Viewpoint

The official journal of the Pensions and Lifetime Savings Association

Issue 1 2020

A STRONGER FUTURE

GROWING MORE DIVERSE TRUSTEE BOARDS

THE OUTLOOK FOR EMERGING MARKETS IN 2020

STEPPING UP TO NEW STEWARDSHIP STANDARDS

DEMOCRACY IN THE DIGITAL AGE

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

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PENSIONS AND LIFETIME SAVINGS ASSOCIATION

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CEO'S *Viewpoint*

Julian Mund reflects on another big year for the PLSA and looks ahead to 2020.

WELCOME TO THE FIRST *VIEWPOINT* OF 2020 AND THE FIRST OF A DECADE IN WHICH THE PLSA WILL CELEBRATE ITS CENTENARY.

Now we're into the new year, things are starting to take shape as we make progress on our major initiatives for 2020. The biggest of these is the new PLSA Pensions Technology Conference, which will take place on 26 November at the Hilton London Tower Bridge. There are some fantastic developments in tech going on in our industry, and the PLSA has a crucial role to play – what we call our *captaincy* role – in bringing them together so that more of our members can benefit from tech innovation and we can make sure our policy work supports tech developments. The programme is coming soon but you can book your place now on our website and join people from schemes, consultancies and tech providers who've already signed up to attend.

Meanwhile planning for our other four conferences is underway or getting underway soon. Our Local Authority Conference will focus on those perennial LGPS challenges such as governance, data and investment that shift in nature with the evolution of the scheme, the asset pools and the scheme's unique public sector operating environment. The Annual Conference – back in Liverpool this year – and the Trustee Conference in London are a little further off, but we're putting their infrastructure in place and are in the early stages of developing programmes to address the issues you tell us about most when we go out and meet you. In the last month or so we've been in Belfast, Didcot, Essex, Coventry, Shropshire, Norfolk, Edinburgh and many other places hearing what matters to you.

And of course, as *Viewpoint* reaches you, we'll be back in Edinburgh for this year's Investment Conference, the first major milestone of the PLSA year. We're looking at *Mind over Markets*, considering how we approach some of the biggest risks and opportunities for pension funds today – with a strong climate risk theme to the event. That's been one of Guy Opperman's key challenges recently, and the Minister will be back with us once again to speak about the Pension Schemes Bill. He joins a fantastic line-up of speakers, and I'm very pleased that you can read some of their thoughts inside. Anyone who can't make the event can sign up for live web-streaming, see interviews with key speakers on social media and catch up on our YouTube channel.

Enjoy reading the first edition of *Viewpoint* of 2020. And if you have a story to tell – get in touch with our team on **viewpoint@plsa.co.uk**.

Julian Mund
Chief Executive

Legal & General

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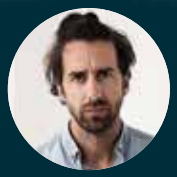
IS DEMOCRACY SAFE IN THE DIGITAL AGE?



Jamie Bartlett, author and plenary speaker at this year's PLSA Investment Conference, sounds the alarm.

ANY SYSTEM OF GOVERNMENT NEEDS TO BE IN TUNE WITH THE TIME – THOSE THAT DON'T ARE DESTINED TO BE OVERTHROWN, DEGENERATE, OR OTHERWISE FIZZLE OUT. DEMOCRACY REMAINS, AS CHURCHILL ONCE SAID, "THE WORST KIND OF GOVERNMENT, EXCEPT FOR ALL THE OTHERS THAT HAVE BEEN TRIED" BUT IT INCREASINGLY FEELS DATED, INCOMPATIBLE WITH THE WAY THE WORLD WORKS.

All democracies depend on certain institutions to function. Voting is just one piece of the kit. It also needs elections people can trust, citizens who are capable of moral judgement, a free and fair press, a strong middle class, a functioning criminal justice system and so on. Here is the core problem: all of these things were created in an analogue age, but now operate in a digital one where the old rules don't quite work. Examples: online drugs markets that the UK police can't shut down, because dealers are using powerful encryption; millions of people's data stolen by hackers who operate openly outside our jurisdiction; wildly misleading election adverts that the authorities can't seem to monitor; a collapsing local press. Once you start looking for examples of where analogue systems are struggling with digital life, you'll find them everywhere.

Perhaps worst of all is how democracy feels out of sync with people's expectations of how the world works. Democracy has barely changed since the advent of universal suffrage, while everything else is unrecognisable. Online is life instant, copiable, digitised, ranked. People expect speed, convenience, personalised perfection. Democracy can't do that – you rarely get what you want, and certainly not right away. In boring old democracies things take time and are imperfect – the very things that Silicon Valley has waged war on, and that many people have come to expect. The result is frustration.

All indications suggest this incompatibility will grow. Imagine an election in 20 years from now, with smart fridges, 40 years of user data and bot-generated ads. Or a hacker breaking into your pacemaker. Or perfectly faked video footage. Are our democracies ready for this? We've barely come to terms with the television.

Democracy's decline is not a matter of opinion, either. Empirical studies find the world has gotten less democratic in the last 20 years; and a survey released earlier this year found record levels of dissatisfaction. The great risk to democracy is not from an arm-waving demagogue, nor from rogue artificial intelligence taking over. It is, rather, the slow and sad decline of a system no longer fit for the day's challenges. A whimper rather than a bang.

Fortunately, democracy – just like artificial intelligence – is multi-purpose and has always reinvented itself to match its time. It must do so again. Election laws must be rewritten to ensure all digital ads follow the same code as their analogue equivalent. Police forces need to reconsider their geographic set-up. Even the vote itself should change – a single tick-in-a-box once every five years is anaemic at a time where everyone reviews their restaurant, taxi, and friends' holiday snaps.

These things aren't impossible. That democracy is unsafe isn't necessarily a bad thing, because it's the necessary stimulus for change. Democracy's greatest strength, as opposed to "all the others that have been tried", is its ability for constant reinvention and renewal.

Jamie Bartlett will be speaking at the PLSA's Investment Conference on Friday 13 March

Janus Henderson
INVESTORS

MEETING THE CHALLENGE: FIXED INCOME INVESTING IN 2020

With Europe characterised by negative rates and subdued bond yields, Nick Maroutsos, Co-Manager of the Absolute Return Income strategy, explains how the team seeks to meet the objectives of an absolute return fixed income portfolio.

Do negative rates in Europe present a challenge for investors?

There are many ways that we can stay positive in a negative interest rate environment. The first case, I think the best case, is that we just avoid negative interest rate debt. To us, I think it sort of flies in the face of every textbook that we've read. Now it doesn't mean that negative interest rate debt or negative-yielding debt can't move more negative. The feeling is that there are better opportunities that are out there, whether it's looking at a variety of different sectors or a variety of different countries for investment opportunities and looking to hedge those back to the base currencies in ways that you can still achieve positive returns in a low interest rate environment.

Is it important to avoid a home-country bias when investing?

Our belief is that you do not need to adopt a home-country bias when it comes to investing in debt. I believe that there are numerous opportunities that exist around the world whether it be in a variety of different countries or sectors. So when populating or investing in a euro-based portfolio you don't have to own only European assets. You can own European issuers in other currencies or you can try to find proxies for those assets and identify sectors that are attractive in other regions that still spin off positive income and positive yields.

How does an idea first come to you?

Given our open mandate ideas come more on the macro level to start with. We take a very long-term view of the market but then we ultimately filter that down to what we expect is going to happen in markets over the next six to 12 months. It's a function of interest rates globally. It's a function of central bank policy, employment and other economic data that ultimately leads us to where we want to be positioned on a duration perspective as well as on a credit perspective. So from that point we ultimately filter down the universe to a much more micro level where we are able to identify what we believe to be the best risk-adjusted opportunities.

Where are you finding opportunities and risks?

We are typically very optimistic about 2020 and the investment opportunities that are around; largely because of the US Federal Reserve (Fed) and other central banks looking to backstop markets and provide the liquidity and ultimately keep the party going but also because we're also faced with an environment where rates are likely to continue to move lower. So therefore we are looking for the best opportunities in countries where rates are going to be moving lower but also in countries and in sectors where credit spreads are priced for the best return potential. And our belief is that it is in monopolistic-type entities and in Australia as well as various opportunities in the US corporate debt markets.

Some of the large risks that we see also pertain to the credit space so it's not a matter of just blindly buying credit and riding the credit wave because valuations in credit are very rich. It doesn't mean that there's not value to be had there. But ultimately we believe that investors need to be a lot more realistic about the asset that they're buying and the value of the asset that they're buying.

Are there areas that you particularly like?

One of the key sectors that we like is financials so we tend to be a large owner of Australian financials as well as monopolistic type entities in Singapore, Hong Kong, etc. Furthermore, we like the US financial markets, particularly the major deposit-taking institutions or the "Too Big to Fail" type banks in the US. Some of the asset classes that we don't like within the credit sector are energy and autos which don't make up a large portion of our portfolios. We think that given the economic backdrop, particularly as the economy leads to more of a slowdown for 2020, those assets will likely underperform over the next 12 months.

What is focusing your mind in early 2020?

One of the long-term indicators that we tend to focus on year in year out is the path of interest rates. What are central bank expectations for a year for a particular country? But also what's priced into the market in terms of the directionality of interest rates over the course of that year? That tends to be a focus because ultimately, as bond investors, we need to take a view either for or against that in order to outperform the market. More near term some of the issues that we're looking at for 2020 centre around the US election, the trade tensions between the US and China, as well as Fed policy because ultimately we believe that Fed policy is going to be one of the things that dictates future policy for other central banks for 2020.

Why should investors consider absolute return income?

In our view, the rationale for owning absolute return income over other asset classes within the fixed income landscape is very simple and that is that we start with a clean sheet of paper. We are benchmark-agnostic meaning that we look to identify the best risk-adjusted opportunity for the level of risk that we're taking. Ultimately trying to achieve a positive return regardless of what the market is doing but still trying to maintain the same key characteristics of traditional fixed income: those being capital protection, income generation, low levels of volatility, and diversification. Similarly, absolute return income can fall within numerous buckets within the fixed income class. It doesn't actually fall in one particular bucket. The first is that we aim to enhance cash and by accepting a modest amount of more volatility we can look to achieve a higher return than what your investors are getting in the cash portfolios. Secondly we can serve as a complement to core fixed income. Typically, core fixed income has much longer duration than we have had historically and in an environment where there is a lot of uncertainty around the path of interest rates we can serve as a risk mitigator against that core portfolio.

SUPPORTING STEWARDSHIP

As good stewardship comes under renewed focus, ***Caroline Escott*** introduces the annual PLSA Voting Guidelines.

FOR THE AUTUMN 2019 EDITION OF *VIEWPOINT*, WE COVERED 'THE RISE AND RISE OF ESG', DISCUSSING THE PLETHORA OF POLICY INITIATIVES AIMED AT ENCOURAGING TRUSTEES TO CONSIDER FINANCIALLY MATERIAL ENVIRONMENTAL, SOCIAL AND GOVERNANCE FACTORS.

How schemes act as responsible investors is not an issue that is going to go away now that 2020 is here. This will be the year that schemes face increased scrutiny and pressure from policymakers and the public on two related but distinct issues. Firstly, with British MPs declaring an "environmental and climate emergency" and the growing prominence of groups such as Extinction Rebellion and activists like Greta Thunberg, investing to mitigate climate change[1] will be increasingly high-profile in the run up to the UK hosting the UN's COP26 climate change conference in November.

Less well reported, but no less important for schemes and their members, is the renewed focus on how schemes act as good stewards of their assets. The Financial Reporting Council – the UK's stewardship and corporate governance watchdog – defines stewardship as "the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society." At the PLSA, we believe that schemes' fiduciary duty to protect and enhance the value of individuals' retirement savings requires them to take an active role – either directly or through their asset managers – to monitor, engage and (if necessary) intervene on matters affecting investee companies' long-term value. Although such issues could include ESG factors – and the best stewardship usually takes place alongside a thoughtful ESG approach – schemes should be willing to exercise their stewardship responsibilities on any issue of concern.

THE PLSA HAS PRODUCED ITS ANNUAL VOTING GUIDELINES SINCE 2013, TO SUPPORT INVESTORS IN CONSIDERING HOW AND ON WHAT ISSUES TO CAST THEIR VOTE DURING COMPANY AGMS

2020 will see a whole swathe of different policy initiatives aimed at stewardship specifically:

- ✔ The second stage of the 2018 changes to the *Occupational Pension Schemes (Investment) Regulations 2005*. These will see new public disclosure requirements for schemes on their 'implementation statements', where they will have to state how they implemented the policies which they set out in their Statement of Investment Principles the previous year.
- ✔ The 2019 changes to the *Investment Regulations*. These changes implemented the European Union's Second Shareholder Rights Directive (SRD II) and require further detail on trustee stewardship policies to be publicly disclosed by various deadlines in 2020 and 2021. For DB schemes in particular – which had been exempt from this element of the 2018 changes – this will mean they need to do so on the relevant issues.
- ✔ The 2020 Stewardship Code. The Code is a voluntary comply-or-explain initiative run by the FRC and "aims to enhance the quality of engagement between investors and companies to help improve long-term risk-adjusted returns to shareholders." Since 2010, all UK-authorised asset managers must produce a statement of commitment to the UK Stewardship Code or explain why it is not appropriate for them to do so. The Code was updated in 2020 to include explicit references to ESG factors, a shift towards more outcome-focused reporting, a new set of Principles for service providers and a broader focus on good stewardship beyond equities.

INCREASED STEWARDSHIP SUPPORT

Although the PLSA has always provided significant practical support to schemes on stewardship – with a particular emphasis on how they ensure asset managers, consultants and custodians are undertaking stewardship on their behalf – we will be stepping up our support this year.

One of the most popular strands of our stewardship support is the recently published annual Stewardship Guide and Voting Guidelines. The PLSA has produced its annual Voting Guidelines since 2013, to support investors in considering how and on what issues to cast their vote during company AGMs. This year's document is bigger and better than ever, as we have worked with members to update our guidance in response to policy developments to ensure that it provides practical and step-by-step help for all schemes when thinking about stewardship, engagement and how exercising their vote sits within broader considerations.

The PLSA believes that there are certain steps that schemes need to take if they are to produce a considered and effective stewardship approach.

1) Work through the scheme's investment strategy, policy and objectives
2) Develop and agree trustee investment beliefs
3) Decide the role both stewardship and the integration of ESG factors play within this framework
4) Consider what constitutes an appropriate engagement strategy and plan
5) Formulate an approach or policy for voting decisions
6) Communicate expectations to service providers
7) Monitor and hold asset managers to account

Our guidance covers the issues above in much more detail, but a few things are worth emphasising. Firstly, that a key way to put stewardship into practice is engagement – by which we mean purposeful dialogue with investee companies – and not just voting. Engagement can take a number of different forms, from working with other investors or bodies, to direct meetings with companies, or from adding your voice to a collective letter, to lobbying policymakers on key issues. Schemes should consider how best they can use all the stewardship tools at their disposal.

Secondly, that even though many schemes may not have their own dedicated stewardship resource, this does not abdicate them from their responsibility to act as stewards nor does it mean they cannot do anything. A key objective of our guidance is to ensure schemes are better informed about what activities managers are taking on their behalf, and what questions and expectations schemes should be setting. The entire document should be used as a tool with which to hold not just asset managers, but also consultants and custodians, to account on their stewardship activities.

Our usual Voting Guidelines have also been updated to reflect our views and regulatory and market developments on key issues of concern – including audit, executive remuneration and dividend payments – and explaining how, on which resolutions and under which circumstances investors should vote. We also dig down further this year into key issues such as:

- ✔ How to assess a shareholder resolution on climate change
- ✔ The implications of securities lending on a scheme's portfolio
- ✔ The importance of using a vote to hold directors individually accountable
- ✔ The issues around voting in pooled funds.

Being a good steward is an intrinsic part of being a responsible investor and fundamental to fulfilling schemes' fiduciary duties to members. We hope that our new annual Stewardship Guide and Voting Guidelines will support schemes of all shapes, sizes and types in doing so.

THE ENTIRE DOCUMENT SHOULD BE USED AS A TOOL WITH WHICH TO HOLD NOT JUST ASSET MANAGERS, BUT ALSO CONSULTANTS AND CUSTODIANS, TO ACCOUNT ON THEIR STEWARDSHIP ACTIVITIES

1. Explored in this edition of Viewpoint

PLSA INVESTMENT CONFERENCE 2020: MIND OVER MARKETS

Rachel Pine looks forward to a diverse and compelling event in Edinburgh.

WHAT DO AMERICAN RAPPER SNOOP DOGG, BRITISH JOURNALIST AND NOVELIST RUDYARD KIPLING AND THE UK'S PENSIONS INDUSTRY HAVE IN COMMON? NOT ALL THAT MUCH, ACTUALLY, BUT IN BUILDING THIS YEAR'S INVESTMENT CONFERENCE PROGRAMME, WE FOUND OURSELVES TAKING INSPIRATION FROM A WIDE RANGE OF SOURCES.

In mid-2019, with the world experiencing a good amount of geopolitical upheaval, interest rates on life support and various recession indicators flirting with their red zones, we looked over the many topics we hoped to cover at IV20. It became clear that no matter which subjects and speakers the conference programme would eventually include, trustees would need to have the courage of their convictions to steer their schemes toward the best possible outcome. They would need to believe in their own decision-making capabilities, as well as those of the decision-makers they employ to give advice, and those who invest on their behalf. To be confident, while being aware of all the potential risks and pitfalls. As Kipling wrote in his immortal poem 'If':

'If you can keep your head when all about you

Are losing theirs and blaming it on you'.

This line of thinking also brought to mind Snoop Dogg's perhaps more mortal, but no less apropos line, "With my mind on my money and my money on my mind".

Investment Conference 2020, titled 'Mind over markets', looks to empower the voices around the trustee and management tables of the UK's schemes to meet coming opportunities and challenges head on, including new legislation included in the Pension Schemes Bill, potential changes arising from the 2020 Budget and new, stricter guidelines that will result in schemes having to model their portfolios to reflect future climate scenarios.

Clearly our industry has much to consider, which is why we built a programme that pulls together commentary that looks not just at the UK, but at economies around the world, with speakers from not just the pensions industry, but from technology, government, central banking and journalism, among other fields.

Over the three days we're bringing lots of content to help attendees keep their 'mind over markets' – noted economist Gerard Lyons who'll speak on the UK's evolving economy, Guy Opperman, our Pensions Minister, who'll discuss the Pension Schemes Bill, the Budget and his new emphasis on climate, and noted technology big thinker Jamie Bartlett, who'll show us how the dark net may be threatening our very democracy.

We've even gone as far as a Nevada brothel for this year's programme, with economist and retirement expert Allison Schrager, author of *An Economist Walks Into a Brothel*, a book that describes how various non-financial sectors evaluate their own risks, including racehorse breeders, restaurants and big wave surfers.

We have new streams this year: as well as our hugely popular DB and DC Investing streams, we've added Global Markets and Climate streams – both geared to helping schemes understand new areas of potential risk and reward.

In response to requests from our members, who let us know they wanted more time and opportunity for peer networking, we've added a new type of session to the programme – Discussions in the Round, which are participatory, small group discussions on a variety of topics from the materiality of ESG to fiduciary management, operational governance and more. Look for these in the new, extended afternoon breaks on Wednesday and Thursday.

And, as so many of you told us you wanted to have even more content, we've changed up our famous fishbowl – the Learning Hub – to include 'Lightning Rounds', short sessions that explain specific investment themes, from portfolio robustness to a workshop on climate measurement and reporting to the role of gold in a pension portfolio.

As signatories to HMT's Women in Finance Charter, we endeavour to even up the gender balance on our programme, and this year we've gone one step further, with a speaker cohort that is perhaps more diverse than we've ever presented in the past, in terms of experience as well as characteristics. We'll also be looking at diversity in a special plenary session that starts with Baroness Sayeeda Warsi talking about her own experience of being a first, and in many cases an only woman/Asian/Muslim/young person in various roles, and continues with a panel of industry leaders debating if any one area of diversity is more important to promote than others – it's sure to be a contentious session that will be utterly compelling to watch.

We hope that Investment Conference 2020 will leave you with lots to think about, lots to discuss with colleagues and peers, and above all, an understanding of how to keep your mind over markets.

AMX

The Governance Gap

What might trustees and advisors be missing?

Nick Horsfall,
Managing Director, AMX

Good governance of a pension scheme is important. A good starting point for looking at governance is the framework offered by The Pensions Regulator (TPR) which states that good governance requires trustees to set up a process to identify, evaluate and manage risks on an ongoing basis. By establishing and operating adequate internal controls, trustees are able to manage the risks associated with their scheme.

In essence, good governance means that trustees are aware of the hazards associated with a pension scheme and take actions to reduce those risks in line with TPR's best-practice framework.

Managers, trustees and pension scheme advisors have to manage multiple demands and guard against a range of risks cited by TPR. Yet hazards under the category of **operational procedures and technical systems** can contain 'hidden risks' which are often neglected, creating what we describe as 'the governance gap'.

Below are five key areas where AMX believe that improving operational capabilities can avoid hazards and support good pension scheme governance:

1. **Mitigating trade errors.** Errors made while buying and selling assets can reduce investment returns and cost investors significant amounts over time. A standardised process, formally set out with portfolio managers, can be valuable in spotting trade errors early.
2. **Fund liquidity management.** As many as four in ten European high-yield bond funds would not have enough liquid assets immediately available to meet investor withdrawals in the event of a market shock, according to the European Securities and Markets Authority. Ongoing monitoring of fund liquidity is vital to ensure that the liquidity of underlying assets matches that of the fund and its redemption terms.
3. **Effective treasury management.** Excess cash in a portfolio may often be left in a custody account, garnering little or no interest. By using an efficient automated cash management strategy, trustees can ensure that assets held within portfolios are maximising financial returns for scheme members, resulting in a 0.10%–0.20% p.a. increase in return for some funds.*
4. **Cost and tax management.** Managing costs and reclaiming tax is clearly important. However, these steps are not always taken, leading to a drag on returns. For example, despite the UK/USA joint tax treaty, US fund managers using OEIC and SICAV structures can be subject to tax of 30% on returns paid out in dividends. Using tax transparent fund structures like Irish-domiciled Common Contractual Funds (CCFs), allows for 'looking through' the tax status of investors, in order to maximise the value of tax treaties and minimise costs.
5. **Working with counterparties.** Managing counterparty risk is vital because some of a fund's assets can be held in the accounts of third parties. If these entities go into administration, such assets can be extremely hard to reclaim. Each counterparty should be robust. They need to have a strong credit score, be fit-for-purpose and have good process management.

When a scheme is well-governed, it mitigates risk more effectively and is agile enough to take advantage of opportunities. But good governance cannot take a 'one-size-fits-all' approach – it is not a set-and-forget exercise, but rather a frequently evolving paradigm. Funds must monitor the emergence of new risks in order to develop the robust operational infrastructure and independent risk oversight to properly manage them. Because ultimately, good management of risk in pension schemes greatly improves the likelihood of providing savers with a good retirement.

*Source AMX

Five key areas where operational capability can support scheme governance:

If you would like to discuss any of the issues raised in this synopsis or read the full report, please contact us using the details below.

Email: clients@theAmx.com | **Website:** https://theAMX.com/Governance

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THE BIG SHIFT

Experts from the ***PLSA's Investment Conference*** panel discuss the implications for trustees of a potential move from RPI to CPIH.

THE OFFICE FOR NATIONAL STATISTICS (ONS) HAS SAID THAT IT WANTS TO PHASE OUT THE RPI FORMULAE AND USE CPIH INSTEAD, NO LATER THAN 2030. ALTHOUGH DETAILS AND TIMESCALES ARE STILL IN FLUX, THE POTENTIAL MOVE COULD HAVE A SIGNIFICANT IMPACT ON PENSION SCHEMES.

Q

WHAT ACTIONS SHOULD BE ON EVERY TRUSTEE BOARD'S TO-DO LIST WHEN PREPARING FOR THE POTENTIAL SHIFT FROM RPI TO CPIH?

A

Every trustee should understand the implications of any shift for their scheme and for their members. For some schemes – especially those with CPI-linked liabilities, forced by necessity to hedge with RPI-linked assets – the impact of the current proposal, to align the RPI with CPIH, could be very negative. In other cases it would be members' benefits that will be impacted (e.g. a fall in transfer values, cash lump sums, future pension increases). We have published information on the proposals and their potential implications at www.rpireform.com, and hope this will be a useful resource for those considering what to do.

We would encourage every trustee board to consider responding to the government consultation on the changes. Given the likely negative effects, we believe it is preferable to avoid creating winners and losers by aligning the RPI with CPIH plus a margin.

Jos Vermeulen

Head of Solutions Design, Client Solutions Group, Insight Investments

A

The topic of RPI reform is an extremely complex matter with positive and negative outcomes for different pensions schemes. Before making any change I strongly advise trustee boards to ensure that they have conducted appropriate scenario analysis to understand how their pension scheme's funding level and deficit would be impacted along with any risks introduced by making changes to their hedging strategy. Once considered, I encourage trustee boards to respond to the RPI reform consultation due to be issued in March 2020.

Paras Shah

Head of Liability Driven Investment, Cardano

A CHANGED INVESTMENT CLIMATE

Pensions Minister ***Guy Opperman*** explains why the climate crisis should be the number one issue for every scheme.

AS THE SECOND LONGEST SERVING POST-WAR MINISTER FOR PENSIONS I HAVE NOW STEERED A NUMBER OF POLICIES FROM RECOMMENDATION THROUGH TO LEGISLATION. ONE OF MY PROUDEST ACHIEVEMENTS IN POST IS TO INTRODUCE NEW POLICIES THAT TACKLE THE GREATEST CHALLENGE TO OUR FUTURE – CLIMATE

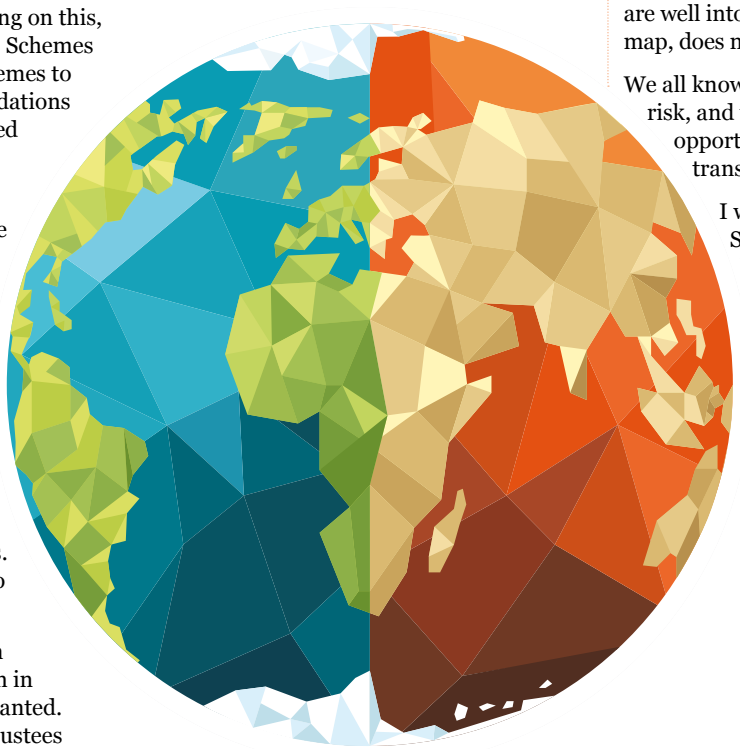
From the Law Commission's report in June 2017 to the introduction of new regulations in October 2019, my officials and I have worked at pace to deliver a sea change in the way that pension schemes consider ESG and – especially – climate risk. Building on this, we recently amended the Pension Schemes Bill, taking powers to require schemes to report in line with the recommendations of the Taskforce on Climate-related Financial Disclosures.

Working with pension schemes, civil society and organisations like the PLSA, we can take control of our response to climate change and change our future.

But government cannot do this alone. Our amendments to the Pension Schemes Bill are a clear steer that this is everyone's problem. We need to make sure that every financial decision takes climate change into account. That means all of us. No pension scheme is too small to make a difference.

I appreciate the new provisions in the Bill have caused consternation in some quarters, but that is unwarranted. The legislation places duties on trustees to review and assess the exposure of the scheme to climate change, and to determine investment strategies and targets. It does not give government a power to determine investment strategies or targets. These will remain matters for trustees alone.

I realise the TCFD recommendations are unfamiliar to many and can be daunting to apply to pension schemes. That's why my officials and I have been delighted to support Stuart O'Brien of Sackers, and others on the Pensions Climate Risk Industry Group (see page 31), developing the first pension scheme-specific guidance. This will be launched on Thursday 12 March at the PLSA Investment Conference. Stuart and his team have done excellent work in integrating TCFD into the trustee decision-making process and ensuring it is relevant for governance bodies.



When the Bill completes its passage, we will formally consult on how we move towards mandatory TCFD reporting for large pension schemes. I will use the evidence to assess what schemes also need from asset managers and insurers as we need disclosures along the whole length of the chain.

Climate change is a risk more profound and far-reaching to pension savers' finances than the more immediate concerns of interest rates, inflation, individual company performance or the market cycle. The very fact that it is not a cyclical risk, and that we are well into unknown territory without a map, does not give us permission to ignore it.

We all know the tools to manage climate risk, and we should embrace the opportunities of the low-carbon transition.

I would like to thank the PLSA, Stuart, and everyone else who has helped to deliver the Pensions Climate Risk Industry Group guidance. I encourage you to respond to that consultation.

And if you go, I hope you have a very enjoyable and enlightening conference.

WE ALL KNOW THE TOOLS TO MANAGE CLIMATE RISK, AND WE SHOULD EMBRACE THE OPPORTUNITIES OF THE LOW-CARBON TRANSITION

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MEET THE BOARD: JOHN DEMBITZ

Maggie Williams talks to experienced NED and business consultant ***John Dembitz*** about his work on the PLSA board.

Q

COULD YOU TELL ME A LITTLE ABOUT YOUR CAREER TO DATE, AND HOW YOU STARTED WORKING WITH THE PLSA AS A NED?

A

My career divides into three distinct stages: professional, entrepreneurial and plural. The first of these (professional) commenced with McKinsey the global management consultancy, progressed to a FTSE 100, then a merchant bank, and in 1985 to being appointed as CEO of a corporate and financial communications consultancy.

My entrepreneurial career started just after the collapse of the Berlin Wall. My brother and I joined forces and created our own business that morphed into an IT consultancy focused on Central and Eastern Europe. We grew this from zero to 350 people and $40 million of revenue in four years and sold it to Deloitte.

In 1998 I gave myself six months to establish a number of advisory/non-executive roles with SMEs, which heralded the beginning of my plural career. It happened much faster than I had anticipated – that was 22 years ago and I've loved virtually every day!

Five years ago, I received a call from a head-hunter asking whether I'd be interested in a Non-Executive Directorship (NED) in the pensions sector? My knee-jerk reaction was 'no', but I then rapidly said "Hang on a moment, I think this could be really interesting given the magnitude of changes taking place. So, yes, but with whom?"

To be frank I had never heard of the NAPF (National Association of Pension Funds – prior to rebranding as the PLSA), but why would I have? The NAPF was looking for someone from outside the sector, with good NED experience and some 'relevant' professional background. I seemed to tick most of the boxes, and was invited to join the board as the first selected NED from outside the sector.

Q

AS A VERY EXPERIENCED NED WITH WIDE-RANGING BUSINESS EXPERIENCE, WHAT DO YOU THINK ARE THE MAIN CHALLENGES FOR THE PENSIONS INDUSTRY?

A

The sector is going through huge change. From my perspective, the industry has three key challenges. Firstly, the shift to DC and the implications for (a) the service providers such as multi-trust, IFAs and fund managers; (b) the pensioner/beneficiaries and their decision-making; and (c) government regulation in respect of tax/freedom of choice/retirement adequacy et al.

The second challenge is the establishment and implementation of a pensions dashboard that is readily

accessible, easy to understand and all-encompassing. Thirdly, simplicity and clarity of communication as to what is going on within pensions and how it is impacting on everyone's lives is essential.

I have argued for some time that we need a pensions equivalent of the 'Tell Sid' advertising campaign, launched to get the UK population engaged with the privatisation of previously nationalised industries in the 1980s, which was hugely successful! We need to communicate with the general public much more effectively about possibly the most critical financial decision of their lives: how they will be able to afford their retirement and especially how they will be able to afford care in retirement.

Q

ARE THESE CHALLENGES MIRRORED IN OTHER INDUSTRY SECTORS?

A

Only to some degree. Yes change is impacting all sectors, but not quite to the same degree as what is currently happening within pensions. Change is being driven by technology (especially related to the dashboard), legislation (related to tax, freedom of choice, and DC) and competition (multi-trusts, funds and IFAs).

Q

WHAT DO YOU ENJOY ABOUT WORKING WITH THE PLSA AND THE PENSIONS SECTOR?

A

Just about everything! The board is very inclusive, and open dialogue and debate is encouraged and welcomed. I value hugely the interaction not only with my board colleagues but with PLSA staff as well. I have never been made to feel like an outsider, quite the opposite, my non-sector experience has been welcomed as is evidenced by the fact that another independent director has been appointed.

I value the opportunity to partake in the key conferences – something the PLSA excels in, always fascinating and always of real value. It's a privilege to be involved with what is, without doubt, a highly professional organisation that punches way above its weight.

EMERGING MARKETS – OUTLOOK FOR 2020

Charlotte Moore considers how the coronavirus and other factors may affect emerging markets in the year to come.

WHILE THERE ARE MANY REASONS TO BE CHEERFUL ABOUT THE OUTLOOK FOR BOTH EMERGING MARKET DEBT AND EQUITY, INVESTORS WILL NEED TO SEE WHETHER THE IMPACT OF THE CORONAVIRUS IS CONFINED TO THE START OF THE YEAR OR WHETHER ITS EFFECTS LAST LONGER.

Andrey Kuznetsov, senior portfolio manager at Federated Hermes, says: "Before coronavirus emerged, the outlook for 2020 was positive for emerging corporate credit markets."

Dominic Bokor-Ingram, chief investment officer at i Capital, agrees: "On 1 January, things were looking upbeat for these asset classes."

A number of factors contributed to that optimistic assessment. Kuznetsov says: "Economic growth looked positive and the low number of local elections meant political risk is constrained."

Bokor-Ingram adds: "Emerging market currencies were weak over the last three to four years, which has reduced currency risk."

The pandemic is, however, proving economically disruptive. It's also hard to predict the impact it will have on the emerging markets as we don't know how long it will last.

Rupert Watson, head of asset allocation at Mercer, says: "Over the short term, coronavirus will slow growth and be negative for the Chinese economy and other emerging market economies."

Certain sectors will bear the brunt of the impact, such as retail, hospitality and entertainment. Bokor-Ingram says: "Any business which relies on significant numbers of people being at a particular location will be affected."

In theory, the impact could be felt in both corporate debt and equity markets as a dramatic fall in economic output could affect a company's profitability and financial health.

Companies with high levels of debt are more likely to be negatively impacted by the economic downturn of the coronavirus. Bokor-Ingram says: "Companies still have to make their interest payments even if profitability slumps."

If companies have a cash flow crunch and are unable to make their debt repayments, they're at risk of not being around to benefit from the post-virus recovery.

Should the impact of coronavirus last long enough, companies could be unable to make their debt repayments and could go bust, adds Bokor-Ingram.

But the corporate credit markets should be better able to shrug off any short-term downturn caused by the coronavirus as most are investment grade and have strong balance sheets, says Kuznetsov.

At the moment, most investors think the impact of the pandemic will be most acute during the first three months of the year and then start to fade, with growth recovering as the year progresses.

Watson says: "The big question is whether the slowdown caused by coronavirus is confined to the first quarter of the year or if it lasts for longer."

BEYOND CORONAVIRUS

Once the impact of the coronavirus fades, however, the fundamental invest case for emerging markets will re-emerge.

The outlook for the two asset classes – equities and debt – differs. It will be shaped by how each performed last year, the impact of the economic environment and the relative value of each asset class to developed markets.

Last year was a particularly strong year for emerging corporate debt markets. Tapan Datta, head of asset allocation at Aon, says: "This was driven by the fall in US Treasury yields and the chain of rate cuts at emerging market central banks."

Not only did the US Federal Reserve cut the cost of borrowing three times last year but around 60 emerging market central banks also cut interest rates.

Datta says: "This was an even stronger spree of rate cutting than after the global financial crisis." Almost three-quarters of the world's leading developed and emerging market central banks cut rates last year, he adds. This created a significant tail wind for emerging market debt corporate credit as investors chased the pickup in yield in emerging market debt.

Datta says: "Both dollar-denominated and local currency debt benefit because interest rates were cut in both the US and the emerging markets."

In 2020, however, the impact of interest rate cuts will be more muted for dollar-denominated debt as the US Federal Reserve is unlikely to cut further. Some emerging market central banks are, however, still cutting rates, such as India and Russia.

Datta says: "This should provide further support to local currency emerging market debt but it will depend on how these currencies perform relative to the US dollar."

In historical terms, the greenback is looking expensive relatively to virtually every other currency. Datta says: "As the Federal Reserve is unlikely to raise rates, there is no reason to expect the dollar to strengthen further."

As a result, local currency emerging market debt should perform relatively well in 2020 and could outperform dollar-denominated fixed income if emerging market rate cuts continue and currencies hold their own against the dollar, he adds.

In addition, the European Central Bank's continued corporate bond programme will suppress yields in this market, continuing to make returns in emerging credit markets look attractive, says Kuznetsov. The bids from the ECB also lower volatility in European credit markets which allows asset allocators to take more risk in other asset classes, such as emerging market credit, he adds.

Last year's rate cutting spree by emerging market central banks should also benefit equities as it will provide economic stimulus.

Manufacturing should also improve in 2020 after a moderate inventory cycle when stocks were run down. Watson says: "Consumption has remained strong which will provide the incentive for manufacturing to pick up once again."

Emerging market equities also look good value. Actively managed global equity funds currently have one of the most significant underweighting to this region since 2008, says Bokor-Ingram.

"EM equities are also more undervalued relative to developed markets than they have been for a decade," he adds.

The outlook for corporate profitability and cash flow generation looks strong. Over the last five years, many emerging market companies have improved the strength of their balance sheets, reducing their debt and starting to pay better dividends, says Bokor-Ingram.

The negative impact of the trade wars should lessen in 2020. There is likely to be a pause in the current trade wars as President Trump is unlikely to upset the apple cart during an election year, says Watson.

There is always a chance the US elections could affect the performance of emerging markets later this year. Kuznetsov says: "Political uncertainty in the world's largest economy has the ability to impact all other markets."

Volatility could start with the Democratic primaries and reach a peak in November. Kuznetsov says: "The elections are unlikely, however, to derail emerging market performance."

That's because Trump looks likely to win, there should be better year-on-year growth and a tailwind of monetary policy stimulus from last year. All these factors should support emerging markets, he adds.

THE BENEFIT OF INVESTING IN EMERGING MARKETS FOR PENSION SCHEMES

While the outlook for emerging markets may be positive – once the threat from the coronavirus has subsided – pension schemes will only invest in this asset class if it matches their investment goals.

Those targets vary whether it is a closed private sector defined benefit (DB) pension scheme, an open LGPS fund or a defined contribution (DC) scheme. The latter two have more similar targets than the former.

A closed DB scheme is trying to generate sufficient growth to narrow its funding gap while not adding too much risk. As LGPS funds are open and DC schemes have no specific benefit payments to match, they can afford a more relaxed attitude to risk.

As a result, emerging market corporate debt is a better match for closed DB schemes as these assets are less risky than equity. That's partly because bonds are always less risky than equities, and also most EM corporate bonds tend to be investment grade.

Unlike other asset classes, where the number of investors outweighs the potential supply, the number of corporate credit investments is increasing as new countries and companies start to issue more bonds.

Datta says: "This increase in supply allows investors to diversify as well ensuring better returns for investors though they will remain riskier than developed market equivalents."

The increase in the number of issues from this region of the world makes it hard for investors to ignore this asset class. Kuznetsov says: "Not investing in EMD would be to ignore a growing proportion of the credit universe."

While closed private sector schemes would be more interested in emerging-market debt, emerging-market equities could be part of the portfolio for both LGPS and DC schemes.

Bokor-Ingram says: "An allocation to emerging market equities gives investors the ability to translate excess growth into excess earnings and greater returns than developed markets."

Until recently, emerging markets have lagged the US' ability to generate higher returns. Earnings growth in that market has been higher in the last three or four years because of share buybacks and higher dividends.

Bokor-Ingram says: "These factors have masked the higher underlying corporate earnings growth of emerging markets." But now the number of US buy-backs is falling, emerging market growth will outstrip the US.

RETIREMENT LIVING STANDARDS | PENSIONS AND LIFETIME SAVINGS ASSOCIATION

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TAKING STEPS TO IMPROVE BOARD DIVERSITY

David Fairs, Executive Director of Regulatory Policy, Analysis and Advice at The Pensions Regulator, calls for change.

IN JANUARY, AS PART OF OUR RESPONSE TO OUR CONSULTATION ON THE FUTURE OF TRUSTEESHIP AND GOVERNANCE, WE ANNOUNCED NEW MEASURES TO PROTECT SAVERS AND IMPROVE MEMBER OUTCOMES.

We were delighted that from a record 114 written responses submitted during the consultation, there is clear support for our view that all savers should benefit from efficient and well-run pensions, with the right people in place to make good investment decisions and deliver value for money.

Crucial to this is the need for trustees to constantly review and develop their knowledge and skills and to improve diversity and inclusion on trustee boards.

As a result, we will now review and update the Trustee Knowledge and Understanding code of practice and review the Trustee toolkit to make its expectations clearer and to drive up standards of trusteeship. Once the new standards are in place, TPR plans to run a regulatory initiative to test levels of trustee knowledge and understanding, and to consider appropriate action where they fall below expectations.

In this article, I want to focus on the importance of diversity and inclusivity. We will now establish and lead an industry working group to find ways of supporting schemes to take steps to improve trustee diversity.

In the consultation, we asked how we could help trustees improve the diversity of trustee boards, something we believe is crucial. At the same time, we made clear we do not support the introduction of quotas to broaden the narrow range of individuals currently seen on trustee boards.

Research that we have conducted, and external academic research, all points to the fact that diverse groups achieve better decisions through debate and challenge.

Our own research on gender points to a strong correlation between gender-diverse trustee boards and those boards which score highest against our measure of quality governance.

But does including one female in a board of all males, a young trustee amongst a board of older trustees, a trustee with a marketing or HR background against a trustee board of financial professionals – achieve diversity?

Trustee chairs often tell us that they have no influence over who is appointed to the board. Members elect Member Nominated Trustees and the employer commonly appoints Employer Nominated Trustees and often any independent or professional trustees.

To some degree, the current lack of diversity and lack of role models for different characteristics must be a barrier and influence those who would be prepared to put themselves forward.

To my mind, an effective trustee board needs to be inclusive, to be aware of any unconscious bias it currently has because of its make-up and understand whether board meetings are conducted in a way that enables individuals within the trustee board to contribute to their fullest extent, to be themselves.

While many responding to our consultation were supportive of reporting on diversity, it is clear we have more to do in building a consensus on the way forward, what we mean by diversity and how it should be realised.

The pensions industry must play its part, and I welcome the PLSA's commitment to launch a Made Simple Guide for schemes about how they can recruit and retain diverse trustee boards.

We are keen to make a significant change to the current position on diversity and inclusion on trustee boards and so will take time to deliver a more substantive and sustainable change.

The new working group we will now establish will strive to find ways of supporting schemes to take steps to improve both diversity and inclusivity.

We will create clear definitions of what is meant by diversity and inclusion in a pensions context, and deliver good and best practice guidance on both board composition and how boards can make the most of the pool of potential trustees they have available to them.

I would urge anyone to let us know their views on board diversity. Please contact us using the following email address: **futuretrusteeship@tpr.gov.uk**

RESEARCH THAT WE HAVE CONDUCTED, AND EXTERNAL ACADEMIC RESEARCH, ALL POINTS TO THE FACT THAT DIVERSE GROUPS ACHIEVE BETTER DECISIONS

DRUNK ON VIRTUE? MYTHS ABOUT DIVERSITY AND INCLUSION IN THE PENSIONS SECTOR

As trustee boards are set to face increasing levels of scrutiny from The Pensions Regulator for a perceived lack of diversity, ***Daniel Gerring***, Partner, Head of Pensions and ***Alex White***, Associate at Travers Smith, explore why all pension scheme stakeholders can benefit from a change in approach towards diversity and inclusion.

IN AN ARTICLE FOR THE SPECTATOR IN JUNE 2018, THE AUTHOR LIONEL SHRIVER LAUNCHED A SCATHING ATTACK ON PENGUIN RANDOM HOUSE FOR ANNOUNCING A PLEDGE THAT ITS AUTHORS AND STAFF WOULD BE MORE REPRESENTATIVE OF THE UK POPULATION BY 2025, A MOVE WHICH SHRIVER DESCRIBED AS *"DRUNK ON VIRTUE"*. SUGGESTING THAT THE INITIATIVE WOULD MAKE LITERARY EXCELLENCE SECONDARY TO BOX-TICKING, SHE SAW THE PUBLISHER'S DIVERSITY PROGRAMME AS FUNDAMENTALLY INCOMPATIBLE WITH ITS COMMERCIAL PURPOSE: *"GOOD LUCK WITH THAT BUSINESS MODEL"*[1].

The publisher responded in equally uncompromising terms, reiterating that "*we publish... on talent first and foremost*", and adding: "*we... firmly believe that giving a platform to more diverse voices will lead to a greater richness of creativity and writing rather than stifling them*"[2].

Similar arguments can be (and, in our experience, often are) made in a pensions context. But for the first time, the Pensions Regulator has acknowledged the relationship between diversity and inclusion (D&I) and good governance on trustee boards. In February 2020, it pointed to "*clear evidence that diverse groups make better decisions*" and announced its intention to launch an industry working group with the objective of promoting the recruitment and retention of diverse trustees (see page 23). The Regulator added that there is "*also scope for us to look at the steps trustees are taking to improve diversity through our supervision and enforcement activity*"[3]. To complement the Regulator's increasingly active focus on D&I, the PLSA has launched its *Diversity & Inclusion: Made Simple Guide* written in partnership with Travers Smith which addresses many of the D&I issues scheme boards will now be expected to consider.

But what does D&I have to do with pension schemes? And how does any of this affect members? In this article we tackle some of the arguments surrounding D&I in the pensions industry.

WHAT DO YOU MEAN BY DIVERSITY?

Diversity is variety, and for a board to be diverse it must include individuals with a range of diverse characteristics. Some of these characteristics are visible upon meeting someone, but others, such as sexual orientation and religious belief, may not be.

Inclusion goes hand in hand with diversity because it is needed to capture the real benefits of having a diverse group of people, but it is often more difficult. Inclusion requires the effective involvement of diverse people on an ongoing basis in a way which enables everyone to feel included and able to perform to their full potential.

IT'S JUST ANOTHER FORM OF DISCRIMINATION, ISN'T IT?

When implemented correctly, D&I focuses on a fair process, not outcomes. To suggest

D&I IS ABOUT CONSIDERING A CANDIDATE'S RAW SKILLSET AND HOW THIS MIGHT COMPLEMENT OR BRING NEW PERSPECTIVES TO THE BOARDROOM TABLE

that somebody should automatically be recruited just because they are from a marginalised group is to misunderstand the purpose of these initiatives; D&I is about acknowledging that these groups might not have the same opportunities as majority groups and taking steps to level the playing field.

However, meritocracy should not be confused with D&I either, because recruiting on merit alone at the point of application often ignores any inherent privileges or the comparative absence of challenges a candidate has had prior to that point. D&I is about considering a candidate's raw skillset and how this might complement or bring new perspectives to the boardroom table; the rest of the role can be taught through training and complemented with investment, actuarial and legal advice.

OK, BUT WHAT'S THE POINT?

Research indicates that diverse groups are better at assessing relevant evidence, logic and reasoning, and justifying their decisions. They are proven to be more innovative and efficient. David Fairs of the Pensions Regulator acknowledges on page 23 the "*strong correlation between gender diverse trustee boards and those boards which score highest against our measure of quality governance*"[4].

Diverse trustee boards are, quite simply, better at discharging their legal duties and providing the best possible outcomes for scheme members.

BUT WE'RE ALREADY DIVERSE

The figures suggest otherwise. More than 80% of scheme trustees are male, and a quarter of schemes have all-male boards. Half of trustee board chairs are over 70 years old, and 7% of trustees are over 70. Just 3% are under 40[5]. We do not have sufficient data on other diverse groups, such as those from the LGBTQ+ community, but our experience suggests that representation here is likewise poor.

By contrast, more than 30% of board members of FTSE100 companies are female[6], and only 19% of chief executives are over 60[7].

I MEANT WE'RE DIVERSE BECAUSE WE THINK DIFFERENTLY

Caroline Escott has previously noted in Viewpoint (Issue 1, 2019) that 78% of scheme trustees have been educated to degree-level in the same subjects: business and management.

A trustee board comprised of people who have been educated in the same way or have similar backgrounds is very unlikely to be diverse in the way that it thinks, and it is far more likely to reach decisions through positive feedback loops than it is to scrutinise ideas, challenge the status quo and come up with innovative solutions.

Diversity can make decision-making uncomfortable because it should result in 'creative conflict'. It is far easier to work in an environment where people are the same as us, because we are drawn to the familiar. But how does that affect member outcomes? Diversity challenges people, it gives them the opportunity to listen to different perspectives, and it leads to better decision-making. D&I is inextricably linked with good governance.

MEMBERS ARE MORE CONCERNED ABOUT INVESTMENT RETURNS

A common misconception about D&I is that it is incompatible with organisational success. The implication is that promoting diverse candidates means compromising on quality which will, in turn, be detrimental to member outcomes. This is a fallacy.

In fact, the business case for D&I is compelling. Homogenous boards, even those with a wealth of professional experience, can still be rife with behavioural biases, such as groupthink, which can have a significant impact on investment returns. Diverse boards are better at offsetting these biases, because they benefit from different perspectives and greater scrutiny of their decision-making process.

Research in this area has found a strong correlation between, for example, ethnically diverse teams and profitability on simulated financial markets; and gender diversity and value creation. The evidence shows that embracing D&I is far more likely to drive improved investment returns than it is to compromise on them.

WE CAN'T BE DIVERSE – WE ALREADY STRUGGLE TO FILL VACANCIES

Lots of boards worry about the difficulty they have in persuading diverse candidates to step forward. As Fairs has noted, "*the current lack of diversity and lack of role models for different characteristics must be a barrier and influence those who would [otherwise] be prepared to put themselves forward*"[8].

The solution to this can be as simple as looking at the recruitment process a little differently. Trustee boards should consider the language used in their member-nominated trustee (MNT) materials, emphasising the opportunity to make a valuable contribution to the scheme as well as developing new skills. Selection, instead of or in addition to election, of MNTs may also help boards become more diverse. Employers can also play a role in encouraging diverse candidates to volunteer by taking steps to ensure the role of trustee is compatible with any other commitments the candidate may have. Where employers and trustees are keen to be more proactive, they may consider if active selection (rather than election) of suitable candidates would be appropriate.

OK THEN, HOW DO WE DO IT?

This article offers a very brief introduction to some of the issues associated with D&I in a pensions context. For more details about the benefits of D&I, more evidence behind the statements made here and some hints and tips about active recruitment, retention and promotion of talent to trustee boards, see the PLSA's *Diversity & Inclusion: Made Simple Guide*.

1. Lionel Shriver, 'Great writers are found with an open mind', The Spectator, 9 June 2018.
2. Penguin Random House, 'Our inclusion goal: a statement from UK CEO Tom Weldon', 11 June 2018.
3. The Pensions Regulator, 'Future of trusteeship and governance consultation', July 2019 and the Consultation Response, February 2020.
4. David Fairs, TPR: Breaking down barriers to create diverse boards of trustees, mallowstreet, 14 February 2020.
5. PLSA Annual Surveys, 2016 and 2019.
6. Ben Chapman, UK firms set to fall short of Government targets for women on boards, The Independent, 1 July 2019.
7. Kenny Kemp, Number of FTSE 100 CEOs In Their 60s 'Has Doubled In 20 Years', Insider, 12 December 2018.
8. David Fairs, TPR: Breaking down barriers to create diverse boards of trustees, mallowstreet, 14 February 2020.

PQM: THE OBVIOUS CHOICE

Jonathan Parker, Director DC and Financial Wellbeing at Redington, explains why gaining PQM status was a sensible move for the company.

REDINGTON

REDINGTON UNDERTOOK A FULL REVIEW OF ITS WORKPLACE BENEFITS IN 2018, AND AS PART OF THE PROCESS ASKED ITS STAFF WHAT TYPE OF SAVINGS PRODUCTS THEY WOULD LIKE TO SEE MADE AVAILABLE. WITH A YOUNG WORKFORCE, THERE WAS RECOGNITION OF THE BENEFITS OF LONG-TERM SAVINGS THROUGH A PENSION, BUT ALSO THAT DIFFERENT WAYS OF SAVING WOULD HELP ADDRESS OTHER SHORTER-TERM NEEDS THAT THEY HAD. BASED ON THIS FEEDBACK, THE PROJECT TEAM, WITH STRONG BUY-IN FROM THE BOARD, AGREED THE FOLLOWING SET OF OBJECTIVES:

- Maintain the workplace pension as the core savings vehicle and ensure it meets best practice standards
- Make available other savings products to employees via payroll deduction
- Put in place a market-leading contribution structure
- Make full use of Redington's investment ideas within the default option
- Establish a governance committee to oversee the ongoing management of the pension.

The clear steer from the board to ensure that the workplace pension adhered to best practice standards led the project team to Pension Quality Mark (PQM). The rigour with which the PQM standards had been put together meant it was the obvious choice to use as the benchmark against which the new workplace pension should be measured. It remains the leading external accreditation for workplace pensions and would demonstrate to employees the quality of the new arrangements as well as Redington's commitment to maintaining high standards in the future.

The PQM application process itself served as a useful way of testing whether the structure that had been implemented and the governance committee's terms of reference were fit for purpose. The PQM team were incredibly supportive throughout the process and fed back useful ways in which the pension scheme and structure could be improved. For example, with a young workforce and no-one yet within five years of retirement, Redington has yet to put in place an engagement approach with employees to support them as they start to think about how they might use their pension benefits when they stop working. Also, despite Redington being in the pensions business, we have a workforce in varied roles, many of whom would not consider themselves to be experts. This means that the communications strategy must be flexible enough and written in appropriate language to appeal to people from lots of different backgrounds. Finally, the governance committee is made up of employees that represent the whole of Redington's business, not just those with a strong pensions background. This means that from a skills perspective, we have had to consider the whole spectrum of DC knowledge and make sure all committee members' needs are addressed.

This feedback from the PQM team and the Standards Committee has enabled us to focus the governance committee's time on those areas where the Redington scheme can be further improved. With the launch of the Retirement Living Standards, there is now a package of measures from the PLSA that can be used to really drive good retirement outcomes for members of DC schemes.

Redington and the governance committee are already starting the early planning for the three year review of the pension scheme, default option and contribution structure. As part of this process, the committee will be considering whether PQM Plus accreditation is an appropriate next step to strive for, and how it can work more closely with the workplace provider, Aviva, in supporting members whatever stage of their working lives they might be at.

THE RIGOUR WITH WHICH THE PQM STANDARDS HAD BEEN PUT TOGETHER MEANT IT WAS THE OBVIOUS CHOICE TO USE AS THE BENCHMARK

PENSION QUALITY MARK

PENSION QUALITY MARK (PQM) STANDARDS

Designed to raise the quality of defined contribution (DC) pension schemes, and help savers get better outcomes in retirement.

Revised in 2019, the standards recognise the changes to governance and standards in DC pensions since 2009 and focus on five key areas: The Employer Commitment, Understanding the Member, Board Responsibilities, Investment Strategy and Member Experience.

Find out more, visit
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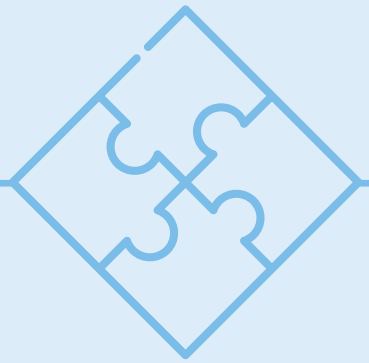
PQM STANDARDS

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

Russell Investments

FIDUCIARY MANAGEMENT: BENEFITTING FROM A HOLISTIC APPROACH TO ESG



BETTER OUTCOMES FOR TRUSTEES AND MEMBERS

The investment landscape is constantly changing. Market volatility on its own is a significant challenge for investors. But even in volatile markets, we see more and more trustees including Environmental, Social and Governance (ESG) factors when constructing and managing investment portfolios. In a market where efficiency and proactive management is more crucial than ever, the intersection of ESG and fiduciary management (FM) can provide trustees with a richness of information and specialised strategies to incorporate these approaches.

At its core, FM is a governance solution. In our experience, trustees of all sizes of pension schemes continue to be time-constrained and faced with a growing range of potential investments to consider. Decisions need to be made at every stage of the investment process, from putting investments in place to monitoring and managing the portfolio on an ongoing basis. By selecting the right FM partner, trustees are, in our opinion, better able to do the following in order to improve their investment outcomes:

- Identify issues
- Manage risks
- Comply with regulatory developments

A FULLY INTEGRATED APPROACH

Fiduciary management is about using the expertise of the chosen provider and making the most of their investment expertise. This includes understanding their processes – including how they're capturing and utilising ESG factors. By hiring a specialist who acts as an extension of their own resources and preferences, trustees can improve the likelihood of achieving their overall objectives – both in performance and in ESG factors.

Whilst ESG factors do impact security prices, we believe ESG does not have to mean sacrificing performance. In fact, building an investment portfolio that has a greater focus on ESG considerations could potentially even improve investment returns.

FM clients can benefit from a holistic approach to ESG integration across business and culture, rather than it being a separate consideration or afterthought. We believe the following are the best practices and considerations that trustees can potentially benefit from when FM and ESG are integrated.

Manager evaluations: A sound awareness of ESG factors and a robust process are essential for responsible investing. A robust process can deliver strong investment returns and meet objectives over the long term. As such, establishing a dedicated ESG rank for managers' investment strategies. These ESG ranks are a qualitative assessment of how well active managers understand the impact of ESG factors on short and long-term security price evolution, portfolio-level risk, and the return profile of the portfolio. This evaluation considers the asset class, region and industry and how their approach to ESG is evolving over time.

Bespoke ESG strategies: In addition to incorporating ESG considerations in all funds, fiduciary managers can build bespoke ESG strategies. These strategies can create innovative, proprietary methodologies and tools to support advanced ESG clients in pushing boundaries, allowing continual delivery on fiduciary responsibilities.

Screening: A robust screening policy and procedure can help ensure that pooled funds for investors avoid investing in companies involved in controversial production. A key part of the screening process is the creation of an exclusion list and reviewing it quarterly.

MOVING AWAY FROM A TRADITIONAL MODEL

We believe the traditional model of pension fund investing is broken. This older approach uses a static asset allocation, following advice from consultants. It often takes between 12-18 months for changes to be proposed, agreed and implemented within the investment portfolio. FM can take a different approach and incorporate responsible investing in the investment manager evaluation process, portfolio management, advisory services, and through implanting proprietary solutions, as desired by clients. It includes closely monitoring and managing the portfolio in real-time. In addition to considering ESG factors within pooled funds, having a dedicated internal task force that works with clients to build bespoke ESG strategies is crucial.

The focus on ESG is only likely to increase in the coming years. Choosing an FM partner who fully embeds ESG within its investment process is a positive step to prepare for an ever-changing world.

CONSIDERING CLIMATE RISK

THERE'S A COMMON MISUNDERSTANDING OF TRUSTEE DUTIES WHEN TALKING ABOUT PENSION FUNDS AND CLIMATE CHANGE. DEPENDING ON WHO YOU SPEAK TO, THE VIEW IS EITHER THAT TRUSTEES HAVE A FIDUCIARY DUTY TO FIX THE CLIMATE CRISIS OR THAT THEY DON'T.

Although they're diametrically opposed, it's possible to have some sympathy for both views. The first – that trustees have a duty to help prevent global temperature rises – sounds appealing when we consider the huge change in capital flows required to rapidly and drastically reduce the world's carbon emissions if we're to even get close to limiting global temperature rise to well below 2°C above pre-industrial averages – and this is essential if we're to avert dire consequences for the planet and society. The second view – that this has nothing to do with trustees – bases itself on an understanding of trustee fiduciary duties as focusing on the provision of pensions, not saving the world.

Both views, however, somewhat miss the point that climate change presents a financial risk to pension funds. If the world gets hotter and the frequency of extreme weather events increases, it won't just be humanity that suffers. Businesses will too, and some will be particularly hard hit. Similarly, if the world's governments bring in regulation to drastically reduce carbon emissions, the business models of many companies will be stretched and in many cases become unviable. By contrast, companies with the edge on green technology (particularly clean energy production) will thrive. These are the 'physical' and 'transition' risks of climate change: the physical risk that businesses will be directly affected by changes in the climate; and the transition risk (and opportunities) that business models will be impacted by the move to a zero-carbon economy. That change might happen more rapidly and more deeply than trustees are expecting (or markets have priced in) should also be considered. Some projections forecast an effective 100% loss in value for certain sectors by around 2040 under scenarios in which global warming is limited to 2°C. So what are trustees to do about this?

As a consultation on new trustee guidance on climate risk is launched at the PLSA Investment Conference, ***Stuart O'Brien***, the Chair of the Pensions Climate Risk Industry Group, explains why all trustees need to think about climate change.

INTEGRATION OF CLIMATE RISK IN TRUSTEE DECISION-MAKING

Every journey starts with a first step. Many trustees will have updated their scheme's statement of investment principles before October last year. Led by their investment consultants, many will have included some wording about the trustees recognising ESG and climate change as financial risks. How many will have gone further than this and actually thought about how these risks might manifest themselves and what the impact might be is probably more questionable. A common refrain is that it's difficult and trustees will therefore leave it to their investment managers. Many trustee policy statements in statements of investment principles will say as much.

It is unquestionably a complex and multi-faceted subject. However, trustees cannot abdicate their responsibility any more than they can for other financial risks. Imagine the trustee who says: "we know interest rates are a financial risk to our assets and liabilities but it's complicated so we just leave

that to our investment managers." What exactly is being left to the manager tracking a market cap weighted equity index? Trustees retain the legal responsibility for setting their scheme's investment strategy, appointing their managers and agreeing the investment mandates set for those managers (whether pooled or segregated, active or passive). Trustees cannot escape the need to consider how all of these might be impacted by climate-related risks. To the earlier misunderstandings, this is not about trustees changing the world (whether you take the view that they have a duty to do so or not), it is about trustees understanding financial risk.

Unfortunately, because the issues are complicated trustees might be forgiven for not knowing where to start.

THE PENSIONS CLIMATE RISK INDUSTRY GROUP

In 2019 a cross-industry group, the Pensions Climate Risk Industry Group (PCRIG), was established by the Department for Work and Pensions, the Pensions Regulator and other government departments including the Department for Business, Energy and Industrial Strategy. The group was tasked with producing guidance on how pension trustees might sensibly address climate-related financial risks as part of their governance processes.

On 12 March the group will launch a public consultation on climate risk guidance for pension trustees. The draft guidance builds on the disclosures recommended by the Task Force on Climate-Related Financial Disclosures (TCFD) to provide a framework through which exposure to climate-related financial risks and opportunities can be identified, assessed, managed and disclosed by pension trustees.

WHAT CAN BE EXPECTED FROM THE PCRIG GUIDANCE?

The group's draft guidance provides suggestions on how to integrate the consideration of climate-related risks within trustee governance and risk management processes, as well as making recommendations as to how pension trustees might approach scenario analysis (ie what financial impacts different climate scenarios might have on pension scheme assets). The consultation also looks at what metrics trustees might usefully measure and monitor as part of a strategy to integrate climate risk considerations into their investment decision-making.

One of the key principles applied by the group is that any guidance produced should help trustees comply with their existing legal duties, not create new ones. As such, although the guide uses the TCFD recommended disclosures as a framework, it approaches governance, strategy and risk (the core elements of the TCFD recommendations) in a way that should be familiar to pension trustees.

THIS IS NOT ABOUT TRUSTEES CHANGING THE WORLD, IT IS ABOUT TRUSTEES UNDERSTANDING FINANCIAL RISK

The guidance also puts the emphasis on trustee processes and procedures rather than what trustees might provide by way of public disclosures. This shouldn't be surprising, given that trustees (as asset owners) will not be providing public disclosures in the same way that corporates will do for their investors. However, disclosures do have value and with the forthcoming requirement on trustees to provide annual 'implementation statements' to their members from October 2020, trustees may need to revisit how they approach communication with their members. The guidance takes a voluntary approach to disclosures. However, trustees should be cognisant of evolving government policy in this area.

CLIMATE RISK REPORTING AND GOVERNMENT POLICY

The government set out its expectation for all listed companies and large asset owners to disclose in line with the TCFD recommendations by 2022 as part of its Green Finance Strategy in July 2019. At the time of writing amendments to the Pensions Bill have been tabled by the government, creating a regulation making power that can be used to mandate such reporting by pension schemes. The DWP has said that it will consult extensively on both the content and timing of regulations before laying secondary legislation. However, recent comments by the Pensions Minister would suggest that a regulatory 'stick' may be used if trustees aren't adequately responding on climate risk on a voluntary basis.

WHAT NEXT?

Consultation on the PCRIG guidances launches on 12 March. Details of where to find it and how to feed into the PLSA's response to the consultation will be provided in PolicyWatch.

ARE YOU READY FOR A VaR EVENT?

Join us in the Pentland Auditorium at 11.35 on Thursday 12th March

Where are we in the boom-bust-boom cycle? What do we mean by VaR and how could such an event unfold? What governance processes best equip us to ensure the rational mind triumphs over markets?

These questions will be addressed in our provocative session that is not to be missed!

cardano

CTI AT THE CUTTING EDGE

Maggie Williams asked three large pension schemes about their experience of implementing the new industry standard, and how it is likely to drive value for money for savers.

LAUNCHED IN MAY 2019, THE COST TRANSPARENCY INITIATIVE (CTI) IS A NEW INDUSTRY STANDARD FOR INSTITUTIONAL INVESTMENT COST DATA. OPEN SOURCE AND FREE TO USE, IT'S DESIGNED TO HELP PENSION SCHEMES UNDERSTAND AND COMPARE THE COST OF INVESTMENT MANAGEMENT.

The PLSA expects fund managers to report using the CTI framework for their clients' scheme years ending December 2019 or April 2020. Pension scheme managers should discuss their investment managers' preparedness with them.

IF PENSION SCHEMES WANT TO KNOW WHAT THEIR COSTS ARE, THIS IS DEFINITELY THE WAY TO DO IT

1. RPMI RAILPEN

As a large, complex defined benefit (DB) scheme with a few hundred investment funds, ensuring investment costs deliver good value for the scheme and its members is a major priority for RPMI Railpen.

In 2019, RPMI Railpen participated in the trial of the CTI templates, designed to provide an industry-standard, consistent approach to obtaining cost information from fund managers. "In some respects, the CTI process is something that we were already doing, but the templates have given us a more structured and industry-standard approach," says Andrew Walton, Forensic Accountant at RPMI Railpen. "It also helped that investment managers have been involved in developing CTI, making the process of gathering information more efficient and effective. We know we will receive information in a consistent and more accurate way, and then I just have to audit that data for our internal processes."

RPMI Railpen's Finance Director, Victoria Bell, says transparency has been another major benefit: "Ultimately, that's meant that we've been able to reduce our costs. You can manage costs down if you have a clear idea of what they are."

Bell says that in 2011, RPMI Railpen believed its costs were £80 million per year. But when the scheme carried out the full disclosure exercise, it discovered an additional £210 million of costs – an increase of around 1.8% of total asset value. The work that the scheme has carried out over time, using its own approach and CTI, has led to a saving of a percentage point at least, says Bell.

RPMI Railpen carries out an analysis of its investment costs on an annual basis, so used the CTI approach for the first time in 2019. Bell says: "It is still early days for the industry when it comes to CTI. We found managers that had been involved in designing the templates were much more advanced than others in terms of data availability, and we could only involve a sample of our managers this year. When we repeat the exercise next year, we can explore whether it's possible to start earlier and whether more fund managers will have the appropriate data available."

Bell adds: "I'd recommend the CTI approach to other schemes. It is now an industry standard and increasingly managers expect to be asked the questions on the template as it has been well publicised. If pension schemes want to know what their costs are, this is definitely the way to do it."

"Once asset managers have the technology in place to make the CTI templates machine-readable, that should improve their speed of response and also help with the accuracy of the information. I think that if pension schemes want this type of data from their managers, they have to make it as easy as possible for managers to respond."

CTI

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

COST TRANSPARENCY INITIATIVE

Open source and free to use, the Cost Transparency Initiative (CTI) templates are designed to help pension schemes understand and compare the cost of investment management.These templates and tools are free to download from **www.plsa.co.uk**.

TEMPLATES INCLUDE:

The User Summary
The Main Account Template
The Private Equity Sub-Template

Coming soon, a preliminary Fiduciary Management Template, look out for further details.

Visit **www.plsa.co.uk**

ROYAL BANK OF SCOTLAND GROUP PENSION FUND

In recent years, Royal Bank of Scotland (RBS) has worked hard to bring more transparency to its scheme costs so that it can quantify the value being added by its fund managers and determine future investment strategy.

"We split out the total cost of running the scheme, dividing it into fund management fees and other costs, such as custody and adviser fees, as well as implicit and explicit transaction costs," says Robert Waugh, CEO and CIO of the RBS Group Pension Fund. "That enabled us to identify our costs both in monetary value and in basis points."

Waugh says that by having a clearer picture of total costs, it has become easier to manage them and to renegotiate fees based on the data. "We've been able to halve our fund management fees from 53 bps in 2010, to 23 bps in 2018. That is a significant saving especially when you compound it over more than 50 years, with a scheme worth £50 billion."

RBS now has eight years' worth of granular cost data to draw on. As a result, the scheme can explore longer-term trends, such as whether managers and asset classes are outperforming RBS's benchmarks – and whether the fees the scheme is paying for that outperformance are justified.

Waugh explains: "When we looked at our hedge fund investments, for example, we could see that any outperformance was being completely wiped out by the fees we were paying. In contrast, we retained around 80% of the value added by our quoted equities portfolio."

As a result, RBS has been able to establish some internal guidelines for value and cost. "If you are paying away a lot of your outperformance back to the fund manager, you have to ask, is that investment still worth it? With this data, we can start to discuss realistic performance and no-performance fees with our managers. We expect to keep 70% of the value added by the fund manager."

RBS publishes its costs and performance every year in its accounts, bringing transparency not just for scheme members, but for its asset managers as well. "The fund managers can see this and will then expect a conversation on fee negotiations, if appropriate."

This year, RBS used industry-standard CTI templates rather than its bespoke process for the first time. Waugh says that there were a number of advantages in using the CTI method: "A process that used to take us two weeks now takes around two hours. It also gives us the ability to benchmark our fund costs accurately against other schemes. That's common practice in the Netherlands, and doing this in the UK could also add value."

In the future, Waugh can see further improvements to the CTI process. "We need to further improve analysis of transaction costs, as these costs need to be assured by a third party."

Waugh believes that the CTI approach benefits all schemes. "You wouldn't run a business without knowing your costs, so why would you run a pension scheme that way? Asset owners can determine if they are getting value for members. And for asset managers CTI creates a level playing field on which to compete. Less scrupulous asset managers cannot gain advantage by hiding costs because CTI's approach is transparent and open."

RBS™
The Royal Bank of Scotland

CTI FORMS PART OF GOOD GOVERNANCE AND INVESTMENT STEWARDSHIP

3. WEST MIDLANDS PENSION FUND

The West Midlands Pension Fund (WMPF) has been on a five-year mission to better understand its investment costs. In doing so, the scheme has enhanced its governance, been able to make more informed investment decisions and now has greater visibility on how costs may evolve as the strategy changes over time.

Back in 2014, WMPF developed in-house cost disclosure templates for its fund managers to complete. Based on its experiences from those early templates, WMPF has since helped to pilot the industry-wide CTI model and is now an influential advocate of CTI.

"Using first our own templates then the CTI approach, we have been able to identify and manage our costs much more effectively," says Rachel Brothwood, Director of Pensions at WMPF. "Over the last five years, we've seen a 50% reduction in costs, from over 80 basis points to under 40."

Brothwood says that the CTI model has two key advantages over WMPF's earlier in-house approach. "The templates enable us to capture a broader range of costs, in a standard format. We were initially collecting information just based on what our managers could provide. Now, we can capture a much wider and more consistent range of data points, capturing more previously unseen areas such as transaction costs, for example.

"A consistent set of templates also makes it easier for the investment community to respond," adds Brothwood. "This has been reflected in the rate and volume of responses we've received since using CTI. We sent out over 200 templates this year, and these have been returned more quickly and covered more of our assets than ever before."

The WMPF now has in-depth details on the management costs of over 90% of its assets, based on the CTI templates. Most of the remaining 10% is in private, illiquid markets where fund managers' awareness of the CTI model is less well developed than in public markets, and where processes for CTI-related data reporting may not be as well established.

However, Brothwood says that private markets are now taking heed too: "As this process becomes the norm, managers will be expected to provide the required information. Compliance with CTI is part of our investment process and decision-making now, so if a manager can't commit to cost transparency, that may be a red line to their appointment."

The benefits of better-quality cost data are clear. Says Brothwood, "From a governance perspective, we want to make sure we are executing due diligence by collecting and analysing our costs. That way we can make sure we are not leaking value within the portfolio. However, there can be a perception that this is just about hammering down costs. It is more about understanding them, so that we can clearly justify spend where it adds value."

Brothwood believes schemes that aren't yet using the CTI templates are missing out on opportunities to review costs and increase confidence in the efficient implementation of their investment strategies. "CTI forms part of good governance and investment stewardship. Plus, in the local government sector, we have increasing disclosure requirements. Not being able to report accurately on costs will become ever more of an issue over time as we remain focused on delivering a cost-effective scheme for our employers and members."

AS THIS PROCESS BECOMES THE NORM, MANAGERS WILL BE EXPECTED TO PROVIDE THE REQUIRED INFORMATION

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

PLSA LOCAL GROUPS: YOUR REGIONAL NETWORKS FOR SHARING KNOWLEDGE.

Did you know that the PLSA operates Local Groups throughout the UK from Scotland to South East England?

Local Groups are the place to build your network in your region, share your share experience, gain new insight and enhance your CPD hours.

Meetings usually happen in early morning or late afternoon/ evening sessions. They can include panel discussions, debates, seminars and specialist updates by industry experts. Some groups host annual one-day seminars and social events.

Make the most of your membership. To find your nearest Local Group and sign up for meeting invitations please email:

Cheryl Wilkinson,
Membership Engagement Manager at

Cheryl.wilkinson@plsa.co.uk.

INDUSTRY EMBRACES RETIREMENT LIVING STANDARDS

Much progress is being made towards the PLSA's target of ensuring 50% of savers belong to schemes that make use of the Retirement Living Standards by 2022. ***Mark Smith*** explores some of the ways three different pension organisations are bringing the Standards to savers.

LAUNCHED AT THE PLSA'S ANNUAL CONFERENCE AND EXHIBITION IN OCTOBER 2019, THE RETIREMENT LIVING STANDARDS WERE DEVELOPED TO HELP SAVERS PICTURE THE KIND OF LIFESTYLE THEY COULD HAVE IN RETIREMENT. BASED ON INDEPENDENT RESEARCH BY LOUGHBOROUGH UNIVERSITY, THE STANDARDS SHOW SAVERS WHAT LIFE IN RETIREMENT LOOKS LIKE AT THREE DIFFERENT LEVELS – MINIMUM, MODERATE AND COMFORTABLE – AND WHAT A RANGE OF COMMON GOODS AND SERVICES WOULD COST FOR EACH.

	MINIMUM	MODERATE	COMFORTABLE
SINGLE	£10,200 a year	£20,200 a year	£33,000 a year
WHAT STANDARD OF LIVING COULD YOU HAVE?	Covers all your needs, with some left over for fun	More financial security and flexibility	More financial freedom and some luxuries
HOUSE	DIY maintenance and decorating one room a year.	Some help with maintenance and decorating each year.	Replace kitchen and bathroom every 10 years.
FOOD & DRINK	A £38 weekly food shop.	A £46 weekly food shop.	A £56 weekly food shop.
TRANSPORT	No car.	3-year old car replaced every 10 years.	2-year old car replaced every five years.
HOLIDAYS & LEISURE	A week and a long weekend in the UK every year.	2 weeks in Europe and a long weekend in the UK every year.	3 weeks in Europe every year.
CLOTHING & PERSONAL	£400 for clothing and footwear each year.	£750 for clothing and footwear each year.	£1,000 – £1,500 for clothing and footwear each year.
HELPING OTHERS	£10 for each birthday present.	£30 for each birthday present.	£50 for each birthday present.

Like the '5 a day' healthy eating maxim, the Standards are quickly becoming a rule of thumb for retirement planning. The strength of the PLSA's work influencing the debate about retirement savings is evidenced by the widespread national media coverage they have received, and the fact that bodies like The Investing and Saving Alliance (TISA) and the Institute and Faculty of Actuaries (IFoA) have used the figures as a basis for their own research to forecast retirement adequacy outcomes for savers.

We're also working closely with industry to ensure pension schemes incorporate the Standards into the full range of their communications, including annual benefits statements, videos, online calculators, pensions engagement tools and workplace communications. In addition, we aim to ensure the Retirement Living Standards are used by the Money and Pension Service and, in due course, are included on pensions dashboards.

The PLSA's ambition is that by 2025, 90% of active savers will belong to pension schemes that are using the Standards. More than 30 organisations are using the Standards in some form or other already, reaching more than 8 million savers. These range from pension providers and public bodies to employee benefits providers and industry associations.

Here we showcase how three of them have incorporated the standards into their communications.

CASE STUDY 1

Royal Bank of Scotland

The team behind the Royal Bank of Scotland's (RBS) workplace pension scheme says the Retirement Living Standards are valuable because for the first time they'll be able to tell people how their savings will shape up for retirement and how much they'll need to achieve a better quality of life.

RBS has been looking at ways to build on the increased awareness of pension saving generated by the Retirement Living Standards, to take individual savers through a pathway that helps them bolster their own saving to navigate from one standard to another.

One way it's doing this is by incorporating the Standards into its annual benefit statements. RBS is also adapting its financial wellbeing tool to help colleagues understand how their saving relates to the Standards. It's a quick and easy five-minute survey that helps colleagues understand how they're getting on with budgeting, debt, savings and understanding their pension.

Once savers have completed the survey, RBS can identify opportunities for savers on the minimum and moderate standards to save more.

"If we can tell from their results that they're struggling with budgeting or paying down debt, we can identify that as an opportunity to free up money for life after work in the long term," says Carol Young, Director of Reward, Pensions & Benefits at RBS.

"We can then provide support through our financial wellbeing guides, independent support from charities and our mobile companion banking apps Bo and Mimo to support their financial wellbeing in the short and long term."

CASE STUDY 2

Aviva

Aviva is another large provider of DB and DC pensions that has enthusiastically adopted the Retirement Living Standards. The financial service giant is incorporating the Standards into its existing Retirement Forecaster tool. The calculator takes savers on a journey to understand how much income their saving is forecast to generate when they retire, how likely this outcome is and how this number relates to the standards.

The next step on the journey is to suggest ways the saver might improve their forecast and includes tools and toggles to allow the saver to understand the effect of contributing more to their pension, pushing back their retirement date or upping their investment risk.

The result of these tweaks might move a saver from having a 'small chance' of achieving the minimum Retirement Income Standard to a 'good chance' of reaching it.

CASE STUDY 3

Wealth Wizards

Financial advice technology provider Wealth Wizards has incorporated the Retirement Living Standards into a new online robo-guidance process called Turo Digital.

Turo Digital is an AI-powered financial advice and guidance platform which can be configured to a client's brand, advice policy and tone of voice.

A demonstration video introduces the viewer to its chatbot, Eva, "your personal financial adviser." In the on-screen dialogue with Eva – the design is reminiscent of other smartphone messenger apps – she tells us: "Everyone's hopes, fears and aspirations are different. The Retirement Living Standards set the benchmark that people can relate to. They will help members to set an achievable goal that they can work towards."

The video presents the viewer with a simple quiz with questions relating to lifestyle choices that the saver can pick to determine which Retirement Living Standard they aspire towards when they retire.

"We want to create a personal connection for people from all walks of life to help them hit their target," says Eva.

ADOPTING THE RETIREMENT LIVING STANDARDS

The Retirement Living Standards are aimed at cutting through the ambiguity that currently surrounds retirement planning and providing a rule of thumb as a starting point. At the PLSA, we want to help organisations to bring the Retirement Living Standards' simple story to as many people as possible to help them picture their future and make planning for retirement a more tangible and relatable process.

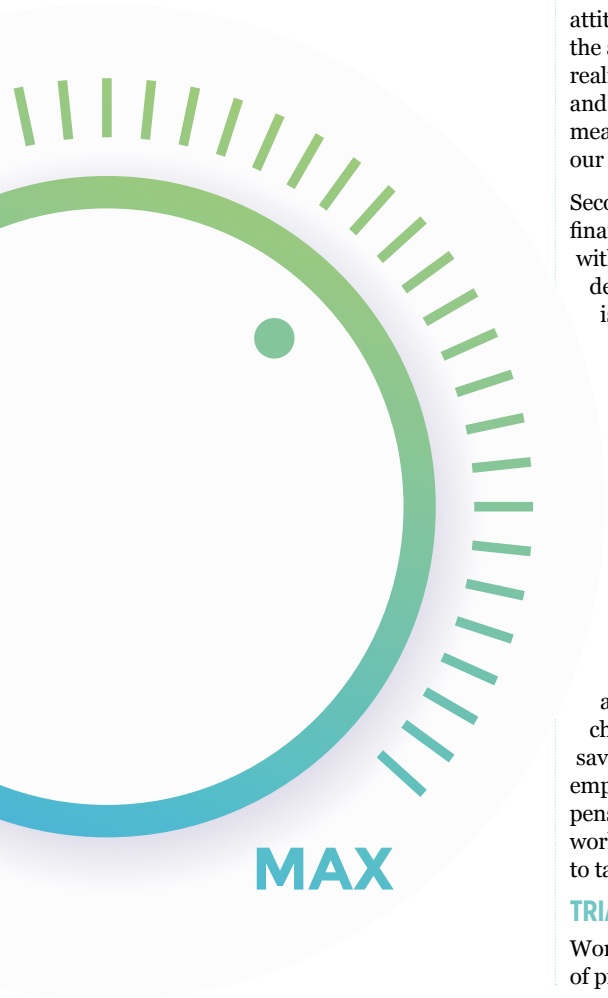
To find out more about how your organisation can adopt the Retirement Living Standards visit **www.retirementlivingstandards.org.uk**.

FUTURE FOCUS: MOVING THE DIAL ON LATER LIFE SAVING

Carolyn Jones, Head of Pension Policy and Strategy at the Money and Pensions Service (MaPS), calls for bold ambitions on financial wellbeing.

THERE'S A SERIOUS NEED TO GET PEOPLE OF ALL AGES ENGAGING WITH THEIR LONG-TERM SAVINGS IF WE ARE TO CREATE A NATION WHERE EVERYONE IS MAKING THE MOST OF THEIR MONEY AND PENSIONS.

Of the 40 million working-age people in the UK, 22 million say they don't know enough to plan their retirement. We know that people live for today, but we also know how important it is for people to save enough money to enjoy a comfortable retirement.



That's why we published a 10-year strategy looking at how we can improve the country's financial wellbeing. Financial wellbeing underpins health and happiness, and our new strategy sets out to improve millions of lives. We've set five priority goals to help people better manage their money. These include better financial education for young people, getting more people saving, helping people rely less on credit, more people accessing debt advice and planning for later life.

I joined MaPS at the start of this year, with two things in particular convincing me to take the role.

First was the fact that many of our money attitudes and habits have started to form by the age of seven: I have a five-year-old and I realised that if we want to encourage saving and sensible spending, we need to encourage meaningful financial education that reflects our increasingly cashless age.

Secondly, MaPS recognises that to improve financial wellbeing in the UK we need to work with partners, organisations and charities to deliver interventions. That the UK strategy is not solely about what MaPS does, but is also about how best to support delivery of interventions where they'll be most effective, I thought had the potential to have significant impact.

A FOCUS ON RETIREMENT

One of our key areas for focus is long-term saving. Our goal is to see an increase of 5 million people understanding enough to plan for and during their later lives. We want to see more people connecting with their pension, feeling confident to make active choices. We want to see a cultural change where conversations about pension savings become the norm and people feel empowered to take ownership of their pensions. This will require new ways of working and products that encourage people to take charge of their futures.

TRIALLING NEW APPROACHES

Work is already underway on a range of pilots exploring how people can be encouraged to take up pensions guidance. We're currently running behavioural trials with pension providers, testing different ways to nudge more people to have a Pension Wise appointment before accessing their pension savings. We know from our recent service evaluation that 95% of people who use Pension Wise report feeling very or fairly well informed of their pension options compared to only 57% of non-users.

WORKING TOGETHER WITH THE INDUSTRY

This year our priority will be to connect with companies, charities and other organisations that share our vision. The PLSA's own Retirement Living Standards are a great example of how, by working collaboratively, we can help consumers get a better understanding of how much they need to be saving for their retirement.

We want the sector to get involved in activating the strategy to improve financial wellbeing. As such we are forming two challenge groups tasked with coming up with recommendations that will support the five priority goals we have identified in the strategy.

We've set some ambitious goals but we know we can't make the kind of changes needed to later life saving happen on our own. We need the involvement of the pensions industry to really move the dial. We have a decade to make a difference, so let's get started.

The PLSA's ***George Currie***, Policy Lead: Lifetime Savings, is working with MaPS, supporting the Pensions Dashboard Industry Delivery Group. George is focusing on the architecture and data standards that will underpin the creation of fully functioning pensions dashboards.

MEMBER NEWS

WELCOME TO NEW MEMBERS

ACARDA

acarda is a leading European Reg Tech company for regulatory reporting and data management for buy-side institutions.

Its platform "arep" is a "Software as a Service" and runs regulatory reporting such as PRIIPS, MIFIDII, CTI/ICT, AIFMD, Solvency II, CRR, MMF and local regulations. The best of class dashboard provides asset managers, fund administrators and insurance companies full access to their data, calculations and reports.

acarda's ever-growing knowledge base and team of expert consultants are constantly tracking the changes in the regulatory environment and offer advisory services in incorporating best practices for the regulatory standards.

acarda is a member of the BVI, BAI, THEIA, PLSA and ALFI funds association.

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www.acarda.eu

FIDANTE PARTNERS

Fidante Partners is an international asset management business that partners with talented investment teams to deliver accelerated business growth. As a multi-boutique investment firm, Fidante builds successful alliances with a diverse range of traditional and alternative investment managers, both liquid and illiquid.

Fidante's deep experience in asset management and its institutional grade operational infrastructure free investment decision-makers to focus on what they do best: managing client portfolios.

Fidante's global platform offers strategies that resonate across institutional, wholesale, family office and retail investor channels.

Fidante founded its first specialist investment business in 2005 and is now Australia's leading multi-boutique asset manager with 16 fund managers.

With offices in Sydney, London and Stockholm, Fidante is fully owned by Challenger Limited, an ASX-listed investment management firm and regulated life insurer with AUD 86bn in AUM as at 31 December 2019.

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GRIDSERVE

We have less than 30 years to decarbonise the UK's economy and meet our 2050 'Net Zero' legally binding climate change laws. GRIDSERVE is at the forefront of developing, financing, building, and operating long term, sustainable energy solutions for critical power infrastructure. In 2019 GRIDSERVE completed the UK's largest and most advanced utility scale solar + battery storage + nature sanctuary projects, sold at completion to Warrington Borough Council.

GRIDSERVE are also building the UK's first Electric Forecourts® to make charging electric vehicles as easy as using petrol stations. With a ban on the sale of petrol, diesel and hybrid vehicles in less than 15 years, there is an increasingly urgent need to deliver this network. GRIDSERVE are looking forward to meeting with new partners and potential investors in sustainable energy infrastructure at the PLSA event.

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GUINNESS ASSET MANAGEMENT

Guinness Asset Management is an independent, employee-owned, British fund management company, founded in 2003. We manage $3 billion in assets for institutional and individual investors (as at 31 January 2020) and specialise in actively managed global, regional and thematic equity strategies. Our funds are managed on an unconstrained, concentrated basis with a high level of conviction. Our ownership structure helps ensure our company's interests remain firmly aligned with those of our investors.

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INDUS VALLEY PARTNERS

Founded in 2000, Indus Valley Partners has more than 120 global asset managers, pension funds and private equity funds among its client base. $2.5 trillion of global AUM is managed using IVP technology.

Specializing in technology and data management for asset servicers and alternative asset managers, IVP provides flexible and modular solutions that can be tailored to the specific requirements of any portfolio or fund. The solutions range from Investment Data Aggregation and Governance, to Portfolio Management, Risk and Analytics and Investor Reporting. IVP also offers an industry-specific solution for Pension Funds.

IVP employs 500+ developers, associates and analysts servicing clients globally from offices in New York, San Francisco, Salt Lake City, London, New Delhi and Mumbai.

Learn more about IVP at **www.indusvalleypartners.com**

GENTLE GUIDANCE

A good mentor can make all the difference, says PMI's ***Tim Middleton***.

THOSE COMMENCING A CAREER IN PENSIONS FACE A BEWILDERING RANGE OF CHALLENGES WHICH CAN SERIOUSLY AFFECT THEIR LONG-TERM PROFESSIONAL DEVELOPMENT. ACADEMIC QUALIFICATIONS ARE VITAL FOR ANY PROFESSIONAL CAREER, BUT THE WORKPLACE ENVIRONMENT REQUIRES NEW AND OFTEN UNFAMILIAR SKILLS.

Without doubt, studying for professional qualifications is integral to career development. Within a pensions context, there is no better grounding in what the industry requires than the extensive range of qualifications provided by trade bodies such as the Pensions Management Institute (PMI). A daunting range of skills covering law, scheme design, scheme administration, management and much more can be broken down into a systematic programme of study. After some years of hard work, students who complete the Advanced Diploma in Retirement Provision (ADRP) have the confidence which stems from comprehensive technical skills evidenced by a range of qualifications.

However, young people in the dawn of their careers commonly require something more practical. Anxious career entrants are frequently bewildered by the challenges that pensions can offer, and some gentle guidance from experienced career professionals can go a long way.

A good mentor, for example, can have a positive impact that helps younger people develop. The guidance that an older person can offer can cover aspects of a role that professional qualifications just cannot provide. The 'soft' skills that are vital to work effectively within a workplace environment cover team building, identifying new commercial opportunities and effective liaison with clients. Crucially, they cannot be learned any way other than through normal workplace activity. However, gentle guidance from a more experienced mentor can also help younger people gain the confidence to work effectively with others and learn from the successes and mistakes of those who have gone before them. A career in pensions is one that can follow a variety of paths, and an effective mentor can help a younger person identify the avenues that are right for them.

It is with this in mind that PMI has developed a mentoring programme which will allow young people whose careers are in an early stage to connect with pensions 'veterans'. Mentors can pass on their experience so that younger people can benefit from decades of work within the pensions industry.

If older generations choose to 'pay it forward', today's generations of young professionals will develop to their full potential – and ultimately pass it on to those who follow.

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LEGAL UPDATE

PENSIONS LAW: WHAT TO EXPECT IN 2020


Loreto Miranda and *Nick Sargent*,
Thomson Reuters' Practical Law Pensions service.

THE 2020 PENSIONS LAW AGENDA WILL BE DOMINATED BY THE PENSION SCHEMES BILL 2019-20 AS IT PASSES THROUGH PARLIAMENT. THE BILL WAS REINTRODUCED INTO THE HOUSE OF LORDS ON 7 JANUARY 2020, IN MUCH THE SAME FORM AS ORIGINALLY ADVANCED IN OCTOBER 2019. IT INCLUDES POTENTIALLY GROUND-BREAKING EXTENSIONS TO THE PENSIONS REGULATOR'S POWERS OF INVESTIGATION AND ENFORCEMENT, AND ALTERATIONS TO THE SCHEME FUNDING REGIME.

Concerns have been raised on the scope of the new criminal offences created by the Bill. During the House of Lords' second-reading debate[1], Lord Hutton considered the wording went "significantly beyond the criminal sanction proposed in the consultation which preceded the Bill". How the drafting develops remains to be seen. In relation to funding, much of the technical detail is likely to appear in the Regulator's new code of practice, with a consultation due later this year. The proposed framework for regulating defined benefit consolidation does not appear in the Bill. However, during second-reading, a DWP minister indicated that a response to the December 2018 consultation would be published "shortly", with legislation for superfunds to follow "as soon as [it] can".

For many schemes, equalising benefits for the effect of unequal guaranteed minimum pensions (GMPs) has been on hold pending anticipated guidance from HMRC (and other bodies) and the outcome of a further hearing in the Lloyds Bank case (provisionally listed for the Spring). Subject to events, schemes may feel more confident about taking concrete decisions on how to equalise benefits in the second half of the year.

Investment and governance legal and regulatory requirements are likely to continue to grow in significance for trustees. From October 2020, trustees of certain defined contribution schemes will have to include an 'implementation statement' in their scheme's annual report setting out the extent to which their statement of investment principles has been followed during the scheme year, and explaining any changes made to the statement during that year.

Brexit will have an impact, although in terms of pensions law, probably in the longer term. Depending on the nature of the UK's future relationship with the EU, it is conceivable that a post-Brexit UK could opt to diverge from EU-derived pensions legislation.

For more information on Thomson Reuters' Practical Law knowhow service for pensions professionals visit **https://uk.practicallaw.thomsonreuters.com/Browse/Home/Practice/Pensions or contact loreto.miranda@thomsonreuters.com**.

1 *Hansard, House of Lords: Pension Schemes Bill [HL] Vol 801 (28 January 2020).*

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

EDUCATION PARTNER

WE ARE DELIGHTED TO ANNOUNCE OUR EDUCATION PARTNERS FOR 2020

OUR PARTNERS SHARE THEIR EXPERTISE WITH PLSA MEMBERS VIA TEACH-INS, WEBINARS AND THOUGHT LEADERSHIP ARTICLES.

WORLD GOLD COUNCIL

World Gold Council will discuss the role of gold in a pension fund portfolio

Russell Investments

Russell Investment will inform on fiduciary management

caceis INVESTOR SERVICES

Caseis will share their expertise on data and custody governance

EQUINITI

EQUINITI will explore GMP equalisation

FOR MORE INFORMATION VISIT WWW.PLSA.CO.UK