Viewpoint

The official journal of the Pensions and Lifetime Savings Association

Issue 1 2019

ALISTAIR DARLING: IS HISTORY REPEATING ITSELF?

INVESTMENT IN INTERESTING TIMES

YOUNG SAVERS SHARE THEIR MONEY WORRIES

ILLIQUIDITY IN DEFINED CONTRIBUTION FUNDS

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

CEO'S *Viewpoint*

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

INSIDE THE PLSA WE HAVE A MAP OF THE UK ON THE WALL SO WE CAN MARK THE PLACES WE'VE BEEN TO MEET OUR MEMBERS SO FAR THIS YEAR. I'VE ENJOYED WATCHING THE ORANGE DOTS SPRING UP ACROSS THE COUNTRY FROM LLANDRINDOD WELLS TO MAIDENHEAD TO NORWICH. I MAKE SURE I'M INVOLVED IN THESE TOO – I'M LOOKING FORWARD TO GOING UP TO ABERDEEN IN MARCH FOR MY NEXT ONE – SO THAT I CAN HEAR FIRST-HAND WHAT YOU'RE WORKING ON AND HOW YOU FEEL ABOUT THE PLSA.

GMP equalisation, ESG, governance, the effect of Brexit on sponsoring employers, admitted bodies and pooling (for our Local Authority members), diversity: there's quite a range of issues on your agendas and we always share feedback and intelligence internally to make sure they're on our agendas too.

Member engagement comes up frequently. Some of you feel you're making progress; others find it a major problem. Speaking to colleagues about this recently in the context of our *Hitting the Target* project, I did say that we have to be careful not to fix this by providing more and more information in the hope that some of it sticks. There is so much great work going on in the Pensions Dashboard, wake-up packs, the simplified annual statement – but too much information under too many different labels could make things worse, not better. That's why it's so important that the PLSA brings the pensions industry, the government and regulators together to find simple solutions that work.

We're doing this at the moment with a group of representative bodies, fintech companies, pensions providers, academics and consultancies, who are taking forward the key recommendation from last year's *Hitting the Target* report – a set of new national retirement income targets. The project is entering an exciting new phase that we'll reveal more about later in the year, and the targets are taking shape. But creating targets and publishing them won't be enough. They have to fit in with all of that other information that's coming the way of savers. It will be a big challenge.

Meanwhile, we've been preparing for the first major milestone of the PLSA year: our Investment Conference up in Edinburgh.

We'll be *Investing on the Brink*, looking at the challenges and opportunities that uncertain financial markets present. We've got a fantastic line-up of speakers, and I'm very pleased that you can read some of their thoughts inside.

I hope to see you there, but if you can't make it, sign up for live web-streaming or catch up on our YouTube channel. And enjoy reading the first edition of *Viewpoint* in 2019. As ever, we'd be happy to hear about how you think we can improve it – get in touch with our team on viewpoint@plsa.co.uk.

IT'S SO IMPORTANT THAT THE PLSA BRINGS THE PENSIONS INDUSTRY, THE GOVERNMENT AND REGULATORS TOGETHER TO FIND SIMPLE SOLUTIONS THAT WORK

Julian Mund

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PENSIONS AND LIFETIME SAVINGS ASSOCIATION

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Viewpoint UPDATE

THE PLSA RESPONDS...

There's no doubt that 2019 is in full swing now, with a wealth of new government consultations emerging over the last two months. The PLSA actively responds to all pensions consultations that are relevant to its members. Just some of the responses we've submitted recently include:

FINANCIAL REPORTING COUNCIL – STEWARDSHIP CODE

Caroline Escott, Policy Lead, Investment and Stewardship:

"It's vital that schemes and their managers work together to be good stewards to protect and enhance the value of people's savings. The UK has long been seen as a global leader on stewardship issues and the Stewardship Code has played a key part in this.

"However, there is room for improvement and we're pleased to see that many of these new proposals are in line with what our members have been calling for. Ensuring the Code clearly explains how the principles apply to asset owners should make it easier for them to make sure their asset managers are undertaking effective stewardship."

PENSIONS DASHBOARDS: WORKING TOGETHER FOR THE CONSUMER

Nigel Peaple, Director of Policy and Research, PLSA:

"We fully support the Pensions Dashboard as a means of helping savers plan their retirement income and we back the government's recommendation that the project should start with a single, non-commercial dashboard, hosted by the Single Financial Guidance Body.

"As the most significant source of retirement income for many savers it's imperative the State Pension is included on the Dashboard from the outset, and the PLSA's Retirement Income Targets, which will help savers understand their saving objective, should also feature."

TOPTWEETS

@tm_sharp
@ThePLSA spot on in calling for pension savers to be offered default pathways when they hit retirement. The stakes are high. "If savers do not receive the help they need when it comes to making decisions at retirement, it could undo a lifetime's worth of saving."

@ThePLSA
We are delighted that Julian Mund, our Chief Executive, is one of the judges for the @ProfPensions Rising Star awards. The awards on March 27th seek to celebrate the emerging talent in pensions – recognising and identifying the sector's future leaders. #PPRisingStar

@cfjescott
Great to hear #icgn2019 panel talk about the hot topics for 2019 shareholder resolutions inc. #climatechange and human capital management – both issues @ThePLSA highlighted in our recent #corpgov policy & voting guidelines!

OUR PICK OF THE BEST HEADLINES

IINVESTORS WARN EXECUTIVES THAT PENSIONS FAIRNESS IS VITAL

Financial Times

Executive pension arrangements could be a flashpoint at company AGMs this year, says Owen Walker in the *Financial Times*. Caroline Escott, the PLSA's head of policy for investment and stewardship, says large discrepancies in pensions between senior leaders and other employees could indicate wider problems in workplace culture.

www.ft.com/content/ec2ef290-ae7a-3ce6-a2df-62313159589e

MONEYBOX – 9 FEBRUARY 2019

Radio 4

Head of Membership Engagement James Walsh joined Paul Lewis on Radio 4's Moneybox to talk about the effect of Brexit on pensions. You can find his interview at 14.10 minutes into the episode.

www.bbc.co.uk/programmes/m0002g4y

SUPERFUNDS: A SAFER PROSPECT FOR SAVERS?

Pensions Expert

Joe Dabrowski, head of DB, LGPS, and standards, explores the Department for Work and Pensions' recent consultation on defined benefit consolidation and what it could mean for members.

www.pensions-expert.com/Comment-Analysis/Superfunds-A-safer-prospect-for-members

PUTTING SAVERS IN THE DRIVING SEAT: GETTING THE PENSIONS DASHBOARD RIGHT

Prospect magazine

Nigel Peaple, PLSA Director of Policy and Research, took part in a roundtable debate hosted by Prospect magazine. The debate explored the role the Pensions Dashboard can play in retirement planning, and what's required to make sure it is a success.

TRUMP'S TRADE WAR: THE NEXT MOVE

A rising stock market is the only thing that President Trump likes better than needling China, says **Nathan Sheets**

WE LOOK FOR THE US AND CHINA TO REACH AN EVENTUAL AGREEMENT ON THE TRADE WAR, MOST LIKELY IN THE SECOND HALF OF 2019, WELL BEFORE THE NOVEMBER 2020 PRESIDENTIAL ELECTION. UNTIL THEN, WITH CHINA FACING ECONOMIC STRESSES AND THE TRUMP ADMINISTRATION INTENT ON SUPPORTING U.S. FINANCIAL MARKETS, BOTH SIDES HAVE INCENTIVES TO NEGOTIATE.

From our perspective, China appears motivated to find a resolution. It did not seek the trade war and has endured a disproportionate share of the adverse effects. China's economy was already slowing as a result of the authorities' de-risking campaign, and the trade war has created further headwinds.

For the US, the confrontation is not just about trade. It's about strategic competition: trade, technology, intellectual property, investment, cyber security, diplomatic standing, and (importantly) military might. The goal is not to block China's rise as a great power, but to slow and shape that rise by using tariffs to gain leverage more broadly.

Below we consider several trade scenarios going forward and the probability each scenario may play out.

1. De-escalation: Deal struck this spring. Negotiations would need to gain traction rapidly, but our sense is it will take more time. The US is unlikely to accept a narrow agreement in which China merely promises to buy more US natural gas and agricultural products. Deciding how to enforce the agreement also will take time. Plus, we doubt Trump will give up tariff leverage so soon. (15% probability)

2. De-escalation Lite: Deal struck in summer or fall. Discussions are generally constructive, with occasional US threats, but the markets are increasingly relaxed. Deal includes steps forward on trade balance, intellectual property, and other issues, with reasonable enforcement mechanisms. Example: the US commits to not impose further tariffs on China and to unwind existing tariffs as China implements the agreement.[1] (45% probability)

3. Protraction: Negotiations with no resolution. Lacking clear political direction, negotiations become long and protracted. Inevitably, tough choices must be made, and this requires political guidance. (10% probability)

4. Escalation: Negotiations collapse and US expands tariffs. Trump may surprise again. Should market performance improve, there is still time to go through another cycle of intensification and negotiation before the November 2020 election. Alternatively, China's offers may fall short of US expectations, which could prompt Trump to apply more pressure. We believe that the risks to the US economy and markets, and further adverse effects on Chinese growth, make this approach unattractive. (30% probability)

WE SEE A TRADE WAR RESOLUTION IN THE NEXT 12 MONTHS, WHICH SHOULD BE CONSTRUCTIVE FOR RISK ASSETS

Apart from Trump's moves on China, we also worry about a 'proliferation' scenario in which the US hikes auto tariffs as an additional front. Given the composition of US auto imports, these tariffs would fall most heavily on Europe and Japan. (20% probability)

In sum, we see a trade war resolution in the next 12 months, which should be constructive for risk assets. As we move into the 2020 election cycle, providing support for the financial markets and economy will be an important objective for Trump as he gears up for a re-election campaign.

Even so, risks abound. First, escalating tariffs may create risk-off headwinds globally. Second, no deal with China is likely to fully resolve concerns about the way it conducts business. Third, if re-elected, Trump could be back with another trade war.

Finally, with the US having deployed these trade policy tools, other countries may follow suit in the future. This, in turn, would undermine the openness and integration that have characterized the global economy over the past few decades.

For more details, see '*The Outlook for the Trade War*' white paper at PGIMFixedIncome.com.

Nathan Sheets is Chief Economist and Head of Macroeconomic Research at PGIM Fixed Income. He will be speaking at the PLSA Investment Conference on Wednesday 6 March.

1. Another variation is that tariffs are removed, but re-imposed if China was judged as not implementing the agreement

INVESTMENT CONFERENCE: ON THE BRINK

A MERE 13 DAYS FROM THE UK'S SCHEDULED EXIT FROM THE EUROPEAN UNION, THE PLSA'S INVESTMENT CONFERENCE THEME – INVESTING ON THE BRINK – COULDN'T BE MORE APPROPRIATE.

But Brexit isn't the only challenge that will be on delegates' minds. Everything from international trade disputes to climate change is affecting the investment landscape at present.

Through all the uncertainty trustees, consultants and asset managers must still balance up the risks and returns in their portfolio and make the best possible decisions on behalf of their members. However, amongst the current turmoil, determining exactly what those risks are and where to find suitable returns requires close scrutiny.

Over the course of three days, our Investment Conference will pull together insights from speakers with unique perspectives on the challenges ahead. From former Chancellor of the Exchequer Alistair Darling to Misha Glenny, author of *McMafia*, our keynote presenters will dissect what is happening around the globe in many different ways.

In addition to our keynote speakers, there will be four streams of focused presentations for delegates to choose from. Here's just some examples of what we'll be covering in each stream:

- Asset allocation – covering strategic themes and tactical opportunities; building successful infrastructure partnerships; and how different types of asset can be used within a portfolio.
- Investment and governance – ways to implement and measure impact investment; the Cost Transparency Initiative and what it means for schemes; and the environmental, social and governance considerations of different nations.
- Defined benefit – charting a course to secure members' benefits; how to keep investment on track through difficult times; and investment strategies as schemes approach their end point.
- Defined contribution – passive versus active investment for DC schemes; current best practice options in default design; and private markets investing for DC schemes.

The PLSA's conferences are also a great opportunity to network, both with our team and with other delegates. We want to make sure that we know what our members are thinking and what their priorities are for the year ahead. Please come and visit us for our #OpenPLSA sessions and let us know your views. The policy team will be available to discuss many different topics, including defined benefit funding regime and superfunds work, as well as our work on standards including the Pensions Quality Mark and the new Cost Transparency Initiative. And, of course, for those who prefer to network at speed, we'll be hosting our traditional 5k run on the morning of the second day.

Session in focus:

Sleepless in CIO-land

What's keeping CIOs awake at night?

Three chief investment officers give the audience exclusive insights into what's worrying them in the current investment climate and how they are dealing with those concerns.

Speakers:

Daniel Booth
Chief Investment Officer, Border to Coast Partnership

Jo Holden
UK Chief Investment Officer, Mercer

Roelof Salomons
Chief Strategist, Kempen Capital

Hot topic:

The risk landscape

Pension funds' investments are subject to an ever-broadening set of risk factors, discussed in a series of keynote presentations and panel debates at the Conference.

Panel debate: Under-the-radar risks

Pension schemes are facing a new set of risks when it comes to managing members' money. Whether it's antimicrobial resistance, bribery, corruption, tax planning, slavery or single-use plastics, trustees, their advisers and asset managers need to be aware of and mitigate the risks. In this session, Rachel Brothwood, Director of Pensions, West Midlands Pension Fund, chairs a panel of asset managers and representatives from pension schemes who will explore these emerging risks in depth.

Speakers:

Jeremy Coller
Chief Investment Officer & Chair, Coller Capital

Carlota Garcia-Manas
Senior Investment Stewardship Analyst, Church Commissioners for England

Carola van Lamoen
Head of Active Ownership, Robeco

Thursday 7th March 10.15

Keynote speech:

What can the Russian mob teach us about investment?

If you want to know more about the effect of organised crime, cybersecurity and geopolitical risk in a post-Brexit world, journalist and author of *McMafia*, Misha Glenny, is joining us for a keynote speech.

Thursday 7th March, 17.00

Keynote speech:

An inconvenient asset

Every pension scheme needs to be aware of the risks posed by climate change. Jane Ambachtsheer, Global Head of Sustainability, BNP Paribas Asset Management, explores what schemes, investment managers and consultants must do now to mitigate the potential financial risk.

Thursday 7th March 11.45

INVESTMENT CONFERENCE: ON THE BRINK

Session in focus:

Magic Numbers – using data to predict human behaviour

From actuarial tables to communications based on demographics, the pensions industry is driven by data. As the use of digital advice increases and the Pensions Dashboard begins to take shape, the effect of data on both schemes and individual members is becoming ever more significant. Dr Hannah Fry is Associate Professor in the Mathematics of Cities at the Centre for Advanced Spatial Analysis at UCL and a well-established commentator on data, featuring in many TV programmes, including *Climate Change by Numbers* and *The Joy of Data*. She is also the author of *Hello World – how to be Human in the Age of the Machine*.

In this session, Hannah will be focusing her gaze on ways that the pensions industry can use data to predict the behaviour of its members – and how that can contribute to better retirement prospects.

Friday 8th March, 9.30am

Speaker spotlight:

Alistair Darling

The former Chancellor of the Exchequer tells Viewpoint about the parallels between the current economic environment and that of the 2008 financial crisis.

"The financial crisis of 2008 was the result of people taking on huge risks they didn't understand and couldn't control. As the sheer scale of the problem became clear, confidence vanished as the world's banking system came within hours of collapse.

"The circumstances today are different. The risks are mainly political, very visible and mostly avoidable. Brexit, whatever transpires, will be a second-best solution. Its effects will be felt for years.

"The spectre of trade wars and the growth of a narrower nationalistic and protectionist world view should worry us. And of course whereas international cooperation was key to avoiding a complete meltdown ten years ago, today that could not be relied upon. We were warned what can happen in 2008. We're still living with its political and economic consequences."

Friday 8th March 11.40am

IN FOCUS:
TRUSTEE LEARNING ZONE

INVESTMENT IS A CENTRAL PART OF ANY TRUSTEE'S SCHEME DUTIES, AND THERE ARE MANY SESSIONS IN OUR MAIN CONFERENCE PROGRAMME THAT WILL BE RELEVANT TO ANY TRUSTEE INVOLVED IN INVESTMENT DECISION-MAKING.

To help support trustees even further, our Trustee Learning Zone presents education-focused sessions specifically tailored to trustees' needs and focus. It takes place on the morning of Wednesday 6th March, before the main Conference programme starts. This gives trustees the opportunity to network with likeminded colleagues and attend learning events in a relaxed and focused environment.

HIGHLIGHTS INCLUDE:

Climate Change Impact Case Study – energy and transportation sector

As climate change becomes ever more essential to trustees' investment decision-making, they must understand the scope of the challenge within their portfolio. Transportation and energy are both key sectors for investors – however, both are controversial when it comes to sustainable energy transition.

David Czuprvna, SRI Portfolio Manager at Candriam Investors, will guide trustees through some of the factors they must consider when addressing climate change in their portfolio.

Planning for the endgame: helping trustees navigate their options and responsibilities

As more trustees of defined benefit schemes start to turn their attention to determining an end point for their scheme, they must navigate through a wealth of different options. This panel debate, hosted by Travers Smith, explores the choices that trustees face, how they can determine which path is right for their scheme and the legal responsibilities that they must keep in mind.

Susie Daykin
Partner, Travers Smith

Peter Hughes
Partner, Travers Smith

Sebastian Reger
Partner, Travers Smith

MIMOSA, CHOCOLATE AND INTERNATIONAL WOMEN'S DAY

The PLSA champions diversity, addressing it at conferences and beyond. **Caroline Escott** reports

HERE'S A QUESTION FOR YOU: WHAT UNITES RUSSIA, SIERRA LEONE, MONGOLIA, ZAMBIA AND – VERY RECENTLY – BERLIN (BUT NO OTHER GERMAN STATE)? FULL MARKS FOR THOSE OF YOU WHO GUESSED IT: THEY ALL CELEBRATE INTERNATIONAL WOMEN'S DAY (IWD) ON 8 MARCH WITH A PUBLIC HOLIDAY.

In 2019, 8 March will also be the last day of the PLSA's Investment Conference in Edinburgh and, while we cannot offer attendees a public holiday or gifts of mimosa and chocolate (which is how the Italians and Albanians choose to celebrate the day), we will be marking IWD in our own way.

On the Friday of the Conference, the PLSA will be running a series of videos highlighting the recent developments on gender equality and diversity in the pensions industry, while conference attendees will be able to participate in a number of sessions on diversity throughout the investment chain.

First up will be a panel of experts from across the financial services industry discussing whether the City's culture and approach to diversity has significantly, and fundamentally, changed in the 10 years since the financial crisis. There will also be a session to give schemes some practical tips and techniques for holding their asset managers and investee companies to account on corporate governance issues – including gender diversity – in the 2019 AGM season. And for those who feel like some reading on the train journey or flight home, we will be launching our new workforce disclosure report, which examines how well FTSE 100 companies are doing when talking about and measuring their workforce composition, diversity, skills and engagement.

STEPPING UP OUR WORK

But diversity (gender, ethnic, neuro- or otherwise) shouldn't just be something that the industry forgets as soon as we unpack our bags. It matters as much for the pensions industry itself as it does the performance of the companies that schemes invest in, or the quality of the service provided by schemes' advisers and asset managers. Yet the average trustee board is 80% male, with 3% of trustees under 40, a median age of 55 and with 78% of trustees having been educated at degree-level in business or management – so there's some way still to go.

WE'VE BEEN TRYING TO RAISE AWARENESS AND CHANGE THE INDUSTRY'S CULTURE AND APPROACH

This is why the PLSA has been stepping up its own work on diversity, beyond marking IWD at Conference. Building upon our 2017 *Breaking the Mirror Image* campaign, we've been trying to raise awareness and change the industry's culture and approach. Because we know it's important for an industry trade association to seek to embody best practice, last year the PLSA signed up to HM Treasury's Women in Finance Charter, publicly committing to a 50% 'equality' target of women on our senior management team; a target we are proud to have achieved not only at this level, but also on our Policy Board – our most senior policy governance body.

We've also been lending our voice and support to the growing number of fantastic industry initiatives in this space. You'll have heard from many of these organisations in previous editions of *Viewpoint:* they include NextGenNow (which seeks to promote and encourage younger pensions professionals), The Diversity Project (which is trying to modernise the full length of the investment industry), and the Young Pensions Trustees Network (which brings together both potential and actual younger trustees to share experiences and tips).

2019 will continue to see the PLSA ramp up its efforts on the diversity and modernisation agenda, and we hope that by marking IWD at our popular Investment Conference we'll spark some interesting conversations and shed a bit more light on this issue. And, of course, should attendees feel so inclined, I feel certain that any offers of celebratory mimosa flowers and chocolate would not go amiss.

THE AVERAGE TRUSTEE BOARD IS:

80%	>	03%	>	55	>	78%
MALE		OF TRUSTEES UNDER 40		A MEDIAN AGE		HAVE BEEN EDUCATED AT DEGREE-LEVEL

10 WAYS TO GET THE MOST FROM YOUR PLSA MEMBERSHIP

The Pensions and Lifetime Savings Association (PLSA) represents more than 1,300 pension schemes, including defined benefit, defined contribution, master trusts and local government funds. In addition, we have over 400 business members providing essential services and advice to UK pension schemes.

Being a member of the PLSA – either as a pension fund or as a business – opens up a wealth of opportunities to get involved with our policy work, learn from the expertise of other members and share your own knowledge. Here are just 10 ways to make the most of your PLSA membership.

01 Stay up to date

Our PolicyWatch email bulletin, sent fortnightly to all PLSA members, keeps you up to date with the latest political and regulatory developments that affect pension schemes.
Made Simple Guides give practical information on key pensions topics. They are available from our website and are free for members. In 2018, the subjects we covered included impact investing (in association with Hermes), master trusts (in association with HSBC Global Asset Management) and cost transparency (in association with KAS Bank). We are always looking to partner with our business members to create new guides. If you have expertise you want to share with the pensions community, get in touch with our commercial team.

02 Build your network

Our Annual Conference, held in October each year, is the perfect opportunity for all the pensions industry to network, share knowledge, and support each other as members. We have a top-quality programme every year featuring topical speakers from pensions and the wider business community.

03

Broaden your knowledge

We run teach-ins, webinars, education partnerships and other learning opportunities throughout the year. These are a great way of sharing knowledge and best practice with our fund members. Many of these are free for PLSA members, so you can take advantage of as many learning opportunities as you need.

04

Get involved

The PLSA is at the forefront of developing good governance for pension schemes. Our Policy Board shapes and decides on our public policy positions. Being a part of its committees and reference groups is a great way to make sure your voice is heard. Visit the website to find out how you can get involved.

05

Build the future

Through work such as our 2018 *Hitting the Target* research, we want to understand and help to shape the future of pensions and lifetime savings. We want to involve as many members as we can in our research, and make sure that the resulting reports are available to as wide an audience as possible.

06

Share specialist interests

We also run three additional conferences each year focused on particular groups of members. Our Investment Conference, in March, is purely based around investment themes. The Local Authority Conference, in May, focuses on the needs of our local authority scheme members. Finally, our Trustee Conference, held in December, gives both member-nominated and independent trustees the chance to network and discuss issues of specific importance to them. The Annual and Investment Conferences are both free to attend for fund members.

07

Get local

We have members across the UK and run local member groups where you can network and stay up to date both with the latest pensions thinking and the PLSA's activities. Find out on our website if there is a group near you (and if there isn't, whether you could set one up!).

08

Use our resources

The PLSA's website has a well-stocked document library that details our responses to government consultations, reports on our Board meetings and our research work. It's a great resource for finding out more about how our policy work is progressing and what current government consultations could mean for your fund or business.

09

Go international

However Brexit develops, EU and international regulations will continue to have a major impact on UK pension schemes and financial services providers. We work closely with policy-makers in the European Commission and European Insurance and Occupational Pensions Authority (EIOPA). The PLSA is also a member of PensionsEurope, the Europe-wide federation of national pensions associations. This makes sure that the voice of our members is heard beyond the UK and that we play a part in forming international pensions policy that will affect our members. If you want to know more about our international work, visit the website.

10

Get accredited

The Pension Quality Mark is the PLSA's long-standing kitemark of good defined contribution scheme governance. Members can apply for PQM and PQM-Plus accreditation for their own scheme and also use our free resources, such as the *Good Communications Guide*, to raise standards.

There are plenty of ways to stay up to date with what we are working on. We update our website with blog posts reporting on policy work and other projects. You can also follow us on Twitter at **@ThePLSA** and on LinkedIn, as well as subscribing to our YouTube channel. Plus, of course, you can read and download the latest issue of Viewpoint from our website at **www.plsa.co.uk**.

PENSIONS AND
LIFETIME SAVINGS
ASSOCIATION

KEY MEMBER BENEFIT: POLICYWATCH

PolicyWatch is an e-bulletin of the latest pensions news, political and regulatory development.

Our team provide a synopsis of everything you need to know in a convenient enewsletter format.

Sent every other Friday, this is a key member benefit, if you haven't been receiving your copy, please email **openPLSA@plsa.co.uk** with your name, company and email address.

openPLSA@plsa.co.uk

MEET THE BOARD:

In the first of a new series, **Maggie Williams** talks to PLSA Board member **Alison Hatcher** about what inspires her in her current work – and her 'pensions wish' for the future

Q

CAN YOU TELL US ABOUT YOUR CURRENT ROLE AND BACKGROUND IN PENSIONS?

A

I work for HSBC Global Asset Management, I am Global Head of Pensions within our Client Strategy Team – quite a long job title, I know! In essence I help our pension clients globally meet their objectives or solve problems. It is a fascinating job that brings together policy and market insights with structuring, innovation and solutions – all within a global forum.

I have worked within HSBC for nearly eight years, always with pension clients, before which I worked within investment organisations selling solutions to institutional clients. I have a Masters in International Banking and Finance, which helped me understand my passion for investments and started me on a path to explore more and more about pensions specifically, leading me to where I am today in a very well rounded role.

Q

WHAT ARE YOUR 'PERSONAL PASSIONS' WHEN IT COMES TO PENSIONS AND LIFETIME SAVINGS?

A

What excites me is that pensions and retirement savings is such a broad subject that incorporates wealth, health, policy, tax, communications, investments, legal, digital, macro and political issues to name a few. This is all within a market that is so transitional, incorporating generational differences and the segmentation of individual needs.

It is a real-life problem where we can actively help individuals. Pensions therefore is mentally challenging and also satisfies a desire to make a difference where it matters the most.

Q

WHAT DO YOU FIND MOST INSPIRING ABOUT YOUR WORK ON THE PLSA BOARD?

A

Pensions are the largest pot of wealth in the world and collectively we can make a difference. With this knowledge comes responsibility to represent and help individuals to achieve their retirement goals. The work that the PLSA undertakes is therefore so important, to bring together this power and help the industry make the changes needed; to educate, support and drive the pensions and retirement savings industry. Being a part of the change, influencing how to find the solution or simply learning from the wealth of expertise that the PLSA has exposure to inspires me and provides me with a high level of job satisfaction.

Q

IF YOU WERE GIVEN ONE WISH FOR PENSIONS AND LIFETIME SAVINGS TODAY, WHAT WOULD IT BE?

A

My wish would be to consider all generational needs, as they are very different. We are building for the future (millennials), we have given freedoms to those retiring, but what of those in the middle? More needs to be done for this 'lost generation' who were too late for auto-enrolment to really make a difference, missed out on the asset bubble and now have other draws on their finances. There is simply not enough time to create the wealth they need. As an industry I think we can solve retirement issues by working collectively with government and the Treasury to find simple solutions that possibly are interim measures but can make big differences in lives.

PROPERTY OUTLOOK

Julian Agnew, Chief Investment Officer, UK, LaSalle

DESPITE A SLOWDOWN IN THE MONTHS UP TO THE BREXIT DEADLINE, THE UK MARKET WILL SHRUG OFF BREXIT UNCERTAINTY AND WILL CONTINUE TO OFFER OPPORTUNITIES FOR INVESTORS: THIS IS THE VIEW OF LASALLE INVESTMENT MANAGEMENT, WHICH HAS £12 BILLION OF ASSETS UNDER MANAGEMENT FROM THE UK. JULIAN AGNEW, LASALLE'S CHIEF INVESTMENT OFFICER FOR THE UK, OFFERS HIS VIEWS ON THE OUTLOOK FOR THE PROPERTY MARKET.

TO WHAT EXTENT WILL THE UK REAL ESTATE MARKET BE AFFECTED BY BREXIT?

After the referendum, the biggest fear that we had was not about investor demand, but that the occupier market would be unable to make a decision on their future need for space given the political uncertainty. It seems Brexit is having far less impact on the occupier market than anyone originally envisioned. Our office developments in Paris, Amsterdam and Frankfurt have so far seen very little demand from UK companies looking for significant amounts of space. The leakage has been, and I expect will continue to be, far smaller than forecast. A lot of occupiers and investors are seeing through this uncertainty and just getting on with making long term decisions.

WHERE DO YOU SEE OPPORTUNITIES IN THE ALTERNATIVE SECTORS?

LaSalle has always been at the forefront of the alternative sectors, whether that is assisted living, student health or residential. We entered the student housing sector very early on in the cycle, but I would be warier now, partly because of Brexit but also partly because of the outlook on the demographics of the future student population in the UK. For some UK cities, student housing is less compelling now, so as a rule it will pay to be more selective. The opposite applies to health, which has very favourable demographics both now and going forward, although it is quite a fragmented sector. Over the next five or ten years, healthcare will be one of the fastest growing areas for property investment, creating plenty of opportunities. We believe that whoever cracks scale in the healthcare sector will have some very happy clients.

WHAT IS THE OUTLOOK FOR RESIDENTIAL IN THE UK?

We are at a very early stage with residential in the UK. Compared to US investors where multi-family accounts for just under 25% of investment by institutions, the UK's exposure by institutional investors is very small. Many investors want to access residential as it is a very compelling sector based on supply and demand over the long term. Operators are learning lessons about how to design it, how to run it and which amenities are needed.

WHERE ARE THE BEST OPPORTUNITIES IN THE UK TO BE FOUND?

We believe that these are found in selective areas of Central London – including the City and Southwark - areas with good transport connections and infrastructure but more importantly where progressive local authorities have significantly improved these areas by introducing multiple uses bringing real vibrancy to these areas. These areas should significantly outperform other areas of Central London. Outside of London, we remain positive on major city centres and smaller markets where strong human capital is evident. These are driven more by enduring, structural issues than medium-term cycles. This applies to most sectors, although we are wary of Retail in the short term - unless the very best assets are repriced significantly and offer a way back in to a troubled sector.

WHERE ARE WE IN THE CYCLE?

We were probably at the end of a cycle before we had the vote to leave the EU. Returns and rents had certainly been slowing in the office sector. In offices, in certain areas of London we are seeing a lack of supply keeping rents strong for the very best buildings. I don't see any sharp downturn in the demand for real estate for prime cities or prime locations. Therefore apart from maybe a wobble in the run up to Brexit we don't envisage any sharp movements in prime property yields. As for interest rates, they would have to move up significantly before they had a meaningful effect on the real estate market.

WILL THERE EVER BE AN INCREASE IN THE REAL ASSET INVESTMENT FROM DC SCHEMES?

I believe that there will be an increase if the Schemes can soften their requirements for daily liquidity and pricing updates. The overall growth in DC Schemes is being driven by the introduction of auto-enrolment, educating members about the benefits of holding long-term investments is therefore a key hurdle to be overcome. It has been

WE WERE PROBABLY AT THE END OF A CYCLE BEFORE WE HAD THE VOTE TO LEAVE THE EU. RETURNS AND RENTS HAD CERTAINLY BEEN SLOWING IN THE OFFICE SECTOR

suggested that DC schemes could triple their assets over the next ten years. In this context, it is encouraging to see the Government's recent consultation on greater consideration of illiquid assets in occupational DC schemes.

HOW IS THE ROLE OF PROPERTY CHANGING WITHIN DB SCHEMES?

The role of property within DB portfolios is changing as schemes start to focus on de-risking. This sees them starting to switch fromneeding return-seeking assets to those that can match their liabilities. Property can have an important role to play in these de-risking efforts. For instance, de-risking can provide the opportunity to recycle return-seeking assets into matching assets, saving the relatively high round-trip costs associated with buying and selling property. However, there are also risks that need to be managed in that process, and where you are in the cycle has a part to play. It also raises questions such as who will be the buyer of DB return-seeking assets. It could be DC Schemes if some of the liquidity hurdles can be addressed. People have always been attracted to property for the income and we do not see this changing. There are a lot more overseas buyers now in the UK market, attracted by the transparency of the UK market, landlord-friendly leases and market liquidity, and this is likely to increase as the fundamentals of the sector remain strong, despite Brexit. London remains one of the key global gateway cities and a key component of most global real estate strategies.

CORPORATE GOVERNANCE AND VOTING GUIDELINES

Caroline Escott, introduces the new editions of two popular PLSA publications

THE ANNUAL GENERAL MEETING (AGM) SEASON OFFERS PENSION SCHEMES AND THEIR ASSET MANAGERS MORE THAN JUST AN OPPORTUNITY TO READ EYE-CATCHING HEADLINES ABOUT THE LATEST CORPORATE SCANDALS. IT ALSO PROVIDES INVESTORS WITH THE CHANCE TO HOLD COMPANY BOARDS TO ACCOUNT FOR THEIR DECISIONS AND ACTIONS OVER THE PREVIOUS YEAR. WITH MILLIONS OF INDIVIDUALS' RETIREMENT SAVINGS RELIANT ON THE LONG-TERM SUCCESS OF UK FIRMS, IT IS IMPORTANT THAT SCHEMES WORK WITH THEIR ADVISERS AND MANAGERS TO SUPPORT A UK PLC WHICH OPERATES EFFECTIVELY, SUCCESSFULLY, TRANSPARENTLY AND WITH AN EYE TO THE INTERESTS OF ALL STAKEHOLDERS.

Although we would expect investors to be working throughout the year to speak to the companies they invest in about the issues they – and scheme members – care about, such as executive pay, climate change and effective leadership, judicious use of your vote on company resolutions at AGMs should be a key part of investors' stewardship toolkits. This is why the PLSA has for many years published its annual AGM Review and Corporate Governance Policy and Voting Guidelines – it is among our most popular member guides.

This year's AGM Review (published this January) looks back at the 2018 voting season, highlighting emerging themes and issues of interest to scheme investors and their managers. Our research, which used data from Minerva Analytics, showed that the number of resolutions attracting 'significant' dissent (more than 20% of votes either abstaining or against a resolution) increased by 26.4% over the previous year. Key areas of investor concern in 2018 remained executive remuneration – where the number of votes attracting significant dissent nearly tripled from 2017 levels – and director 'over-boarding' (when investors feel a director sits on too many boards to be effective). There were also key developments in voting on how well companies are adapting to and mitigating climate risk, and the quality of a company's audit.

Our 2019 Corporate Governance Policy and Voting Guidelines were published at the same time as the Review. They build upon its findings as well as the 2018 changes to the UK Corporate Governance Code to provide a practical, resolution-by-resolution guide for pension funds and their asset managers to consider when deciding whether to oppose or support typical AGM resolutions. This year's Guidelines also examine, for the first time, the changing policy framework which provides important context for investors.

In an era where cases like Carillion and BHS have shone a light not only on the challenges facing the defined benefit sector when a company fails, but also on the capacity of investors to spot and challenge poor behaviour, policymakers are keener than ever that schemes act as good stewards of their assets. So 2019 brings with it new responsibilities for schemes in this respect: the Department for Work and Pensions recently amended the *Occupational Pension Scheme Investment Regulations (2005)* to require schemes to set out, in their Statement of Investment Principles, their policy regarding how they undertake stewardship including engagement and voting. Defined contribution schemes will also have to publish from 2020 an 'implementation report' for their default strategy. The Financial Reporting Council will also be updating its Stewardship Code this year, with a new version likely to include an enhanced focus on the ownership responsibilities of asset owners.

Pension schemes are well placed to undertake long-term stewardship of savers' assets, exercising their ownership responsibilities carefully and in a way which encourages stronger corporate governance and behaviour. Although voting at an AGM is only one way for investors to ensure their voices are heard, we hope that our AGM Review and Voting Guidelines provide a useful framework for members in considering how they wield their influence in a way that grows and protects the value of the individuals' savings in their care.

JUDICIOUS USE OF YOUR VOTE ON COMPANY RESOLUTIONS AT AGMS SHOULD BE A KEY PART OF INVESTORS' STEWARDSHIP TOOLKITS

Russell Investments

TIME TO SHARPEN YOUR PENCIL

Paul Wharton, Director, Fiduciary Management, EMEA, Russell Investments explains the latest developments in the fiduciary management market

WHERE ARE WE NOW?

The Competition & Markets Authority (CMA) posted their final report into the investment consulting and fiduciary management sector in mid-December 2018. We believe the combination of proposed 'remedies' should undoubtedly lead to better outcomes for pension scheme trustees and their members – the most important result.

Perhaps predictably, the final package gave all fiduciary management market participants something to cling to, but also left many wanting just a little bit more.

It was ultimately unlikely that the large three consultants were ever going to be forced to explicitly split their fiduciary management arms from their advisory businesses. Many are now questioning whether the remedies could have gone further to manage those 'very obvious' conflicts of interest, in relation to converting advisory clients to fiduciary management clients. These conflicts were a significant part of the genesis of the CMA review, and they appear to have been left largely unaddressed. Perhaps they will be picked up by the FCA as part of the CMA's referral back to them, to consider their mandate and oversight reach.

Although the final report has been published, there are a few more steps before any recommendations are ultimately enforced.

- The CMA will produce a draft Order which codifies the remedies.
- This draft Order will go to consultation, albeit for a relatively short period, expected to conclude in June 2019.
- With this consultation complete, and on the assumption that nothing new is raised to make the CMA rethink their proposed remedies, the final Order is expected to be issued by the end of 2019.
- Most of the final remedies will eventually come into force six months post publication of the final Order.

Further, and again based on the current proposals, there is a two-year grace period for any trustee groups having to carry out retrospective action. So theoretically, retrospective action will not be required until mid-2022. However, does that mean action should not be taken now?

NOW IS THE TIME FOR ACTION

We speak to many groups of trustees about the benefits that a fiduciary management approach might offer. Over the last year or so, many of these groups have understandably been interested in learning more, but have decided to postpone any further action until the CMA's investigation is complete.

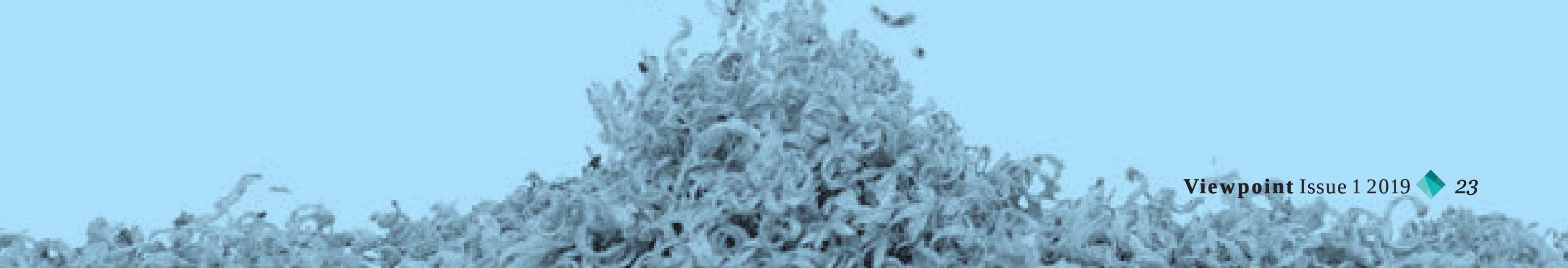
Until now, it's been hard to argue against this pause given the uncertainty of the CMA review. But at this stage it is very unlikely that the CMA remedies will change in any meaningful way. They were based on very detailed consultations with industry participants and are therefore well-informed proposals. This final consultation of the draft Order is therefore seen by many as a finessing of the final report, with no material changes expected.

Where trustees are introducing fiduciary management for the first time, particularly based on the expectation it will improve your investment outcome – a very important reason for selecting fiduciary management – then every day of delay means you are accepting a sub-optimal approach.

If you already have a fiduciary manager, you may well need to re-tender if you didn't originally. Again, why delay? The grace period proposed is for convenience, but if nothing else you should expect your existing provider to sharpen their pencil, as the result of a re-tender exercise – why not lock into fee reductions as soon as possible? (You may even find some very interesting approaches to fiduciary management offered by other parties to consider.)

Finally, even if you carried out an open market tender at outset, which ticks the CMA box, why not consider re-testing the market? The fiduciary management industry in the UK has matured phenomenally quickly; offerings have developed, and fees have compressed. Either could represent a step forward for your pension scheme. If nothing else, simply contacting a couple of alternative providers to obtain a fee comparison is a worthwhile exercise.

It is your fiduciary duty to satisfy yourself you are getting the right service and value for money, but this can only be done with the benefit of market testing. Trustees should act now and take immediate advantage of opportunities to get better value for money.



TOMORROW'S SAVERS TODAY

The next generation of savers are now joining the workforce. Maggie Williams asked three **18-24-year-olds** about their views on money, and how pensions and lifetime savings fit into their list of priorities

Q

PLSA: WHAT KEEPS YOU AWAKE AT NIGHT MONEY-WISE, AND WHY?

Ellie Pool (EP):

I currently live alone, although I'm moving back in with my parents in a couple of weeks – but money, in general, keeps me awake. After going from living with someone to living alone, I've been put under a lot of financial pressure which has meant I've had to use my savings in ways I wouldn't have ideally wanted to, such as paying bills.

I've spent many nights lying worrying about how much money I currently have, upcoming payments I have to make and how that will leave my savings accounts looking. I also worry about how I will put my savings back that I have had to spend.

Georgia Rose (GR):

The cost of living seems to be increasing more and more over the years and it's worrying. Nowadays the majority of my generation can't afford to buy a car, let alone a house for security in the future; and it's worrying that I won't be able to provide that security to my children if I was to ever start a family. Cars are now financed, and most properties are now to let because the cost of getting a mortgage is ridiculous. We should have a good quality of life, not constantly worrying about the cost of things.

Tom Taylor (TT):

I got quite lucky in that my rent isn't too extortionate compared to my salary, but a lot of my mates worry about that. I mainly worry that I spend far too much money on eating/going out – it's very easy to spend too much when you've got a contactless card and had a few drinks – and commuting, which is insanely expensive in London.

The main thing people are talking about at the moment money-wise is a credit rating. A few of my friends have recently got credit cards to 'boost their credit rating', and I recently applied for one but was rejected as I didn't have enough credit history. The whole concept of credit seems quite alien to me and it's worrying being rejected for applying when you've never had debt.

THE MEDIAN WEEKLY EARNINGS FOR AN

18

YEAR-OLD

IS £345 FOR A MAN AND £324 FOR A WOMAN

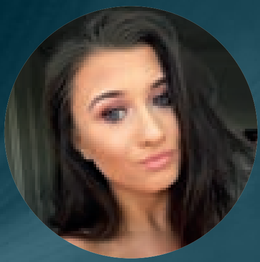
(source: ONS)

NUMBER OF

18-24

YEAR-OLDS IN THE UK: 5.5 MILLION

(source: ONS, 2018)



Ellie Pool
Content writer and blogger
lifewithellie.co.uk

Georgia Rose
Digital Marketing Assistant
Law Firm

Tom Taylor
Cabinet Officer
Local Council

Q

WHAT DO YOU THINK ABOUT SAVING FOR RETIREMENT? HAVE YOU GOT ANY PLANS IN PLACE FOR HOW YOU'LL SAVE OVER TIME?

EP:

I think it's important to save for the future from a young age, and I currently have a workplace pension to contribute towards this. I also try to save monthly to ensure I always have money behind me.

GR:

Luckily, as part of my employment I'm already paying into my retirement, however my plans are to keep putting money into a separate savings account each month so I can build it up for my future, and I continue to do this each month.

TT:

In terms of saving, I try to save a bit of my monthly wage in a savings account, but I haven't really got any long-term saving plans. It's quite difficult to look long term when there's lots of pressures on your current salary. Probably incorrectly, I think of saving for retirement as something I'll do later in life.

Q

WHO HAS HAD THE MOST INFLUENCE ON THE WAY THAT YOU THINK ABOUT MONEY AND MANAGE IT? FOR EXAMPLE, DID YOU LEARN ABOUT FINANCES AT SCHOOL, OR HAVE EXPERIENCES FROM FAMILY MEMBERS?

EP:

There was no education on finances at my school, so I've had to learn from family members. I'm lucky to have a number of family members who take finances seriously and have plans in place for their own future. My grandparents set up savings accounts with me from a young age to teach me the importance of putting money away, which I think is why I'm still such a committed saver.

My mum also used to work in the financial industry in a bank, so she has a great understanding of different financial products I will encounter in my life such as savings accounts, mortgages, different debit and credit accounts. She's a really reliable source of information on finances, helping me to make the best decisions.

81%

OF 18-24-YEAR-OLDS SAY THAT FINANCIAL WORRIES HAVE AFFECTED THEIR BEHAVIOUR – MORE THAN ANY OTHER AGE GROUP

(source: DNA of Financial Wellbeing 2018, Neyber)

GR:

My parents have the most influence on me, and have always encouraged me to think about my future, because life isn't cheap. I also have a huge influence on myself, I don't want to be paying rent on a property, I want to be investing the money I work hard for into a property I can call my own, so I have that security in the future and have something to be proud of. A home should feel like a home, not someone else's.

TT:

Definitely my mum. She was always very good with her money and shaped the way I see it. She always told me that I should look to save where I can and be careful with my money, while still doing the things I enjoy.

In terms of school, we really learnt very little about finances and it would have been useful to cover it. Of course there are a lot of pressures on schools to fit everything into the curriculum, but I suspect a lot of people my age (including myself) feel a bit useless when it comes to things like ISAs, credit cards and pensions etc.

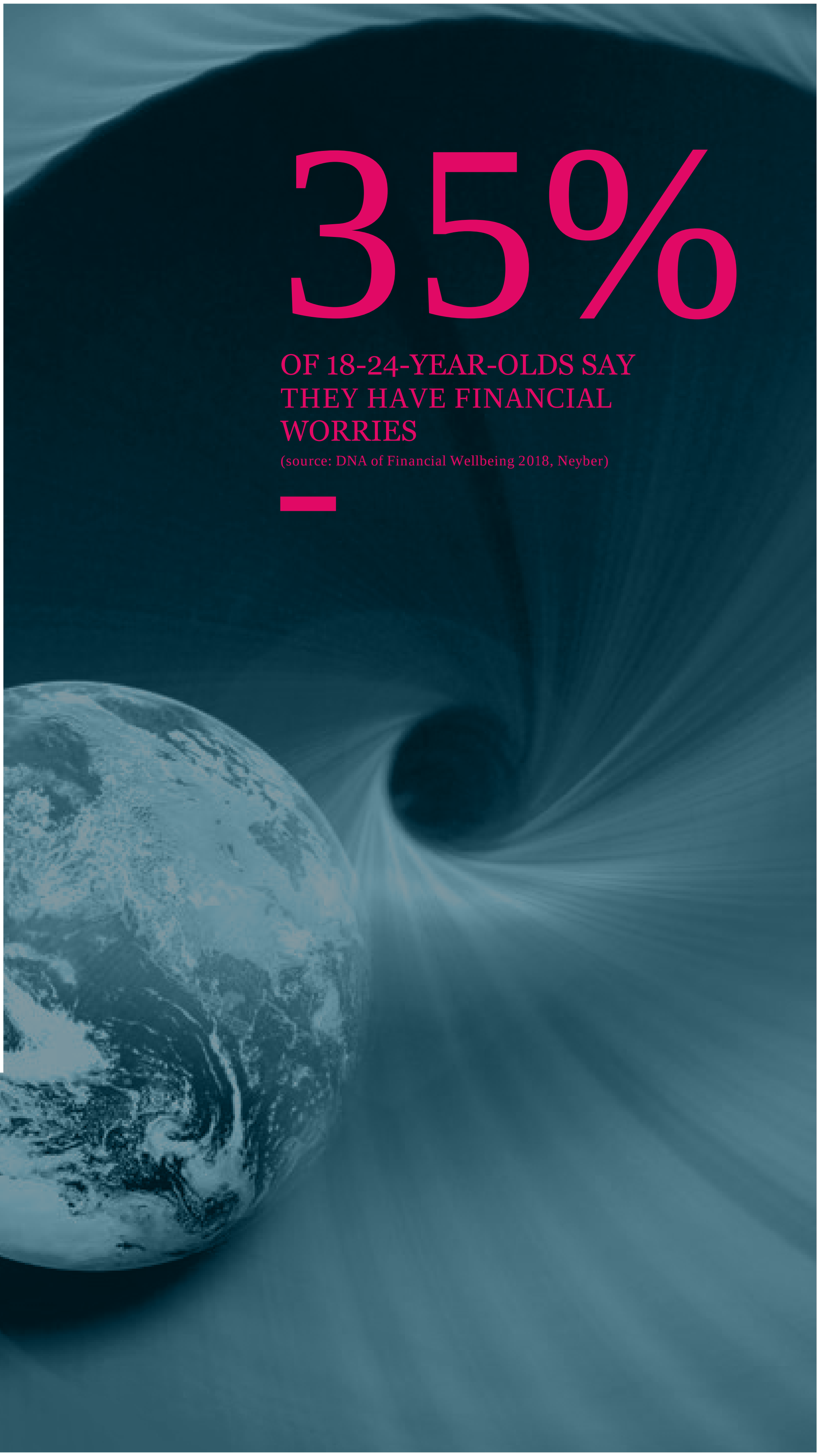
continued overleaf

WHAT SINGLE THING WOULD MAKE THE BIGGEST DIFFERENCE TO YOUR FINANCES RIGHT NOW?

EP: I work full-time, and of course a pay rise would make a massive difference to my financial situation, allowing me to put more money away each month. However, I have made the decision to move home as opposed to living alone in a bid to save money. This was a decision I thought long and hard about and my decision to move back with my parents was largely due to my financial situation – living with family as opposed to independently will help me save more each month.

GR: Winning the lottery – and also modifying my spending habits. I bought a budget planner for £2.50 from Wilko, and it has really helped me budget my money and made me realise how much I could save a month if I was to cut down on unnecessary spending.

TT: I think finding a new way to get to work. I spend about £14 a day on trains, when my work commute is probably doable by bike – I'm trying to psyche myself up to do this when the weather is nicer! Apart from that, I could spend less on meals out and remember to make my own lunch more often. I recently got a Monzo card which has certainly helped me realise where and how I'm spending my money.



PZENA Investment Management

WHY VALUE INVESTING WORKS IN EMERGING MARKETS

Allison Fisch, Pzena Investment Management

AGAINST A DECADE-LONG ANTI-VALUE BIAS, GLOBAL EQUITIES HAVE FAVORED HIGH-FLYING GROWTH STOCKS. BUT THE SELLOFF AT THE END OF 2018, WHICH HAPPENED EARLIER AND WAS MORE PRONOUNCED IN EMERGING MARKETS, REFLECTED INVESTORS' INCREASING RISK AVERSION AND A COOLING PREFERENCE TOWARD GROWTH SHARES. HIGHER BETA EMERGING MARKETS ENDURE MORE FREQUENT BOUTS OF VOLATILITY BUT OFFER AMPLIFIED RETURN POTENTIAL FOR VALUE INVESTORS:

1) It's psychology:

Investors tend to exaggerate the significance of near-term problems and discount the potential for business, industry, or management improvements over time. The emotional response is more pronounced in emerging markets, adding to valuation dispersions that offer opportunities when deeper discounts are ascribed to out-of-favor companies.

2) It's about earnings power:

Despite a lack of empirical evidence, investors often conflate GDP growth with higher equity returns. When growth-seeking investors don't achieve the quick gains they're looking for, their reaction to disappointment can be amplified. Healthy, sustainable businesses should be based on competitive positioning, industry dynamics, and managements' ability to generate earnings.

3) The style is underexploited:

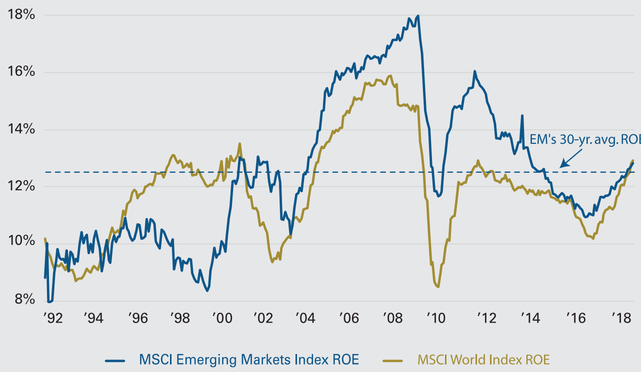
Most investment managers tend to favor macroeconomic or quantitative approaches to emerging markets, leading to crowded trades and wider market swings. There are few managers with an unwavering commitment to value investing.

VALUATIONS ARE LOWER, BUT PROFITABILITY IS ON PAR WITH DEVELOPED MARKETS

The events last year demonstrate why emerging markets are a fantastic hunting ground for value investors. In 2018, these markets fell harder and faster (-14.2%) than developed (-8.7%). A notable portion of the losses came from investors' shifting preference from growth stocks toward capital preservation. After the run-up in global technology stocks, the MSCI Emerging Markets Index became highly concentrated. (The top-five positions composed nearly 20% of the index.) Based on MSCI growth and value index results, an allocation to growth would have led to losses of 18.0%, while value shares would have fallen by a less painful 10.4%. According to MSCI, value ended the year trading at a remarkable 60% discount to growth, while the broad Emerging Markets Index already traded at a 22% discount to the World Index. When valuations reach such extremes, it's often a sign that investors expect the worst, and bad news is already priced into the market.

Based on return on equity (ROE), companies in emerging markets are more profitable than they were before the recent correction and remain on par with their developed market counterparts. After enduring broad swings in the past, ROEs have stabilized, reflecting better growth prospects, improved fundamentals, and greater competitive positioning than in the past.

Figure 1: Return on Equity (ROE) Is Slightly Higher in Emerging than in Developed Markets



Source: MSCI, Sanford C. Bernstein & Co., Pzena analysis

Past performance is not indicative of future returns

PENSION FUNDS MAY CONSIDER VALUE INVESTING IN EMERGING MARKETS AS A PRUDENT APPROACH TO THESE HIGHER BETA MARKETS

VALUE STOCKS HAVE BEATEN THE BROAD MARKETS OVER TIME:

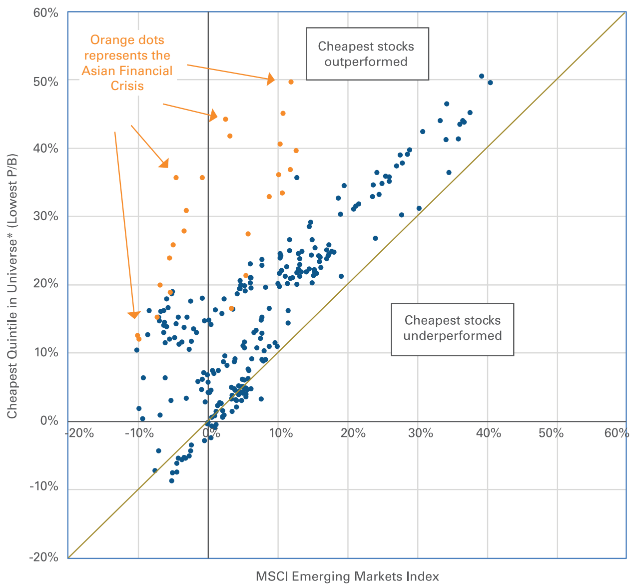
Picking from the cheapest stocks within an investment universe, we rely on detailed research to distinguish companies facing near-term distress that's reparable from those that may subject investors to the permanent impairment of capital. While poor short-term earnings visibility can continue to weigh on these companies' stock prices, the longer the holding period, the greater the prospect of earnings improvement and subsequent returns for a stock.

Over five-year rolling periods, classic value stocks (the cheapest 20% of shares in the universe) beat the MSCI Emerging Markets Index 85% of the time, resulting in absolute, average annual outperformance of 9.8%. Because pension funds are concerned about downside protection, we compared results going back to 1997 to see what happened when the emerging-market index posted negative returns over 5-year rolling periods. On an absolute basis, the cheapest stocks outperformed the broad index by an average of 14.0%, annually. But what about more extreme scenarios? In Figure 2, the orange dots represent monthly (5-year rolling) returns for the Asian Financial Crisis, sparked by the Thai baht devaluation in July 1997. During this period, the most undervalued stocks (displayed on the y-axis) beat the broad index (on the x-axis) by an absolute 28.4% on average. This illustration demonstrates what our data has shown more broadly – following extreme periods of market stress, classic value stocks tend to outperform by a wide margin.

IN DOWN MARKETS, THE CHEAPEST STOCKS' AGGREGATE, ANNUAL OUTPERFORMANCE OVER THE BROAD INDEX WAS

14%

Figure 2: Classic Value Stocks Outperform by a Wide Margin over Time



Source: MSCI, Sanford C. Bernstein & Co., Pzena analysis
Returns are measured on a 5-year rolling basis between December 1996 - December 2018. Does not represent any specific Pzena product or service. **Cheapest Quintile of Universe* is based on the price-to-book values of the approximately 1,100 of the largest companies in emerging markets on an equal-weighted basis.

Past performance is not indicative of future returns.

THE BOTTOM LINE:

The treacherous fourth quarter marked a painful end to 2018 for global equities. The selloff in growth stocks ensued after a rolling chorus of negative headlines surrounding tariffs, protectionism, and political instability unsettled investors throughout the year. Emerging markets were disproportionately hurt by these forces. Because investors are more prone to respond emotionally to events in the emerging world, value is a prudent way to invest in these dynamic markets. This measured approach to stock picking offers downside protection and more positively skewed outcomes over time.

CHANGING OUR ENGAGEMENT APPROACH TO ENCOURAGE MORE TRUSTEES TO DO THE RIGHT THING

Fiona Frobisher, Head of Policy at The Pensions Regulator, describes a proactive strategy

AS A REGULATOR, WE DRIVE COMPLIANCE TO MAKE WORKPLACE PENSIONS WORK, WHETHER THAT IS ENSURING THAT EMPLOYERS ARE ENROLLING STAFF INTO A PENSION SCHEME, TRUSTEES ARE MEETING THE STANDARDS LAID OUT IN LAW, OR DEFINED BENEFIT SCHEMES ARE PROPERLY FUNDED.

We reconsider our approach to engaging and regulating pension schemes to ensure these standards are met, as the challenges we face change.

In the autumn we launched an entirely new approach to how we regulate. This includes one-to-one supervision on a risk-based basis with targeted schemes across the industry.

It's about building closer and better relationships with schemes, so that together we can spot problems sooner and act before we need to consider the use of our more stringent powers. We'll be regularly interacting, outlining our expectations clearly – and, if it becomes necessary, intervening more quickly. It is not about a more punitive approach, one where enforcement is the catalyst for our involvement.

In the initial phase of supervision, we'll be testing different regulatory approaches. Schemes will experience different levels of scrutiny depending upon the risks we have identified in the particular scheme or segment of the pensions landscape. A group of DB, DC and public service pension schemes have been selected for this phase, based on a range of criteria including size, risk and intelligence.

As well as one-to-one supervision, we are also using higher volume supervision approaches to deliver positive results.

For example, we have been engaging earlier with pension schemes about specific issues to encourage trustees to do the right thing sooner. Both discussions and interventions from our case teams have led to trustees tightening up their procedures, to the benefit of their members.

This more proactive approach was highlighted in one of our recent Compliance and Enforcement Bulletins, which are published quarterly. The work led to 91% of DC schemes submitting their scheme returns on time in 2017 – an increase from 81% a year earlier. Overall, more than 99% of the total membership of DC schemes is in schemes that submitted returns on time.

The bulletin also showed that the decision to move to swifter enforcement action against trustees that submit late recovery plans, and to make them aware of the penalties they could receive, has led to fewer delays.

This shows how our clearer, quicker and tougher approach is having a positive impact. We're being clearer with trustees about what they have to do and moving quickly to take action if they don't do it.

We've worked hard to make our expectations clear to our regulated community. However, there remain a significant number of trustees, mostly among small and micro DB and DC schemes, who do not engage and do not understand what's expected of them.

Findings from our research show, for example, that some trustees wrongly thought standards set out in our 21st century trustee campaign didn't apply to them. Other research has shown some trustees are failing to access information we send to them, believing it is not aimed at them. These trustees show high levels of disengagement with regulatory requirements.

Some trustees, mostly of small and micro DB and DC schemes, are failing to successfully carry out basic governance, for example completing value for member assessments. This is a concern for us, as poor governance may lead to less optimal outcomes for pension scheme members. Where trustees are very disengaged there's only so much an educational communications programme can achieve in improving scheme governance.

We will not tolerate poor standards of governance and we want the number of poorly run schemes to decrease. Trustees, particularly those running small schemes and struggling to meet the standards of governance which we expect, should ask themselves if they are doing the best thing for their members.

Driving up standards of governance and administration continues to be a priority for us: as part of this we'll be encouraging trustees to consider if winding up and transferring members into a better run scheme, such as an authorised master trust, will provide their members with a better retirement.

IT'S ABOUT BUILDING CLOSER AND BETTER RELATIONSHIPS WITH SCHEMES TO SPOT PROBLEMS SOONER


M&G INSTITUTIONAL
IT TAKES
IM&GINATION
TO GO FURTHER TO
FIND VALUE
We understand that meeting your long-term requirements means working closely with you to find investment solutions for your specific needs – targeting the right blend of risk and return through an active value management approach that generates performance for investors.
The value of investments will fluctuate, which will cause fund prices to fall as well as rise and you may not get back the original amount you invested. Past performance is not a guide to future performance.
www.mandg.com/institutions

IT'S TIME TO TALK ABOUT TRUST

PLSA Chair **Richard Butcher's** main focus for 2019 is building trust in pensions

PEOPLE DON'T TRUST YOU AND ME. WHY? BECAUSE WE'RE INVOLVED IN PENSIONS.

When people hear the word 'pensions' they think about a confusing set of often unreliable numbers that apply to a retirement they can't imagine (can you imagine yours?). They remember the corporate scandal that left pension scheme members high and dry, there's anxiety about care costs and concern that the government of the future will tax their savings dry and either scrap the state pension or at least move the age they can get it to a point that makes them wonder if they'll ever be able to retire.

And pensions are part of 'money', which means the financial system. The stock market suffered its biggest fall in a decade during 2018 and house prices fell at their fastest rate for six years.

None of this is new. Anyone who got their first job in the last 10 years has mostly known political uncertainty and only known economic uncertainty caused by the financial crisis.

People don't trust us. But I know we do great things. We're involved in the governance, investment, administration and management of people's financial futures.

We make sure people are saving for their retirement: automatic enrolment is the most significant socially positive project in a generation. We make sure people get their money in retirement, paying billions of pounds to millions of people every year.

THERE REMAINS A GULF BETWEEN THE WORK WE DO AND THE WAY IT'S SEEN BY THOSE WE DO IT FOR

And we're always looking for ways to improve: the Cost Transparency Initiative is designed to make the cost of investing clearer; we're making concerted efforts to improve the information available to savers through the simpler annual statement and the pensions dashboard; and the PLSA's Retirement Income Targets – our major policy project of 2019 – will help them understand what their retirement lifestyle will look like and how they can change it.

But it's not enough. There remains a gulf between the work we do and the way it's seen by those we do it for. So in 2019 I want to have a conversation about trust. At our Annual Conference & Exhibition last October, I talked about understanding the perspectives of savers. How do they see pensions? How can we engage and excite them? How can we protect them (and ourselves) in an uncertain environment?

That started the debate. Now it's time to ask some deeper questions: what is trust? Why is trust important? A simple answer could be that if people trust pensions, they might save more, which would mean better retirement incomes for all. How can we generate trust? What are the regulatory interventions (or non-interventions), the legislative changes, and the changes we need to make to our mindsets and behaviours?

My office wall is covered with post-its about these themes. And at the PLSA we're building our ideas on them into the policy work I mentioned above. They're what I'll be talking about this year. And they're what I hope to be listening to the pension industry about as I meet you at PLSA and other events.

We're involved in pensions. And that means, when it comes to building trust with our customers, the buck stops with us. Let's work harder to reconnect with savers, be open and honest with them, see the world through their eyes and understand the pressures and demands on them. Let's trust them and help begin to rebuild their trust in us.

WE'RE INVOLVED IN THE GOVERNANCE, INVESTMENT, ADMINISTRATION AND MANAGEMENT OF PEOPLE'S FINANCIAL FUTURES

GET YOUR ASSETS IN GEAR

Use of illiquid assets in DC schemes has been limited to date, but could we now start to see more engagement both from schemes and fund managers in this area? **Sara Benwell** reports

IF YOU ASK SOMEONE WHO WORKS IN THE PENSIONS INDUSTRY WHY DC SCHEMES DON'T INVEST IN ILLIQUID ASSETS, YOU'LL TEND TO GET ONE OF TWO ANSWERS. YOU'LL EITHER BE TOLD THAT THESE ASSET CLASSES ARE TOO EXPENSIVE, OR THAT THE LACK OF DAILY TRADING MEANS THAT DC FUNDS CAN'T INVEST.

But now the UK government is consulting to make patient capital investment easier for DC schemes, the largest master trust – NEST – has started searching for private credit managers, and it seems the industry has changed its mind about DC and illiquid investments.

In many ways, this is unsurprising. Illiquidity premium can be valuable, particularly when yields from other asset classes remain relatively low. And DC pension schemes are long-term investment vehicles, both in terms of the outlook of individual savers, but also when it comes to the collective pot.

Stuart Fiertz, co-founder of Cheyne Capital, says: "With real yields remaining low and asset owners needing to meet return objectives, there is a growing acceptance that illiquid investments may be the key to capturing both higher and more stable returns than are generally available in the public markets. Asset consultants, whether driven by investor demand or through their own identification of the investment's merits, have begun to take a much more supportive approach."

ILLIQUID INTEREST

This shift does raise a question though. If the regulatory environment hasn't changed, why are we suddenly seeing increased interest in illiquid investing?

One answer might be that DC schemes have been dealing with a lot of change recently, and they've had other priorities.

Alistair Byrne, head of pensions and retirement savings strategy EMEA at SSGA, comments: "[Illiquid investing] often gets pushed down the agenda by the many other things that need to be done – auto-enrolment, freedom and choice, transaction costs etc.

"With a period of regulatory stability, trustees can begin to focus on steps that will improve the default investment portfolio."

Another key factor is that until recently, most DC schemes haven't had the scale required to embark on an illiquids journey.

Nico Aspinall, chief investment officer for The People's Pension, says: "Illiquid assets are an acknowledged part of the investment universe currently missing in action from DC. They have a number of attractive features that we believe would help member outcomes, but overall costs and daily valuations can be a barrier to pension funds going down that route.

"In the long term we'll be looking at this, but currently our thinking is around how scale can be used to overcome the barriers."

IN THE WORLD OF AUTO ENROLMENT AND MASTER TRUSTS WHEN 99% OF MEMBERS ARE IN DEFAULTS AND SWITCHING IS LOW, THE REAL NEED FOR LIQUIDITY IS VIRTUALLY NIL

Capitalising on scale is one reason that NEST has been able to pursue illiquid investment strategies in recent years; looking at real estate debt, infrastructure and private credit to name a few.

Stephen O'Neill, ***Head of Private Markets and Investment Proposition at NEST, agrees that cost is one of the main barriers the master trust has had to overcome.***

Part of the problem, he argues, is that there are still plenty of DB schemes desperate to close their funding gaps and insurers who need matching assets for Solvency II, so they are willing to pay huge fees for illiquidity premia.

But more progressive managers can see the benefits of dealing with DC.

He comments: "One of the tools at our disposal is scale. [We can say to managers] cut your margins razor thin and get a slice of a massive and growing pie. We're asking them to shift their paradigms on pricing."

DAILY TRADING

The other challenge is daily trading. There are three concerns here. The first is whether schemes need to trade daily, the second is whether there is a regulatory requirement for liquidity, and the third is the operational risks involved.

WITH A PERIOD OF REGULATORY STABILITY, TRUSTEES CAN BEGIN TO FOCUS ON STEPS THAT WILL IMPROVE THE DEFAULT INVESTMENT PORTFOLIO

The first concern has largely been debunked. A combination of positive cashflows and ‘freedom and choice’ has meant that most DC schemes do not need to move huge tranches of money quickly.

O’Neill explains: “In the world of auto-enrolment and master trusts when 99% of members are in defaults and switching is low, the real need for liquidity is virtually nil… As one cohort retires we don’t actually need to sell any underlying assets because of the huge streams of money coming in.”

Michael Walsh, Senior Strategist, UBS Asset Management, adds: “Up to the advent of pensions freedom, most plans assumed a fixed retirement date, where the participant would be likely to purchase an annuity and/or take a cash lump sum. Clearly, both of these elements required a portfolio of liquid assets.

“With a greater range of flexibility now available in terms of withdrawals, this need for liquidity close to, and at, retirement is reduced.”

It seems clear that the need for daily trading is less of a barrier than might previously have been thought, but there are still some operational restraints.

Many DC schemes use highly automated trading procedures which require daily pricing. DC schemes who wish to invest directly in illiquids will need to have a rethink, and there are operational risks involved with this.

James Monk, head of DC investment at Aon, says: “With the majority of the DC market investing through a life insurer/pension provider, the introduction of illiquid assets to these platforms would simply have introduced too much operational risk. This is still the case, but the visibility of the illiquid asset issue is becoming more prominent as the DC market starts to catch up to DB in size.

“The key challenge we all have is to apply this pressure to DC pension providers to start improving the investment sophistication of their trading capabilities and internal investment strategies.”

Another possible barrier comes from permitted links regulations. For insurance-based DC schemes, there is certainly a lack of clarity around what is and isn’t allowed.

FUTURE STRUCTURES

Fortunately, the government is keen to promote pension scheme investments, particularly in infrastructure and patient capital.

Monk adds: “If the Treasury’s consultation to amend these rules with additional clarity is passed, this would remove the debate and we would know what assets can be and cannot be linked to DC providers.

“This would remove a regulatory barrier for providers, enabling consultants, trusts and IGCs to apply more pressure to providers to explore the issues with their trading operations and obligations to policyholders/members.”

While larger schemes may have the scale to invest in illiquid assets directly, the sort of investment is also accessible through default funds held with asset managers and insurance companies.

Monk says: “Managers of platform default solutions that multiple schemes are using as a default strategy (i.e. master trusts, platform defaults for contract-based solutions, and target dated funds from asset managers) will have the most reliable contributions and be the most cashflow positive.”

Walsh adds: “Investment managers are also increasingly aware of the interest from DC investors and are looking to establish DC-friendly structures for alternative assets, often including both liquid and less liquid assets in a single wrapper.”

Byrne concludes: “Property, infrastructure, private equity and private debt are all in scope. The very largest schemes may want separate allocations to each, others will want a fund which provides diversified exposure to a number of these asset classes. Cost constraints and liquidity requirements mean that allocations will remain fairly limited, perhaps 10% or 20% at most.”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COST TRANSPARENCY INITIATIVE UPDATE

Joe Dabrowski reports on encouraging progress with the CTI

IN THE LATE 1990S THE PHRASE "SHOW ME THE MONEY!" WAS POPULARISED IN THE FILM JERRY MAGUIRE, AND FIRMLY ATTACHED ITSELF TO THE PUBLIC CONSCIOUSNESS. THE SENTIMENT, IF NOT FOR THE SAME PURPOSE, HAS MORE RECENTLY BEEN PICKED UP BY FINANCIAL REGULATORS KEEN TO UNDERSTAND WHETHER THE FINANCIAL SERVICES AND PENSIONS INDUSTRY IS WORKING EFFECTIVELY AND EFFICIENTLY ON BEHALF OF SAVERS.

Over the last 18 months, we've seen the introduction of MiFiD II, the Financial Conduct Authority (FCA) carry out an extensive market study of the asset management industry, and the Competition and Markets Authority investigate the provision of investment management services, alongside new requirements on DC schemes to report their costs.

These, and other initiatives, have very often been asked whether institutional investors are in a position to drive effective competition and are able to get value for money from the services they receive.

Many remedies and talking points have emerged, but a unifying element has been greater transparency, common performance reporting, and assessing both data and costs.

One consequence, following the FCA market study, was the creation of the Institutional Disclosure Working Group (IDWG) which was tasked in the autumn of 2017 with developing standardised cost disclosure templates for institutional investors. Its final report, in June 2018, delivered that across five templates (user, account, private equity, physical assets and custody) and made a number of further recommendations, including the need to establish a successor body.

In November we were delighted to announce that we had, in partnership with the Investment Association and the LGPS Advisory Board, established the Cost Transparency Initiative to take forward the work. Its objectives include:

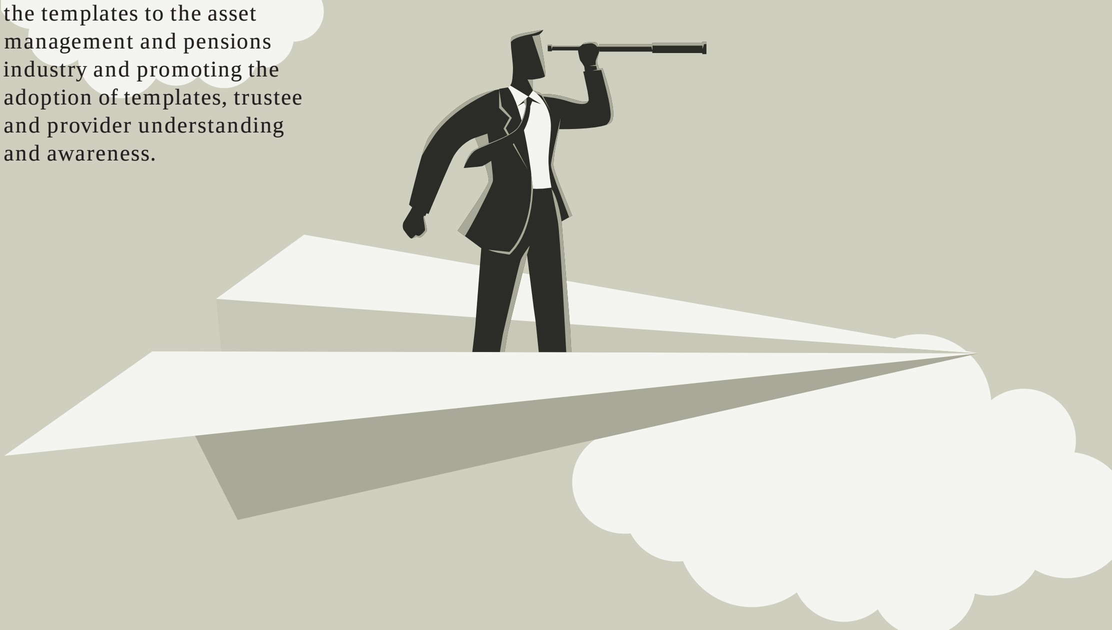
- Providing a clear voice for the interests of asset owners as we improve cost transparency
- Developing a framework for the industry standards, and common technical and communications guidelines
- Rolling out, and updating, the templates to the asset management and pensions industry and promoting the adoption of templates, trustee and provider understanding and awareness.

To develop the framework for delivery and to represent the voices of investors, providers, regulators and savers, we've established a Board, chaired by Mel Duffield (USS, PLSA Policy Board) and including a wide array of industry representatives. We have ambitious targets to test and update the templates and technical guidance for 'roll-out' this Spring.

As part of that work we're running a pilot, until March, with a number of schemes, providers and intermediaries to make sure that when the industry starts to fully utilise the templates they – and any supporting materials – are fully fit for purpose.

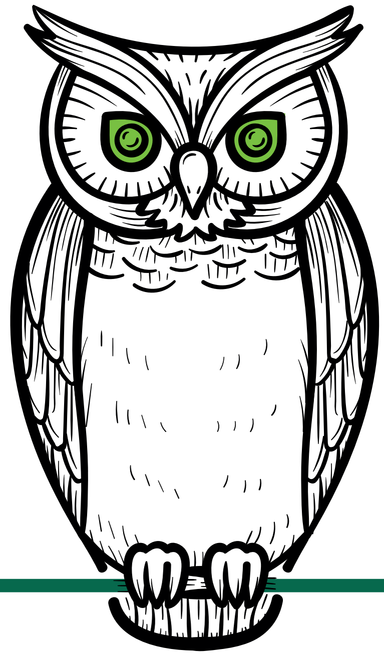
Over time we expect to establish a periodic review cycle to enable the Cost Transparency Initiative to develop new templates or adapt the existing ones to reflect user experiences.

This is of course only the beginning of the journey and the discussion around cost transparency. For schemes, their providers and intermediaries there will need to be greater education, as well as increased familiarity with the templates and how and what to do with the data that emerges. And cost by itself is not especially informative: instead we'll need to ask "Show me the value for money!"



KAS BANK

UK PENSION FUNDS GET WISE ON COSTS



By **Pat Sharman**,
UK Managing Director, KAS BANK

FOR MANY YEARS, THE TRUE COST OF RUNNING A UK PENSION FUND WAS AT BEST OPAQUE; AT WORST, IT WAS SOMETIMES COMPLETELY MYSTIFYING. INDEED, EVEN HIGHLY EXPERIENCED TRUSTEES WERE OFTEN LEFT SCRATCHING THEIR HEADS, TRYING TO WORK OUT HOW MUCH THEY WERE PAYING AND FOR WHAT.

But this state of affairs is changing – and changing for the better.

When KAS BANK conducted a survey of the Dutch defined benefit pension fund market last year, the results came as a pleasant surprise. Dutch pension funds have been legally required to report on their costs since 2015. When we compared the average costs of our own Dutch pension fund clients, from 2015 to 2017, we found that costs per member had fallen by 19%.

The biggest fall was in the area of investment costs, where the average cost per pension scheme fell by 18% in the three-year period – and this was largely attributed to lower transaction and performance costs. This was partly due to greater transparency, but it could also have been the result of cost pressures on fees and managers' inability to beat their performance benchmarks that year. Whatever the cause, it marks a step in the right direction. The Dutch pension experience highlights the benefits of implementing a comprehensive cost reporting framework that can improve the operational efficiency of the market, with a 25% reduction in transaction costs in the three years of legislation.

The Netherlands still holds the bulk of its assets in defined benefit schemes with a mere 6% of assets in defined contribution schemes. The UK, conversely, has 19% of assets in defined contribution schemes and this area continues to grow rapidly. Some independent UK commentators have identified this as a possible problem area, since very few DC schemes currently have the tools to determine what costs they're paying.

25%

REDUCTION IN TRANSACTION COSTS IN THE THREE YEARS IN LEGISLATION

When we introduced a comprehensive reporting framework for our own DC scheme, we discovered that 23% of our costs related to transaction costs. By asking our investment managers some tough questions, to ensure that transactions were carefully balanced when it came to portfolio turnover, we were able to have tighter control and a better understanding of our transaction costs.

My colleague, Claire Linane, Chair of the Trustees at KAS Bank, observed that "despite working within the pensions industry, identifying and analysing all the costs associated with our scheme was a daunting task. The first challenge was to identify all the costs, obtain the required information from all the associated parties and then analyse them to understand if they represented good value for members."

She added that she would not have been able to carry out a cost-benefit analysis without engaging with a Cost Transparency expert to collect all the data, challenge stakeholders on what was provided and analyse and present findings in such a way as to promote discussion amongst the Trustee Board.

In November, the Financial Conduct Authority published the final report and cost disclosure templates of the Institutional Disclosure Working Group (IDWG). In conjunction with the PLSA, the Investment Association and the Local Government Pension Scheme Advisory Board launched theCost Transparency Initiative (CTI) to take forward the work of the IDWG. A pilot phase for the templates is due to finish in March with some 20 companies – both providers and investors – having taken part. A full roll-out will follow this spring.

KAS BANK is a long-time supporter of this initiative and is actively involved in the pilot. We believe that anything that enables pension funds, whether DC or DB, to have greater clarity on costs and the ability to compare charges between providers is a positive development. To date, there has been no common yardstick. However, in addition to the cost transparency templates, a scattering of companies are now beginning to offer benchmarking services, including KAS BANK, to help pension funds determine the true cost on their funds. Ultimately, it's all about delivering better value for money for scheme members.

* Willis Towers Watson 2018 Global Pensions Assets study

PMI UPDATE: FORMAL PROFESSIONAL TRUSTEE STANDARDS

Pensions Management Institute
ACHIEVING PENSIONS EXCELLENCE

Tim Middleton, technical consultant, Pensions Management Institute

FOR A NUMBER OF REASONS, THE PROFESSIONAL TRUSTEE SECTOR HAS GROWN SIGNIFICANTLY IN RECENT YEARS. IT IS NOW ABOUT TO UNDERGO SOME FUNDAMENTAL REGULATORY CHANGE WHICH MAY WELL HAVE REPERCUSSIONS FOR ALL OF THE UK'S PENSION TRUSTEES.

As a general rule, professional trusteeship is taken up as a second career after many years in a different pensions-related role. Typically, professional trustees have previously worked as actuaries, lawyers, accountants or pensions managers, or possibly had experience as a lay trustee. However, unlike other professionals in the pensions sector, they have never been subject to formal regulation. This apparent anomaly came under the spotlight in 2011 following the GP Noble scandal. This episode led to the formation of the Association of Professional Pension Trustees the following year, which sought to promote high standards of professionalism within the sector and to give confidence to those making use of professional trusteeship services.

However, in 2017, The Pensions Regulator (TPR) finally took action to establish formal regulatory standards for accredited professional trustees. After creating a formal definition of what constitutes a professional trustee, which identified those who were to be affected, TPR established the Professional Trustee Standards Working Group (PTSWG).

Chaired by Andrew Bradshaw of Ross Trustees, PTSWG was made up of representatives from APPT, PMI, the Pensions and Lifetime Savings Association (PLSA), The Association of Corporate Trustees (TACT) and TPR. It was tasked with creating formal standards to be required of professional trustees and developing appropriate accreditation requirements.

After two years' work, PTSWG is finally ready to present its conclusions. There are to be formal standards which recognise the difference in role between professional and lay trustees and which formally set out requirements for the conduct of business. These also explicitly address requirements for professionals who chair trustee boards, and establish formal rules for firms undertaking sole trusteeship work.

Accreditation standards were particularly difficult to set. PTSWG was anxious to strike the right balance between standards that were sufficiently robust to be credible while not creating unrealistic barriers to entry for credible candidates. Central to this will be a 'fit and proper' test modelled on that required for the trustees of master trusts. Additionally, accredited professional trustees will in future need to demonstrate both technical knowledge and the 'soft' skills more obviously associated with the role, such as a capacity for negotiation, organisation and prioritisation.

On an ongoing basis, there is to be a formal CPD requirement to demonstrate that professional trustees remain properly aware of ongoing developments within the pensions industry.

Many will see these new developments as bureaucratic and disruptive, to the point where some current professional trustees will feel forced to leave the market. However, others will argue that formal regulatory standards are long overdue for a sector which has an increasingly influential role in the governance of the UK's pension schemes. These changes are also consistent with TPR's more wide-ranging objective of improving standards of trusteeship within the UK. We also need to consider the expectations of the general public and to consider that moves designed to improve governance standards for pension schemes can only be welcome.

Tim Middleton is a Technical Consultant at The Pensions Management Institute

THERE ARE TO BE FORMAL STANDARDS WHICH RECOGNISE THE DIFFERENCE IN ROLE BETWEEN PROFESSIONAL AND LAY TRUSTEES AND WHICH FORMALLY SET OUT REQUIREMENTS FOR THE CONDUCT OF BUSINESS

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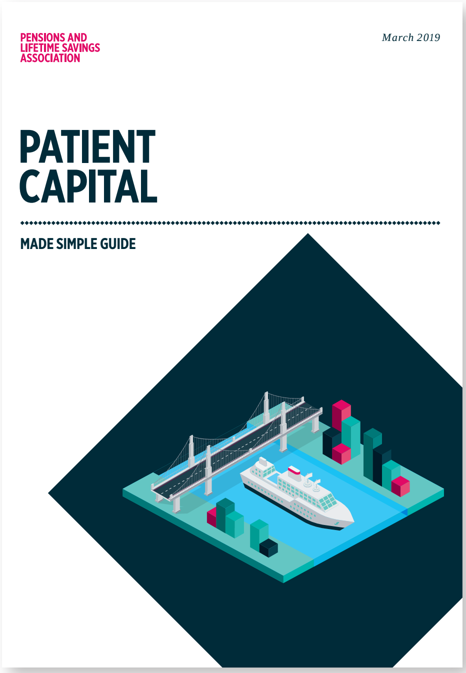

PATIENT CAPITAL

MADE SIMPLE

The attention paid to patient capital investments by governments and investors alike is increasing. While there are a range of benefits from investing in such long-term investments, such as portfolio diversification and potential for greater long-term returns, it is important for investors to gain a deeper understanding of the types of patient capital investments available, the accessibility and suitability for their own schemes while considering some of the drawbacks such as illiquidity and greater complexity.

Patient Capital Made Simple, sponsored by Partners Group, aims to demystify the concept of patient capital and private markets investing and provide investors with a useful tool to aid discussions with trustees and members alike.

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LEGAL UPDATE

LOOKING AHEAD: WHAT TO EXPECT IN PENSIONS LAW IN 2019

Loreto Miranda
Head of Thomson Reuters' Practical Law Pensions service

While 2019 is likely to be dominated by Brexit, there ought to be several major developments in the pensions field. Among them should be the government's promised Pensions Bill.

The exact contents of the Bill are not yet clear, but the signs are that reforms to existing legislation on the regulation and funding of defined benefit schemes will be at its heart. It is also possible the Bill will put in place new legislative frameworks for DB 'superfunds' and collective defined contribution schemes, and make changes to the jurisdiction of the Pensions Ombudsman that would enhance its early dispute resolution powers (following the transfer of this role from TPAS) and enable employers to bring complaints relating to group personal pension schemes.

In the interim, trustees of DB schemes are likely to focus on impending changes to the Pensions Regulator's code of practice on scheme funding (expected in the first quarter of 2019). Trustees and providers of both DB and defined contribution (DC) schemes will also have to consider how to implement new legislative requirements[1] that will come into force in two phases from 1 October 2019: these oblige them to update their statements of investment principles to confirm how they take into account environmental, social and governance (ESG) considerations. ESG considerations are being redefined to expressly include climate change.

Other legislative measures due to come into effect include the April 2019 step-up in minimum mandatory contributions to DC schemes used for auto-enrolment (minimum employer contributions will rise from 2% to 3% of qualifying earnings, with total minimum employer and jobholder contributions (including tax relief) rising to 8% of qualifying earnings), and the end of the transitional application window for existing master trusts to apply to the Regulator for authorisation (by 31 March 2019).

Several appeals from High Court decisions are due to be heard in the first half of 2019, including those in:

- *British Airways v Airways Pension Scheme Trustee [2018] EWCA Civ 1533*: Supreme Court to consider the trustee's scope to provide discretionary pension increases.
- *Burgess v BIC [2018] EWHC 785 (Ch):* Court of Appeal will look at the circumstances in which trustees of an occupational pension scheme may recover pension overpayments.
- *Granada UK Rental and Retail Ltd and others v Pensions Regulator [2018] UKUT 164 (Box Clever):* Court of Appeal to hear appeal against the Upper Tribunal (Tax and Chancery) decision to uphold financial support directions issued by the Pensions Regulator against five ITV group companies.

1. *Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018 (SI 2018/988)*

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**

MEMBER NEWS

WELCOME TO NEW MEMBERS

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Contact: Steve Ackland, CEO
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Contact: Jon Dawson, Business Development Director
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