty about what they might expect in return for their trust. There needs to be more transparency over cost, so people can see much more clearly what value the pension provider hopes to add and how much they will charge for doing it.

In short there needs to be much more imagination and consumer awareness, even if this does not come easily to an industry which has always been producer-rather than customer-led. Without such a revolution people will still save, they just won't save through pensions.

Anthony Hilton is a senior commentator at the *Evening Standard* and *The Independent*

ROUNDTABLE: SUSTAINABLE AND RESPONSIBLE INVESTMENTS

For many investors, 2015 was the year that sustainable and responsible investment (SRI) reached a tipping point. Growing concerns about climate change culminated in the Paris climate talks in December, which saw unprecedented engagement by investors and companies alongside policymakers and environment activists. The continuing growth of the Principles for Responsible Investment and other investor initiatives is providing further testament to the increasing acknowledgement of the importance of incorporating environmental, social and governance (ESG) issues into investment management.

But many pension fund executives, trustees and advisors remain unsure whether and how to address ESG risks and opportunities in their own funds. The Pensions and Lifetime Savings Association brought together a group of asset owners, asset managers and consultants to discuss how the SRI industry has emerged into the mainstream, and how pension funds might engage with the issues raised by responsible investment.

ATTENDEES

MIKE TYRRELL
EDITOR, AND ROUNDTABLE CHAIR, SRI-CONNECT

JANE AMBACHTSHEER (JAMB)
PARTNER & GLOBAL HEAD OF RESPONSIBLE INVESTMENT, MERCER

HONOR FELL (HF)
MANAGER RESEARCH ANALYST, REDINGTON

LEANNE CLEMENTS (LC)
RESPONSIBLE INVESTMENT OFFICER, WEST MIDLANDS

MARK MANSLEY (MM)
CHIEF INVESTMENT OFFICER, THE ENVIRONMENT AGENCY PENSION FUND

JENNIFER ANDERSON (JAND)
INVESTMENT OFFICER, PENSIONS TRUST

LUKE HILDYARD (LH)
POLICY LEAD, STEWARDSHIP & CORPORATE GOVERNANCE, THE PENSIONS & LIFETIME SAVINGS ASSOCIATION

DON GERRITSEN (DG)
SENIOR MANAGER, THE PRINCIPLES FOR RESPONSIBLE INVESTMENT SECRETARIAT

WIM VAN HYFTE
PORTFOLIO MANAGER, CANDRIAM

RENATO GUERRIERO
GLOBAL HEAD OF CLIENT RELATIONS EUROPE AND MIDDLE EAST, CANDRIAM

1. THE SRI INDUSTRY IS A VERY DIFFERENT PROPOSITION TODAY THAN IT WAS 10 YEARS AGO. HOW HAS IT CHANGED IN RECENT YEARS?

JAnd: Over the last 10 years we've seen the increasing mainstreaming of SRI and responsible investment, in terms of its profile and the level of awareness of how it can be relevant to investment processes and practices – not only in equities, but across other asset classes as well.

The career history of RI individuals has also changed significantly: more of them have financial backgrounds as well as an interest in sustainability issues. Their profiles, both internally and externally to their organisations, have also increased significantly. One other development I have noticed more recently is the increasing number of CIOs and CEOs willing to stand up and say, "we think responsible investment is relevant, it does enhance our investment process, and we do take it seriously".

The range of products and solutions available to investors has also increased significantly since I first started out in the field 10 years ago. Then, products were much more niche, now we see a whole range.

JAmb: The launch of the Principles for Responsible Investment [PRI] has also played a fundamental role in creating a touch point, setting out six responsible investment principles we can all agree on, and let's all focus our energies in that direction.

RG: If you look back at 2015, ESG and SRI were very high on the political agenda. Many world leaders from Obama to Pope Francis have clearly focused their attention on sustainability, and the COP21 climate talks in Paris have generated even more awareness. I was very impressed with the level of activity among investors when it came to collaborative initiatives, such as the Montreal Carbon Pledge. In the space of just one year, 120 asset owners with over US$10 trillion in assets have agreed to disclose the carbon footprint of their investments. Candriam signed the Pledge and we are able to abide by it through our reports.

What is striking to me are some of the numbers involved: I'm sure you'll have seen the figures from the Global Sustainable Investment Alliance suggesting there's a global market for responsible investment of US$22 trillion versus a total of [assets under management of] US$77 trillion. In 2014 in the German-speaking countries alone, the market went from US$100 billion to US$200 billion – these are really big numbers. This growth is mostly institutional, but all international wealth managers have designed an SRI product offer, and this makes me very confident that SRI is about to become even more mainstream.

MM: The world is changing incredibly fast, and faster than many people realise. For example, Peabody Energy, the largest US coalmining company, has lost 99.5% of its value over the last four years. It's probably going to fall out of the main benchmarks this year.

There has been a huge change in how the investment industry is responding to the challenge of responsible investment. To give an example, a couple of years ago, when we were developing a low-carbon passive equities index, it was a bit of an uphill struggle. Now, I'm looking at introducing low-carbon into my smart beta portfolio, and, frankly, I'm struggling to keep up with all the people wanting to talk to me about the strategy, sending me product suggestions and showing me their research. Things are really starting to change on the supply-side – so, for the asset owners that have made commitments in this space, it's an ideal time for them to start implementing them.

2. AS THE INVESTMENT INDUSTRY'S SOPHISTICATION AROUND SRI INCREASES, IT OPENS THE DOOR TO A MORE MAINSTREAM AUDIENCE WHO MAY, IN THE PAST, HAVE SEEN THIS AS QUITE NICHE. BUT TO WHAT EXTENT IS SRI ADOPTION EXTENDING BEYOND THE TRADITIONAL LEADERS?

DG: We have seen much more mainstream interest in responsible investment, but, honestly, we haven't seen widespread incorporation yet, certainly not on the scale that we would like to see. There is a very big difference between making all the right noises around responsible investment and actually incorporating RI strategies into your organisation.

LH: The Pensions and Lifetime Savings Association carries out an annual stewardship survey, and every year we ask respondents whether they feel that ESG is material to their investment decisions: over the last couple of years, the percentage answering 'no' has fallen from 20% to a negligible number.

But that begs the question as to why SRI isn't more embedded. We asked those who hadn't signed up to the UK's Stewardship Code why not, and for most of them, they stated that other issues have taken priority. Pension funds face issues around longevity and how schemes are going to be funded sustainably in the medium term, major initiatives such as auto-enrolment, the freedom and choice reforms. For some, responsible investment is a less existential priority – that's particularly the case for smaller funds.

HF: At Redington, we are seeing a growing number of enquiries from our clients on SRI – there definitely is some momentum behind it. For us, the question is: how can we help our clients take action? Part of the answer lies, I think, in making the messages around SRI more simple. All of our clients have limited budgets, limited time, and they need to be experts in a huge range of subjects – what the industry needs are simple frameworks for decision-making around responsible investment. That requires the industry to think about the terms they use, and about standardising how asset managers report around SRI.

RG: I'd like to mention a couple of experiences I've witnessed, for example with the Italian and Dutch social investment forums, where they've brought together the industry – including pension funds, consultants, custodians etc. – to work together to consider what SRI is, how you can get involved, what kind of benchmarks you can use, what kind of engagement you can do. This is very useful – in the end, you get a toolkit, and investors can decide what they want to use.

LC: Pension funds will require a lot of guidance on how to proceed. It's one thing for the global leaders on responsible investment to absorb the flood of information that is coming out of COP21, and apply it to the implementation of

WE'VE SEEN MUCH MORE MAINSTREAM INTEREST IN RESPONSIBLE INVESTMENT, BUT WE HAVEN'T SEEN WIDESPREAD INCORPORATION YET

a climate change strategy. However, a lot of asset owners, especially small and resource-constrained ones lacking RI expertise, won't even be able to make sense of the influx of information coming in. They need appropriate guidance and support. There's a real opportunity here and we need investment consultants to grasp it. To do this, we will need to get past the 'clients don't ask, so we don't offer' mentality. This is about risk and opportunity identification – so we sometimes need consultants to be more proactive and map out for us ESG risks and opportunities that we haven't necessarily identified – as well as respond to the ones that we have.

LH: I think the way to do this is to make it clear that responsible investment is a key part of meeting other objectives, such as sustainably funding schemes over the long term.

3. SO WHAT HAS MOTIVATED THOSE AROUND THE TABLE TO IMPLEMENT SRI STRATEGIES – AND HOW MIGHT WE CONVINCE THOSE WHO HAVE YET TO TAKE THE PLUNGE?

MM: Certainly, the strongest driver for our approach to SRI is our desire to manage long-term risk – especially around climate change. There's also the 'universal owner' aspect. We invest across the entire market, so we want to help to raise standards – and returns – across the board. Managing our reputation is a more negative driver, but it is relevant sometimes. And we do see pressure from members – not on a day-to-day basis, but they want to know that the fund is on the right side, and they don't have to worry about it.

We also have a very supportive investment committee that is completely on board with our responsible investment programme, and they see it as a core part of their fiduciary duty. They've had lots of training on responsible investment over the years and have been provided with compelling evidence from the research we participate in and bring together. We're now at the point where we even have to hold them back occasionally – they're very keen we should continue to progress in this area.

JAnd: One of the Pensions Trust's investment beliefs is that responsible investment will enhance long-term portfolio returns, so for us it is primarily a financially-motivated decision. Our CIO has taken a leadership position on responsible investment, which is important. Implementing responsible investment often requires individuals to be quite innovative and to think outside the box.

In terms of implementation, it's also important to ensure responsible investment is embedded within the investment process and governance structures. Responsible investment can't just be a separate agenda item – it needs to be incorporated into how you make portfolio construction decisions.

HF: Our consultants are hearing from their clients that responsible investment is important, and they are keen to address it, but they are struggling because the guidance isn't clear enough. They may not necessarily want to be an industry leader, but they want to ensure they are doing enough. The issue for the SRI industry is how to give clear and simple guidance.

DG: That is exactly what the PRI has been working on and what we will be continuing to do: drawing up guidance on how to develop investment beliefs, how to develop investment strategies that are influenced both by investment beliefs and by fact-based systemic risks, and how to develop responsible investment policy as part of mainstream investment policy. PRI is well positioned to take on these challenges.

Jamb: There needs to be some conviction that you won't be worse off for pursuing responsible investment, and that you may be a little better off if you look at these factors. It's also helpful to have somebody to nudge you, such as a regulatory requirement – Ontario has recently introduced an ESG disclosure requirement, for example, and in France there are new requirements for investors to report their carbon footprint and their clean energy exposure.

Also, in the last couple of years we've seen a new 'citizen to investor' trend, things like ShareAction in the UK, which is trying to connect individuals with their pension funds. That's another driver.

The other fascinating thing is the role of investment consultants. In the last year or two, we've seen a lot of the other big consulting firms make progress in this area. If that continues, it will be incredibly helpful, because so many investment committees are really reliant on their consultants.

But when it comes to getting a fund over the line, it totally comes down to individuals: you've got to have enough people on the investment committee or the board to be willing to make the time to talk about it.

4. CERTAINLY WHAT MAKES INVESTORS SIT UP AND TAKE NOTICE IS THE PROSPECT OF INVESTMENT OUTPERFORMANCE. IS THERE ALPHA TO BE GENERATED FROM TAKING SUSTAINABILITY FACTORS INTO ACCOUNT?

RG: This is a longstanding debate, and it's the same debate as between active management and passive management. Is there sustainable alpha in SRI? There have been so many empirical studies – Harvard, Oxford University, the UN – and the reality is that SRI is not detrimental to returns, and in many cases it adds value. Sustainable alpha is very measurable. All

Sustainable Investing: **Because all the relevant information is not always in the balance sheet**

Candriam, conviction and responsibility

CANDRIAM
INVESTORS GROUP
A NEW YORK LIFE COMPANY

IF YOU LOOK BACK AT 2015, ESG AND SRI WERE VERY HIGH ON THE POLITICAL AGENDA

of our portfolios and Candriam funds are benchmarked against traditional indexes, and we provide reports where one can see the breakdown of sustainable versus financial alpha. Looking at these numbers one can be impressed by how much sustainable alpha we add on strategies such as SRI emerging markets equity.

WVH: What the debate about ESG boils down to is values versus value. We've been taking ESG into account for a long time at Candriam, and our view is that it's not only about values – it's also about value creation through identifying hidden, intangible sources of risk and opportunity that you can't do through traditional methods. We believe that it adds value to the portfolio in terms of alpha, and that it mitigates risk. We have a very clear process, in terms of identifying best-in-class companies and applying norms-based and controversial issues screens, which allows us to align responsible investment practices with sustainable and financial alpha objectives.

MM: Whenever I'm asked if SRI adds value, I always say yes, but not easily or naively. Certainly, if you go back to the 1990s/early Noughties, a lot of SRI investors were very growth-orientated, with mixed results. A lot of the SRI aspects reinforced the biases inherent in growth investing, such as confirmation and optimism bias, and not to the best effect. In the last decade, however, there has been much more focus on quality – and quality and SRI investing has, generally, been a very happy marriage.

JAmb: The clearest examples of alpha generation, with the longest track records, tend to be in the fundamental active space. In thematic investing, for sustainability-themed managers, obviously sustainability is a core part of idea generation, and there are growing numbers of that type of manager with increasingly impressive track records – but a conviction about how the future won't mirror the past is also required in order to be interested in these themes.

On the corporate governance side, it's interesting to see developments in the passive space along the lines of universal ownership and engagement leading to better capital market performance.

WVH: What is crucial is that sustainable alpha isn't generated necessarily by applying, say, corporate governance across the board, or looking at climate change metrics – it varies by sector. It's about being able to identify which ESG factors are material and what will create value over the long term. For asset managers who are just beginning to look at this, it's a

challenge. Candriam's ESG research team looks at more than 200 ESG factors; to allocate the resources to properly integrate ESG, that's quite a hurdle.

Asset managers also need to look ahead. We manage money for an Australian client using a best-in-class approach, and they are thinking about what the next ESG issues might be – such as resource depletion, or the effects of demographic changes such as an ageing population. These are the sorts of things that aren't currently on the investment agenda, but will be. If you want to generate sustainable alpha, you need to think about these things now – because by the time they are on the agenda, the alpha will have already been generated.

5. SO, LET'S ASSUME THAT WE'VE NOW BOUGHT INTO THE CONCEPT THAT SUSTAINABILITY CAN GENERATE ALPHA: HOW DO YOU DISTINGUISH BETWEEN THOSE ASSET MANAGERS THAT SAY THEY DO SRI, AND THOSE THAT REALLY ARE?

JAnd: Asset owners should start by including questions about responsible investment in their RFPs, but it's really important to take the discussion right through the whole fund manager selection process – making sure that, during initial meetings or beauty parades, you're asking those questions of managers and seeking to understand how it fits into their investment process.

From our own experience, in terms of understanding whether a manager is really doing SRI, it comes through best in discussions with the portfolio manager – whether they can really talk through how it's relevant to the individual stocks or assets within the portfolio. That's the real proof of the pudding – if the portfolio manager, without the ESG analyst supporting him or her, can demonstrate that.

HF: We're asking questions of asset managers about their ESG capabilities as part of the RFP process – but just getting the answer back that "we've got six people in our ESG team" doesn't tell us that an asset manager is incorporating ESG into their investment process.

There are certainly some asset managers with really good responsible investment PR, who put out great thought leadership pieces, but for us to be persuaded that it's actually integrated into the investment process and the culture of the firm, you need to go in and ask a lot more questions.

When Redington's manager researchers go into a meeting with an asset manager, they want to understand the ESG or responsible investment philosophy of that manager, what motivates them to look at ESG issues, and they want the manager to explain how an ESG risk factor might flow from research into portfolio management, and into investment decision-making.

LC: There is an important industry-level discussion we need to have about the amount of signaling asset managers seem to need from asset owners that ESG is a major or even driving factor in awarding mandates. In the past, I have been told that this 'signal' is what is needed in order to get more internal ESG resource. If that is the case, what percentage weighting in the RFP should ESG be given in order for fund managers to give us a more meaningful understanding of ESG risks and opportunities in the mandate? What is the minimum weighting needed to move the dial? Is it 5%? 10%? The weighting will be dependent on the investment beliefs of the asset owners and may vary significantly.

Either way, we can't be stuck having the same conversations with fund managers where they say they don't have enough resource to give us the ESG information we need at a mandate level. That conversation needs to move on and, to be fair, I have seen early indications that it may well do so in the future – watch this space!

MM: This is an incredibly competitive industry – managers need to be aware that they can't afford to drop even 5% of the marks in an RFP. But we face a challenge in that we believe in integration, so we should integrate ESG across our manager assessment, rather than have a separate, big section on ESG. But that means we

THERE IS A VERY BIG DIFFERENCE BETWEEN MAKING ALL THE RIGHT NOISES AROUND RESPONSIBLE INVESTMENT AND ACTUALLY INCORPORATING RI STRATEGIES INTO YOUR ORGANISATION

THE ASSET OWNER SIDE OF THE INDUSTRY IS AT AN EARLY STAGE IN IMPLEMENTING RESPONSIBLE INVESTMENT, BUT ASSET MANAGERS ARE NOW MUCH MORE ENGAGED

only have a visible 5 or 10% score for the remaining aspects of ESG, such as industry participation and stewardship, although the actual importance of ESG is much higher.

There's an awful lot you can ask a manager: from broad, high-level philosophy down to portfolio construction, you can probe them about where they're bringing in ESG. The one most useful thing you can ask the actual fund manager is to provide some examples of where ESG has made a difference to the investment decision-making process, either positively or negatively. If the best example they can give you is Volkswagen or BP, they're not trying very hard.

LC: Asset owners also need to do a much better job of holding their fund managers to account. The first step in that regard is to get them to provide better reporting on the ESG risks and opportunities within the mandate in question, and how they are managing them. This may require a phased approach, with incremental improvements over time, but the dialogue on this topic needs to happen more often. A good resource for asset owners to use as a communication tool would be the *Guide to Responsible Investment Reporting in Public Equity*, which is available on the Pensions and Lifetime Savings Association website.

6. TO CONCLUDE, WHAT WILL – OR SHOULD – BE IMPORTANT THEMES FOR THE INDUSTRY TO ADDRESS IN 2016?

JAmb: I think regulators could play a potentially helpful role in 2016. The establishment by the Financial Stability Board of its taskforce to make climate disclosure recommendations to the G20 is incredibly important, and we're starting to see regulators get more interested in this space. If they take some significant steps, then boom! All our bottom-up work becomes a lot easier.

DG: A big question is how trustees can play a strategic role in incorporating ESG considerations into investment decisions. How do you get them interested?

HF: I would like to see the development of a clear framework for those who would like to get started with SRI.

WVH: One of the biggest advantages of the increased awareness around ESG is that everyone knows it's not about the short term – you can't materialise ESG alpha in the short term. Hopefully, this will help to push short-termism out of our industry.

LC: I would like to see the industry come up with a more formalised platform so that asset owners can more easily align their expectations of fund managers, and engage as a unit and target key managers that a lot of us are already invested with. This will allow us to really up our game as asset owners – I've seen evidence of how powerful it is when asset owners do collaborate in this area.

MM: Generally speaking, the asset owner side of the industry is at an early stage in implementing responsible investment, but asset managers are now much more engaged. This means that it is now easier than ever before for asset owners to embrace SRI. Specific areas that are important for 2016 are the continuing quantification of ESG data, enabling its use by systematic managers and smart beta, and the challenge of understanding the implications of a low oil price in a world that has been rapidly embracing low-carbon options.

CANDRIAM
INVESTORS GROUP
A NEW YORK LIFE COMPANY

INVESTING RESPONSIBLY WITH CANDRIAM
THE WAY TO GO

In today's cyclically swaying world economy, investment can be a risky business that SRI – a well-regulated source of longterm performance – can offset.

An investment process designed to select the best issuers from a financial and sustainable-development standpoint lets us control ESG and financial risk, and optimize investors' opportunities.

All investors are concerned about the environmental impact of their investments. As an investor, you attach great importance to the social responsibilities of companies in the management of their relationships with their employees, suppliers, customers and communities. You also value the principles of good corporate governance.

SRI ANSWERS YOUR CONCERNS

Sustainable and Responsible Investment (SRI) is an investment strategy that incorporates environmental, social and corporate governance (ESG) factors into the portfolio construction. Indeed, through ESG analysis, we identify additional factors that are not always apparent in traditional financial analysis even though they affect a company's long-term value and competitiveness.

NORMS-BASED ANALYSIS

Norms-based analysis determines whether a company is complying with the universal principles set forth in the United Nations Global Compact (UNGC). This additional analysis ensures selection only of companies that comply with the principal international standards.

CONTROVERSIAL ACTIVITIES CHECK

At Candriam, being responsible also means that we pay particular attention to companies involved in controversial businesses and activities such as Adult Content, Alcohol, Gambling, Tobacco, Weapons, and Activities in Oppressive Regimes. Companies that exceed acceptable levels of involvement in any of these activities will be excluded from the SRI universe of companies.

MACRO/MICRO SCREENING

Long-term sustainability trends can have a considerable influence on the global economic environment in which companies operate. The macro analysis gauges a company's exposure to the major sustainable development challenges.

Combined with micro analysis, which measure a company's ability to incorporate stakeholder interests into its long-term strategy, our in-house Best-in-Class screening assesses the sources of risks and opportunities for each company in a discrete manner.

1996
Pioneer for **over 20 years**

20%
Around **20%** of our total AUM in SRI[1]
(1) as at end-June 2015

35
dedicated SRI fund managers

9
SRI Analysts

MEMBER NEWS

WELCOME TO NEW MEMBERS

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AT RETIREMENT SERVICES MADE SIMPLE

Sponsored by WEALTH at work, this guide helps pension schemes understand the new choices facing savers following the pension freedom reforms and identify where schemes can provide help and support. Prices are £18 for members and £35 for non-members. The guide explains to employers and trustees, clearly and simply, how they can support their employees in the midst of the growing unpredictability of retirement.

Each member organisation will have received a free hard copy of each Made Simple Guide. Further hard copies are available to purchase in our shop and the free PDF versions are available on our website at **www.plsa.co.uk**.

If there are topics that you would like to see covered in our Made Simple guides please do let us know. Please contact **jane.dawson@napf.co.uk.**

PENSIONS AND LIFETIME SAVINGS PENSION SOLUTION

HELPING SMALL EMPLOYERS THROUGH AUTO-ENROLMENT – AND BEYOND

HOW PENSION SOLUTION CAN SUPPORT SMALL EMPLOYERS THROUGH "THE REAL TEST"

Pension Solution was launched in October 2015 at our Annual Conference to provide practical help for small businesses going through automatic enrolment.

In 2016 hundreds of thousands of small employers will need to set up a workplace pension for the first time; and over the next two years over 1 million small and micro businesses will be going through the process as their staging date approaches.

A recent report from the Public Accounts Committee[1] found that the Department for Work and Pensions has successfully implemented automatic enrolment for larger employers, but "the real test is still to come" as smaller employers enrol staff between 2016 and 2018. The report says "smaller employers have fewer resources to administer automatic enrolment and simplifying the process will be critical to the success of the programme." Simplifying the process is important, which is why we have been set up to support busy small business owners.

Pension Solution provides a three-step approach which includes a step-by-step guide, an impartial guide to pension providers, and useful resources. The impartial guide to workplace pension providers shows comparison information based on the features of the schemes and employer user ratings.

We now have a broad mix of small business Pension Solution members; they are starting to enjoy the full benefits of their membership such as the half-day training course which covers the main principles and processes of automatic enrolment. The most recent February course was fully booked, and the next one is planned for April 2016.

Membership costs £49+VAT for one year. To find out more and to join, visit **www.pensionsolution.co.uk**

1. www.parliament.uk/business/committees/committees-a-z/commons-select/public-accounts-committee/news-parliament-2015/automatic-enrolment-workplace-pensions-report-published-15-16/

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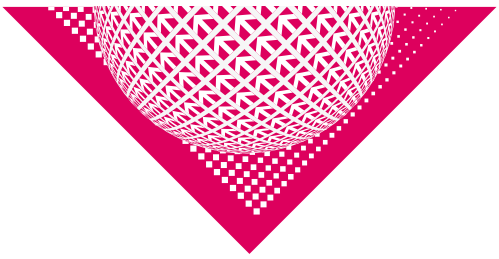
Creating certainty in an uncertain world

9-11 March, Edinburgh EICC



IF YOU HAVEN'T BOOKED YOUR PLACE YET, IT'S NOT TOO LATE! AND IF YOU'RE A FUND MEMBER ATTENDANCE IS FREE.

Moving to new EICC conference facilities the event will hold a larger exhibition and have new features including a Learning Zone and Innovation Zone.

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Simon Schama, Historian
John Kay, Leading Economist
Sir Tim Berners-Lee, Inventor Of The World Wide Web
Tracey McDermott, Interim CEO, Financial Conduct Authority
Andrew Sentance, Senior Economic Adviser, PwC
Christiana Figueres, Executive Secretary, United Nations Framework Convention On Climate Change (UNFCCC)
Jane Ambachtsheer, Partner And Global Head Of Responsible Investment, Mercer
Professor Sir David Spiegelhalter, Winton Professor Of The Public Understanding Of Risk
Nick Hungerford, Director And Chief Executive Officer, Nutmeg
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Book your place at **www.plsa.co.uk/Conferences_and_Seminars**

ANNUAL SURVEY 2015: COSTS AND TRANSACTION CHARGES

The latest findings from the Annual Survey on costs and transaction charges help to inform the policy team's thinking. Here are some of the key results.

FOR MORE THAN 40 YEARS, THE PENSIONS AND LIFETIME SAVINGS ASSOCIATION HAS PRODUCED ITS ANNUAL SURVEY OF PENSION SCHEMES. THIS SURVEY IS COMPLETED BY OUR FUND MEMBERS, AND IT PROVIDES A WEALTH OF INFORMATION ON OUR MEMBERSHIP'S WORKPLACE PENSIONS.

It is increasingly an invaluable part of the policy team's toolkit in lobbying government and regulators about issues that most affect the Association's members. Consequently the more responses we receive from our membership, the more effectively we are able to evidence member views on issues like charges, investment and governance.

In 2015 our Annual Survey respondents represented:

283
workplace Defined Benefit (DB) schemes with 4.4 million members;
243
workplace Defined Contribution (DC) schemes with 1.1 million members; and
35
Local Government Pension Schemes (LGPS) with 3.1 million members.

One area of interest covered in the survey was the fees and charges incurred by DC scheme members. Both the Financial Conduct Authority (FCA) and the Department for Work and Pensions (DWP) have been examining how the level of transparency in a scheme's costs and charges can be improved and reported on in a consistent manner. It is recognised that this information is needed so that pension scheme members can make informed decisions about their investment choices.

For a number of years, the Annual Survey has tracked the average charges paid by scheme members in the main DC scheme's default fund. In order to inform our policy discussions, last year we modified our questions on costs and transaction charges in default funds. These changes arose from the introduction in April 2015 of a charge cap of 0.75% of Funds Under Management or equivalent combination charge of qualifying DC workplace pension schemes; and from the knowledge that in April 2016 further reforms will be introduced which will see AMDs (Active Member Discounts) banned in qualifying DC workplace pension schemes. At this date, charges relating to commission and consultancy will also be banned.

These revisions to the charges questions in our Annual Survey will provide us with a better understanding of how our membership is responding to these changes and enable us to monitor future trends in charging among the schemes of our membership. This in turn will enable us to provide hard data to represent members' interests when presenting the Association's policy position on this topic.

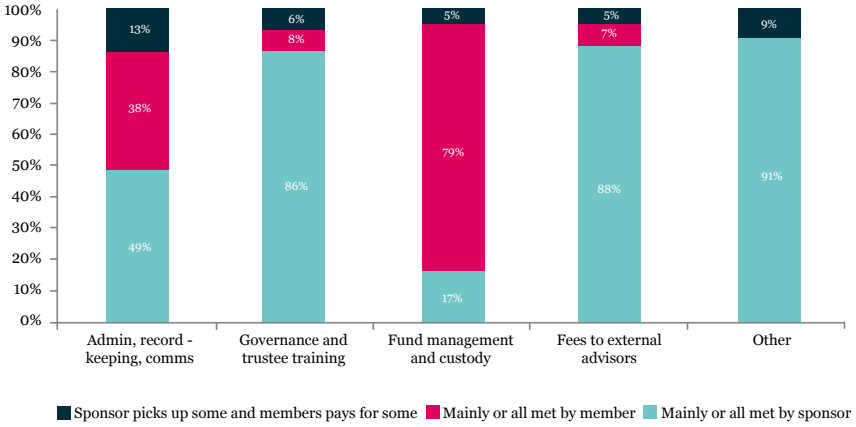
WHO PAYS WHICH COSTS?

Prior to 2015's Survey, we concentrated on understanding the average charges paid by scheme members. Last year, we sought to have a better understanding of who paid which costs within the pension scheme. Were costs borne by the scheme sponsor, the scheme member or a combination of the two?

The chart below provides an overview of our findings. As can be seen, respondents replied that many of the scheme's costs are met mainly or all by the scheme sponsor. The main exception is fund management and custody costs, which are mainly met by the scheme member (79%); and to a lesser extent scheme members met the charges of administration/record-keeping/communications (38%).

THE MORE RESPONSES WE RECEIVE FROM OUR MEMBERSHIP, THE MORE EFFECTIVELY WE ARE ABLE TO EVIDENCE MEMBER VIEWS ON ISSUES LIKE CHARGES, INVESTMENT AND GOVERNANCE

FIGURE 1: FOR EACH OF THE FOLLOWING CATEGORIES, PLEASE INDICATE WHETHER THE COSTS ARE MET BY THE SPONSOR, MEMBER OR BOTH



Base: 74 respondents

So what charges are paid by scheme members? Survey respondents replied that scheme members in the main DC default fund pay:

- An annual management charge (AMC) – 98% of respondents;
- A contribution charge – 3% of respondents; and
- Some other form of charge – 1% of respondents.

Virtually no use is made of flat fees. DWP research conducted among pension providers prior to the April 2015 changes also found that flat fees applied to only a small percentage of scheme members.

AMC LEVELS

Table 1 shows the average AMC that scheme members in the default fund pay. As can be seen AMC charges ranged from 0.1% to 1%. These average figures include both respondents who say that their main DC scheme is the one they automatically enrol new employees into and those who do not (10% of respondents). A number of respondents highlighted that the AMC paid by members varied according to the stage of lifestyle default fund.

In 2015, the mean AMC was 0.4% (from both qualifying and non-qualifying scheme respondents), which is well within the 0.75% charge cap introduced last April. There was some evidence in the Annual Survey responses to suggest that scheme members in non-qualifying schemes pay higher charges than those in qualifying schemes, but the number of respondents is too small to quantify this difference.

TABLE 1: ANNUAL MANAGEMENT CHARGE PAID BY SCHEME MEMBERS (%)

	%
Mean	0.4%
25th percentile	0.3%
50th percentile	0.4%
75th percentile	0.5%

Further analysis of the charge data provided by Survey respondents found that scheme members of trust-based DC pension schemes tended to pay a lower mean AMC than those in contract-based schemes, with 0.39% AMC compared to 0.45% AMC respectively.

TRANSACTION COSTS

However, Survey responses also show that while average charges (such as an AMC or a contribution charge) can be calculated, in the short term it will be difficult to determine the full transaction costs associated with a scheme. In fact, 51% of Annual Survey respondents said that their external investment managers did not disclose transaction costs for their main DC scheme's default fund.

Additional information provided by some respondents indicated that scheme sponsors would like to develop a greater understanding of their scheme's transaction costs to fulfil their trustee or scheme governance reporting requirements. Indeed, some scheme sponsors are in discussions with external investment managers on how greater transparency on transaction costs could be achieved.

HOW WE WILL USE THIS INFORMATION

This and future Annual Survey data will be used to inform the Association's responses to any government reviews on the level of the charge cap, and the ability of scheme sponsors and their investment managers to disclose and provide a breakdown of the transaction charges in workplace DC schemes.

Goldman Sachs Asset Management

Goldman Sachs Asset Management (GSAM) is one of the world's leading investment managers. With more than 2,000 professionals across 33 offices worldwide, GSAM provides institutional and individual investors with investment and advisory solutions, with strategies spanning asset classes, industries and geographies.

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For more information please contact
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WHAT DO YOU DO IN THE REAL WORLD?

Karen Bolan, Head of Engagement at AHC, reveals her second life as an opera singer...

FOR AS LONG AS I CAN REMEMBER I'VE BEEN SINGING: IN SCHOOL ASSEMBLY FROM THE AGE OF 5, GOING ON TO PLAY LEAD ROLES IN SCHOOL PRODUCTIONS, INCLUDING PLAYING THE ROLE OF THE VIRGIN MARY IN THE SCHOOL NATIVITY WHEN I WAS 7! WHEN I STARTED, NATURALLY, IT WAS JUST PART OF MY SCHOOL'S EXTRA-CURRICULAR PROGRAMME, BUT WHEN I REACHED MY TEENS I TOOK IT A LOT MORE SERIOUSLY AND HAVE SINCE SPENT MY 'OTHER LIFE' ON CENTRE STAGE.

At 15 I started professional vocal training and discovered my passion for opera. I performed at various local festivals including the Birmingham Music Festival, where I won the overall vocal prize. Part of the prize was to perform a lead role with a local opera company. This was a truly defining moment for me and from here my passion for opera became a career.

Opera really combines all art forms and utilises all of the senses. It should be a treat for the eyes and the ears. Although considered highbrow, there really is something for everybody in opera, as – like pop music – it covers such a wide, diverse range of styles and pieces.

TAKING CENTRE STAGE

Through my professional training I was able to specialise in music specifically for my voice. I discovered that I am a soprano and more specifically a dramatic coloratura, which means my voice suits theatrical and heavily embellished roles. I have been fortunate to play a variety of fantastic roles including Violetta in *La Traviata*, Desdemona in *Otello*, Tatyana in *Eugene Onegin* and Queen of Night in

The Magic Flute, to name a few. There is a great deal of time and commitment needed to perform such demanding roles. I have spent many a holiday learning a role while sat on a sun lounger!

Alongside my operatic roles, I was also a member of the City of Birmingham Symphony Chorus (CBSO), working with Sir Simon Rattle for many years. I have been privileged to have performed in a range of notable events and venues, including the Salzburg Festival, performing in the concert hall used at the end of *The Sound of Music*, the Alhambra Palace in Granada, and at the Royal Albert Hall for many events including the first night of the Proms.

Exploring roles in multiple languages, it is not surprising that opera is a completely absorbing pastime. One of my most challenging roles involved learning medieval Czech! The concentration needed for performing opera means that any thoughts of my real day job are completely cast from my mind.

There was a time when I considered pursuing opera as my full time career, but I loved my day job too so when it came to it I decided to keep opera as my passion and as a very effective antidote to a demanding career in pensions.

ONE OF MY MOST CHALLENGING ROLES INVOLVED LEARNING MEDIEVAL CZECH!

CREATIVITY AND COMMUNICATION

Surprisingly, there are a number of similarities between my passion for opera and my role at AHC. Both greatly focus upon creativity and communication. With opera, the role is more one of theatrical expression, drama and entertainment – but that communication with the audience is key, just as it is with my role at AHC.

In recent years, and during seasonal celebrations, I have taken my opera to Heath Hall, singing carols with the AHC team. Although both are busy roles and require a lot of energy and personal commitment, I believe they greatly complement each other; and I feel fortunate to have both as a large part of my life.

OPERA REALLY COMBINES ALL ART FORMS AND UTILISES ALL OF THE SENSES. IT SHOULD BE A TREAT FOR THE EYES AND THE EARS

EU VIEWPOINT

James Walsh considers which European developments will really make a difference to pensions.

WITH THE MAINSTREAM MEDIA ALMOST BESIDE THEMSELVES AT THE PROSPECT OF A REFERENDUM, IT WOULD BE EASY TO THINK THE BIG 'REMAIN OR LEAVE' VOTE IS THE ONLY EU GAME IN TOWN.

The referendum is certainly important – both in constitutional terms and perhaps for our economy as well. But there are plenty of other EU developments that could have a bigger impact on pension schemes.

In fact, the referendum might not make much difference to UK pension schemes at all. Vote to 'remain', and we will still be subject to the IORP Directive and all the rest of it, albeit in an EU that will continue towards closer integration. Vote to 'leave', and we might still be subject to the IORP Directive, as part of whatever deal gets struck over UK access to the Single Market. Same difference? Perhaps.

Meanwhile, the EU policy machine continues to churn out proposals that will certainly have an impact on how your pension scheme operates. Referendum or not, the nitty-gritty still matters.

The prime example is the new EU Pensions Directive – or 'IORP Directive Mk II' for the cognoscenti. The news on this front is encouraging: the European Parliament has produced a simpler version of the draft legislation, removing much of the detail and over-prescription that we saw in the European Commission's original proposal.

The new Directive will still impose new requirements, such as obliging schemes to send an annual 'Pension Benefit Statement' to all members and to compile an 'Own Risk Assessment', but there will be more flexibility at national level over implementation.

There are still issues to resolve – not least the very tight 18-month implementation period – but the text has been much improved. The next few weeks will see representatives of the European Parliament, the Council of Ministers and the European Commission thrashing out their differences in 'trilogue' negotiations, with the final text likely to be agreed in the autumn.

REFERENDUM OR NOT, THE NITTY-GRITTY STILL MATTERS

It's worth saying a word at this point in praise of our Members of the European Parliament. MEPs do not generally get a great press, but Ashley Fox (Con) and Anneliese Dodds (Lab) have been open to our briefing and have pushed through a series of helpful amendments. Good work!

Meanwhile in Frankfurt, the EU pensions regulator, EIOPA, has published a report on pension stress tests. Encouragingly, the report finds that pension schemes pose no major systemic risk to the European economy. This will bolster our arguments in any future battles over whether an insurance-style solvency system should be imposed on pension schemes.

However, EIOPA still persists with the solvency battle, and the report includes a series of figures calculated on the basis of its solvency-based Holistic Balance Sheet, now rebranded as the 'Common Methodology'.

This Association has been strongly critical of EIOPA's approach. Why use the Holistic Balance Sheet for such an important report when even the most ingenious 'Common Methodology' can never work across 28 different national pension systems?

EIOPA's next move will be a further report to the European Commission on how to implement the Holistic Balance Sheet. The battle over solvency is set to continue.

Referendum or not, the Brussels agenda looks as busy as ever.

James Walsh is Policy Lead: EU & International at the Pensions and Lifetime Savings Association

PRACTICAL LAW COMPANY®

LEGAL UPDATE

Loreto Miranda, Head of Thomson Reuters' Practical Law Pensions service.

YET AGAIN THE COURTS HAVE BEEN DEALING WITH DIFFICULTIES ARISING IN THE INTERPRETATION OR AMENDMENT OF PENSION SCHEME DOCUMENTS. PRAGMATISM HAS REIGNED, BUT THIS IS STILL A THORNY AREA.

One case concerned certain words that had been mistakenly deleted from a pension increase rule during a consolidation exercise. The High Court granted an application under section 48 of the Administration of Justice Act 1985 (where a question of construction has arisen, the trustees can seek a court order in reliance on a written legal opinion from counsel of at least 10 years' call) to authorise the trustees to administer the scheme on the basis that the missing words should be read back in. Finding that it was self-evident a drafting mistake had been made, the judge ruled that the correction was required to make the rules work properly[1].

Under Scots Law, the Court of Session in Scotland dismissed an appeal relating to a claim for arrears of pension contributions allegedly due from a solicitors firm to their pension fund. The firm's partners had denied liability and argued the trustees were not entitled to their claim as amendments made to the governing deed since 1980 were invalid. The court held that the maxim *omnia praesumuntur rite esse acta* (all things are presumed to have been done in due form) applied and the onus was therefore on the partners to prove the scheme's amendment mechanism had not been followed, and they could not do so. The amendments had therefore been properly effected[2].

A note of caution. Obtaining the court's sanction under section 48 can be a cheaper, easier alternative to other avenues (like rectification). But it might not always be appropriate, for example, if you need the court's decision to be binding on members, or if there is an evidential issue. And the English Courts have taken a stricter line on amendment formalities, most notably in *Briggs and others v Gleeds and others* [2014] EWHC 1178 (Ch) where the High Court ruled that a series of deeds of amendment executed over the course of 20 years were invalid on the basis that they were defectively executed – its appeal is due later this year.

For more information on Thomson Reuters' Practical Law knowhow service for pensions professionals visit **http://uk.practicallaw.com/practice/uk-pensions** or contact **loreto.miranda@thomsonreuters.com**.

1. *Re BCA Pension Plan [2015] EWHC 3492 (Ch)*
2. *Alexander and others as trustees of the Scottish Solicitors Staff Pension Fund v Pattison & Sim and others [2015] CSIH 96*

PENSIONS AND LIFETIME SAVINGS ACADEMY

Educational Development Manager **Frances Corbett** unveils the latest TLZ and reports on a pair of teach-ins.

BY THE TIME YOU READ THIS, DELIVERY OF THE PENSIONS AND LIFETIME SAVINGS ACADEMY 2016 EDUCATION AND TRAINING PROGRAMMES WILL HAVE BEGUN, AND THE INVESTMENT CONFERENCE 2016 WILL BE JUST AROUND THE CORNER. FOR TRUSTEES THIS IS NOT ONLY AN OPPORTUNITY TO ENGAGE WITH INVESTMENT PROFESSIONALS AND OTHER TRUSTEES, BUT ALSO A CHANCE TO PARTICIPATE IN THE TRUSTEE LEARNING ZONE (TLZ).

This year the Academy's TLZ is offering a session sponsored by BNP Paribas which will explain why an ESG policy is a vital part of today's trustee investment strategies. A second session is sponsored by Cardano and explores why boom-and-busts are a persistent feature of life, how pension funds can be insulated from the vagaries of economic changes, and how to ensure that risk management is embedded in portfolio design before the next bust occurs. As places are limited it is essential to book early.

Our first teach-in of 2016 was held on 26 January. It was entitled 'Considering a buy-in for your scheme? Tips, traps and tales', and was sponsored by Sacker and Partners LLP. During the session Stuart O'Brien skillfully explained the buy-in options currently available in the market and offered an insight into what schemes need to do to prepare for a buy-in/buy-out, as well as examining the issues which could crop up and derail the process.

On 4 February our second teach-in, sponsored and delivered by Partnership, saw Andy Morley and Frankie Borrell provide a detailed insight into the bulk annuity market, including market trends, hot topics and recent innovations such as medically-underwritten bulk annuities (MUBAs). You can view the highlights of these sessions on our website.

As we are continually expanding the Academy's programmes, make sure you are a regular visitor to **www.plsa.co.uk/training**, where you can find out about new and different learning opportunities.

2016 WILL SEE THE ACADEMY CONTINUING TO DIVERSIFY AND EXPAND

PENSIONSCONNECTION UPDATE

PENSIONS CONNECTION

Steven Dignall, Membership Communications Manager.

THERE IS ANOTHER EVENTFUL YEAR IN STORE FOR PENSIONSCONNECTION SUBSCRIBERS. WE HAVE AN EXCITING LINE UP OF EVENING SEMINARS AND BREAKFAST BRIEFINGS, PROVIDING YOU WITH THE OPPORTUNITY TO MEET AND NETWORK WITH FELLOW MEMBERS AND THE KEY DECISION-MAKERS IN THE INDUSTRY.

The forums are free to attend and open to anyone involved in pensions. Each forum meets from two to four times a year.

Following the successful forums in 2015, business members once again have exclusive opportunities to sponsor our PensionsConnection streams to showcase their brand, as well as contribute to and influence the policymaking debate. I would like to thank the following business members who have already kindly sponsored PensionsConnection streams for 2016: Defined Contribution – BNY Mellon, Finance Director – Goldman Sachs Asset Management, Human Resources – Wealth at Work. The Trustee, Local Authority and Corporate Governance schemes are still available for sponsorship.

If you would like to sponsor one of the streams, or would like more information on doing so, please contact my colleague Varsha Gowda at **varsha.gowda@plsa.co.uk**. And if you would like to subscribe to any of our six services or join us at one of our future meetings, get connected at **www.plsa.co.uk/pensionsconnection**.

UPCOMING MEETING DATES

MARCH

03 Finance Director PensionsConnection
22 Trustee PensionsConnection
22 HR PensionsConnection

MAY

11 Finance Director PensionsConnection
11 DC PensionsConnection

JUNE

09 Trustee PensionsConnection
09 HR PensionsConnection

PENSION QUALITY MARK UPDATE

PENSION QUALITY MARK

Tracey Dawson talks about the new look PQM.

ALONGSIDE THE REBRAND OF THE NAPF TO THE PENSIONS AND LIFETIME SAVINGS ASSOCIATION, THE PENSION QUALITY MARK ALSO HAS A FRESH NEW LOOK.

You can check out our new website here **www.pensionqualitymark.org.uk**.

And our new PQM awards are available. If you're a PQM holder and don't have a trophy, why not buy one now? They're perfect for displaying in your reception area and are a visible demonstration that you have a good quality employee pension scheme. As we like to say – if you have a good DC scheme, don't keep it a secret!

We are delighted to welcome our latest PQM members:

Sussex Group Stakeholder Scheme
The Atlas Master Trust
Arcadis Group Pension Plan
The People's Pension, provided by the Archdiocese of Liverpool
Scapa Group plc Pension Plan
Virgin Money (2011) Pension Scheme
Bank of Ireland (UK) Staff Retirement Savings Plan
Land Securities Life Savings Plan

PRESERVING PENSIONS HISTORY

Alan Herbert introduces a unique archive.

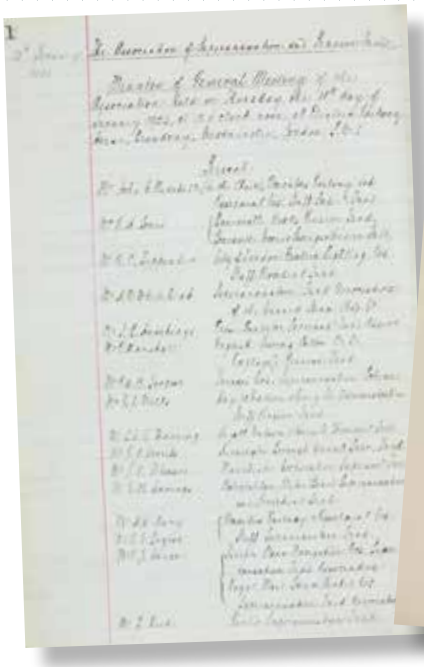
AT A TIME OF UNPRECEDENTED CHANGE IN THE WORLD OF PENSIONS, DELVING INTO THE PAST MIGHT SEEM A STRANGE THING TO DO. BUT A RECENT 10-YEAR ANNIVERSARY HAS SERVED AS A REMINDER THAT CHANGE IS NOTHING NEW, AND WE MIGHT IN FACT FIND A GREAT DEAL OF INTEREST IN LOOKING BACK TO EARLIER DAYS.

The Pensions Archive Trust celebrated its 10th birthday in 2015. For the last decade, it has been gathering records relating to the management and development of occupational and personal pensions. These records – along with various artefacts, personal collections and other curios – have a permanent home at the London Metropolitan Archives just north of Farringdon Station.

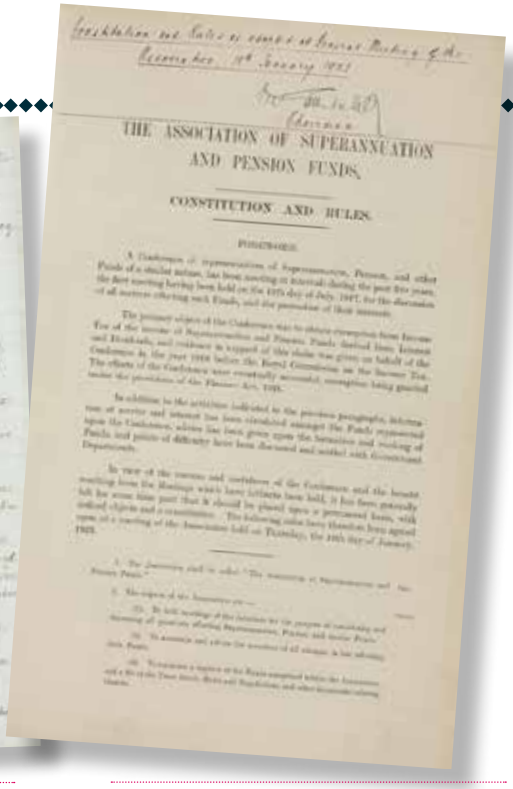
The Pensions Archive preserves the history of UK pension provision in a single, secure location, and provides a central point of reference for researchers and anyone else interested in finding out more about how today's industry has developed – or who's simply interested in how things used to be.

The development of pensions during the last century weaves together British industrial and social history. It's mostly a story of success, but there are failures along the way too and these can be very useful to learn from in their own right – looking back is often a good way of planning a new route forwards. The Pensions Archive is there to preserve our ever-growing store of knowledge.

Members of the Pensions and Lifetime Savings Association will find the organisation plays an important part at the Archive. As well as being one of the early supporters and donors of material, it plays a key part in the history being documented.



General Meeting minutes, the Association of Superannuation and Pension Funds, 18 January 1923



THE ASSOCIATION OF SUPERANNUATION AND PENSION FUNDS.

CONSTITUTION AND RULES.

Constitution and Rules as adopted at the General Meeting, 18 January 1923

THE PENSIONS ARCHIVE PRESERVES THE HISTORY OF UK PENSION PROVISION IN A SINGLE, SECURE LOCATION

This dates back to the summer of 1917, when a conference of representatives of superannuation funds resolved to form a register of pension and widows funds which would meet for discussion of matters of mutual interest. This centred round obtaining tax relief on contributions and relief from the incidence of income tax on the revenue of superannuation funds. It led to the formation of the Association of Superannuation and Pension Funds in 1923.

Among the many items in the Archive are the General Meeting minutes of the Association, from 18 January 1923, along with the Constitution and Rules which were adopted at that same meeting establishing the Association.

You can see these items if you visit in person via the London Metropolitan Archives. To access original material you'll need a History Card, which you can obtain online or at the LMA with an acceptable form of identification. Appointments are not necessary to view catalogued material, but three days' notice is required to view an uncatalogued collection.

For more information, please see **www.pensionsarchive.org.uk**.

Alan Herbert is Chair of the Pensions Archive Trust.

CALENDAR OF EVENTS 2016

MARCH		
03	**Finance Director PensionsConnection**	London
03	**DC PensionsConnection**	London
09-11	**Investment Conference**	Edinburgh
22	**Trustee PensionsConnection**	London
22	**HR PensionsConnection**	London
APRIL		
21	**Fund member breakfast**	London
MAY		
05	**Stewardship Accountability Forum**	London
11	**Finance Director PensionsConnection**	London
11	**DC PensionsConnection**	London
16-18	**Local Authority Conference**	Cotswold Water Park
JUNE		
09	**Trustee PensionsConnection**	London
09	**HR PensionsConnection**	London
JULY		
06	**Hot Topic Seminar**	London
14	**Fund member breakfast**	London
SEPTEMBER		
14	**Hot Topic Seminar**	London
OCTOBER		
04	**Finance Director PensionsConnection**	London
04	**DC PensionsConnection**	London
19-21	**Annual Conference & Exhibition**	ACC Liverpool
NOVEMBER		
01	**Trustee PensionsConnection**	London
01	**HR PensionsConnection**	London
24	**Hot Topic Seminar**	London
29	**Corporate Governance PensionsConnection**	London
DECEMBER		
Early	**Trustee Conference**	London

For more details and Academy training dates, please visit **www.plsa.co.uk**

ADVERTORIAL

Who's afraid of volatility?

M&G INVESTMENTS

It's been a tumultuous start to the year for global asset markets. Fresh fears about a Chinese hard landing, uncertainty about the U.S. economy's prospects and the wider impact of the Federal Reserve's decision to tighten policy, and commodity market upheavals have all played a role in feeding volatility.

By Andrew Swan,
Director of Fixed Income

But where some investors shrink away from the turmoil, we embrace it. Volatility tends to engender significant mispricing of securities, opening up attractive investment opportunities for value investors such as us.

There are various reasons for asset prices to move away from their fair value, not least that bondholders' tolerance for risk can vary considerably. Some will be forced to respond to short-term mark-to-market losses by selling assets into falling markets, a situation we try to avoid at all costs.

Assessing which assets have become too cheap, though, isn't easy. It takes rigorous analysis to determine a security's fair value, which, in turn, relies on teams of experienced and insightful specialists.

At M&G, our analysts and fund managers have continued to work together over the past few months to sift through the wreckage caused by the firestorm of selling that hit commodities and emerging markets to find the debt of companies that offer the best value.

Indeed, the spreads on a raft of oil and mining companies' bonds are trading at the widest levels seen since the 2008-09 financial crisis and a number of securities have notched up new peaks.

So how do we respond? Sometimes all you have to do is pick a survivor trading at a discount to par and lock it in until the bond matures.

For instance, the debt of one resources company was priced at a deep discount to its investment grade credit rating despite credible moves by management to cut debt, shore up the balance sheet and in so doing retain its high quality rating. In some cases, bond prices are trading at levels below the likely value that could be recovered from the firm in the event of liquidation. In situations like these where the baby has been thrown out with the bathwater, we begin to start accumulating a position.

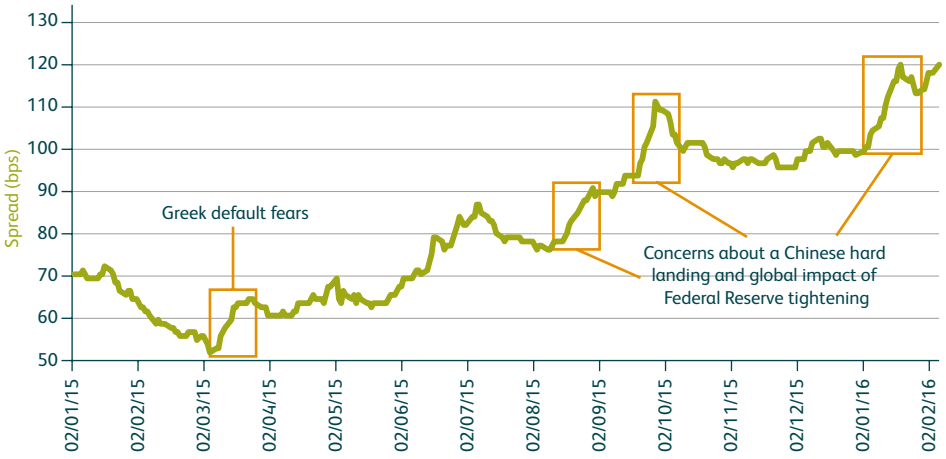
Elsewhere, the market becomes fixated on one negative corporate attribute while discounting positive ones. For instance, the rout in emerging markets assets has soured investors' attitudes to companies with any trading exposure in these countries, choosing to ignore the same companies' often highly profitable developed market revenues that are more than capable of repaying bond holders at maturity in their own right.

But while commodities-related securities are being savaged, the rest of the bond market has suffered relatively modest losses. Even though spreads on a broad universe of BBB rated bonds have widened, they're still only a third of where they were during the extremes of the financial crisis.

There seems to be a disconnection between what the commodity-related securities may be telling us about global economic prospects and what the wider market seems to be thinking. They both aren't likely to be right, and we have been investing accordingly.

Not that value investing is always an easy and comfortable ride. Because we don't pretend to know when the market is going to bottom, we start buying when we believe value appears and remain patient until prices revert to long-term fair value. We can suffer underperformance during these periods and this can require enhanced communication with our clients. But as we have seen in the past, prices tend to normalise rapidly as the market wakes up to the value we've already found, by which time, it's too late to start buying, the opportunity has gone. It might be painful in the short term, but in our view, getting in early to well-considered, risk-adjusted positions is the best way to ensure better long-term results.

Walls of worry: Euro investment grade corporate bond spreads widen



Source: M&G, BAML Euro corporate index (ref: ER00) OAS spread over Libor, data as at 8 February 2016

www.mandg.co.uk/institutions

PENSIONS AND
LIFETIME SAVINGS
ASSOCIATION

ANNUAL CONFERENCE & EXHIBITION 2016

19-21 October
ACC, Liverpool

SAVE THE DATE