Viewpoint

The official journal of the Pensions and Lifetime Savings Association

Issue 1 2018

GINA MILLER: TRUE AND FAIR

DB WHITE PAPER UPDATE

FINANCING THE WORLD

CHAIR'S STATEMENT IN FOCUS

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

SPEAKING AT PLSA INVESTMENT CONFERENCE 2018


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CEO'S *Viewpoint*

Julian Mund updates you on what's been happening inside the PLSA, and looks ahead to this year's Investment Conference.

WELCOME TO THE FIRST EDITION OF VIEWPOINT IN 2018, WHICH MOST OF YOU WILL BE READING ONLINE. AS USUAL THERE'S PLENTY INSIDE FROM THE PLSA AND OUR MEMBERS AND FRIENDS.

Now we're into the new year, things are starting to take shape. Inside the PLSA we're working on three major initiatives. The first is making sure our governance arrangements are fit for the future. That means a smaller Board that has access to the right skills so it can continue to run the PLSA in its members' interests, and a new Policy Board focused on the big strategic policy issues. There's an update in this edition of *Viewpoint*, and you can expect to see more detail on how we're implementing the changes at the time of publication.

We're also taking time to look at our range of products, publications and events to make sure we're doing the right things for you – just what you'd expect from your membership body.

Finally, our openPLSA initiative – part of our drive to bring more of our members into more of what we do – is gathering pace. We welcomed 40 members to our Hitting the Target roadshows in December and January, and you can find a video of the outcomes on our website; alongside another setting out what we'll do next on DB as we anticipate the government's White Paper in the spring. You can read more on that inside, too.

In addition, as part of our Talent Management in the LGPS work, we have asked six mid-to-large private sector schemes to participate in the research in order to benchmark and to cross-fertilise ideas for best practice. This will bring people from outside our Councils into our work to help our members run better pension schemes and provide their members with better value.

At the same time as all of this, we've been preparing for the first major milestone of the PLSA year: our Investment Conference up in Edinburgh. We've got a fantastic line-up of speakers, and I'm very pleased that Gina Miller has contributed to this edition of *Viewpoint*. It will be fascinating to hear what she has to teach us about campaigning to challenge the status quo. If you can't make it to Edinburgh you'll be able to watch via webstream, or catch up on our YouTube channel.

If you do, I hope you enjoy it. And I hope you enjoy reading this edition of *Viewpoint*. As ever, we'd be happy to hear about how you think we can improve it. Get in touch with our team and our new Editor, Maggie Williams, on **viewpoint@plsa.co.uk**.

Julian Mund

WE'RE ALSO TAKING TIME TO LOOK AT OUR RANGE OF PRODUCTS, PUBLICATIONS AND EVENTS TO MAKE SURE WE'RE DOING THE RIGHT THINGS FOR YOU

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ISSN 2398-7626

abc **Average Circulation per issue 9,565 - 1 July 2016 - 30 June 2017**

Published by the Pensions and Lifetime Savings Association, a company registered in England and Wales. Company number 1130269.
Cheapside House, 138 Cheapside, London EC2V 6AE

Viewpoint UPDATE

GDPR – IF YOU HAVEN'T ALREADY MADE SURE YOUR SCHEME IS COMPLIANT, IT'S TIME TO ACT NOW

ARE YOUR SCHEME AND ITS PROVIDERS READY FOR THE NEW GENERAL DATA PROTECTION REGULATION (GDPR)? THE 25 MAY 2018 DEADLINE FOR COMPLIANCE IS FAST APPROACHING, AND THE FINES FOR NOT ADHERING TO THE REGULATIONS ARE SUBSTANTIAL.

The PLSA has created a Made Simple guide and a checklist for schemes. Both provide practical information on how to make sure that you remain on the right side of the regulations.

Our *GDPR Made Simple* guide provides plenty of information on how to make sure your scheme is compliant, including:

- A glossary of data terms essential to understanding the new regulations;
- A suggested timeline for GDPR readiness; and
- A comprehensive list of steps for trustees to take including key considerations, explanations of the regulatory requirements, and suggested means of implementing them.

The guide was written and sponsored by Herbert Smith Freehills LLP and independently reviewed by the PLSA. You can find a copy here: www.plsa.co.uk/Policy-and-Research-Document-library-General-Data-Protection-Regulation-Made-Simple

GDPR – Top Ten Actions for Pension Schemes is an additional checklist from the PLSA that will help trustees and their schemes prepare to meet the 25 May deadline. It's available on our website: **https://sf-asset-manager.s3.amazonaws.com/96955/97/595.pdf**

TOPTWEETS

@ProfPens
Today we are launching the Women in Pensions Awards 2018 to celebrate the achievements of women working in pensions or acting as a trustee. Nominations are open now! professionalpensions.com/3025694/ #womeninpensions.

Women in Pensions is sponsored by the PLSA

@RButcherptl
Only a few weeks until @ThePLSA investment conference. Say hello if you see me. I'd love to hear what you think of the PLSA and/or the policy output.

Make sure that you catch up with Richard at the Conference!

OUR PICK OF THE BEST HEADLINES

HOW WE CAN GET PEOPLE TO LOVE PENSIONS

Graham Vidler, Director of External Affairs, proposes some ideas in *Professional Pensions*:

www.professionalpensions.com/professional-pensions/opinion/3025805/how-we-can-get-people-to-love-pensions

PHASING IS SET TO STUN

Matthew Burrell, Senior Policy Adviser DC, writes about auto-enrolment phasing in *Pensions Expert*:

www.pensions-expert.com/Comment-Analysis/Phasing-is-set-to-stun

INVESTING IN CATASTROPHE

The PLSA's Investment and DB Lead, Caroline Escott, speaks to the BBC World Service about catastrophe bonds and pensions investment:

www.bbc.co.uk/programmes/w3csw845

GINA MILLER FEATURE

Gina Miller's True and Fair campaign has put cost transparency under close scrutiny. She talks to *Viewpoint* about what that means for pension schemes.

Q

SINCE YOU FORMED THE TRUE AND FAIR CAMPAIGN, WHAT HAVE BEEN ITS BIGGEST ACHIEVEMENTS AND CHALLENGES?

The biggest challenges have been to achieve real change in the UK beyond platitudes. We were close to bringing in change via our work with Greg McClymont and his team, which contributed to policies included in the 2015 Labour manifesto, but as Labour lost the election those plans never came to fruition. But since 2012 we have been lobbying in Europe, and we were also able to contribute to PRIPs and the Shareholder Directive.

Q

WHAT CAN PENSION SCHEMES – ESPECIALLY TRUSTEES – DO TO DRIVE BETTER TRANSPARENCY AND CORPORATE GOVERNANCE IN THE COMPANIES THEY INVEST IN?

They should insist that they are able to see all costs at all levels, including transaction costs; as well as be afforded 100% transparency on holdings as the optimum outcome is achieved by balancing cost and risk to achieve consistent returns.

Q

IS MIFID II THE SOLUTION TO GREATER COST TRANSPARENCY IN ASSET MANAGEMENT?

When you consider that back in 2000 the earlier incarnation of the FCA, the FSA's, own report found that as much as 50% of fees were being hidden from investors, it is a mark of shame for the industry that it has taken an EU Directive to bring in 100% fee transparency. But I fear it will not be the silver bullet it was meant to be.

This is due to a failure in the legal text's technical guidance to specify a set format – a mandated template of how fees should be displayed, and a set place to show it. Research had found that the most commonly viewed places are websites and factsheets.

Transparency on its own will not create a robust solution unless consumers can make like-for-like comparisons, and thus make fully informed choices about the best products and services for their savings pots.

As the drafters and lobbyists for Article 24 of MiFID II – which requires total cost transparency, implicit and explicit, to be aggregated into one total cost of investing number, in pounds and pence as well as a percentage – we have a vested interest in ensuring the new regulation is followed. From a competitor perspective, SCM Direct also has a vested interest as we are at a competitive disadvantage: we show all our MiFID II costs in an easy-to-understand format, updated monthly, but few in the industry are doing the same.

Q

COULD YOU GIVE US AN IDEA OF HOW THE INDUSTRY IN GENERAL IS APPROACHING MIFID II?

Rather than just quote anecdotal evidence, we recently undertook research looking at 75 companies and if they were complying with Art 24 of MiFID II. This included 10 large fund management groups with total assets of £387 billion, 10 well-known online wealth managers (i.e. 'robo-advisers'), 10 leading direct-to-consumer DIY platforms with total assets of c. £600 billion, and 45 traditional wealth mangers with £281 billion under management. The overall total AUM analysed amounted to £1,268 billion.

What we found was scandalous. Of the investment fund groups, only 40% of the firms disclosed their MiFID II cost disclosures (EMT) on their websites. The remainder required either an email or were only available via a third-party data provider.

Of the online wealth managers, none displayed the aggregated costs and charges (including an estimate of the full transaction costs within the funds in which they invested) on their website, prior to an account being opened/invested. And 90% of the sample had no estimate of the overall transaction costs either associated with dealing in and/or within the funds invested, in their website summary of overall charges. In fact, several websites claimed there were no transaction costs associated with their services.

Of the direct-to-consumer 'DIY' platforms, only 30% showed all the aggregated costs and charges (including the full transaction costs inside the funds) on their website prior to an account being opened/invested. Many firms showed the cost of a sample fund selected in prominent pages of their website as being 1.06% + performance fee, even though the total MiFID II fund cost including performance fees and transaction costs amounted to 3.38% pa.

Among the traditional wealth managers, only 22% showed all the aggregated costs and charges (including the full transaction costs inside the funds in which they invested) prior to an account being opened/invested. And only 14% revealed all their costs including the full transaction costs, within an illustration showing the cumulative impact of costs and returns as required by MiFID II.

It is shocking to me that so many firms appear to have chosen to flout legislation that was specifically brought in to afford retail investors more transparency and clarity, allowing them to know the true full cost of their investment for the first time in decades.

IT IS SHOCKING TO ME THAT SO MANY FIRMS APPEAR TO HAVE CHOSEN TO FLOUT LEGISLATION THAT WAS SPECIFICALLY BROUGHT IN TO AFFORD RETAIL INVESTORS MORE TRANSPARENCY AND CLARITY

Q

WHAT CAN BE DONE TO INCREASE COMPLIANCE?

Transparency is the holy grail to which MiFID II aspires, but it will only be delivered if the FCA polices how firms are complying with the legislation. To date, the FCA has failed to provide firms with any technical guidance on how to comply with full cost disclosure or provide a mandatory template that would allow prospective retail clients to make genuine cost comparisons between investment products.

UK investors should expect to be protected, especially as the FCA could utilise its powers to fine firms for non-compliance. That could be up to 10% of their annual turnover or at least €5m, and at least twice the benefit derived. Furthermore, investors may be entitled to rescind their contracts and claim damages against firms.

Three simple measures could radically resolve the issue of potentially illegal behaviour by firms almost overnight.

1. The FCA publicly states that it will be tough over the coming months (not years) on firms and individuals not complying with the rules regarding costs and charges within MiFID II.
2. The FCA publicly states that it will use its regulatory powers including the temporary or permanent bans of individuals; and maximum fines of up to 10% of annual turnover or at least €5m for firms found to be intentionally avoiding disclosing their fees and charges, as prescribed by MiFID II.
3. The FCA publicly states that it will work with consumer groups and the industry to quickly produce a suggested fees and charges template, compliant with MiFID II, which every single firm is encouraged to show within the most prominent pages of their website and/or within the most prominent communications sent to clients prior to account opening/investment.

Q

IF YOU COULD PRIORITISE ONE SINGLE CHANGE TO THE ASSET MANAGEMENT INDUSTRY, WHAT WOULD IT BE?

For the industry to remember that it is not their assets, and that the lion's share of returns should go back to the people who entrust us with their hard-earned money. The industry has a crucial societal responsibility and should be fit for purpose. Average 40% profit margins are obscene – should the average fund management company really make twice the average profit margin of the pharmaceutical industry?

There needs to be a clear-out of the costly, low-performing stodge which characterises much of the industry. Our main focus should be to meet the FCA's overarching principle of treating customers fairly. Why can't this vital industry behave with integrity and honesty so that clients can once again trust it?

Gina Miller will give a plenary speech at the PLSA's Investment Conference on 9 March at 11.40am.

FEELING THE HEAT

The PLSA has released new guidelines for pension funds aiming to safeguard their investments in a low-carbon future. **Luke Hildyard** reports.

THE CLIMATE IS CHANGING AS A RESULT OF HUMAN ACTIVITY – AND THIS WILL HAVE PROFOUND CONSEQUENCES FOR PENSION FUNDS' INVESTMENTS. AS SUCH, TRUSTEES AND GOVERNANCE BODIES MUST TAKE STEPS TO PREPARE FOR THE ECONOMIC RAMIFICATIONS OF CLIMATE CHANGE.

While climate change is commonly thought of as a long-term issue, potentially hitting global GDP by 50 per cent by 2100, there is also a serious risk to pension funds' investments in the short-term. A recent report from Cambridge University suggested that portfolios with a similar make-up to that of many pension funds could suffer permanent losses of more than 25 per cent within five years, in the event of a climate-related market shock.

International developments in policy and regulation and in the market for clean technologies raise questions about the viability of the business models of a number of companies in which pension funds are invested. All UN member states have committed to the Paris agreement, which aims ultimately to limit average global temperature increases to 1.5°C above pre-industrial levels.

AFTER PARIS

While the US's stated intention of withdrawing from the agreement has led to suggestions that its ambitions will never be fulfilled, a network of 9 states, 227 cities and counties and more than 1,600 businesses in the US have pledged to uphold commitments to the Paris deal. China – a hugely significant player – is investing more than $350 billion in renewable energy networks and introducing a national emissions 'cap and trade' scheme as a result of commitments made in Paris.

This has profound implications for industries including the oil and gas, metals and mining, forestry, automobile, food production and retail sectors; plus the service industries – including banking and financial services – serving these sectors. Paul Fisher, the former Deputy Head of the Bank of England's Prudential Regulation Authority, has said that a sudden revision to the value of companies in these sectors because of the need to combat climate change is a potential trigger for a financial crisis.

GUIDELINES LAUNCHED

In light of these developments, the PLSA has published new guidelines for pension funds on a programme of measures that they can take to prepare themselves for the decarbonisation of the economy. The guidelines are based on work already being undertaken by many of our members to ensure that they safeguard their investments against climate risk – and to take advantage of the investment opportunities that will emerge in a greener economy.

OUR RECOMMENDATIONS INCLUDE:

- **Incorporating** climate change expertise onto trustee boards and other governance bodies;
- **Reviewing** how current and prospective asset managers consider climate change as part of their investment decisions, and incorporating this into manager selection processes;
- **Instructing** asset managers to engage with investee companies with regard to their plans to mitigate and adapt to climate change; and
- **Reporting** on their management of climate change-related risk to beneficiaries, using the reporting framework recommended by the Financial Stability Board's Task Force on Climate-Related Financial Disclosures (TCFD).

We hope that the guidance will help governance bodies, and give confidence to beneficiaries that risks to their incomes in retirement deriving from climate change are being responsibly managed.

WE HOPE THAT THE GUIDANCE WILL HELP GOVERNANCE BODIES AND GIVE CONFIDENCE TO BENEFICIARIES

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HOW MUCH IS ENOUGH?

James Walsh updates us on the PLSA's Hitting the Target programme.

'How much should I be saving for retirement?' is a pretty basic question, but it's one that we haven't been very good at answering.

By 'we', I mean all of us in the pensions industry – pension schemes, regulators, government and advisers, even trade associations like the PLSA. If people don't know how much to save, the risk of them saving too little (or, in rather fewer cases, too much) is inevitably higher as a result.

Tackling this challenge is what the PLSA's 'Hitting the Target' programme is all about. By proposing 'national retirement income targets' we hope to show people what kind of income they will need for the lifestyle they want in retirement. Once people are clear on that, it will be much easier for schemes and providers to help them understand how much they should be saving now.

Combine targets with the pensions dashboard, which we expect to play a hugely important role in the future, and we will suddenly have a much better way of talking to people about their retirement saving.

Targets are not a new idea. Our colleagues at the Association of Superannuation Funds of Australia have been publishing the original model – the 'ASFA Retirement Standards' – every year since 2004. Almost every 'Super' fund Down Under uses them.

IF PEOPLE DON'T KNOW HOW MUCH TO SAVE, THE RISK OF THEM SAVING TOO LITTLE IS INEVITABLY HIGHER

Our initial proposal for a UK version, which we put out for consultation last October, envisaged three 'target' levels of income ('minimum', 'modest' and 'comfortable'). Like our colleagues in Australia, we proposed illustrating these with the kind of lifestyle they would support, expressed in terms of car ownership, home maintenance, holidays and perhaps even liquid refreshment (our Australian friends are told they can look forward to decent 'bottled wine' on the highest income level but 'home-brew beer or no alcohol at all' on the lowest).

Our *Hitting the Target* paper also set out further ideas for improving retirement outcomes, such as extending auto-enrolment, making equity release more flexible and transforming the way our industry engages with savers.

INTENSIVE CONSULTATION

Since October we have been testing all these ideas in an intensive programme of consultation. We held eight roundtable meetings on specific issues with a total of 45 industry experts. We ran roadshow meetings with PLSA members in Edinburgh and London. We received 16 written responses from organisations ranging from the Pensions Advisory Service to master trusts to the TUC. Now we are busy making sense of what all that input tells us.

Most – although not quite all – respondents supported our central proposal of retirement income targets, albeit with plenty of thought-provoking questions and caveats. To pick just a few themes:

- Most respondents wanted to keep the targets simple. The consensus was firmly against regional variants.
- It should be easy for savers to personalise the targets to suit their own circumstances. We think providers will produce online tools and calculators to help people do this, but the targets will provide the starting point.
- The targets should be kept independent of government, to avoid any manipulation for political purposes.
- Respondents wanted us to rethink the 'minimum', 'modest', and 'comfortable' labels. They should be more 'aspirational' so people do not settle for hitting one of the lower levels.

My PLSA colleagues and I will summarise all this input and where it leaves our policy thinking in a paper in June, including how we should take forward the targets idea.

We hope the PLSA's Hitting the Target programme will take us much closer to answering that crucial 'How much should I be saving?' question. It should be a major step towards helping people enjoy the retirement they want.

PLSA PINNACLE

TRUSTEE BOARD EFFECTIVENESS

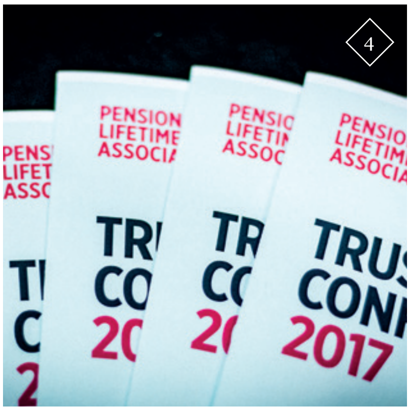
In collaboration with KPMG

Provided in collaboration with **KPMG,** the online **Trustee Effectiveness Tool** supports trustee boards in reviewing their governance and ensures that it measures up to **The Pensions Regulator's (TPR)** expectations of a well-governed scheme.

HOW THE TOOL WORKS:

- Trustee board members complete an online questionnaire
- The responses are anonymised and collated into an overview report
- A KPMG consultant adds commentary, insights and next step suggestions
- The findings are presented in an interactive workshop

PLSA TRUSTEE CONFERENCE 2017



1. Matthew Doyle, Managing Director, Pension Quality Mark, proudly shows off the new Good Communications Guide, now available to download from **www.goodcommunicationsguide.com.**
2. Mark Boyle, Chair of the Pensions Regulator explores some key areas of governance as he chairs a panel on what makes a 'capable person', and explores how they can be attracted into pensions trusteeship.
3. Financial journalist and editor of *MoneyWeek* Merryn Somerset Webb gives a member's perspective on pensions and trusteeship, including some controversial words on the subject of defined benefit transfers.
4. Trustee Conference brochures on display, ready for delegates to arrive.
5. Richard Butcher, chair of the PLSA, takes to the stage to give some closing remarks at the end of a packed programme.

THREE FOR TRUSTEES

Frances Corbett introduces three PLSA training schemes that will help trustees of all kinds.

THE PLSA'S TRUSTEE TRAINING AND DEVELOPMENT SERVICES OFFER SOMETHING FOR EVERYONE INVOLVED IN RUNNING A PENSION SCHEME, WHETHER YOU'RE NEW TO TRUSTEESHIP, HIGHLY EXPERIENCED, OR STILL DECIDING WHETHER BEING A TRUSTEE IS RIGHT FOR YOU. HERE ARE JUST THREE WAYS THAT THE PLSA CAN HELP YOU.

TRUSTEE TRAINING

Our well-established trustee training courses cover a wide range of practical and technical topics. This year we'll be delivering that training through a wider range of channels, including webinars, to make it more accessible for trustees right across the country. Some highlights include:

- **Introduction to trustee training:** theory and practice (two-part course): We'll be running our introductory course again this year, covering the basics of what you need to know as a trustee, and how to put it into practice.
- **Trustee Learning Zone:** Both our Investment Conference and Annual Conference feature a half-day Trustee Learning Zone, aimed at bringing trustees up to date with the latest pensions thinking. We'll also be hosting our annual Trustee Conference towards the end of the year – see the highlights from the most recent event on the page opposite.
- **Teach-ins:** The PLSA's teach-ins are designed for anyone involved in pensions (including trustees) who wants to keep up to date with new legislation, investment practices and general pension trends.

OUR WELL-ESTABLISHED TRUSTEE TRAINING COURSES COVER A WIDE RANGE OF PRACTICAL AND TECHNICAL TOPICS

BECOMING A TRUSTEE

This year, we've also introduced a new course aimed at those who are considering trusteeship, but are not quite sure if it's right for them. The course aims to answer two key questions:

1. **Do I have what it takes to be a trustee?** Many potential trustees are unsure whether their skills and experience are relevant to trusteeship, or don't feel confident that they have the right kind of areas of specialism for the role.
2. **What do I have to do in the role?** From the outside, it can be difficult to evaluate exactly what's involved in trusteeship in terms of processes, the time required and the types of actions you'll perform in the role.

Helping potential trustees to answer these questions will ensure that trusteeship is open to as many people as possible. There are so many different types of experiences, skills and qualities that are relevant to trusteeship – building a diverse board that brings together different backgrounds and perspectives is essential to good governance.

Similarly, making sure that anyone interested in trusteeship knows what's involved not only helps them to make a decision on whether being a trustee is right for them, but will also enable them to get to grips with the role more quickly once they start their journey as a trustee.

This is an online course, delivered in two one-hour sessions on our virtual training platform. As such, it's accessible to potential trustees anywhere in the country.

TRUSTEE EFFECTIVENESS

The PLSA's Trustee Effectiveness service was launched in 2017, in association with KPMG. This tool helps trustees to understand more about the way their board operates, looking at a number of different factors. There are two key parts to the process:

1. **An online modelling tool.** Trustees anonymously complete a series of questions on different topics that relate to board effectiveness. Once the survey is completed, the modeller uses the data to identify areas where your board is performing well, and also highlights areas for further development. These are collated into a report and a set of documentation for your scheme.
2. **Workshop with your scheme.** Once that report is complete, the next stage in the process is a face-to-face workshop, overseen by a representative from KPMG. This aims to explore the outcomes from the modelling exercise and discuss what they mean for your board. This isn't a set of recommendations – it simply highlights what is working well and what could be improved, then it's up to each trustee board to decide what to do next.

Over time, as more boards complete the survey, the modeller will also be able to show a comparison between your board's performance and that of other, similar schemes.

Details of all our training can be found on the website at **www.plsa.co.uk/education**

REFLECTIONS ON DIVERSITY

Viewpoint asked three prominent professionals for their thoughts on the first year of our Breaking the Mirror Image campaign.

Q1

HOW HAS BREAKING THE MIRROR IMAGE BEEN RECEIVED SINCE ITS LAUNCH A YEAR AGO?

Jane Welsh (JW),
Project Manager at The Diversity Project and consultant:

The Breaking the Mirror Image project has really raised the topic of diversity in the investment and savings industry. It has encouraged chairs of trustees to consider how to create more diversity on trustee boards and investment committees, and it has encouraged investment committee members to ask more questions of their consultants and asset managers about diversity. The topic is now more mainstream and the whole industry is having to consider how best to respond. The benefits of diversity for effective decision-making are better understood, particularly around risk management which is key for pension schemes.

Lesley Williams (LW),
Group Pension Director Whitbread Group PLC and former Chair, PLSA:

There is no doubt that Breaking the Mirror Image is making some pensions people and trustees think about how to bring more diverse thought into their governance structures. But we have a way to go yet, because there are still lots of people who don't see the importance of diversity and people who don't know where to start to achieve it.

Alison Hatcher (AH),
Global Head Corporate Sector, HSBC Asset Management:

To effect change you need to target many different groups of people, from individuals to decision-makers and boards. Creating an industry change around diversity needs input from many sources, working collectively. Over the past couple of years, we have seen a rise in diversity-focused groups with broad remits, and since Breaking the Mirror Image was launched we have seen these groups start to work together. As an industry, we need to arm ourselves with answers to 'Why, What and How?'. This project delivers that by highlighting good practice, showing unity amongst peers on the positive impact diversity brings through varied cognitive thought, and also targets key industry decision-makers.

Q2

WHY IS THE PROJECT SO RELEVANT NOW?

JW: The work is particularly relevant now given all the societal focus on diversity. More questions are being asked of all our institutions to ensure that they are operated fairly, reflect wider society and are run in a way that ensures that diverse viewpoints are considered. However, the benefits of diversity for organisations are not new. They have always been there but the time is right for real change to occur.

LW: It's been relevant for a very long time and the pensions industry is behind the curve. But there are spotlights on diversity from so many angles now that it's a great time for us to start talking about it.

AH: The diversity argument has reached different levels of maturity within the financial market. Some may think it has already been won and change is being seen; others still believe that there is great discussion but little action or understanding around how to facilitate change. Breaking the Mirror Image acknowledges the work already underway with employees, individuals and the wider industry, focusing on decision-makers within boards to help ensure change. Driving this momentum forward and building on it is essential to success.

Q3

WHAT ONE THING COULD PENSION SCHEMES DO RIGHT AWAY TO ENCOURAGE GREATER DIVERSITY?

JW: Include diversity (and inclusion) on the agenda on a regular basis, and whenever risk or governance are discussed. Considering the topic regularly should lead to action.

LW: Address it positively when new trustees are appointed.

AH: Have a method to vote in member-nominated trustees from different genders, backgrounds and ethnicities. This should bring with it diversity of thought from other trustees. It's also important to look at selection methods and biases, particularly around personality types.

REGULATION: THE YEAR AHEAD

Lesley Titcomb looks forward to a busy 2018 at The Pensions Regulator.

2017 WAS A SIGNIFICANT YEAR FOR BOTH TPR AND THE PENSIONS SECTOR, AND WE DON'T EXPECT THE PACE TO SLOW IN THE YEAR AHEAD. IN THE COMING MONTHS WE WILL PUBLISH MORE ABOUT HOW WE ARE CHANGING AS A REGULATOR AND OUR ANNUAL PLAN AND BUDGET FOR 2018/19. FOR NOW, HERE ARE OUR FOCUS AREAS FOR THE YEAR AHEAD.

A top priority will be implementing master trust authorisation. The introduction of automatic enrolment has resulted in a significant growth in the master trust market. With the consultation on the DWP's regulations now over, attention will turn to our Code of Practice, which we will publish for consultation shortly. We have long been calling for a higher bar to entry to this market and authorisation will increase safety and security for pension savers in master trusts.

From October, master trusts which intend to remain in the market will have to get authorisation from us. If schemes don't apply, or fail to meet the standards required, we will assist them in an orderly exit from the market and minimise the impact on savers.

Automatic enrolment has been a great success and has transformed the pensions landscape, but there is still more to do. From 1 February every employer in the UK will have pension duties and must enrol all qualifying staff into a pension scheme. They must also make regular payments for their staff into these schemes to help them save towards their retirement.

THE INTRODUCTION OF AUTOMATIC ENROLMENT HAS RESULTED IN A SIGNIFICANT GROWTH IN THE MASTER TRUST MARKET

As well as making sure high rates of employers are complying with their initial automatic enrolment responsibilities, we will be ensuring that they meet their ongoing duties, including re-enrolling staff every three years and complying with the minimum contributions increase to 5% in April.

SCAMS AND MORE

Elsewhere, the fight against pension scams continues. We are working closely with other agencies to stop criminals and protect savers, through communications campaigns and by using our powers. We plan to work even more closely with the FCA and other partners in the industry and government to help consumers recognise and avoid pension scams.

For a number of reasons, defined benefit pensions have been making the news. We await with interest the government's white paper on ways of strengthening the DB funding framework, and we will work with DWP to consider how to implement any new measures.

Driving up the standards of governance and administration in pension schemes will remain a key area of work, including through our continuing 21st Century Trusteeship work and enforcement action against schemes unwilling to meet the required standards.

We are working with the DWP and other industry partners to ensure we are able to identify – and where appropriate address – challenges arising from Britain's exit from the EU. We believe that any immediate and significant change to the current regulation framework is unlikely. But we will make sure that we, and the schemes we regulate, are equipped to manage change effectively; and we will continue to identify risks which may arise for schemes. We will provide more guidance to trustees as necessary. In the meantime, we expect trustees and scheme managers to have considered if there are any issues arising from Brexit that may impact their sponsoring employer and the funding of their scheme. Trustees should consider possible scenarios as part of a DB scheme's integrated risk management, where applicable.

TPR FUTURE

Here at TPR we need to ensure that we remain effective and efficient as an organisation and are able to respond to the challenges we face with the right set of regulatory approaches. We have set out our intention of being clearer, quicker and tougher via our TPR Future programme. We will shortly move into implementing our enhanced approach to regulation – and you can expect us to say more about this later in the year.

Lesley Titcomb is chief executive at The Pensions Regulator

TRANSPARENCY AND VALUE

Caroline Escott reports on recent policy developments intended to improve the visibility of investment costs, charges and performance for trustees.

IN RECENT YEARS TRUSTEES HAVE HAD A LOT TO CONTEND WITH ON THE INVESTMENT FRONT, AS THEY AIM TO ACHIEVE SUFFICIENT RETURNS TO PAY OUT MEMBER BENEFITS. MEMBERS ARE ON AVERAGE LIVING LONGER, MEANING SCHEMES' LIABILITIES ARE INCREASING. TRUSTEES ALSO HAVE TO WORK HARD TO GET STRONG INVESTMENT RETURNS AND NAVIGATE THE CHALLENGING ECONOMIC HEADWINDS STEMMING FROM A TRUMP ADMINISTRATION, CONTINUING UNCERTAINTY OVER THE SHAPE OF THE UK'S BREXIT DEAL AND THE UNWINDING OF QUANTITATIVE EASING.

Good investment returns are important to reduce reliance on scheme sponsors to fill any funding gap through contributions, especially as covenant risk moves up the trustee agenda in the wake of recent events at Carillion and the British Steel Pension Scheme. To support trustees in their decision-making on issues such as asset allocation, fund and manager selection, it is vital they have access to accurate and well-presented information on costs, charges and performance. Only then can schemes hold their investment service providers properly to account and achieve the best possible value for money.

IT IS VITAL THAT SCHEMES AND TRUSTEES KEEP UP TO DATE WITH DEVELOPMENTS

One of the biggest recent policy developments in this area has been the EU's MiFID II (Markets in Financial Instruments Directive). This came into effect on 3 January, and mandated a wide-ranging series of changes to the way in which investment information is disclosed to clients. This includes new duties for investment service providers when reporting cost and charges information to clients, as well as the steps taken to achieve 'best execution'.

UK DEVELOPMENTS

UK policymakers have also been taking steps to improve cost disclosure to institutional clients. Key among these has been the FCA's Institutional Disclosure Working Group (IDWG), led by Dr Chris Sier, which is designing a costs disclosure framework for investors, building up from a set of more detailed templates containing granular data on costs and returns. The PLSA and many other industry stakeholders take part in this Group, which aims to produce comparable cost data for schemes and members to help them assess their investment providers. The first disclosure templates will be produced early in 2018, while templates for alternative assets such as private equity will be released later in the year.

The IDWG came out of the FCA's Asset Management Market Study, which sought to better understand the state of competition in the UK investment market. Another significant development was the referral of the market for investment consultancy and fiduciary management services to the Competition and Markets Authority (CMA). Although the CMA is undertaking an investigation into many aspects of the investment consultancy sector, including any conflicts of interest and barriers to market entry and exit, it is also assessing how well the demand side is able to hold investment advisers to account.

In its Issues Statement, outlining areas of focus, the CMA writes that "[we] consider that potential remedies to improve transparency over fees and performance are likely to be a particularly important focus of our thinking on remedies at this stage". Although we do not yet know whether the CMA has found any anti-competitive tendencies in the investment consultancy market, schemes and trustees should pay close attention to the progress of the investigation – and feed in any views or evidence they think would be helpful.

Attendees at our Edinburgh Investment Conference in March will have the opportunity to hear directly from both Dr Chris Sier and the CMA on their work. The PLSA also recently produced a 'Top 5' guide to MiFID II which summarises the main developments affecting schemes and highlights some key actions. Ultimately, it is vital that schemes and trustees keep up to date with developments in this area and ensure they use every tool available to help them achieve the best possible value for members' money.

This year's event in Edinburgh promises to be another memorable occasion...

THE WORLD HAS MOVED ON FROM THE FINANCIAL CRISIS OF 10 YEARS AGO, BUT IT HAS BEEN ALTERED FOREVER BY ITS IMPACT. THE AGITATION, DISRUPTION AND UNCERTAINTY OF THE LAST DECADE HAVE GIVEN WAY TO A NEW GEOPOLITICAL SCENE THAT HAS UPENDED MUCH CONVENTIONAL THINKING, LEAVING CAPITAL MARKETS OPEN TO A VARIETY OF RISKS. CLIMATE CONCERNS ARE IN THE SPOTLIGHT, AND INCREASED REGULATORY FOCUS ON THE PENSIONS SECTOR HAS THE POTENTIAL TO EFFECT GREAT CHANGE IN OUR INDUSTRY..

On 7-9 March in Edinburgh we're holding the UK's largest event focused on pension fund investment. This year's PLSA Investment Conference looks at how we're Driving the Economic Machine – securing the role of investment as the engine of a prosperous, fair and sustainable economic model.

We'll hear from Nick Clegg, Gina Miller, Laura Kuenssberg and Dan Snow on the big political and economic issues affecting us all today. What have we learned since the crisis? Are we more aware of political and economic threats today, and how do we resist them? How will the social media revolution impact us all? And what's the outlook for the UK as we move from a decade of turbulence into a new geopolitical era?

Investment and pensions industry figures will also share their experience and expertise on the challenges and opportunities for pension funds. From 'sin' stocks and cost transparency to ESG, impact investing and the next market bubble, it's all covered.

And 950 pensions and investment professionals will meet to join the debate, make new connections and help secure a strong and sustainable pension system that delivers better incomes in retirement.

GUIDES LAUNCHING

NEW MADE SIMPLE GUIDES LAUNCHING AT INVESTMENT CONFERENCE

GLOBAL SECURITIES LITIGATION MADE SIMPLE

This latest guide sponsored by Robbins Geller Rudman & Dowd LLP introduces the topic of global securities litigation. The cost of financial misconduct can be significant to pension funds, and it's important that schemes understand what securities litigation is and how claims can be pursued, so that should schemes find themselves the victims of securities fraud they are in a position to make informed decisions on behalf of their members.

This guide briefly explores the class action opportunities available in the US as well as the mechanisms available in other markets, in particular the UK, Canada (Ontario in particular), Germany, Japan and Australia. The Netherlands is also referenced because although it lacks a mechanism for the resolution of disputed claims by classes of investors, the Dutch system offers a venue in which cooperating parties can forge European Union-wide binding resolutions of outcomes that have been agreed to by the parties.

IMPACT INVESTING MADE SIMPLE

This latest guide sponsored by Hermes Investment Management introduces the topic of impact investing.

Environmental, social and governance (ESG) integration have become an increasingly important and well-established part of good investment management. In recent years, changes in terminology and practice have resulted in the evolution of SRI into ESG investing and we are now seeing an increasing interest in impact investing, which prioritises positive social and environmental impacts resulting from investments alongside financial return.

This Made Simple Guide explains the key aspects of this investment approach, looking at a range of ESG strategies, and the importance of impact investing as a driver of future growth.

VISIT THE PLSA'S WEBSITE AND DOWNLOAD OUR LATEST REPORTS. OTHER GUIDES IN THE SERIES INCLUDE:

Cashflow Driven Investments
(Dec 2017)

Integrated Risk Management
(Oct 2017)

Fiduciary Management
(Oct 2017)

Good Quality Data for the Private Sector
(Oct 2017)

General Data Protection Regulation
(Sept 2017)

If you are interested in sponsoring a guide please get in touch with **Varsha Gowda (varsha.gowda@plsa.co.uk) 020 7601 1740** or **Claire Simmons (claire.simmons@plsa.co.uk) 020 760 1735**

A WAITING GAME

What can we expect from the delayed DB White Paper, and when can we expect to see it? **Joe Dabrowski** gives an update.

ABOUT TO HIT PLAY ON DB WHITE PAPER

THE DB WHITE PAPER WAS PROMISED THIS 'WINTER'. IT'S NOW EXPECTED IN THE SPRING, AND THE NEXT STEPS FOR LEGISLATIVE OR POLICY CHANGE REMAIN UNCERTAIN.

In practice, and given the previous expectation of a February release, we can assume that most of the work has probably been done: officials are now likely going through the process of bringing new ministers up to speed and looking for clearance across Whitehall.

So hopefully we'll see something in March or at the latest in April.

Of course, in politics nothing can be certain – in particular when 'events' intervene and shape the public debate. We're having one of those moments now, with the collapse of Carillion reinvigorating the debate about pension scheme funding, trustee standards, corporate responsibility and TPR's powers. All of these were trailed in the Green Paper published last year.

Following the Prime Minister's public intervention, I think it's a safe bet to say we'll see more change again, in particular on new, potentially significant Regulator powers to intervene in corporate transactions. We can expect to see a tougher line on scheme funding, and a demand for information in anticipation of regulatory enforcement.

Based on statements from the Pensions Minister and officials over recent months we should also expect to see new proposals on improving governance and transparency, making the funding regime less binary (perhaps by extending the Regulated Apportionment Arrangement), and a focus on enabling greater scheme consolidation. These are themes that we explored in roadshows with members when developing our response to the Green Paper last year, and through the DB Taskforce.

I know many in the industry will also be waiting to see if government is willing to get off the fence on the issue of a shift from RPI to CPI, and the 'drafting lottery'. It is possible that the Governor of the Bank of England's recent intervention on the future of the RPI index will have an influence in either tone or detail.

Despite all this, it's worth remembering that there won't be any legislative changes coming soon. The government timetable is already booked up, mostly (and understandably) with Brexit – and as a result we won't see a pensions bill until 2019 at the earliest, with legislation following in 2020.

That feels some time away, given the circumstances we're in now and the speed at which things can change. The lack of immediacy does however give the DWP and the wider industry time to consider and consult properly before introducing any significant changes – and stability is something that I think we'd all welcome.

IN POLITICS NOTHING CAN BE CERTAIN – IN PARTICULAR WHEN 'EVENTS' INTERVENE AND SHAPE THE PUBLIC DEBATE

FINANCING THE WORLD

Keith Hollender looks back at the history of stocks and investments, and argues there's nothing new under the sun...

PERHAPS ONE OF THE GREATEST TASKS FACING TODAY'S INVESTMENT MANAGER IS DEALING WITH THE VAST NUMBER AND RANGE OF INVESTMENTS, BOTH REAL AND UNREAL. BUT IN THE DISTANT PAST THINGS WERE A LITTLE SIMPLER – SHOULD THE RECOMMENDATION BE THE SOUTH SEA COMPANY (FOUNDED IN 1711) OR ONE OF THE GREAT TRADING COMPANIES, SUCH AS THE EAST INDIA COMPANY OR THE MUSCOVY COMPANY, FOUNDED BY RICHARD CHANCELLOR AND ESTABLISHED TO TRADE WITH THE NEWLY-DISCOVERED LANDS OF RUSSIA IN 1555? IN THE UNITED STATES, TRADING COMPANIES WERE SLOWER TO DEVELOP AND INVESTMENTS MIGHT HAVE BEEN LIMITED TO THE EARLY VENTURES OF BENJAMIN FRANKLIN (SUCH AS THE LIBRARY COMPANY OF PHILADELPHIA, 1789, AND THE PENNSYLVANIA HOSPITAL, 1751).

The shortage of investments in the past was inevitably accompanied by a dearth of markets. Antwerp was the financial centre of the world for many years with its bourse set up in 1530, but its sacking by Spain combined with local uprisings led to the growth of Amsterdam which dominated share trading in joint-stock companies throughout the 17th century. However, the demise of Antwerp also saw the growth of London: following a somewhat chaotic start with shares initially traded at Jonathan's Coffee House (in Exchange Alley) and in nearby streets, Sir Thomas Gresham eventually built the Royal Exchange in 1567. This was Britain's first stock market, and was later followed by more than 30 regional markets set up around the country.

EARLY INVESTMENTS

Many early investment opportunities were related to the discovery of new lands. Participation was risky, not only for the financier but more particularly for those who sailed on their voyages of discovery. Many failed to return: discovering new lands and new products was not for the fainthearted.

But investments were not limited to seafaring exploits. Somewhat amazingly, the earliest 'share certificate' known to exist, albeit on a stone tablet, was discovered in northern Iraq (originally ancient Assyria) dating from around 2000BC. It entitled the owner to profits from the commercial activities of a temple.

It was not until the 14th and 15th centuries that the great city states of what is now Italy raised funds together with the church to finance public utilities and, more especially, wars. These were known as 'Monti' and were issued by the powerful states of Genoa, Venice, Pisa and Florence. Some related to the formation of banks, such as the Monte dei Pascha di Sienna, founded in 1472 and still the world's oldest bank (despite a few recent funding problems).

> DISCOVERING NEW LANDS AND NEW PRODUCTS WAS NOT FOR THE FAINTHEARTED

However, these bonds and many later issues by the West were faced with the tricky issue of compensation for investors, as interest was banned by Christian law – as it still is today under Islam.

COUNTRIES SEEKING MONEY

All the major powers issued bonds to finance their (im) balance of payments, wars or the creation of national infrastructures. Many such issues fell into default, some for a long period and some permanently. The two most infamous were those of China in 1938 and Russia in 1917. Surprisingly both were eventually repaid in the 1980s, but there were others where investors were not so lucky – the most notable being the bonds issued by the Confederate States of America to finance their cause in the Civil War of the 1860s, and the sterling bonds issued in the 1920s to help rebuild Germany following the First World War. But South America topped the league tables with Ecuador defaulting ten times, Costa Rica and Chile nine, and Mexico eight.

Bonds issued today bear little resemblance to the bonds of old. Large ornate documents have been replaced by computer codes, and the fine engraving of the past is now only for the collector or interior designer.

ENTREPRENEURS AND FRAUDSTERS

It's difficult to cover any aspect of finance without coming across 'the good and the bad'. Entrepreneurs of the past were prominent figures, some creating banks (such as JP Morgan and

Plaque indicating site of Jonathan's Coffee House, the original location of the 'Stock Exchange'

Financing the World is published by Spink, 69 Southampton Row, London WC1B 4ET, **www.spink.com**. A signed copy can also be obtained directly from the author at **hollender.keith@gmail.com**

DESCRIPTIONS CHANGE, LAWS CHANGE BUT UNDERNEATH THE SAME PRODUCTS GO ROUND AND ROUND

the Rothchilds), some building railways (Robert Stephenson, Vanderbilt and EH Harriman) and others bridges (Brunel); while many mined for gold or diamonds and others – such as Thomas Edison – 'just' invented. Nearly all created dynasties and, perhaps surprisingly, nearly all actually signed the share certificates issued to finance their ventures.

Of course, there were crooks and their activities are still replicated today. The 'Ponzi' scheme resulting in the imprisonment of Bernie Madoff for 150 years in 2009 was perfected 100 years ago by the Swedish match company Kreuger and Toll. Other infamous characters included Alfred Lowenstein, who mysteriously disappeared while flying over the English Channel; Whittaker Wright, who on being sentenced took cyanide; and Baron Grant, who at his peak was worth £20 million but died a bankrupt.

LEARNING FROM THE PAST

So what can today's investment manager learn from history? Firstly, nothing is new. Descriptions change, laws change but underneath the same products go round and round. Secondly, bubbles come and go and always will. Nothing will stop them – there can be no guarantees! At least the old stocks and shares were nicely designed, and can always be framed...

Keith Hollender spent several years at the PLSA (formerly known as the NAPF) as Commercial Director. He was previously a Managing Director at Experian and Aon, and created the Unclaimed Assets Register. His interest in old shares goes back many years and he is the author of three books on the subject, having been an adviser to both Price Waterhouse and Ernst & Young on the Russian and Chinese bond settlements.


LET'S BUILD A BETTER WORLD FOR INVESTING.
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SCAN FOR SCAMS

New research from the PLSA has shown that many people struggle to spot pension scams. We report on our key findings.

WE TESTED A NUMBER OF POTENTIAL SCAM SCENARIOS WITH JUST OVER 2,000 UK ADULTS IN DECEMBER 2017 AND JANUARY 2018. THE RESULTS ARE SHOWN IN THE TABLE BELOW. WHILE 65% OF PARTICIPANTS WOULD DESCRIBE A SITUATION "WHEN YOU ARE CONTACTED BY SOMEONE WHO IS TRYING TO GET YOU TO TRANSFER YOUR PENSION TO AN INVESTMENT OR SCHEME WHICH SEEMS TOO GOOD TO BE TRUE" AS A SCAM, THEY WERE LESS SURE ABOUT OTHER SCENARIOS.

THE FIGURES SHOW THE PERCENTAGE OF PARTICIPANTS WHO WOULD DESCRIBE EACH SCENARIO AS A SCAM.

YOU MAY HAVE SEEN ARTICLES ABOUT PENSION SCAMS. WHICH OF THE FOLLOWING, IF ANY, WOULD YOU DESCRIBE AS A 'PENSION SCAM'?	
When you are contacted by someone who is trying to get you to transfer your pension to an investment or scheme which seems too good to be true	65%
When you speak to an adviser who tells you to take actions which you find out are not in your best interest	48%
When you are advised to invest your pension fund into an investment that means you end up paying a huge tax bill	43%
When you receive advice on how to invest your pension and you end up losing money	36%
When you are contacted by someone to discuss your pension and they provide you with advice on what to do with your pension	27%
None of these	10%
Don't know / not sure	16%

We also asked survey participants for their views on pension scheme checks to help protect against scams. Of those with a pension who had an opinion on all four statements, 88% felt that checks carried out by pension providers and workplace schemes were good if they made it more difficult to scam people. However, over a quarter (28%) felt that checks were unnecessary, as a person should be able to access their money easily as and when they want.

THE FULL RESULTS ARE SHOWN BELOW:

PENSION PROVIDERS AND WORKPLACE PENSION SCHEMES UNDERTAKE CHECKS BEFORE THEY WILL RELEASE A PERSON'S PENSION SAVINGS TO HELP ENSURE THEY ARE NOT BEING SCAMMED.

TO WHAT EXTENT DO YOU AGREE OR DISAGREE WITH THE FOLLOWING STATEMENTS?

	STRONGLY AGREE AND SOMEWHAT AGREE	NEITHER AGREE NOR DISAGREE	STRONGLY DISAGREE AND SOMEWHAT DISAGREE
These checks are unnecessary as a person should be able to access their money easily as and when they want to	28%	18%	54%
Checks are good if it makes it harder to scam people	88%	9%	2%
Checks should be proportional to the size of the pot and the risk	39%	28%	34%
Rules and checks should be stricter to ensure that pension pots are secured	79%	19%	3%

(rounded figures may not add up to exactly 100%)

WHAT NEXT?

The PLSA has called for an authorisation regime for pension schemes receiving transfers, to help stop fraudsters. **James Walsh, Policy Lead for Engagement, EU and Regulation**, comments:

"The research shows that consumers struggle to identify pension scams and are keen to see stronger checks. As an industry we need to step up to this challenge and the government's recent commitment to tabling an amendment to the Financial Guidance and Claims Bill to introduce a ban on pension cold-calling is a step in the right direction. However, pension scams come in all shapes and sizes as scammers become increasingly sophisticated. While the government's ban on cold-calling is welcome it is only part of the solution.

"There are other steps the government can take to help protect people's hard-earned savings. The PLSA is calling on the government to make urgent progress towards introducing an authorisation regime for pension schemes. That will reassure people that they are only dealing with legitimate providers."

DC: WHAT DOES THE FUTURE HOLD?

Tim Middleton reports on a recent survey of PMI member views.

Pensions Management Institute
ACHIEVING PENSIONS EXCELLENCE

TOWARDS THE END OF LAST YEAR, PMI CONDUCTED A SURVEY OF ITS MEMBERS TO ASSESS THEIR VIEWS OF THE CURRENT STATE OF DEFINED CONTRIBUTION (DC) PENSION PROVISION IN THE UK. THE RESULTS MAKE STRIKING READING. PMI MEMBERS HAVE RESERVATIONS ABOUT THE OVERALL STANDARD OF DC PROVISION, BUT ARE NOT CONVINCED OF THE NEED FOR MAJOR REFORMS. WHILE A MAJORITY (55%) BELIEVE THAT 2015'S FREEDOM AND CHOICE REFORMS WERE IN SOCIETY'S BEST INTERESTS, NEARLY THREE-QUARTERS (72%) WERE CONCERNED AT THE GROWING TREND FOR BENEFITS TO BE IN THE FORM OF CASH SUMS RATHER THAN LIFETIME INCOME STREAMS. THIS IS CONSISTENT WITH CONCERNS SHOWN BY THE OECD AND WITH THE UK'S POOR RANKING IN THE MELBOURNE MERCER INDEX.

However, PMI's members are not convinced that there is a need for significant reform: a narrow majority (51%) were against the return of the minimum income requirement (MIR) for members withdrawing funds via flexi access drawdown (FAD) or uncrystallised funds pension lump sum (UFPLS). There was also a 50/50 split on whether advice on decumulation should be mandatory when a DC member's fund value exceeds a set threshold.

For PMI members, the case for dramatic reform has not been made. It is worth noting that the DC market in the UK remains somewhat immature. Those in their mid-50s will in many cases have defined benefit (DB) pensions to fund their retirement, and DC funds at the point of decumulation remain relatively small.

It is possible that habits will change for later generations, for whom DC benefits will form the whole of their pension savings other than what they are to receive from the State. However, one current phenomenon has rightly given rise to concern. The rush to transfer DB benefits to DC arrangements in order to access pension freedoms has the potential to be the pensions scandal of the next decade, and is something we should monitor closely.

Tim Middleton is a Technical Consultant at The Pensions Management Institute

PENSIONS AND LIFETIME SAVINGS ACADEMY UPDATE

Frances Corbett
Head of PLSA Academy
and PINNACLE

Frances Corbett, Head of PLSA Academy and PINNACLE, reports on the beginning of another busy year of training

BY THE TIME YOU READ THIS, DELIVERY OF THE PENSIONS AND LIFETIME SAVINGS ACADEMY 2018 EDUCATION AND TRAINING PROGRAMMES WILL HAVE BEGUN, AND THE INVESTMENT CONFERENCE 2018 WILL BE JUST AROUND THE CORNER. FOR TRUSTEES THIS IS NOT ONLY AN OPPORTUNITY TO ENGAGE WITH INVESTMENT PROFESSIONALS AND OTHER TRUSTEES, IT'S ALSO A CHANCE TO PARTICIPATE IN TWO TRUSTEE LEARNING ZONE (TLZ) SESSIONS ON 7 MARCH 2018 IMMEDIATELY BEFORE THE CONFERENCE OPENS. AS PLACES ARE LIMITED IT'S ESSENTIAL TO BOOK EARLY FOR THIS EVENT.

January saw the return of our virtual training programme, which was introduced in 2017. We now offer four virtual courses for those new to pensions, new trustees, anyone working in HR, and for individuals wanting to know what becoming a trustee involves. Our virtual training sessions allow participants to expand their understanding of retirement saving without having to leave the comfort of their office or home.

In January we also held our first webinar of 2018, entitled 'Lifting the Lid on Fiduciary Management'. This was the third webinar in a series sponsored and delivered by KEMPEN. If you missed any of these you can still view them on the PLSA website.

On 15 February we ran our first classroom-based introductory trustee training course. The next course, 'Introduction to trusteeship Part 2 – the practice,' is on 16 March.

Make sure you're a regular visitor to **www.plsa.co.uk/training** and keep up to date with your learning opportunities from the Academy during 2018.

VIRTUAL ACADEMY COURSES: TO JUNE 2018

INTRODUCTORY COURSES

PENSION BASICS
Session 1 – 11:00-12:00
Session 2 – 14:00-15:00
15 March, 30 April, 11 June
£160 *(covers both sessions)*

RETIREMENT GUIDANCE – SUPPORTING EMPLOYEES
Session 1 – 11:00-12:00
Session 2 – 14:00-15:00
20 March, 07 June
£160 *(covers both sessions)*

UNDERSTANDING INVESTMENT
Session 1 – 11:00-12:00
Session 2 – 14:00-15:00
23 March, 15 May
£160 *(covers both sessions)*

TRUSTEE COURSES

BECOMING A TRUSTEE
Session 1 – 11:00-12:00
Session 2 – 14:00-15:00
17 April, 30 May
Free to members, **£200** non-members *(covers both sessions)*

INTRODUCTION TO TRUSTEESHIP PART 1 – THE THEORY
27 March, 08 May, 14 June
£488 members, **£868** non-members

INTRODUCTION TO TRUSTEESHIP PART 2 – THE PRACTICE
14 March, 26 April, 19 June
£488 members, **£868** non-members

PLSA TEACH-INS

CURRENCY- RETURN DRIVERS, EFFICIENT HEDGING AND COST TRANSPARENCY
22 March 16:30-17:30
(PLSA, London)
sponsor: RECORD

FUTURE PROOF YOUR PENSIONS ADMINISTRATION BY LEARNING FROM THE PAST
19 April (PLSA, London)
10 May (Manchester)
16:30-17:30
sponsor: Trafalgar House

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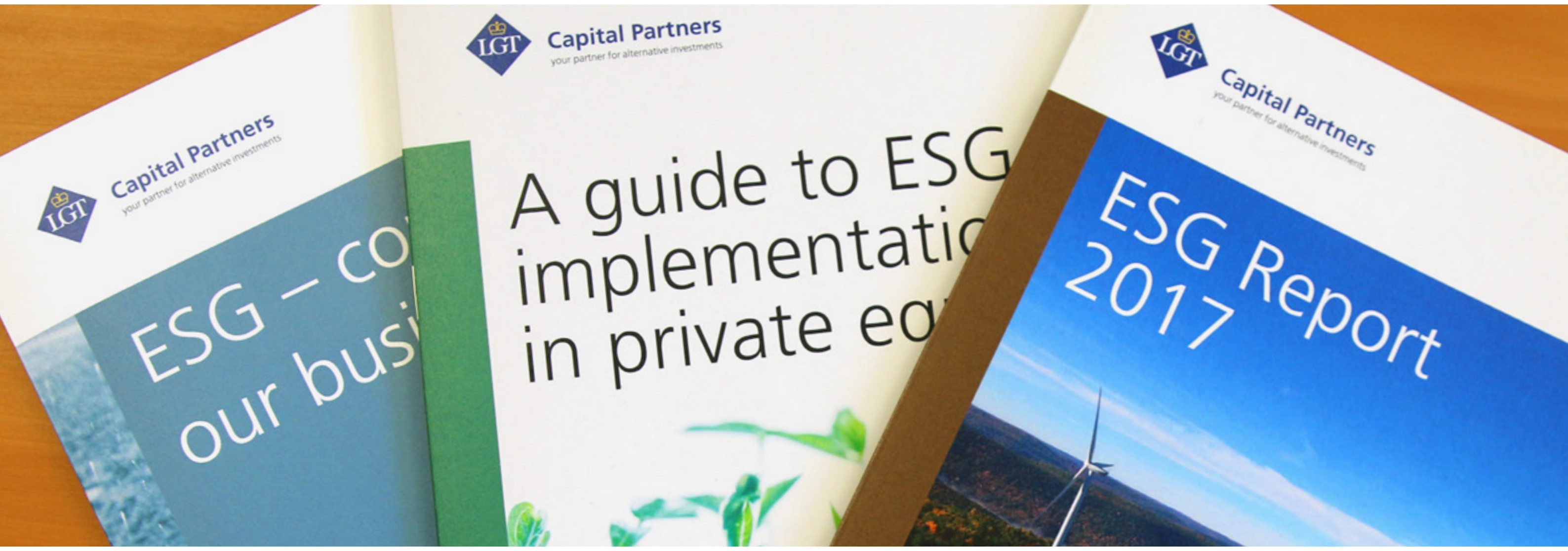
ESG practices continue to improve, finds LGT Capital Partners



Environmental, Social and Governance (ESG) integration is proving more important than ever to institutional investors, according to research from LGT Capital Partners, a leading alternative investment and multi-asset manager.

Key ESG selection criteria for institutional investors

Based on its analysis of both regional ESG practices as well as those of individual managers, LGT Capital Partners has identified three key ESG criteria that institutional investors and their advisers should consider when assessing and selecting private equity managers:

- Senior level resources spearheading ESG activities giving credibility to the efforts internally at the manager, and signalling to investors and portfolio companies that ESG is of strategic importance to the manager
- The extent to which managers develop and follow their own self-imposed ESG standards, clearly articulating how these are integrated into their investment and business practices. Especially noting that ESG engagement spans the full lifecycle of an investment
- Clear evidence of continuous improvement of ESG policies, demonstrating these are a core strategic competency within the business

> "ESG has become an increasingly important issue for institutional investors in recent years, with many asset owners seeing it as a core element of their investment activities. A significant part of the private equity industry has already responded, as our findings illustrate, with many managers having already implemented effective ESG practices. Undoubtedly, further work is needed, and managers will have to continually develop their approaches to ESG in order to meet the increasingly complex demands of investors."
>
> Tycho Sneyers, LGT Capital Partners, Member of the PRI Board

LGT Capital Partners (U.K.) Ltd., 35 Dover Street, London W1S 4NQ, Tel. +44 20 7529 0960, lgt.cp@lgt.com, www.lgtcp.com

PENSION QUALITY MARK
UPDATE

MAKING A STATEMENT


A Chair's statement should be treated as a helpful communication for scheme members, not just an exercise in regulatory box-ticking. **Matthew Doyle** and **Jackie Wells** report.

SINCE 2015, THE BOARDS OF TRUSTEES OF MOST DC OCCUPATIONAL PENSION SCHEMES HAVE BEEN REQUIRED TO PUBLISH AN ANNUAL CHAIR'S GOVERNANCE STATEMENT. THE STATEMENTS ARE INTENDED TO INFORM MEMBERS OF HOW THE BOARD HAS REVIEWED, CONSIDERED AND DEALT WITH A NUMBER OF ISSUES THAT HAVE THE POTENTIAL TO SIGNIFICANTLY AFFECT THE PENSIONS THAT MEMBERS RECEIVE IN RETIREMENT. SIMILAR REQUIREMENTS HAVE BEEN PLACED ON THE CHAIRS OF INDEPENDENT GOVERNANCE COMMITTEES (IGCS) WHICH OVERSEE GROUP PERSONAL PENSION ARRANGEMENTS.

Of particular importance to many members will be the ways in which trustees have:

- Reviewed whether the costs and charges being paid by members represent good value for the services provided (compared to other ways of doing things);
- Considered whether and how the default fund, in which a significant proportion of members will be invested, meets the needs of the membership of the pension scheme;
- Ensured that the money being put into the pension scheme is handled accurately and invested in a timely manner so that members don't lose out from poor transactions; and
- Made sure that they are all up to date on issues that affect the pension scheme and its members through ongoing professional development.

The Chair's statement has to report on these issues, but it can also be used to communicate with members on other important developments.

'COULD DO BETTER'

The first statements began to appear in 2015/2016, and it quickly became clear that trustees were adopting very different approaches to communicating how they were looking after members' interests.

PQM has reviewed many Chairs' statements over the past two years as part of the accreditation process for PQM and PQM Ready schemes, and it's in the process of developing best practice guidelines for trustees. The Pensions Regulator has also examined the different approaches being used by schemes, and has published some examples of good practice[1].

TRUSTEES MAY FIND MEMBERS BECOME MORE ACTIVELY ENGAGED WITH THE GOVERNANCE OF THEIR SCHEME AND CARE MORE ABOUT THE BENEFITS THAT IT CAN DELIVER

1. www.thepensionsregulator.gov.uk/docs/chair-statement-quick-guide.pdf

TRUSTEES WERE ADOPTING VERY DIFFERENT APPROACHES TO COMMUNICATING

While it's entirely understandable that schemes gradually develop their own style and content for their statements, it's evident that some schemes are treating this as a compliance exercise rather than as an opportunity to communicate with scheme members and to demonstrate why trustees play such an important role in ensuring good retirement outcomes. Naturally some schemes have more resources at their disposal, both financial and human, but schemes without these resources may find that lessons learned from best practice provide a cost-effective solution for creating a strong Chair's statement.

TAKING THE RIGHT TONE

Chairs' statements differ in a number of important ways. The most striking and instantly identifiable is the tone and language used:

- At one extreme, some schemes have taken the template developed by the Society of Pension Professionals[2] and have employed very technical and regulatory language to communicate how they have addressed the four areas outlined above.
- At the other, schemes have taken what's required by regulation and have woven it into a narrative aimed squarely at the member, and have included other information that members might find interesting or useful. An example in the public domain is the statement from the Chair of NEST published as part of NEST's annual report and accounts in 2016/17.[3] We've also seen similar best practice examples from IGCs such as the one at Phoenix Life,[4] as well as from smaller DC schemes.

While we recognise that not all schemes have as many resources as NEST, it seems right that the Chair's statement:

- Is couched in terms and language that speak to and can be understood by the membership of the scheme; and
- Is made easily accessible to the membership of the scheme.

If this is done successfully, trustees may find members become more actively engaged with the governance of their scheme and care more about the benefits that it can deliver.

Tone of voice is important in all member communications. Each scheme must find its own, but the PQM Good Communication Guide may help trustees to understand the different impact that tone and language can have on members:

WHAT NEXT FOR PQM?

PQM will be publishing a series of best practice guides in 2018. The first will focus on what makes a good Chair's statement. In addition to exploring tone, style and language, the guide will cover how best to describe the work of assessing value for members, trustee knowledge and understanding, and the design of default investment strategies.

Matthew Doyle is Managing Director, Pension Quality Mark Ltd

Jackie Wells is an independent consultant

> *"Tone of voice is about the character of your pension (or your company) and how it comes through in your words, both written and spoken. It's not about what you say, but the way you say it and the impression it leaves behind."*[5]

2. the-spp.co.uk/wp-content/.../Defined-Contribution-Reporting-Template-Trustees.docx
3. https://www.nestpensions.org.uk/schemeweb/NestWeb/includes/public/docs/NEST-Corp-ARA_2016_2017,PDF.pdf
4. http://www.phoenixlife.co.uk/about-phoenix-life/independent-governance-committee
5. Ruston Smith in the PQM Good Communication Guide. http://www.goodcommunicationsguide.com/chapter5.html

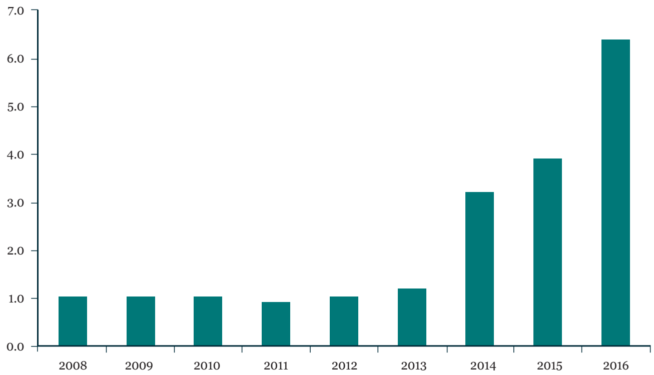
RESEARCH FINDINGS

Kate Boulden explores the latest research on auto-enrolment and Pensions Freedoms.

AUTOMATIC ENROLMENT REVIEW

IN DECEMBER 2017, THE DEPARTMENT FOR WORK AND PENSIONS (DWP) RELEASED ITS REVIEW OF AUTOMATIC ENROLMENT (AE). THE REVIEW SUGGESTED THERE HAS BEEN TRANSFORMATIVE CHANGE IN THE PRIVATE SECTOR, WITH PARTICIPATION RISING – PARTICULARLY AMONGST THE LOWEST EARNERS, YOUNG PEOPLE AND WOMEN – AND TOTAL ANNUAL CONTRIBUTIONS INCREASING. THE REVIEW ALSO SET OUT A DIRECTION FOR HOW AE WILL DEVELOP INTO THE MID-2020S, AND IDENTIFIED THREE CHALLENGES WHICH REMAIN: INADEQUATE SAVINGS FOR RETIREMENT AT CURRENT LEVELS; THE GAP IN COVERAGE OF SELF-EMPLOYED WORKERS; AND A LACK OF ENGAGEMENT WITH PENSIONS.

Figure 1:
ACTIVE MEMBERSHIP OF PRIVATE SECTOR DC SCHEMES – ACTIVE MEMBERS (MILLIONS)



Source: ONS Occupational Pension Scheme Survey 2016

An Analytical Report[1] was also published, providing more of the detailed analysis which informed the review. Some of the key areas discussed were coverage and participation rates, and the impact AE has had on savings. The analysis below examines the findings in light of the PLSA's own research and policy work, most notably *Hitting The Target*.

COVERAGE AND PARTICIPATION

One of the successes of AE is the significant increase in the number of eligible employees participating in a workplace pension since the reforms were introduced. More than three-quarters (78%) of eligible employees (16.2 million) participated in a workplace pension in 2016.

Data from the ONS Occupational Pension Scheme Survey[2] shows that the number of people in private sector defined contribution (DC) schemes has increased dramatically, from 1 million in 2012 to 6.4 million in 2016.

There have also been increases in participation among lower earners compared to higher earners since the introduction of AE. However, those who earn the most (over £40,000) still have the highest levels of participation: 88%, compared to 69% of those earning between £10,000 and £20,000.

Younger people's participation in pension schemes has also risen significantly in recent years. The greatest increase was between 2012 and 2016, when participation of those aged between 22 and 29 doubled to 72% from 36%.

IMPACT ON SAVINGS

The analytical report suggests that AE has had a positive effect on savings. In 2017/18 the DWP estimated that an extra £6.9 billion was saved into workplace pensions due to AE, and it forecast an additional £19.7 billion by 2019/20.

In 2016, over half (54%) of eligible employees saving into a workplace pension had a contribution rate of 2% or above and 64% received an employer contribution of 2% or above. Although this is good news, it still means there is a big proportion of employees contributing the minimum rate. This concern was highlighted in *Hitting The Target*, as many people wrongly assume that the minimum contribution rates are enough to provide them with a good quality of life in retirement. Therefore, we're proposing the development of National Retirement Income Targets to help offer clarity about the costs people will face in retirement and to encourage further saving.

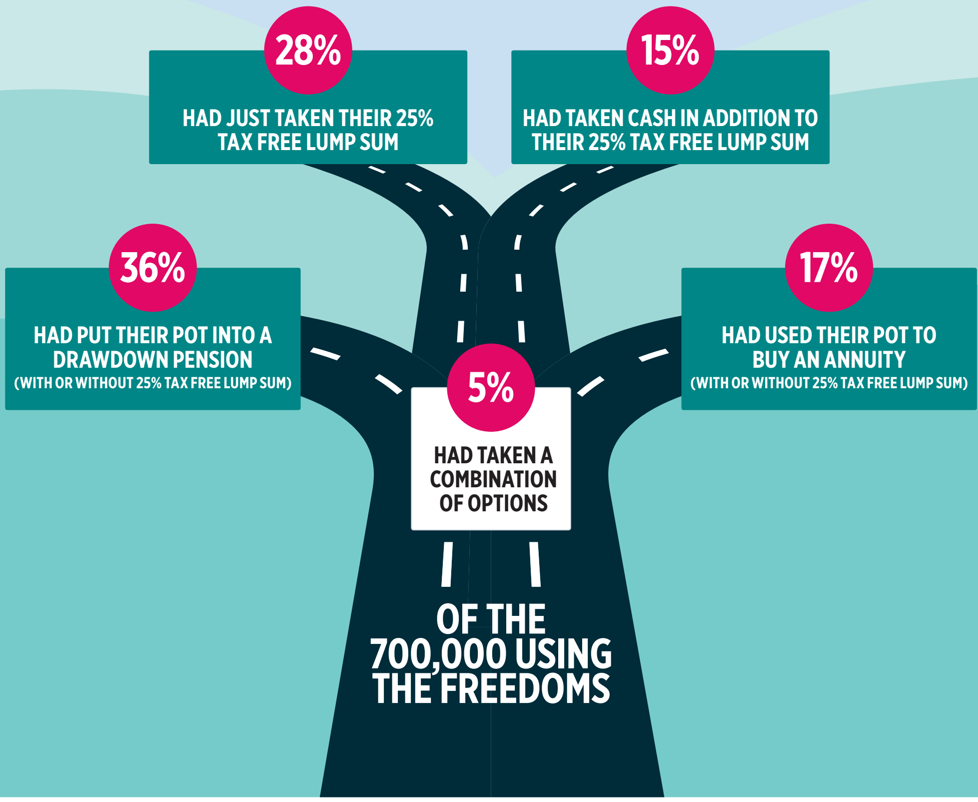
1. DWP, Automatic Enrolment Review 2017: Analytical Report, December 2017. www.gov.uk/government/uploads/system/uploads/attachment_data/file/668657/automatic-enrolment-review-2017-analytical-report.pdf
2. ONS, Occupational Pension Schemes Survey: UK, 2016, September 2017. www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/pensionssavingsandinvestments/bulletins/occupationalpensionschemessurvey/uk2016

DECUMULATION DECISIONS: PENSIONS FREEDOMS JOURNEYS

Pension Freedoms have opened up a new range of possibilities to savers at the point of retirement. Last year, we commissioned research to examine how individuals aged 55-70, with a DC pension pot not yet in payment, accessed their pensions between October 2015 and December 2016. This article presents the findings from our research.

Of the more than 3 million individuals with DC pensions not yet in payment aged 55-70,[3,4] 700,000 had used the freedoms, 2.1 million had investigated their pensions options, and 300,000 had taken no action.

Of those using the freedoms:



Of the 43% of people who had taken cash (either just as a lump sum or in addition to it):

CASH

- 44% saved/invested some and spent some
- 28% saved or invested it all
- 20% spent it all
- 9% did something else

TOP 5 ACTIONS WITH CASH

ACTIONS

- 60% put in a savings account
- 43% spent on home improvements
- 39% bought a one off purchase
- 33% invested in a share ISA
- 27% saved into a cash ISA

Of the 36% who had put their pot into a drawdown:

DRAWDOWN

- 47% intended to draw a regular income
- 53% intended to draw money as and when they need it
- 53% took their drawdown product with a different provider
- 46% said they would be using an Independent Financial Adviser (IFA) to manage their portfolios

And of those 17% who had used their pot to buy an annuity:

ANNUITIES

- 46% bought from their existing provider or scheme
- 24% bought by shopping around on the internet
- 18% bought from an IFA
- 6% bought through an annuity broker
- 6% bought through a service provided by existing employer/provider

The research also examined how individuals came to decisions about how to take their pension in retirement and the sources of advice, guidance and information they used. Typically, individuals only used two sources to help them make their decision about their retirement income:

Some of the issues around decision-making at the decumulation stage are addressed in *Hitting The Target*. In the consultation we propose that the government introduces a new regulatory framework for decumulation to help savers make the most of the new opportunities offered. This new approach will enable trustees and independent governance committees to signpost scheme members to a range of suitable products which will conform to a set of government-mandated principles designed to meet the typical needs of savers.

PENSION PROVIDERS

- 43% contacted their pension provider directly about how to take their pension
- 73% remembered being contacted by their pension provider with a wake up pack

PROFESSIONAL ADVICE

- 32% paid for professional advice
- 76% who had paid for professional advice went to an IFA
- 100% who had used an IFA found them helpful

PENSION WISE

- 22% in total used Pension Wise
- 17% used the Pension Wise website
- 2% emailed a query to Pension Wise
- 2% had a face to face appointment at Pension Wise
- 1% had a telephone appointment with Pension Wise
- 90% of those who had used the Pension Wise service found it helpful

OTHER GUIDANCE AND SUPPORT

- 28% used newspapers
- 24% researched online
- 23% spoke to family and friends
- 16% contacted their employer
- 2% attended retirement seminars
- <5% contacted a voluntary organisation

3. Population estimates are calculated from ONS 2016 mid-year estimates.
4. Please note the number of people using the freedoms, investigating the freedoms and not taking action may aggregate to more than 3 million due to rounding.

If you'd like any more information about the research please contact **Kate.Boulden@plsa.co.uk**

GOVERNING THE PLSA – OUR NEW STRUCTURE

Edward Bogira summarises the member feedback from our governance consultation, and looks at what happens next…

OVER THREE MONTHS FROM OCTOBER TO JANUARY WE CONSULTED YOU ON SOME PROPOSALS FOR CHANGES TO OUR GOVERNANCE STRUCTURE, WHICH WERE MADE POSSIBLE BY THE VOTE TO INTRODUCE NEW ARTICLES OF ASSOCIATION AT LAST YEAR'S AGM. WE SENT OUT OUR CONSULTATION DOCUMENT TO PRIMARY CONTACTS AT THE END OF OCTOBER, UPDATED ALL 9,500 OF YOU IN THESE PAGES AND INCLUDED REGULAR REMINDERS IN POLICYWATCH.

We also spoke to about 80 of you in our Councils and committees, which gave us some views to add to the 11 formal responses we received. It was good to see that the changes we want to make aren't controversial and that members are either supportive or neutral about them.

A NEW BOARD

You support the aim of making the Board less dependent on the Councils for its members, and giving it the right skills to focus on the PLSA's strategy and operations – which are about providing good services to members.

It's clear members want to see separation between the policymaking and 'commercial' work of the PLSA. Some therefore voiced a concern about the Policy Board Chair joining the Board, which is understandable. But our lobbying and policy work is a key activity, and the Board thinks it's important to make sure the interests of members in that respect are a part of the decisions it makes on strategy and resources. The right person for the job will be someone who is capable of representing all parts of our membership and making a contribution at Board level.

PUTTING THE POLICY BOARD IN PLACE

You also support the new Policy Board, though one member was not convinced it could represent all members collectively. That's why getting its composition right is so important, as you recognised. A couple suggested it should be much smaller than we envisaged, which we've considered, but we concluded it wouldn't be possible to achieve broad representation without numbers of 15-20.

Everyone who gave us a view agrees those people should be selected rather than elected. The Policy Board Chair continued to be the subject of debate – a minority said Policy Board members should be selected and then choose their own Chair. That could well work in future, but we think that identifying the Policy Board Chair now will help us to put the arrangements in place.

We also had some helpful suggestions on how we could make the composition of groups sitting beneath the Policy Board much more flexible than our current arrangements, without losing member representation. We'll discuss those with the Policy Board itself.

WHAT HAPPENS NOW?

Putting the new arrangements in place starts right now. Around the time you get this magazine we'll be beginning the search for a Policy Board Chair and consulting members on the Policy Board's Rules (its formal arrangements under our Articles). We're also publishing Terms of Reference and criteria for Policy Board selection – both of these could change further down the line but we want members to have as much information as possible now.

I'll also be getting back to those who responded in writing on the points above as well as the other issues they raised.

So look out for updates from elsewhere, and in a future edition of Viewpoint I hope to introduce you to our first Policy Board Chair. In the meantime, as with any area of our work, we're still keen to hear your views – so please get in touch: openPLSA@plsa.co.uk.

IT WAS GOOD TO SEE THAT THE CHANGES WE WANT TO MAKE AREN'T CONTROVERSIAL

MEMBER NEWS

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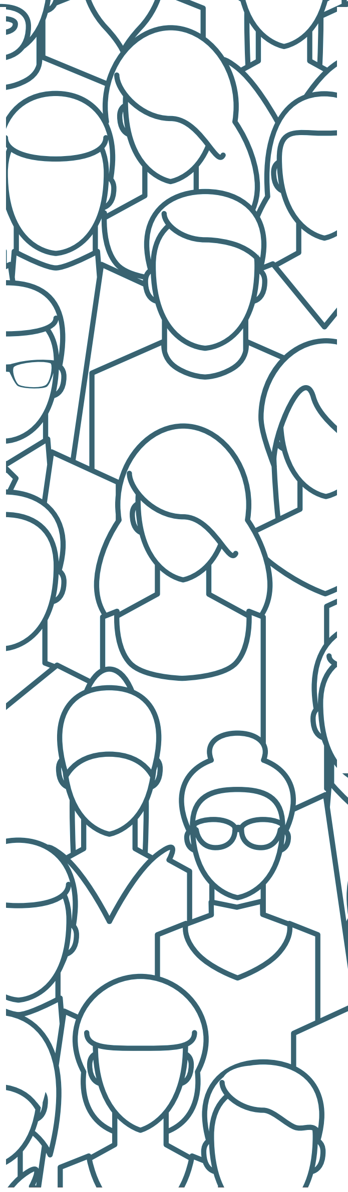

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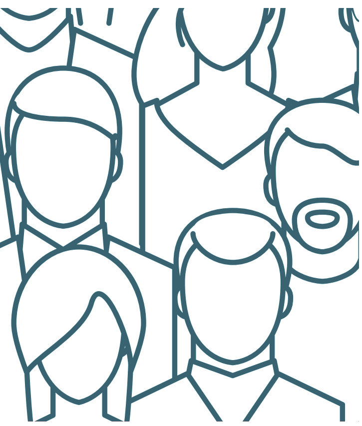


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THOMSON REUTERS
PRACTICAL LAW™ LEGAL UPDATE

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

ON THE PENSIONS LAW HORIZON: WHAT TO EXPECT IN 2018

- **Data protection.** The EU General Data Protection Regulation (*(EU) 2016/679*) (GDPR) comes into effect on 25 May 2018, introducing new obligations on data controllers and processors. In the UK, the current Data Protection Act 1998 will be superseded by a new Data Protection Bill currently passing through Parliament. Pension scheme trustees and administrators should ensure they have reviewed their processes and updated the information they provide to members and others in advance of the 25 May 2018 implementation date.
- **DB White Paper.** The government's White Paper on defined benefit pension reform is expected in early 2018. It's still awaited at time of writing, but scheme consolidation is likely to be a major focus.

  While expectations for significant regulatory reform have lessened in recent months, it's also possible that changes to the Pensions Regulator's powers to intervene in corporate transactions may be announced.
- **Master trusts.** The new regime for regulating master trusts, enacted in the Pension Schemes Act 2017, is likely to be brought fully into force on 1 October 2018. In future, a master trust scheme will only be permitted to operate if it's authorised by the Pensions Regulator. The Regulator will also be responsible for the ongoing supervision of authorised master trusts.
- **Transfer rights.** The government announced plans in August 2017 to restrict individuals' statutory transfer rights in an effort to combat pension scams. The intention is to give trustees and managers greater scope to refuse a transfer where the receiving scheme may be fraudulent. Detailed legislative proposals are awaited, but the measures are expected to be brought into effect alongside the master trust authorisation regime.
- **Cases.** Among notable forthcoming cases, pensions practitioners will look out for:
  - The Supreme Court appeal in *Barnardo's* against the Court of Appeal's decision[1] that the scheme's governing provisions did not permit the trustees to change from RPI to CPI (*hearing expected June 2018*).
  - A High Court claim by female employees of Lloyds Bank seeking clarity on the statutory requirements about guaranteed minimum pension equalisation[2] (*hearing expected June 2018*).
  - The first full hearing by the Upper Tribunal of an anti-avoidance case by the Pensions Regulator, on Box Clever[3] (*hearing expected late January/early February 2018*).

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. *Barnardo's and others v Buckinghamshire and others [2016] EWCA Civ 1064*
2. *Lloyds Banking Group Pensions Trustees Limited v Lloyds Bank plc and others (HC2017001399)*
3. *Granada UK Rental & Retail Limited and others v The Pensions Regulator [2016] UKUT 492 (TCC)*

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

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We run the leading conference for the LGPS bringing together funds and their advisers to discuss and debate the key issues of the day.

Our Local Authority Committee informs our policy work on matters of specific interest to local authority pension funds and to contribute to the work of the DB Council.

We really want to know what issues are most important for your fund, Council and individual working environment. Late last year we managed to see 25 of you in your offices to talk to you about how we are doing as your member association and what you want us to be doing on your behalf. We'll continue our visits in 2018 and will be touch to set up meetings with you.

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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.