Viewpoint

The official journal of the Pensions and Lifetime Savings Association

Issue 2 2017

MOVING FORWARD MOVING ON

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

DIRECTOR'S Viewpoint

Julian Mund looks forward to a series of significant events...

WELCOME TO THE SECOND EDITION OF VIEWPOINT FOR 2017.

As you'll know by now, Joanne Segars has decided that, after 11 years as Chief Executive of the PLSA, the time is right to move on and pursue a portfolio career. As we prepare for Joanne to leave us at the end of June, we're looking back in this issue of Viewpoint at over a decade of her commitment to you, our members and looking forward to continuing the work we've all been doing on your behalf.

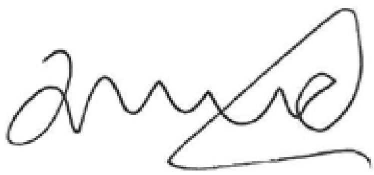
When Joanne launched the PLSA in October 2015 , she talked about this association looking forward into the future with a clear purpose – to help everyone achieve a better income in retirement. The roots of the change and strategy we launched a year before that were in feedback we got from members and from the people we work with in other associations, regulators and the Government during a research exercise in summer 2014. It's an exercise we do every three years, which means this year we're doing it again. And as usual it will inform the executive team and the Board's development of our strategy for the years ahead.

By now all members will have received an email from the PLSA and ICM, our research partners, to an online survey that asks for your views on what we do for you and how we can improve it. On top of that, the PLSA team and I are also out trying to speak to as many of you as we can about how we can make sure we keep helping you. I'm particularly keen to strengthen my relationships with you as I continue to pick up executive responsibilities from Joanne.

In the meantime, with a fantastic schedule of events – including our Local Authority Conference, just after this magazine hits your desks – training and publications and some big policy priorities in DB pensions, automatic enrolment and the Pension Schemes Bill, plus the General Election ahead, it's business as usual at the PLSA. There is plenty of content for all our members inside this edition of Viewpoint, with reports on policy work in a number of areas and a special supplement on LGPS pooling.

And, as ever, we want to know what more we can do or what we can do differently – either through our research or directly. So please get in touch.

I hope you enjoy the magazine and I look forward to seeing many of you soon.



Julian Mund
PLSA Director

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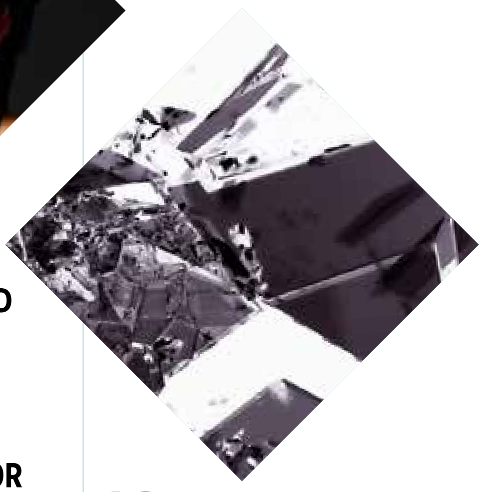

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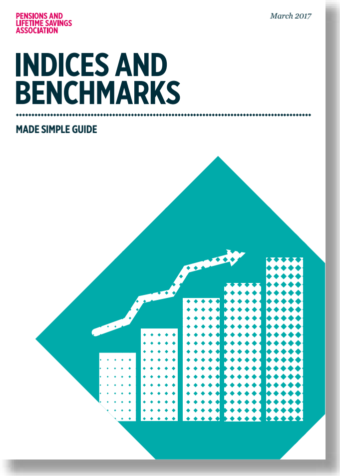
Viewpoint UPDATE

NEW MADE SIMPLE GUIDE



INDICES AND BENCHMARKS MADE SIMPLE LAUNCHED IN MARCH IS THE LATEST IN THE SERIES AND HAS BEEN SPONSORED BY FTSE RUSSELL.

Long-term institutional investors, such as pension plans, seek to meet their investment objectives through a variety of investment methods, and the use of indices throughout this process extends beyond simply benchmarking the performance of the investment portfolio. This new Made Simple Guide provides trustees with an introduction to the various purposes indices serve, and shares some of the important attributes one should consider when selecting an index.

Each membership organisation has been sent a copy of this guide, and PDF versions are available to download FREE from the PLSA website at **www.plsa.co.uk/PolicyandResearch/DB/Made-Simple-Guides**

If you would like to buy additional hard copies of the guide please visit our online shop and take advantage of the discounted member price.

If there are topics you would like to see covered in our Made Simple Guide series, please contact lisa.hampton@plsa.co.uk

OUR PICK OF THE BEST HEADLINES

DB PENSION TRANSFERS WORTH MORE THAN HOUSES

James Fernyhough, FTAdviser

PENSION FREEDOMS TWO YEARS ON: FIVE WAYS TO MAKE THEM BETTER

Sam Brodbeck, The Telegraph

MILLIONS OF WORKERS IN THEIR FIFTIES MAY NOT BE ABLE TO RETIRE UNTIL THEY ARE 68 AFTER SHOCK PENSIONS REVIEW

Daniel Martin, This is Money

TOP TWEETS

#PLSAinvest Ashok Gupta says the goal is NOT 1 huge Superfund but range of Schemes - both existing well run schemes and multiple superfunds.

Some great action shots from #PLSAinvest of some of our speakers @edballs @Dannythe fink @acgrayling

What a spectacular venue for #PLSAinvest Gala dinner. With thanks to the sponsor @BNPParibas & @lucykellaway for the entertainment!

LOOKING FORWARD, MOVING ON

After 12 years of dedicated service, Chief Executive **Joanne Segars** is leaving the PLSA.

THESE WERE JOANNE'S WORDS TO HER FRIENDS AND COLLEAGUES IN THE PENSIONS COMMUNITY ON 20 APRIL, WHEN SHE ANNOUNCED THAT SHE IS MOVING ON AFTER NEARLY 11 YEARS IN THE JOB AND AFTER A SHORT TIME AWAY FROM THE OFFICE RECOVERING FROM BREAST CANCER EARLIER THIS YEAR. MEMBERS WILL BE PLEASED TO KNOW JOANNE IS NOW FIGHTING FIT AND READY FOR THE NEXT PHASE OF HER CAREER – AND SHE CREDITS THE BEST WISHES OF PLSA MEMBERS AND STAKEHOLDERS WITH AIDING HER RECOVERY.

A lot has changed, for pensions and for the Association, during her tenure. But there have been two constants – her desire to do the best for the Association's members and to ensure that people can retire on a decent income at the end of their working lives.

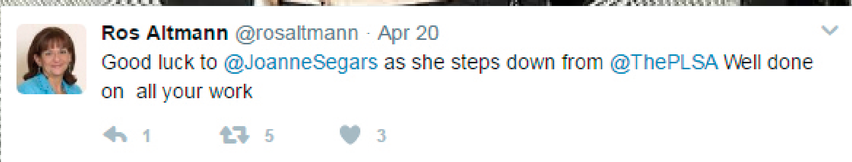
Here we look back over her time at the helm.

MODERNISING THE ASSOCIATION

Joanne became Chief Executive of the NAPF in October 2006, having joined the Association as its first Policy Director the year before. Then the focus was on the Pensions Commission and the implementation of auto-enrolment – something that seemed radical at the time, but which we now see as an established feature of the UK's pensions landscape. Joanne ensured that the Association shaped auto-enrolment to open up pensions to millions of new savers. Our answer how to create the right type of scheme for auto-enrolment was Super Trusts – a few large, strongly regulated DC funds. The Pension Schemes Act - awaiting Royal Asset at the time of writing – contains many of the protections the NAPF proposed then.

Her next order of business was to create a new Pension Quality Mark (PQM). The PQM has set the standard for good DC pension provision in the era of auto-enrolment, fixing the benchmark for what 'good' DC looks like. In 2016 this was followed up with the Retirement Quality Mark, to provide a signpost to savers and trustees trying to navigate the new pension freedoms.

These initiatives are all about defined contribution pensions – and it was Joanne who pushed the boundaries of the Association beyond its traditional territory. Adopting Tony Blair's challenge to the trade union movement to "modernise or die", Joanne transformed an organisation founded in the 1920s, and rooted in a defined benefit heritage, into one that clearly speaks for DB and DC pensions. To support



"I'VE COME TO THE REALISATION THAT WHILE THERE'S NEVER A GOOD TIME TO LEAVE A JOB – ESPECIALLY ONE THAT YOU LOVE (AND WHERE YOU LOVE THE PEOPLE TOO) – THERE MAY BE A GOOD TIME NOT TO GO BACK"

Sarah Pennells @Savvy_Woman · Apr 20
Sorry to hear that you're leaving the @ThePLSA @JoanneSegars . Good luck in your new ventures!
2

the external focus on DC, Joanne led the creation of new DB and DC Councils in 2012, increasing the capacity to influence government, and bringing a larger number and a more diverse group of members into the Association's policy-making processes.

Consistent with her belief that ensuring people get the pensions they're due is best achieved though well governed schemes that provide good value for money, which can be best provided at scale, Joanne led the development of the ground-breaking Pensions Infrastructure Platform, taking it from an idea held by a group of pension funds at the end of 2011 to a £1.3bn FCA-regulated infrastructure asset manager built by pension funds for pension funds.

Joanne's determination to get the best for members in the UK made a significant difference in Europe too, where she represented the Association and the wider UK pensions sector, chairing the pan-European federation of pensions trade associations, PensionsEurope, from 2012 to 2015. Working with partners from across the EU she successfully lobbied against punitive funding rules for DB pension schemes that would have been imposed through the Holistic Balance Sheet.

She lists making the PLSA's conferences and events the best in the industry as one of her highlights. Always wanting to challenge herself and the industry to think more broadly and to learn from others, she has welcomed hundreds of speakers to the PLSA stage, bringing high-profile figures from the worlds of politics, philosophy, science and business to ensure members are engaged with the wider context influencing the future of pensions.

Joanne was always clear that modernising the Association so that it was fit for the future – and fit for the way savers think about retirement – was never going to stop with broadening our work to DC. The government's reforms introducing freedom and choice, and more recently the introduction of the LISA, have emphasised that change is an unavoidable fact in the pensions world. In 2015, showing her stamina and hunger for modernisation, Joanne led the organisation through its biggest transformation of all; the National Association of Pension Funds became the Pensions and Lifetime Savings Association.

Joanne has built the PLSA's reputation as an organisation with credible and persuasive policy proposals, representing the interests of members with vigour, determination and imagination. On announcing her departure she paid tribute to members, saying "I am consistently impressed by the determination of PLSA members to deliver for their pension scheme members, often in difficult circumstances."

Steve Webb @stevewebb1 · Apr 20
Sorry to see @JoanneSegars moving on from @ThePLSA - Jo has done a great job and will be much missed

Her leadership means that today the PLSA is fit for the future. It can positively influence the direction of government policy on auto-enrolment, DB pensions, DC pensions and local government pension scheme asset pooling as well as corporate and pension fund governance. She leaves a strong legacy for her successor.

BIOGRAPHY

Chief Executive of the Pensions and Lifetime Savings Association in October 2006, Director of Policy 2005-2006.

Chair PensionsEurope 2012-2015; PensionsEurope Board Member 2006-2017.

Head of Pensions and Savings at the Association of British Insurers (ABI) 2001-2005.

Senior Pensions Officer, Trades Union Congress (TUC) 1988-2001.

Researcher and journalist, Incomes Data Services 1987-1988.

Founding governor of the Pensions Policy Institute and Council Member.

Director of TUC Stakeholder Trustees Ltd.

Member of the board of OPRA 1996-2003

Joanne has a degree in economics from John Moores University, Liverpool, and a Master of Arts degree in industrial relations from the University of Warwick.

Joanne was awarded an OBE for services to the pensions industry in the 2003 Queen's Birthday Honours.

A FRAMEWORK FOR FUND GOVERNANCE?

The pensions industry could learn from the business world when it comes to a code of practice, argues **Luke Hildyard**, Policy Lead: Stewardship and Corporate Governance.

THE ISSUE OF GOOD CORPORATE GOVERNANCE HAS ENJOYED CONSIDERABLE PROMINENCE IN PUBLIC DEBATE IN RECENT YEARS.

Theresa May has put the green paper on corporate governance reform at the centre of her Prime Ministerial programme. Whenever a governance issue – from executive pay, to audit and accounting processes – emerges at a major UK company, it immediately dominates the business pages (and occasionally the front ones) of the UK's newspapers. As a key stakeholder in the corporate governance debate, we at the PLSA are frequently contacted by international colleagues keen to learn more about the UK approach.

Of course the very fact that the Prime Minister has introduced a green paper on 'corporate governance reform', coupled with the sporadic emergence of governance issues at certain companies, suggests that this is an area where there is no room for self-congratulation or complacency.

But the prominence afforded to these issues when they do arise suggests that good corporate governance is treated extremely seriously. Since the introduction of the Corporate Governance Code in the late 1990s there have been no repeats of scandals such as those at BCCI, Polly Peck and the Maxwell companies that prompted the Code's development. The Financial Reporting Council's annual review found that over 90 per cent of companies are compliant with all but one or two of the Code's provisions.

This contrasts strikingly with the governance of pension funds. Research by The Pensions Regulator (TPR) has identified huge variations in levels of self-reported expertise across the trustees of different schemes. Only half of schemes responding to a TPR survey said that all their trustees met the standards set out in the Code of Trustee Knowledge and Understanding (TKU), and just 45 per cent reported that they had a trustee training plan in place.

A separate PLSA survey found that only 17 per cent of schemes conduct an external evaluation of their performance, while the industry's record on diversity is poor. Fewer than half of respondents to our survey said that their scheme was diverse in terms of gender or ethnicity. Only 53 per cent said it was diverse in terms of age.

EQUIVALENT SCALE

There is no reason why these issues shouldn't attract the same level of attention as the governance of listed companies. The largest pension funds have assets under management equivalent to the market capitalisation of a FTSE 100 company. Millions of people's incomes in retirement depend on the success of their pension fund.

Perhaps the different treatment of pension funds and listed companies stems from the clarity and prominence of the regulations that inform their governance. The Corporate Governance Code is a single, codified 32-page document well-known to everyone involved with running a major company, as well as a much wider stakeholder community. The Code is focused on five key areas – leadership, effectiveness, accountability, remuneration, and shareholder relations.

Conversely, pension funds must navigate a spaghetti junction of codes of practice, associated guidelines, and governance-related aspects of various pieces of pensions legislation. It is therefore no surprise that governance issues are less prominent in the pensions industry than the corporate world.

So what would a framework more akin to the Corporate Governance Code look like? The PLSA's forthcoming discussion paper begins to sketch out an answer to this question, identifying four key aspects of pension fund governance – leadership, effectiveness, accountability, and stakeholder relations – based on the content of the Code. The paper suggests a focus on the skills and experience of the individuals who comprise pension fund governance and robust systems for evaluating and disclosing performance – getting the right people in post and then ensuring they are delivering for members, rather than dictating a checklist of procedural requirements.

We welcome members' views on how closely our industry should look to the corporate world as a model for good governance – but we should certainly share their appetite for debating the subject.

THE LARGEST PENSION FUNDS HAVE ASSETS UNDER MANAGEMENT EQUIVALENT TO THE MARKET CAPITALISATION OF A FTSE 100 COMPANY

BREXIT: FIVE TOP TIPS FOR PENSION SCHEMES

James Walsh, PLSA's Policy Lead: EU & International, does his best to offer some advise in the midst of political uncertainty.

THE BIG PROBLEM WITH WRITING A *VIEWPOINT* ARTICLE ON BREXIT IS THE CLASH BETWEEN FAST-MOVING POLITICAL EVENTS AND NOT-QUITE-SO-FAST-MOVING PRODUCTION SCHEDULES.

I am writing this in the last week of March. You are reading this at least a month later. The one thing I know about the period in between is that Article 50 will have been triggered and the UK will be set on a course of no return towards the EU's exit door. Beyond that, there will be twists in the political tale that risk making almost anything I say irrelevant or outdated or both. [Yes, a General Election announcement is quite a twist - *Ed.*]

So let me resist the temptation to speculate about the course of political events and focus instead on what matters to *Viewpoint* readers in general and trustees in particular – what you can do to help your scheme cope with Brexit. Here at least we might be on something resembling safe ground.

My **first** Brexit tip for trustees is to review your employer covenant. Whether you run a DB or DC scheme or both, the sponsoring employer's support is the single biggest factor in determining the strength of your scheme. For reliable DB funding or good contribution levels into DC pots, it all comes down to the sponsor.

So, you should discuss with the employer whether its prospects are affected by the uncertain economic climate or by shifts in currency and other markets; particularly if the company trades internationally. Then discuss with your fellow trustees what it means for the scheme.

Second, you should check the Brexit impact on your liabilities and investments. For mostschemes, continuing low interest rates and renewed quantitative easing mean higher liabilities. New market conditions might mean you should adjust your valuation assumptions.

A bigger deficit – or just a bigger scheme all over if both sides of the balance sheet are up – means more risk. And it's the trustees' job to have a plan for mitigating it.

Third, don't forget to look on the bright side of Brexit. Buy-out prices have become more attractive. So check with your advisers whether now is the time to remove some risk from your DB scheme.

Fourth, take a good look at your hedging arrangements. There might be an impact on the value of the collateral that you post under derivatives contracts. You might need to post extra margin – or get your counterparties to do so.

Finally, reassure your members that you are on the Brexit case. You cannot completely remove Brexit risk for your members, but you can reassure them that the trustees are monitoring and responding to risks on their behalf. Just keeping members informed about what you are doing will go a long way towards giving them confidence that the trustees have got a grip on Brexit and on what it means for their pensions.

That's five top trustee tips for Brexit. There are more I could have shared – 10 in total, in fact. But the 600-word limit means I have to focus on the key points. The full list and much more besides is on **www.plsa.co.uk**.

Whatever you do, don't wait for events to overtake your scheme. By reviewing and planning for Brexit now, you will prevent the inevitable uncertainty from destabilising your scheme.

One thing I will predict is that the politicians will manage to generate more challenges for pension schemes. Well-prepared and vigilant trustees will cope.

Good luck!

BY REVIEWING AND PLANNING FOR BREXIT NOW, YOU WILL PREVENT THE INEVITABLE UNCERTAINTY FROM DESTABILISING YOUR SCHEME

SUPERFUNDS: A WAY FORWARD FOR DB?

The second report from the DB Taskforce represents considerable progress – **Joe Dabrowski**, PLSA's Head of Governance & Investment reflects the size of the job in hand...

THE PLSA'S DEFINED BENEFIT TASKFORCE WAS SET UP OVER A YEAR AGO, AND IN MARCH IT LAUNCHED ITS SECOND REPORT AT THE INVESTMENT CONFERENCE IN EDINBURGH. AND WHAT A YEAR FOR DB IT HAS BEEN! THERE HAVE BEEN TWO WORK AND PENSIONS SELECT COMMITTEE INQUIRIES, A CONSULTATION ON THE FUTURE OF BRITISH STEEL, NUMEROUS NEWSPAPER HEADLINES AND, MOST RECENTLY, THE LAUNCH OF THE FIRST GREEN PAPER FOR MORE THAN 10 YEARS.

The Case for Consolidation' follows the findings of the Taskforce's Interim Report, which highlighted the significant challenges facing the DB sector today. These include a high degree of fragmentation and intermediation, a mixed quality of scheme governance, and a legislative framework that 'bakes in' complexity and binary outcomes for members.

Our research highlights a system that isn't fit for the future. With employers and schemes running harder and harder to stand still – despite more than £120 billion of additional contributions paid into schemes over the last ten years – the majority of schemes remain in deficit, and the average recovery plan remains at nine years. Most importantly our analysis indicates that schemes with the weakest employers and nearly half the liabilities in the sector have just a 50:50 chance of seeing benefits paid in full.

The need to find alternative ways of doing things has never been more acute – and to address these challenges the Taskforce identified greater consolidation of the sector as an essential way to improve outcomes for schemes, members and employers.

Our approach was to look at a range of new and existing models which would deliver a positive impact by sharing or merging some or all of the following services:

- Trusteeship
- Liabilities
- Administration
- Advisory services
- Asset management

Despite it being a buzzword in the industry for several years it became apparent quite early on that 'consolidation' can mean many different things to different people.

Nonetheless, it was possible to group the range of disparate views into four common models:

1. Shared services: combining administrative functions across schemes achieving cost savings through economies of scale.
2. Asset pooling: different schemes' assets are pooled and managed centrally while individual schemes retain responsibility for their governance, administration, back office functions and most advisory services.
3. Single governance: different schemes' assets are consolidated into a single asset pool; governance, administration and back office functions are also combined.
4. Full merger (Superfund): designed to absorb and replace existing schemes. Employers and trustees are discharged from their obligations for future benefit payments, which would be paid from the Superfund.

The report makes clear that there is a case for greater consolidation of all kinds, and greater take-up of existing models would have a real impact. Through shared services schemes could save an aggregate of £0.6 billion per year and an estimated minimum of £0.25 billion per year by pooling their assets. If they consolidate their governance, administration, investment and back office functions, a further estimated saving of £0.36 billion would be added, totalling a saving of £1.2 billion per year.

However, our conclusion was that these measures alone wouldn't make much of a dent in the overall risk to members' benefits. Even £1 billion per year of savings fills only a small part of the £400 billion DB pension deficit.

That is where we think Superfunds can make a difference and offer an alternative type of consolidation with further potential benefits:

- For members – a better chance of getting more benefits paid. And if they're still an employee, less chance of seeing their employer go to the wall.
- For employers – a lower-cost alternative to buyout which gives them the same opportunity to pay their bills, walk away from future DB risk and concentrate on their core business.
- For the Regulator – a sector where risks are better managed and schemes more amenable to a supervisory approach.
- For the economy – the benefit of Superfunds' ability to invest more in the real economy and, over time, from the freeing of employers from legacy DB bills.
- And for the market, Superfunds offer an opportunity for a wide variety of players – insurers, EBCs, asset managers, existing pension schemes and others – to earn a return on capital in what could be a vibrant, competitive market to play.

Of course there is still much work to be done. Over the next few months the Taskforce will be focussing our efforts to assess a range of working models to investigate what a Superfund would look like. How would it need to work in order to be attractive to members, trustees, sponsors and potential providers? The Taskforce will publish its Final Report in July, ahead of a government white paper expected in the autumn. Bold thinking and a clear consensus is needed if we are to tackle the challenge faced by the DB system. Indeed, millions of savers depend on it.

HELPING TRUSTEES STOP SCAMS

The Pensions Regulator is playing a central role in the fight to stamp out scams in the industry.

WE HAVE BEEN AT THE FOREFRONT OF RAISING AWARENESS OF PENSION SCAMS SINCE 2013, THROUGH THE SCORPION CAMPAIGN. IN OUR LATEST CAMPAIGN WE'VE CREATED NEW MATERIALS FOR SCHEME MEMBERS AND TRUSTEES TO HELP THEM SPOT THE DANGER SIGNS OF A SCAM AND KNOW HOW TO PROTECT THEMSELVES.

The new features include:

- **Videos for trustees and savers** alerting them to typical scammer tactics and the devastating consequences for scam victims;
- **An online scam-spotting tool** for savers considering investing their pension pot;
- **A quick five-step guide** to help savers protect themselves with practical tips and questions to consider;
- **A downloadable poster** for providers and employers; and
- **A checklist for trustees** helping them work through the due diligence they have to do when looking at transfer requests.

Scammers are criminals, and we're clamping down on their activities. It's important that people help themselves by understanding the dangers of scams, and the Scorpion campaign provides the tools to do this. We encourage trustees and savers to visit pension-scams.com to arm themselves with the facts.

The campaign includes five top tips to help savers protect themselves against scammers:

- **Think you've been scammed?** – Act immediately! You might be able to stop a transfer that hasn't taken place yet.
- **Cold-called about your pension?** Hang up! Unsolicited phone calls, texts or emails about your pension are nearly always scams.
- **Deals to look out for. Beware of unregulated investments offering 'guaranteed returns'.** These include exotic-sounding investments like hotels, vineyards and overseas ventures.
- **Using an adviser? Make sure they're registered with the FCA.** Scammers sometimes pose as findgfal advisers.
- **Don't let a friend talk you into an investment – check everything yourself.** People have fallen for scams because they've been recommended by a friend.

We also chair the multi-agency Project Bloom which co-ordinates government, law enforcement and regulatory agencies' responses to a variety of scam and associated criminal activities; so we welcome the government's proposed new measures in the fight against scammers.

Project Bloom has been instrumental in encouraging the government to consult on a range of measures intended to tackle pension scams, including banning pensions cold-calling, restricting the ability to transfer to scam schemes, and changes to how certain schemes are regulated.

SCAMMERS ARE CRIMINALS, AND WE'RE CLAMPING DOWN ON THEIR ACTIVITIES

An outright ban on pension cold calls would send a powerful message to savers: "A cold call about your pension will be from a criminal. Just hang up!" The ban could extend to cold emails and texts too. No reputable pensions company will cold-call, text or email you.

We also need to help trustees and scheme managers. They face a horrible dilemma. On the one hand they are exhorted to carry out due diligence to make sure they only make transfers to legitimate receiving schemes. On the other, the courts have found them to be at fault if they refuse to make a transfer to what they suspect is a dodgy scheme.

So we favour a restriction of a member's right to a statutory transfer to either an authorised master trust or an FCA-regulated product.

This would answer the legitimate calls from trustees and scheme managers to drastically reduce the cost of due diligence activity, and address the overriding consumer need to be confident in the safety of their scheme. The FCA already publishes information about its regulated providers, and we will publish a list of all master trusts we authorise after implementation of the Pension Schemes Bill.

In the meantime, we welcome the industry's continued support in promoting the Scorpion campaign and helping to protect members from the dangers of scams. If you have any feedback or comments on the current scams campaign material, please contact **james.walsh@plsa.co.uk**

A QUESTION OF DIVERSITY

Stephanie Power explains how a quiz on privilege gives a revealing insight into a mirror image business culture the PLSA is working hard to change.

WE ALL LOVE A QUIZ, DON'T WE?

ESPECIALLY IF THE QUESTIONS ARE ABOUT US.

A lot of them can be a bit silly. Which breed of dog are you most like? Which *Star Wars* villain? What does your favourite pizza topping reveal about you?

I've just completed one that suggests where you should live based on your personality. I got Dumfries and Galloway – I live in Liverpool, and can't really see the link. But there is something about a quiz. So when someone in the PLSA office sent me a 'How Privileged Are You?' quiz, I thought that would be an ideal way to get into the concept of diversity.

The Privilege Quiz, or Walk, comes from the US and the idea is that you answer a series of 35 questions, taking a step forward, or backwards, or staying in the same place, depending on your answers. It's quite obvious where the questions are heading: '*If you had to take out a loan for your college education, take a step back*', '*If you feel that you are able to show affection to your loved one in a public place without fear of ridicule or attack, take a step forward*', '*If you feel that your racial group is not covered adequately in the media, take a step back*'. The quiz, adapted from the work of US academic Peggy McIntosh, is trying to say if you are not white, male and middle class, you may be at a disadvantage.

We filmed some PLSA staff taking part in the quiz, and – spoiler alert – three white men in suits ended up at the front of the room.

BREAKING THE MIRROR IMAGE

So we had the perfect way to introduce the PLSA's new campaign Breaking The Mirror Image, designed to try and encourage the pensions industry to look more widely for its pension scheme board members. Eighty-three per cent of trustees are men, and as far as we know there are no figures for any other groups – for example, the black and Asian make-up of pension boards.

The campaign, launched in March with a series of essays looking predominantly at the experience of women within the pensions industry, is being widened out to look at diversity more generally.

At the PLSA Investment Conference in Edinburgh we heard from Margaret Heffernan, a former software designer turned management guru, who explained how we all have a tendency to toe the line and be social conformists. Few people like to stick their head above the parapet at work, but she explained how important it is for people on boards to speak out, and that 100 per cent agreement is not a good thing. She told us that Alfred Sloan, the President of General Motors back in the 1930s, wouldn't sign anything off at board level if there was no disagreement. It's called 'group think', and she argues his approach is still relevant nearly 100 years later.

IT IS BETTER FOR ALL OF US IF WE BREAK THE CULTURE OF THE MIRROR IMAGE

WIDENING THE POOL

One way to get disagreement, or at least a range of opinions, is to try to recruit a wider range of people. The PLSA wants to achieve this and is planning to launch new leadership programme and a day-long conference to encourage members to think about how they might break their own mirror images.

Diversity has, without doubt, become today's 'on-trend' topic; and diversity on boards has been a major theme of government policy for several years. The evidence tells us that diverse boards create better-performing companies, but the PLSA has to ensure it is not just paying lip service to the problem.

First of all, the PLSA should be clear about what it means when it talks about diversity. There are many elements to consider if we want to be truly representative – gender, race, age, disability, sexual orientation, neurodiversity, regionalism and social class.

In her essay on diversity for the launch of the campaign back in March, Helena Morrissey says The Diversity Project (that she runs) wants to see enough change in five years so that when you look around your business, you can see a clear and broad diversity of talent. She founded the 30% Club and says over the last five years they have seen a doubling of the representation of women on UK-listed company boards.

Chris Hitchen, from the Railways Pension Trustee Company, also wrote an essay for the Breaking The Mirror Image campaign. He said that what mattered to him was cognitive diversity – different voices and different ways of thinking – so that business doesn't miss a trick because everybody is thinking the same way.

EMBRACING CHANGE

People can be nervous around the concept of diversity. They are frightened of saying the wrong thing. That's why we are planning a range of activities, including training and events, to equip PLSA members with the confidence they need to be able to talk about all these issues, and to make change.

But to help do that, we need to find new people to become trustees. It's all well and good saying you want more women, or more black and Asian people on governance boards, but what can the PLSA do to help find this new talent?

Scheme cross-fertilisation might be one way of doing it, but that doesn't necessarily widen the talent pool far enough. The PLSA wants to work with members to see how we can all best find new talent, and we're talking to a range of people we might collaborate with.

The PLSA wants to make sure all its members benefit from this talent at its own events too. One of the keys to making change is sometimes simply to make things look and sound different, but it's not always easy to identify the diverse talent in the PLSA membership.

There is now a diversity page on the PLSA website. This will develop into a hub for all the PLSA's diversity work. Eventually it will become a resource centre for members. As a start, we have the Privilege Quiz on there. You can take the quiz yourself, and find out how you score, or you can do it with your teams. Because we all love a quiz, don't we?

IF YOU ARE NOT WHITE, MALE AND MIDDLE CLASS, YOU MAY BE AT A DISADVANTAGE

We want to raise awareness among those in the pensions industry – including asset owners, fund managers, investment consultants, trade bodies and existing trustees – that it is better for all of us if we break the culture of the mirror image.

100%

agreement is not a good thing.

Stephanie Power is a freelance journalist, event producer and project manager. She is currently working with the PLSA on the Breaking The Mirror Image campaign.

If you want to get involved then contact **julian.mund@plsa.co.uk**

THE EVIDENCE TELLS US THAT DIVERSE BOARDS CREATE BETTER-PERFORMING COMPANIES

For more details on our Diversity campaign visit **http://www.plsa.co.uk/PolicyandResearch/Diversity**

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INVESTMENT CONFERENCE 2017

POST EVENT REVIEW

CONFERENCE

- 32 CONFERENCE SESSIONS
- 952 ATTENDEES
- 63 SPEAKERS
- 54 EXHIBITORS AND SPONSORS
- 2 TRUSTEE LEARNING ZONE SESSIONS
- 2 FRINGE MEETINGS

THOUGHT PROVOKING, EXCELLENT RANGE OF SPEAKERS, PLENTY OF OPPORTUNITIES FOR NETWORKING

Jill Clucas
Hogan Lovells UK Pension Scheme

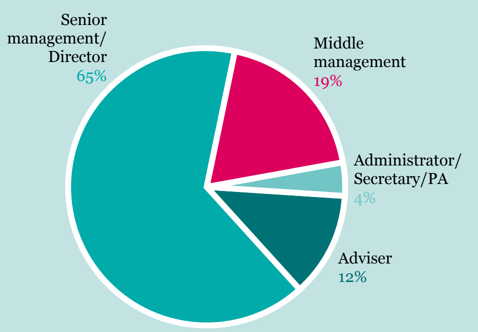
AS A MEMBER ORGANISATION IT OFFERS GREAT VALUE

Kate Yates
Plumbing Pensions UK

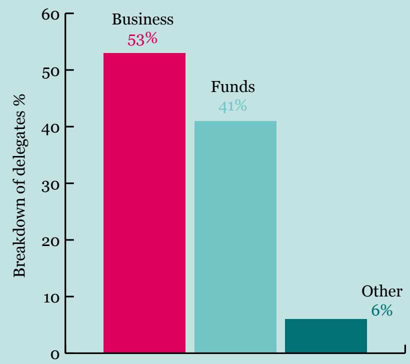
DELEGATE FEEDBACK

- 88% RATED THE OVERALL EVENT EXCELLENT OR GOOD
- 88% RATED THE PROGRAMME OF SPEAKERS EXCELLENT OR GOOD
- 89% RATED THE NETWORKING OPPORTUNITIES EXCELLENT OR GOOD
- 88% AGREED THAT THE EVENT MEET THEIR EXPECTATIONS
- 94% WOULD RECOMMEND THE EVENT TO A COLLEAGUE
- 98% WOULD ATTEND THE EVENT AGAIN

DELEGATE PROFILE



Number of delegates: 402



Number of delegates: 759

SOCIAL MEDIA REACH

- 3,000 TWITTER FOLLOWERS
- 3,500 CONNECTIONS ON LINKEDIN

144 pension schemes with **£470 Billion** assets under management

GOOD OPPORTUNITY TO MEET MANY CONTACTS IN A SHORT PERIOD WHILST HEARING ABOUT A NUMBER OF CURRENT TOPICS

John O'Mahoney
Satander UK plc

INVESTMENT CONFERENCE 2017

Bobby Mayamey, PLSA's Press Officer, takes a look back at March's flagship event where diversity, risk and emotion were just some of the subjects tackled by a stellar range of speakers.

"THE SCOTS THINK OF IT AS THEIR CAPITAL; THEY'RE TOO POSSESSIVE, EDINBURGH BELONGS TO THE WORLD", **EDINBURGH-BORN ARTIST RICHARD DEMARCO ONCE MUSED. AND HE'D BE RIGHT. FOR THREE DAYS IN MARCH OVER 900 PENSION PROFESSIONALS MADE EDINBURGH THE PENSIONS CAPITAL OF THE WORLD.**

The theme of the conference was diversity, which seems fitting for a city that hosts international culture events ranging from naked stand-up comedy to a one-man Breaking Bad adaptation. And then there's penguins, knighted ones: Edinburgh is the home to the world's only knighted penguin, Sir Nils Olav!

Diversity in the workplace hasn't seen much innovation in the last 10 years. Often, the only thing a company has had to do to prove they're diverse is ensure all staff complete a mandatory training exercise – this is after HR has made them sign the next-of-kin forms and the facilities manager has shown them the fire exits. A box-ticking exercise, a cynic might say.

Back to the conference, and arise PLSA Chair Lesley Williams to welcome delegates and kick off proceedings with her opening speech. Focussing on diversity, Lesley referenced the PLSA's recently launched campaign Breaking The Mirror Image, which aims to encourage greater diversity on trustee boards. When 83 per cent of trustee boards are male[1] this is clearly something that the industry needs to address. But what does a trustee's gender, ethnicity or social class matter – if they're best qualified to do the job shouldn't they be doing it in the interest of savers? Lesley explained: *"If we all mix with people of the same background, who like the same things, have similar political views and who look the same, then we will work and socialise with self-regarding groups whose biases are confirmed by one another."*

IF YOU REALLY WANT TO GET OUTSTANDING DECISIONS AND OUTSTANDING FORESIGHT YOU NEED DIVERSITY

WILFUL BLINDNESS

Cabinet member turned television ballroom dancing contestant Ed Balls explained that diversity is really about challenging ourselves *"to make sure you've asked the difficult questions"* when making decisions.

1. PLSA Annual Survey, 2016 – page 5

"If you really want to get outstanding decisions and outstanding foresight you need diversity," argued Margaret Heffernan, the entrepreneur, chief executive and author of Wilful Blindness. Her book proposes that the biggest threats and dangers we face are the ones we don't see, not because they're secret or invisible, but because we choose to ignore them as they challenge our worldview – a phenomenon known as wilful blindness.

We've all seen strong examples of wilful blindness over the years – think BP, or phone hacking. In both those cases, there was evidence suggesting more than a few 'bad apples' knew what was going on but chose to ignore it. Heffernan argues that this is because people prefer to stick to a crowd rather than be isolated. This leads to homogeneity. Translate that to the boardroom and that means lots of likeminded people with very similar backgrounds and outlooks seeing the same things and corroborating the same decisions. In fact, Heffernan's research found that as individuals we receive huge amounts of comfort when we surround ourselves with those that are the same as us, making us biologically biased. How does this affect the boardroom? No surprises here: in exactly the same way, we surround ourselves with people most like ourselves.

IT'S EMOTION NOT REASON THAT LEADS PEOPLE TO MAKE THE DECISIONS THAT THEY MAKE

UNRECOGNISED RISK

But the conference wasn't only about diversity. This year, Ashok Gupta, the chair of the Defined Benefit (DB) Taskforce, presented its second report to delegates. The report, The Case for Consolidation, outlines how consolidation and the creation of superfunds could tackle the issues facing DB pension schemes, alleviating the unacceptable – and mostly unrecognised – risk to scheme members.

Looking at four different models of consolidation, the report makes the case for greater consolidation to save scheme members money. Of course these potential savings are worthwhile, but they're unlikely to make much of a dent in the £400 billion DB pension deficit. Superfunds offer a different type of consolidation with further potential benefits. Ashok outlined how a superfund could improve the security for savers in weak schemes by reducing the probability of their schemes failing from 65 per cent to 10 per cent or even less. This goes much further than making schemes cheaper to run, it's about making them last the distance.

Ashok didn't mince his words in his conclusion: *"We believe the risk in the system is misunderstood. There's a lot more risk to members' benefit than people generally appreciate... The next few months will show if we, collectively, have the appetite to address the systemic failings of the [pension] sector which is putting benefits of so many members at so much risk."* It was a strong call to action from Ashok to the industry.

REASON AND EMOTION

Ashok and the DB Taskforce may argue that the pensions industry has lost its way with the risk posed to members' benefits – but have we, as a society, lost our reason? Philosopher and author AC Grayling delivered the keynote speech addressing this question. Grayling presented Daniel Kahneman's theory on slow and fast thinkers – the fast thinkers being those who are characterised as not examining an idea or claim, but instead respond with an emotional reflex which overwhelmingly determines what they do. On the other hand slow thinkers look for evidence, examine the arguments, explore what information lies behind the claim and make a judgement about it themselves.

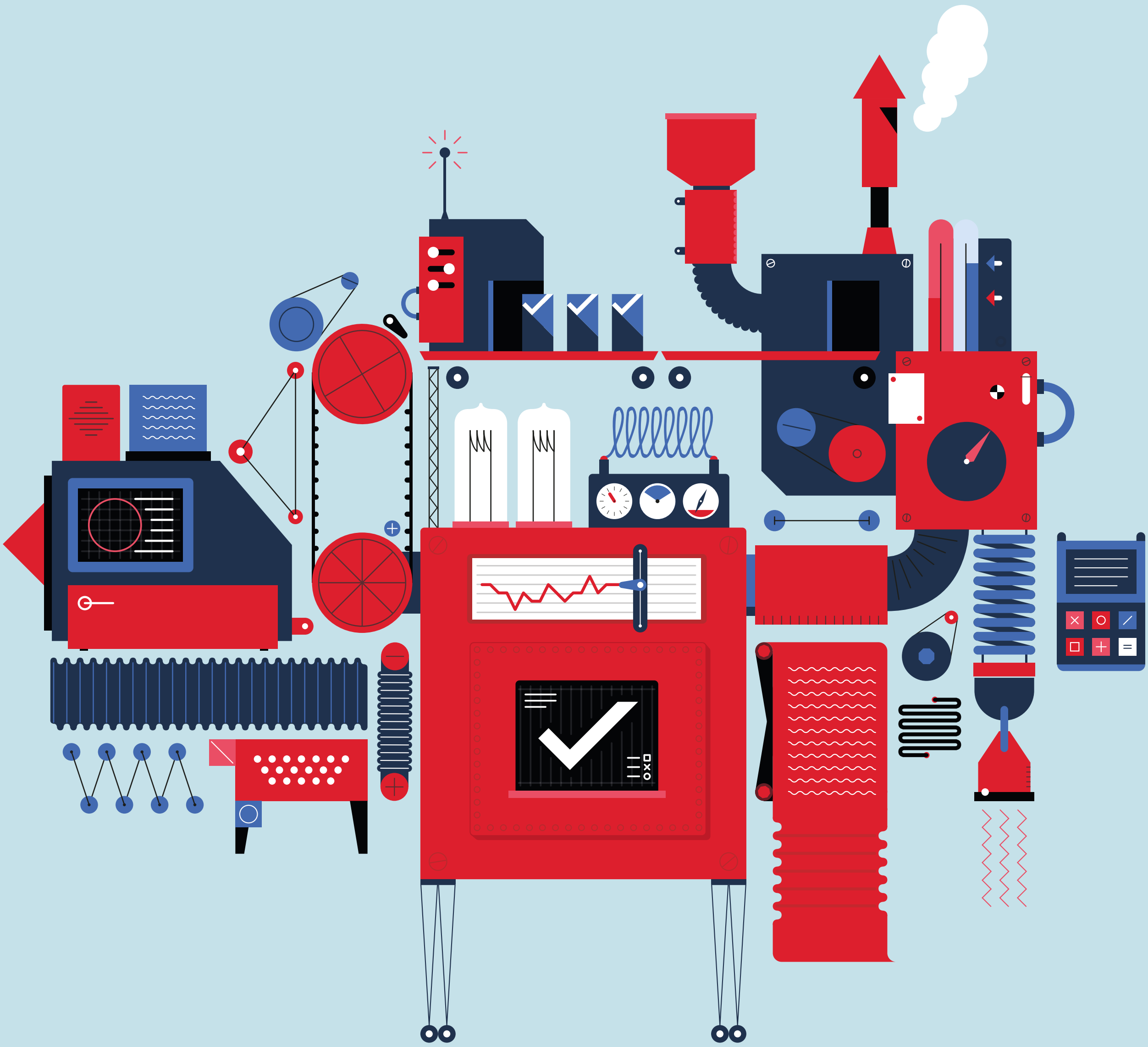
Does this mean a world full of slow thinkers would result in a more reasoned environment? Perhaps not. Grayling referenced Buridan's ass, a hypothetical situation where a donkey standing between two identical piles of hay is unable to make a rational decision as to which pile to eat first, and so eventually starves to death.

WE BELIEVE THE RISK IN THE SYSTEM IS MISUNDERSTOOD. THERE'S A LOT MORE RISK TO MEMBERS' BENEFIT THAN PEOPLE GENERALLY APPRECIATE

"When we make decisions we need not just reason, but something else that motivates us – we need emotion to help us make decisions. Good emotions partner reason... It's emotion not reason that leads people to make the decisions that they make... The work of challenging is the work of education..."

The PLSA will continue challenging the industry to find solutions to the big problems, and to educate its audience as to what these solutions could look like. As argued by Grayling, it's the marriage of reason and emotion that will lead to the industry ensuring it delivers the most crucial objective – adequate income in retirement for all.

WE DO ALL THE TESTING SO YOU DON'T HAVE TO



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PENSION
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SILVER SERVICE

More people than ever want to work into their later years – and it's something employers and the government should embrace, says **George Currie**, PLSA Senior Policy Adviser.

UK WORKERS ARE INCREASINGLY ELECTING TO EXTEND THEIR CAREERS BEYOND THE TRADITIONAL AGE OF RETIREMENT.

The latest data from the Department for Work and Pensions (DWP) show that just under one-fifth of pensioners were earning work-related income in 2015/16[1]. The number of people working beyond 65 has doubled since 2001, to 1.1 million[2], and it's easy to see why. Although earnings have fluctuated since the financial crisis, the median gross annual pensioner income from work in the last financial year was £17,212[3]. This represents a valuable supplement to other sources of retirement income.

Despite the fact that many older people are eager to stay in employment, others feel that they cannot or should not. Recent research by the Joseph Rowntree Foundation (JRF) found that, after having spent most of their adult lives in work, many older people believe that they deserve to retire, while others think that if they remain in the labour market young people will be deprived of opportunities to further their careers[4].

Though these considerations are important drivers of premature labour market exit, other issues present more concrete barriers to continued employment. The government has identified three principal obstacles that prevent older people from remaining in work: health, caring responsibilities and skills shortages[5].

The impact of health concerns and caring responsibilities on the ability of older people to work is likely to be exacerbated by forthcoming demographic changes. Age UK estimates that the over-60s will account for 29% of the population in 2035, compared to 24% today[6]. This will increase both the number of people with care requirements and the demand for carers, which, in the absence of a concerted public/private strategy, will constrain the ability of more and more people to continue to work in later life.

Older workers are less likely than their younger counterparts to possess formal qualifications, which are often used as a proxy for skills; they also find it more difficult to secure on-the-job training. The Institute of Directors (IoD) cites this as an area in which both employers and the government can do more to ensure that people remain ready to work for longer. According to the IoD,

THE NUMBER OF PEOPLE WORKING BEYOND 65 HAS DOUBLED SINCE 2001

employers should provide more training opportunities for their staff, particularly older workers, and the government needs to invest adequate resources in adult education in order to facilitate the sort of re-training and upskilling that will ensure that older workers' skills remain relevant and up-to-date[7].

Early labour market exit entails costs for the taxpayer as well as individuals. While people lose out on valuable earnings and pension contributions, the resulting increase in benefit payments and the smaller tax base place pressure on government expenditure. But removing the barriers to career extension is not only a pecuniary challenge; emerging evidence suggests that it could improve physical and mental wellbeing. In her latest report on the health of the nation, the Chief Medical Officer, Professor Sally Davies, concluded that "for most people 'good work' is good for personal health, organisational productivity and economic prosperity[8]."

The decision to work beyond the traditional age of labour market exit is governed by a host of considerations. For some, the monetary incentive is undoubtedly the principal driver; for others, the choice to extend their careers derives from other motivations, such as a desire to maintain relationships that they have developed throughout their lives. Whatever the reason, it is clear that more people than ever want to work into their later years – and both the government and employers should welcome the opportunities that this presents.

1. DWP, *Pensioners' Income Series 2015-2016* (2017)
2. DWP, *Economic Labour Market Status of Individuals Aged 50 and Over Since 1984* (2016)
3. DWP, *Pensioners' Income Series 2015-2016* (2017)
4. JRF, *Preparing For Later Life: Working Longer and Saving More* (2016)
5. DWP, *Fuller Working Lives: A Partnership Approach* (2017)
6. Age UK, *Later Life in the United Kingdom* (2017)
7. IoD, *Lifelong Learning: Reforming Education for an Age of Technological and Demographic Change* (2016)
8. S. Davies, *Baby Boomers: Fit For The Future* (2015)

MISSION: POSSIBLE

Stewart Bevan argues that changing our approach to cost transparency should be a high priority for the UK pension market.

THE TOPIC OF COST TRANSPARENCY ONLY INCREASES IN IMPORTANCE. THE BENEFITS ARE CLEAR – ACCESS TO BETTER QUALITY DATA AND IMPROVED INSIGHT, EMPOWERING TRUSTEES TO MAKE MORE INFORMED DECISIONS AND ENHANCING LEVELS OF TRUST WITHIN FINANCIAL SERVICES – SO WHAT'S STOPPING THE UK PENSIONS MARKET FROM ADOPTING THIS APPROACH?

In any other walk of life, knowing the true cost of what you are paying for is fundamental to a purchasing decision, but in UK pensions we simply do not understand all of the costs that are being incurred by our schemes and the impact they are having. Without this, how can we effectively evaluate the value for money?

This uncertainty has fuelled a clear sense of information imbalance between consumers and providers. Asset owners have been seeking greater cost transparency for some time and are becoming increasingly frustrated when evidence suggests there is more that should be disclosed. It's important not to start playing a blame-game, but recognise that historically this is something that has not been routinely provided and it will take time for things to change.

The mission is to change the entire status quo. Stakeholder education on transparency could be an important stepping-stone to combatting this imbalance. We need to remember that costs are not necessarily bad – but they should be fully understood.

While efforts have been made to define potential disclosure standards, with both the UK regulator and the Investment Association contributing to the debate, so far no agreement has been reached on how best to move forward. Meanwhile, pressure on pension scheme deficits continues to grow.

EVOLVING SOLUTIONS

So, is this the most impossible mission yet? The short answer is that it shouldn't be, but it depends on how difficult we as an industry choose to make it, as a root-and-branch overhaul of the market will inevitably encounter challenges. The solution doesn't need to be dramatic or indeed complex in order to be deemed successful. A solid first step in the right direction is much more beneficial, and paves the way for further development

We only have to look across the North Sea to find the recognised leaders of cost disclosure: from our own experience, we know there is much to learn from the example set by the Netherlands. The Dutch are credited by many as having the most robust and sustainable pension regime in the world, partly due to their governance reporting systems. It is a sophisticated framework, but it started with a simple process which has evolved over a number of years, gradually increasing in reporting detail as and when required.

Any standard introduced in the UK is likely to evolve in a similar manner as we learn what constitutes effective reporting for UK schemes. The key is to develop something simple and fit-for-purpose quickly and then refine it over time, to ensure that pension schemes start to reap the benefits as soon as possible.

We hope that the FCA and IA's public consultations will further catalyse the drive to implement an effective cost transparency standard. The industry would clearly benefit from the introduction of a flexible and progressive standard as soon as possible, so why not benefit from methods that are already tried and tested?

Of course there will be challenges and obstacles to overcome and issues to defuse. There seems little reason why we could not quickly provide a fairly advanced yet simple solution tailored for UK pension funds. Surely this is an aspiration which we could all embrace?

The fuse is lit and the clock is ticking – do you accept the mission?

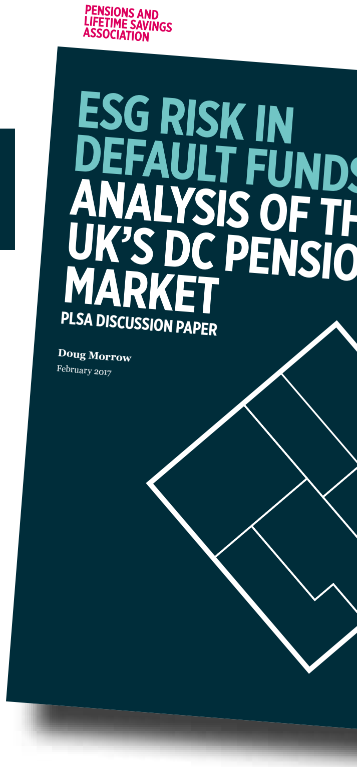
Stewart Bevan is a cost benchmarking specialist at KAS BANK.

THE KEY IS TO DEVELOP SOMETHING SIMPLE AND FIT-FOR-PURPOSE QUICKLY AND THEN REFINE IT OVER TIME

(This message will not self-destruct in five seconds...)

ESG IN THE MAINSTREAM

The PLSA is now actively helping members integrate ESG into investment strategies. **Luke Hildyard**, Policy Lead: Stewardship and Corporate Governance, reports.



IN RECENT YEARS, SUPPORT FOR ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)-FOCUSED INVESTMENTS HAS ACHIEVED CRITICAL MASS.

The volume of research literature demonstrating the importance of ESG issues to investment returns grows on an almost weekly basis. The PLSA stewardship survey now suggests almost universal agreement with the view that pension funds have stewardship responsibilities and that ESG factors are material to long-term returns.

We no longer understand ESG as a niche product designed to enshroud investors in a warm glow of righteousness, but as a critical component of the wisest investment strategies. This change in understanding means that the PLSA's engagement with ESG issues also has to change. From seeking to better understand the importance of ESG to pension fund investors, we now want to help our members fully integrate ESG into their investment strategy.

For that reason, we published a paper in February looking at the key ESG risks to investments made on behalf of millions of pension savers in DC default funds, many of whom will have only recently been introduced to pension saving through auto-enrolment.

The paper, authored by Sustainalytics, modelled a typical DC fund's investment portfolio.

Using Sustainalytics' detailed categorisation, every company in the portfolio was allocated a top-three of ESG risks. The results were somewhat surprising – risks relating to the environment and climate change are most readily associated with ESG, and indeed market and regulatory risk resulting from energy use and greenhouse gas emissions affected more industries in the portfolio than any other issue; while waste management issues, water use and the physical impact of climate change were also serious threats to value.

However, because of the high levels of investment in industries such as finance, pharmaceuticals and IT – all knowledge industries dependent on a highly skilled and dedicated workforce – risk related to human capital (for example the composition, stability, capabilities and engagement levels of the workforce) was the single biggest ESG risk factor in the portfolio. Business ethics, data security and product safety were also significant risk factors.

PRACTICAL ACTIONS

This all stands to reason: many of the scandals in the financial services sector were caused by a poor corporate culture and failure to manage human resources appropriately, with disastrous consequences for investors. So what can pension funds do about it?

Our paper identifies 'passive ESG' funds as an effective 'free hedge' against these kinds of risks at a cost that typically remains compatible with the charge cap. The paper also emphasises the importance of forceful stewardship – setting demanding standards for current and prospective asset managers in terms of their voting and engagement strategies.

The PLSA provides a number of resources in this respect. Last year we published a toolkit designed to help pension funds engage with investee companies regarding their human capital, and we update our corporate governance policy and voting guidelines on an annual basis. We also host 'stewardship disclosure frameworks', giving members an at-a-glance insight into the approach to stewardship taken by different asset managers.

With the Paris agreement on climate change on track for implementation, policymakers taking a renewed focus on poverty and inequality in response to the rise in populist politics, and camera phones and social media ready to carry news of exploitative working practices around the world in seconds, the importance of ESG issues to companies is only likely to grow.

It is vitally important that pension funds fully understand the investment risks they face in this respect. At the PLSA, we will continue to provide resources to help them do so.

ACADEMISATION AND THE LGPS

Sarah Woodfield, PLSA's Senior Policy Adviser explains the government's enthusiasm for academies means an influx of members – and a new challenge – for the LGPS.

THE LAST FEW YEARS HAVE SEEN AN INCREASING NUMBER OF SCHEDULED AND ADMISSION BODIES JOINING THE LGPS, DRIVEN IN PARTICULAR BY THE CONVERSION OF MANY SCHOOLS INTO ACADEMIES. IN 2015 THE TOTAL NUMBER OF EMPLOYERS PARTICIPATING IN THE SCHEME STOOD AT 11,801, COMPARED TO 10,671 IN 2014 AND 9,340 IN 2013.

This could grow even further over the next few years if some 16,000 state schools in England ultimately become academies. While the government made a U-turn on its 2016 Budget announcement that it would introduce legislation to make all schools convert to academies, it maintains a commitment to wanting all schools to have converted over six years and will exercise powers to direct underperforming schools to convert.

When local authority-maintained schools convert to academies they become scheduled bodies in the LGPS; and their non-teaching staff become automatically eligible and must be enrolled in the scheme.

The knock-on pension consequences of academisation for both LA funds and new academies are far-reaching:

- LGPS funds have a number of new employers that they have to take into account for funding purposes, assessing covenant and setting contributions.
- The magnitude of the legal and financial obligations faced by employers participating in the LGPS is often underestimated; and many academies are not adequately resourced or don't have sufficient expertise to engage with these issues.

16,000

schools could ultimately become academies in England.

- Processing these conversions is an extra administrative burden on schemes, at a time when they are implementing a number of other reforms.

POLICY CHANGE AFOOT?

In response to these challenges, as a part of its work plan for 2016/17, the Scheme Advisory Board for England and Wales is examining the issues presented by the academisation of schools to the LGPS; and has commissioned PwC to investigate these issues as well as develop options for managing them. The report is expected to cover the administrative, actuarial, legal and investment issues presented.

The Scheme advisory board has reported that, on discussion with the Local Government Minister, Marcus Jones, and the Parliamentary Under Secretary of State, Lord Nash, about the results of the report, it was agreed that general guidance, statutory guidance or where necessary, changes to the LGPS' regulatory framework should be pursued to help resolve these issues. The Scheme advisory board will be looking to gather further evidence and develop specific proposals for change.

HELPING EMPLOYERS TO UNDERSTAND THEIR OBLIGATIONS

In order to help both the LGPS and new members of the scheme the PLSA is publishing a series of guides for employers participating in the LGPS. The first two pieces of guidance – 'An introduction to the LGPS for scheduled bodies' and 'Navigating entry into the LGPS: for local government contractors' – focus on what employers need to know when they first come into contact with the scheme.

In March this year we published a new piece of guidance, 'A guide for employers participating in the LGPS: Best practice'. The new guide aims to explain what is required of employers in simple terms, offering explanations of pension terminology where necessary.

It's often not made clear to employers themselves why they're joining the scheme, and this can make employer engagement difficult for the LGPS. This can result in new employers underestimating their obligations, particularly with regards to data requests.

The guidance will help employers to understand and fulfil significant financial commitments, administrative responsibilities and regulatory requirements associated with the scheme.

11,801

Total number of employers participating in the scheme.

A COMPLEX BALANCING ACT

Mike Weston investigates current trends in DB scheme investment strategies.

THE UK'S ALMOST 6,000 DEFINED BENEFIT PENSION SCHEMES ARE FACING A NUMBER OF LONG-TERM ADVERSE TRENDS WHICH ARE HAVING A PROFOUND IMPACT ON THE INVESTMENT STRATEGIES THEY PURSUE.

Most schemes are now closed to both new entrants and to future accrual of benefits to existing members. This means the only future sources of income are returns on their investment portfolios and any deficit recovery contributions agreed between their trustees and sponsor.

At the same time as income is reducing, pension payments are typically increasing as more active and deferred members begin to retire. The next 10-20 years is expected to represent the peak of pension payments until the inevitabilities of mortality take their toll and total pension beneficiary numbers begin to decline.

Pension scheme sponsors are also becoming increasingly averse to bearing pension scheme valuation volatility risk on their own P&L's. This is especially true if they have been making deficit recovery contributions over the last few years without seemingly achieving any significant reduction in deficit levels.

Trustees face a complex balancing act; preserving the investment assets they have while generating cash incomes to pay pension benefits. And they are having to do this in an environment where the historically best liability-matching assets, index-linked gilts, are producing negative real returns. If you buy an index-linked gilt today and hold it to maturity, you will have paid HM Treasury for the privilege. This is more like insurance, where you expect to pay an insurance premium than an investment where you would normally expect a positive return.

So what are schemes and trustees doing? There are a number of relatively easy wins; reducing their own internal management costs and then seeking to do the same with their asset management fees. This can range from paying less for the same investment strategies, perhaps by collaboration with other schemes to secure volume discounts, to changing to lower-cost strategies within the same overall asset allocations. Examples of the latter would be moving from active to passive equity management, or from private equity into other areas of private markets.

The next stage is to adjust asset allocation, perhaps by reducing equities to lower overall portfolio volatility. But a simple switch into government bonds would have serious consequences for portfolio returns.

CORE INFRASTRUCTURE

This is an area where higher-yielding but lower-volatility private market assets classes can help. Yet few of these combine attractive, long-term cash yields with an explicit link to inflation, which would make them ideal liability-matching assets in the current low interest rate environment. Core UK infrastructure does just that.

Operating, or close to operating infrastructure assets can provide low-risk, long-term inflation-linked cash flows that are perfect for meeting pension scheme member payments. In the short term these assets are illiquid. But pension schemes are only just approaching cash flow negativity and most will have more than 20 years before wholesale asset sales are required, or they are in a position to complete an insurance transfer solution. In the meantime, liquid asset allocations are more than capable of coping with temporary or unexpected short-term liquidity demands. And there is a ready secondary market for good quality operating infrastructure assets should a medium-term asset allocation rebalancing prove necessary.

INFRASTRUCTURE ASSETS CAN PROVIDE LOW-RISK, LONG-TERM INFLATION-LINKED CASH FLOWS

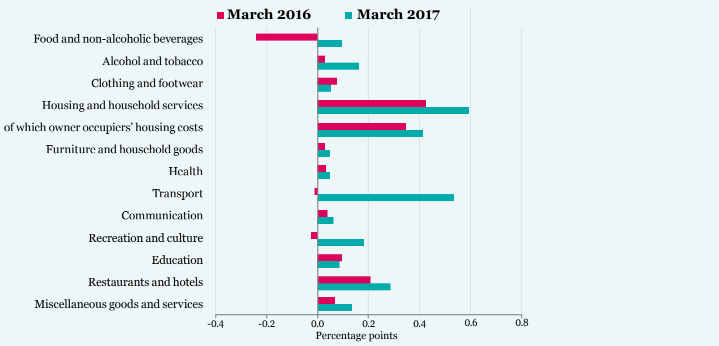
Sceptics will comment that there is a shortage of supply of these types of asset; but they do exist and will continue to be available for persistent and selective buyers over the next few years. Government have announced a new private finance programme for hospitals and schools by the middle of this year, corporates are disposing of infrastructure assets which don't really belong on their balance sheets, housing and social care remain key political priorities and our energy system still needs significant investment. There are also many older infrastructure funds coming to the end of their (too short!) original lives and having to sell their underlying assets to new, often longer-term owners.

Combining infrastructure asset availability with cost-effective investment management to deliver better net returns to pension scheme investors can be one solution for today's trustee dilemma.

Mike Weston is Chief Executive of the Pensions Infrastructure Platform (PiP).

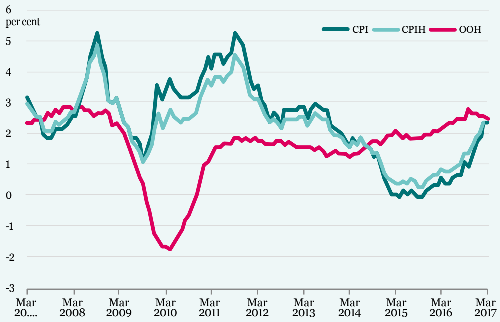
ECONOMIC INDICATORS

CONTRIBUTIONS TO THE CPI 12-MONTH RATE: MARCH 2016 AND MARCH 2017 UK



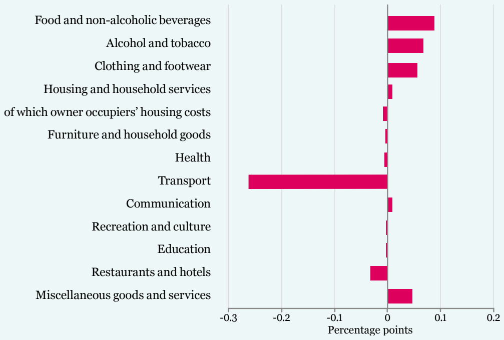
Note:
1. Individual contributions may not sum to the total due to rounding.
2. CPIH has been re-assessed to evaluate the extent to which it meets the professional standards set out in the Code of Practice for Official Statistics. The assessment report includes a number of requirements that need to be implemented for CPIH to regain its status as a National Statistic and we are working to address these.
Source: Office for National Statistics.

CPIH, OOH COMPONENT AND CPI 12-MONTH RATES FOR THE LAST 10 YEARS: MARCH 2007 TO MARCH 2017



Note: CPIH has been re-assessed to evaluate the extent to which it meets the professional standards set out in the Code of Practice for Official Statistics. The assessment report includes a number of requirements that need to be implemented for CPIH to regain its status as a National Statistic.
Source: Office for National Statistics.

CONTRIBUTIONS TO THE CHANGE IN THE CPI 12-MONTH RATE: MARCH 2017 UK



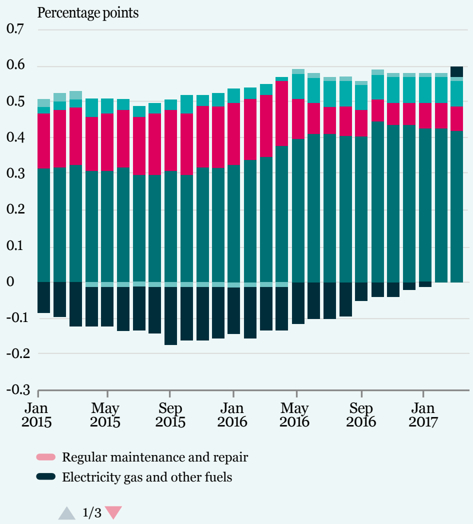
Note: Individual contributions may not sum to the total due to rounding.
Source: Office for National Statistics.

CPIH AND OOH COMPONENT INDEX VALUES, 1-MONTH AND 12-MONTH RATES: MARCH 2016 TO MARCH 2017

		CPIH Index[1,2] (UK, 2015 = 100)	CPIH month[2] rate	CPI Index[1] (UK, 2015= 100)	CPI 12-month	OOH Index[1,2] 12 (UK, 2015= 100)	OOH 12-month[2] rate
2016	Mar	100.4	0.8	100.2	0.5	101.5	2.1
	Apr	100.5	0.7	100.2	0.3	101.8	2.2
	May	100.7	0.7	100.4	0.3	102.1	2.3
	Jun	100.9	0.8	100.6	0.5	102.2	2.3
	Jul	100.9	0.9	100.6	0.6	102.4	2.4
	Aug	101.2	1.0	100.9	0.6	102.7	2.4
	Sep	101.4	1.3	101.1	1.0	102.8	2.4
	Oct	101.5	1.3	101.2	0.9	103.2	2.7
	Nov	101.7	1.5	101.4	1.2	103.4	2.6
	Dec	102.2	1.8	101.9	1.6	103.6	2.6
2017	Jan	101.8	1.9	101.4	1.8	103.8	2.5
	Feb	102.4	2.3	102.1	2.3	103.9	2.5
	Mar	102.7	2.3	102.5	2.3	104.0	2.4

Notes: 1. From February 2016, CPI and CPIH indices have been re-referenced and published with 2015=100. This does not impact on published inflation rates.
2. CPIH has been re-assessed to evaluate the extent to which it meets the professional standards set out in the Code of Practice for Official Statistics. The assessment report includes a number of requirements that need to be implemented for CPIH to regain its status as a National Statistic.
Source: Office for National Statistics.

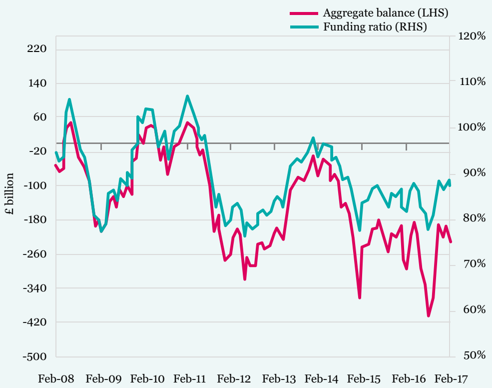
CONTRIBUTIONS OF HOUSING COMPONENTS TO CPIH 12-MONTH RATE: JANUARY 2015 TO MARCH 2017



Source: Office for National Statistics.

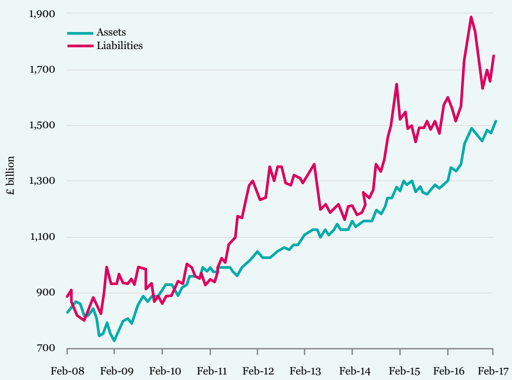
PPF 7800 INDEX MARCH UPDATE

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



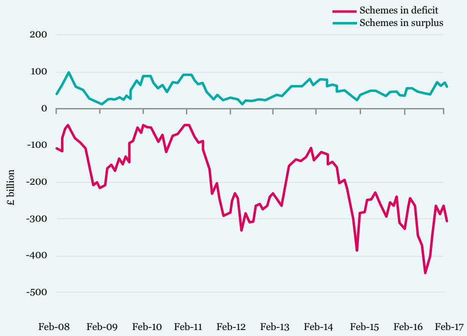
Source: Pension Protection Fund.

FUNDING COMPARISONS

	February 2016	January 2017	February 2017
Aggregate balance	-£294.5bn	-£196.5bn	-£242.0bn
Funding ratio	81.5%	88.2%	86.2%
Aggregate assets	£1,301.0bn	£1,663.6bn	£1,753.1bn
Aggregate liabilities	£1,595.5bn	£1,663.6bn	£1,753.1bn

Source: Pension Protection Fund.

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



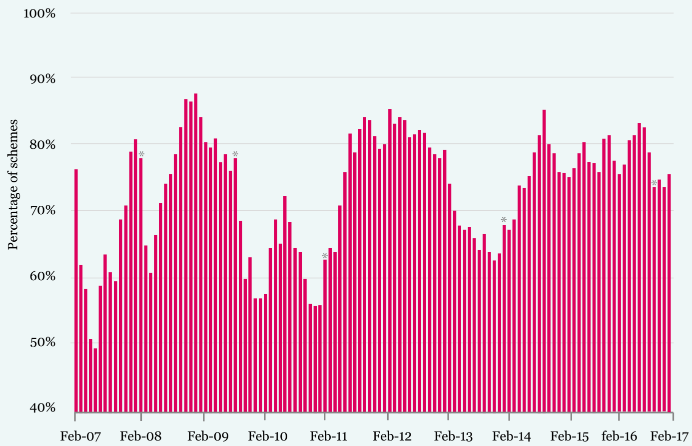
Source: Pension Protection Fund.

SCHEMES IN DEFICIT (SURPLUS)

	Feb 2016	Jan 2017	Feb 2017
Number of schemes in deficit	4,848	4,262	4,380
Deficit of schemes in deficit	£329.7bn	£266.6bn	£307.4bn
Number of schemes in surplus	1,097	1,532	1,414
Surplus of schemes in surplus	£35.2bn	£70.2bn	£65.3bn
Number of schemes in PPF universe	5,945	5,794	5,794

Source: Pension Protection Fund.

Historical percentage of schemes in deficit on a s179 basis



**Note: The changes to assumptions in March 2008 and October 2009 reduced the number of schemes in deficit by 412 (5.6 per cent) and 566 (8.5 per cent) respectively, while the changes to assumptions in April 2011 and May 2014 raised the number of schemes in deficit by 107 (1.7 per cent) and 259 (4.3 per cent) respectively. The changes to assumptions on December 2016 and implemented in the end November PPF 7800 Index reduced the number of schemes in deficit by 157 (2.7 per cent).*

Source: Pension Protection Fund.

MEMBER NEWS

WELCOME TO NEW MEMBERS

APPLY FINANCIAL

Apply Financial exists to make payments 100% correct. For banks, non banking financial institutions and corporates who depend heavily on automated payment processes, Apply's Validate API solutions integrate seamlessly into existing payment and ERP systems. Apply is committed to reducing the cost and wasted time caused by fixing failed domestic and global payments.

Contact: Mark Bradbury
E: mark.bradbury@applyfinancial.co.uk
T: +44 (0)20 3287 3258
www.applyfinancial.co.uk
www.paymentsvalidation.com

CFA INSTITUTE

CFA Institute is the global association of investment professionals that sets the standard for professional excellence and credentials. The organisation is a champion for ethical behaviour in investment markets and a respected source of knowledge in the global financial community. CFA Institute has over 146,000 members in 160 countries and territories, including 140,000 CFA charterholders, and 147 member societies.

Contact: Phil Lowther
E: philip.lowther@cfainstitute.org
T: +44 (0)20 7330 9545
www.cfainstitute.org

EMSO ASSET MANAGEMENT

Emso is a specialist asset manager, seeking to deliver superior risk managed returns on fixed income investments in emerging markets. Emso's team combines decades of experience with a research-driven investment culture, analysing the political, legal, economic and technical aspects of each investment to build portfolios for Emso's customers.

Contact: Johan Larsson
E: investorrelations@emso.com
T: +44 (0)20 7150 3700
www.emso.com

LANDSCAPE

Pension Quality Mark Communications Partner. We love making the complex simple. Creativity is at our core and we apply that to content, technology and data to deliver award-winning communications. We use a range of techniques from story-telling and gamification to behavioural science and learning styles to educate and engage.

Contact: Johnathon Ryder
E: jryder@yourlandscape.co.uk
T: +44 (0)7973 272 676
www.yourlandscape.co.uk

PENSIONS & INVESTMENTS

For the past 43 years, *Pensions & Investments* has been a trusted source of industry news. We reach investment executives who count on our coverage of international news and global investment strategy, as well as our exclusive data, directories, rankings, research and special reports to provide the insight they need to make important decisions. Our Global Digest is a weekly roundup of all the key global news for the institutional investing community and is free to qualified subscribers.

Contact: Nikki Pirrello
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T: +1 212 210 0224
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RIDGEWORTH INTERNATIONAL LTD.

RidgeWorth Investments offers investors a collection of asset management boutiques that deliver quality investment management across the spectrum of equity and fixed income styles. We are committed to meeting the needs of investors and strive to deliver successful investment solutions.

Contact: Barry Keane
E: Barry.Keane@ridgeworth.co.uk
T: +44 (0) 7342 888 418
www.ridgeworth.co.uk

FUND MEMBER BREAKFASTS

Free events for PLSA fund members, giving you the opportunity to discuss the pensions issues of the day with your peers and our External Affairs team

Next events are:

10 May, 12 July, 14 December
Held from 08.30-10.30 at PLSA offices

PENSIONS AND LIFETIME SAVINGS ACADEMY UPDATE

Frances Corbett,
Head of PLSA Academy and PINNACLE.

SINCE THE LAST EDITION OF *VIEWPOINT*, WE'VE CONTINUED TO OFFER TRUSTEE AND INTRODUCTORY FACE-TO-FACE COURSES. IN ADDITION, WE'RE DEVELOPING NEW TRAINING PROGRAMMES AND ADOPTING NEW LEARNING METHODS.

The first of these transforms our Pensions Basics course into a virtual training environment. Consisting of two short one-hour online learning sessions – **Getting to know the UK pensions system and Understanding the outcomes** – the sessions are suitable for those new to pensions or trusteeship and those working in HR. The training can be accessed through an internet connection.

Building on the success of our teach-ins and post-session videos – and to reach out to those of you who prefer not to travel to our London offices for training – we're introducing educational webinars in April, May and June, as well as later in the year.

And those of you who attended the launch of our Breaking the mirror image diversity campaign in March (or the sessions highlighting the campaign at this year's Investment Conference) will know that we're planning streams of activities designed to encourage wider, more diverse participation on trustee boards and across the industry.

As part of this campaign we're running the Diverse Leadership programme, starting on 22 June, to educate and equip our future leaders with the skills and knowledge to promote greater diversity within the pensions industry and on trustee boards.

So here at the Academy there's a lot that's new, and much which is tried and tested. Either way, our aim is to continue to offer you a diverse range of learning opportunities.

For more details on all our training courses visit **www.plsa.co.uk/training**

THOMSON REUTERS

PRACTICAL LAW™

LEGAL UPDATE

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

SPRING 2017: KEY PENSIONS LEGISLATION CHANGES

WE'VE BEEN MONITORING VARIOUS PENSIONS LEGISLATION CHANGES TAKING EFFECT THIS SPRING, INCLUDING:

- **Spring 2017 Budget**. The Budget confirmed a number of pensions-related matters with immediate impact including the introduction of a 25% tax charge on transfers requested after 9 March 2017 to a QROPS (unless both the individual and the pension savings are in the same country or the European Economic Area or the QROPS is provided by the individual's employer) and a tax charge on payments made from funds transferred from the UK, to a QROPS, in the five years following the transfer. Proposals to reduce the money purchase annual allowance to £4,000 from 6 April 2017 were confirmed[1].
- **Formerly contracted-out schemes**. After the abolition of final-salary contracting-out last year, the latest consequential legislative changes for formerly contracted-out schemes (coming into force on 6 April 2017) include an extension of the period during which they may pay contributions equivalent premiums; a reduced rate of fixed-rate GMP revaluation for those leaving pensionable service after 5 April 2017 (from 4.75% to 3.5% a year); and changes to the circumstances in which survivor GMP benefits are payable to any surviving spouse or civil partner[2]. In addition, from 6 April the statutory modification power allowing the trustees of such a scheme to pass a resolution to provide that fixed-rate revaluation of GMPs applies from the date a member leaves pensionable service is no longer exercisable (a resolution can be backdated but must only have effect from 6 April 2016 or later)[3].
- **Auto-enrolment**. Changes commencing on 1 April 2017 amend the auto-enrolment regime for employers who do not fall within the existing staging timetable (post-staging new employers) to allow them to use the three-month deferral period and to make provision as to the trigger date[4].
- **Early exit charges**. Early exit charges in contract-based schemes are capped at 1% of the value of a member's benefits under a scheme from 31 March 2017. Such charges cannot be increased in existing schemes with early exit charges at less than 1%, and cannot apply in schemes entered into after the new rules come into force[5]. (A similar cap for occupational schemes is due later this year.)
- **The PPF long service cap**. From 6 April, the long-service element increases the standard compensation cap by 3% for each full year of a member's pensionable service above 20 years, subject to a new maximum of double the standard cap[6].

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. Budget resolutions and Finance Bill 2017
2. Occupational Pension Schemes and Social Security (Schemes that were Contracted-out and Graduated Retirement Benefit) (Miscellaneous Amendments) Regulations 2017 (SI 2017/354)
3. Occupational and Personal Pension Schemes (Modification of Schemes - Miscellaneous Amendments) Regulations 2016 (SI 2016/231)
4. Employers' Duties (Implementation) (Amendment) Regulations 2017 (SI 2017/347)
5. FCA policy statement (PS16/24) and FCA Handbook as amended by the Pension Schemes (Restrictions on Early Exit Charges) Instrument 2016 (FCA 2016/72)
6. Pension Protection Fund (Modification) (Amendment) Regulations 2017 (SI 2017/324

PENSIONS CONNECTION

PENSIONSCONNECTION UPDATE

Laura Webb

Head of Membership Relations.

I'M SURE WE AREN'T THE ONLY ORGANISATION TO HAVE CORPORATELY BLINKED TO FIND THE FIRST QUARTER OF THE YEAR IS OVER! IT HAS BEEN HECTIC IN OUR POLICY WORLD AND WITH OUR EVENTS CALENDAR.

The first three months of the year have seen three PensionsConnections events across our Defined Contribution, Finance Director and Trustee networks. The Finance Director session gave the PLSA the chance to showcase its DB taskforce work and to focus on the elements of particular interest to this special interest group. It proved to be a very interactive session, giving us useful feedback on our work.

The first DC session of the year also gave us the opportunity to share our initial thinking on the 2017 review of automatic enrolment and get members' input. At our Trustee session in March, Paul Sturgess of Equiniti led an entertaining, but sobering, insight into trustees' obligations on data. His message – that the industry needs to improve – was not lost on the attendees. The Pensions Regulator was also in attendance to confirm that view.

Coming up in the second quarter we have HR, Local Authority and Corporate Governance sessions, as well as more sessions for Trustees, FDs and those with a focus on DC. Each forum meets between two and four times a year. If you would like to subscribe to any of our PensionsConnection services or join us at one of our future meetings, get connected at www.plsa.co.uk/pensionsconnection.

Thanks so much to Mercer, Equiniti and Wealth at Work for their support in sponsoring the FD, Trustee and HR networks in 2017. These business members have taken up exclusive opportunities to sponsor the streams to showcase their brand as well as contribute to and influence the policymaking debate.

If you would like more information about sponsoring PensionsConnection streams, please contact my colleague Varsha Gowda at varsha.gowda@plsa.co.uk.

KEMPEN
CAPITAL MANAGEMENT

LGPS can expect to expand investment horizons

The pooling of the many funds within the Local Government Pension Scheme (LGPS) into a smaller number of larger funds will provide a number of benefits, not least of which is the economies of scale that will enable these pools to access asset classes more cost-effectively, as well as creating new investment opportunities that they may not have considered before.

Two such avenues that the new pooled funds could be considering are small caps and listed real estate. Both present important and very complementary distinctions to their more common asset classes: namely, large cap stocks and direct real estate investments.

Real estate widens opportunity set

Looking at real estate first, many funds within the LGPS are already invested in this market, often through a direct investment rather than listed vehicles. However, a study[1] by Kempen Capital Management has demonstrated that in addition to investing directly, a combination of both listed and non-listed can enable LGPS to enhance diverification and risk-adjusted returns. This combination allows investors to increase their opportunity set and enhance the overall liquidity profile of their portfolios. Investors can construct a bottom-up portfolio invested in those geographical markets and sectors that offer them the dynamics that match their long-term targets.

Among listed real estate companies, there are a variety of NAV discounts and premiums, depending on characteristics such as the underlying assets owned, the financing structure, growth prospects, and investor sentiment. While arbitrage opportunities between listed and non-listed vehicles are difficult to exploit in practice, present mispricing's within listed real estate can be exploited via active management.

There is ample evidence that adding listed real estate to a non-listed portfolio improves returns yet only has a limited impact on risk, while adding non-listed real estate mainly provides diversification benefits rather than return enhancement.

Small caps offer premium

Turning to small cap stocks, the evidence[2] is clear that historically this segment of the equity market yields a greater return in the long term than investment in large caps. Yes, the investment must be held for a longer time-frame; however for LGPS, this again presents an opportunity to capitalise on their own requirements for a long term investment.

For example[3], over the last 70 years, US small caps have on average earned between 1% and 2% more return annually than large caps, often referred to as the small cap premium. Research by Kenneth French on US returns between 1946 and 2016 has shown that investors who retained small cap equities for longer

1 *Real Estate White paper by Kempen Capital Management*

2 *Research from Fama & French (1992, 1993) and Dimson, Marsh & Staunton (2016)*

3 *Research by Kenneth French*

than three years also ran a lower risk of a negative return than if they had invested in large caps.

Both the volatility and illiquidity of small caps can be a deterrent for smaller pension funds. However the former can be mitigated given a sufficiently long time horizon, and the latter by selecting managers with strict liquidity and capacity policies. Neither ought to be a material constraint for pooled funds seeking to gain exposure to smaller listed companies.

When considering a specialist small cap strategy it can also make sense to elect regional managers where possible. As a result of the more focused strategy, they frequently offer a greater depth of knowledge of the companies and markets in that region. In fact, with MiFiD 2 requiring asset managers to pay directly for investment research this may mean there is even less coverage of small cap stocks, so a truly specialist manager will be far better placed to capitalise on such opportunities and deliver alpha.

This new era of pooled funds in the LGPS is an exciting time for funds to revisit their investment strategy and further diversify their investments whilst taking advantage of opportunities to improve their returns."

For an active stock picking asset manager such as Kempen Capital Management, the European small cap space presents more than 1100 individual stocks to choose from, meaning a far wider choice of potential investments.

As part of Kempen's business model, ESG considerations are fundamental in every investment decision. Kempen finds that every company has a material risk on ESG in some part of their business model. An effective small cap manager should engage continuously with investee companies to help them mitigate and improve transparency on such risks. This active engagement and ongoing communication with the portfolio companies is what makes Kempen Capital Management European small cap team different.

This new era of pooled funds in the LGPS is an exciting time for funds to revisit their investment strategy and further diversify their investments whilst taking advantage of opportunities to improve their returns.

Matthijs Storm
Portfolio manager
Real Estate

Tommy Bryson
Investment manager
European Small Caps

Please join us at the PLSA Local Authority Conference

"Fight Club" session on 15th May at 16:45

KEMPEN
Octagon Point, 5 Cheapside, London, EC2V 6AA - T +44 (0)20 3626 9401 - www.kempen.co.uk

CALENDAR OF EVENTS 2017

MAY

15-17
Local Authority Conference
(Cotswold Water Park)

15
Human Resources PensionsConnection
(London)

23
Corporate Governance PensionsConnection
(London)

JUNE

06
Introduction to Trusteeship - Part 1: The Theory
(London)

06-07
PensionsEurope Conference
(Brussels)

13
Finance Director PensionsConnection
(London)

13
Defined Contribution PensionsConnection
(London)

22
Diverse Leadership Programme begins
(London)

27
Trustee PensionsConnection
(London)

27
Human Resources PensionsConnection
(London)

JULY

04
Retirement Guidance - employer seminar
(London)

07
Pensions Basics Virtual Training

11
LGPS Pension Board Seminar
(London)

12
Fund Member Breakfast (exclusive to fund members)
(London)

SEPTEMBER

04
Retirement Guidance - employer seminar
(London)

08
Pension Basics Virtual Training
(Online)

13
Hot Topic Seminar
(London)

19
LGPS Pension Board Seminar
(London)

20
Introduction to Trusteeship - Part 1: The Theory
(London)

26
Introduction to Trusteeship - Part 2: The practice
(London)

27
Retirement Guidance - supporting employees
(London)

OCTOBER

03
Finance Director PensionsConnection
(London)

03
Defined Contribution PensionsConnection
(London)

04
Talking to Employees about Saving in a Workplace Pension
(London)

11
Introduction to Trusteeship - Part 1: The Theory
(London)

18-20
Annual Conference & Exhibition 2017
(Manchester)

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