

# Phoenix CIS PMI Academy Manual 2023

## Understanding investment-only platform solutions



# Contents

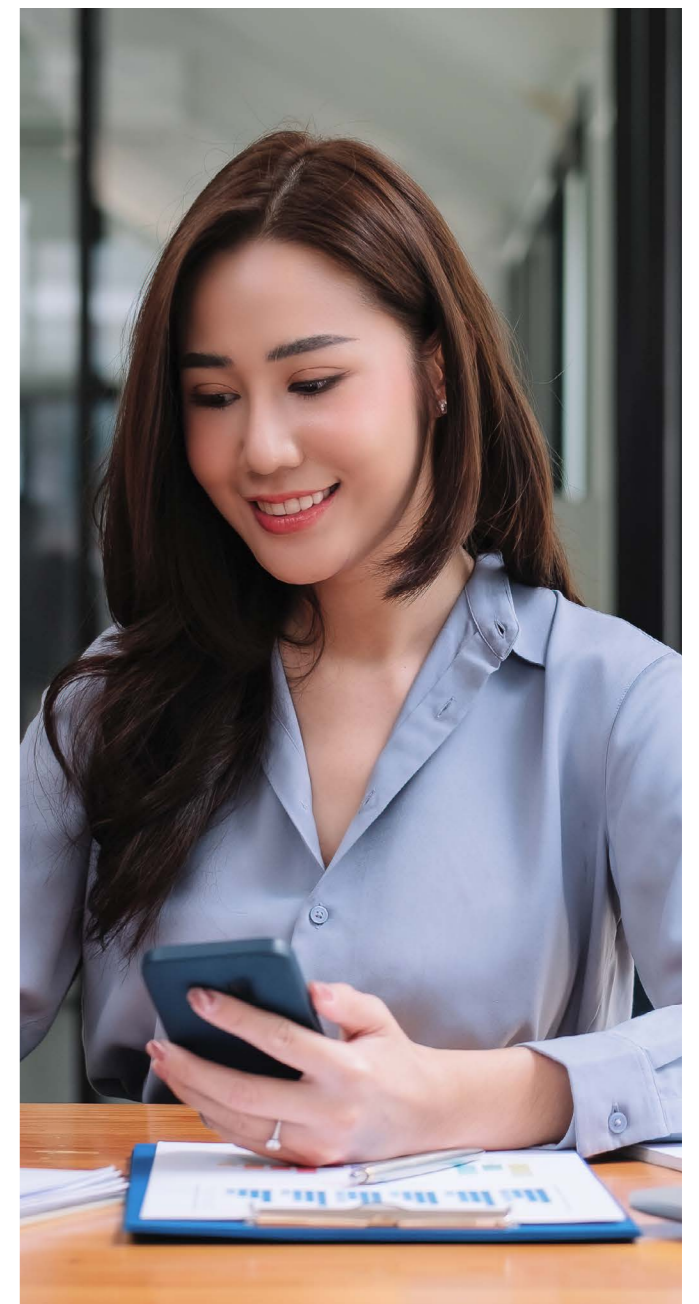
Introduction	03
Navigating the complexities of pension scheme management	04
Simplifying fund manager relationships	06
Simplifying operational processes	08
Simplifying change management	10
Simplifying scheme governance and reporting	11
Simplifying fee arrangements	12
Future proofing your scheme through investment only solutions	14
Key Takeaways	18

## Introduction

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**Pension scheme management has become increasingly complex, with trustees, their consultants and scheme administrators facing a range of challenges at both an operational and strategic level, while ensuring they meet an ever increasing number of regulatory requirements.**

In this manual, we'll examine some of the current complexities of pension scheme management, and consider the solutions that investment only platforms can provide to simplify operational processes, enhance governance and manage change.



# Navigating the complexities of pension scheme management

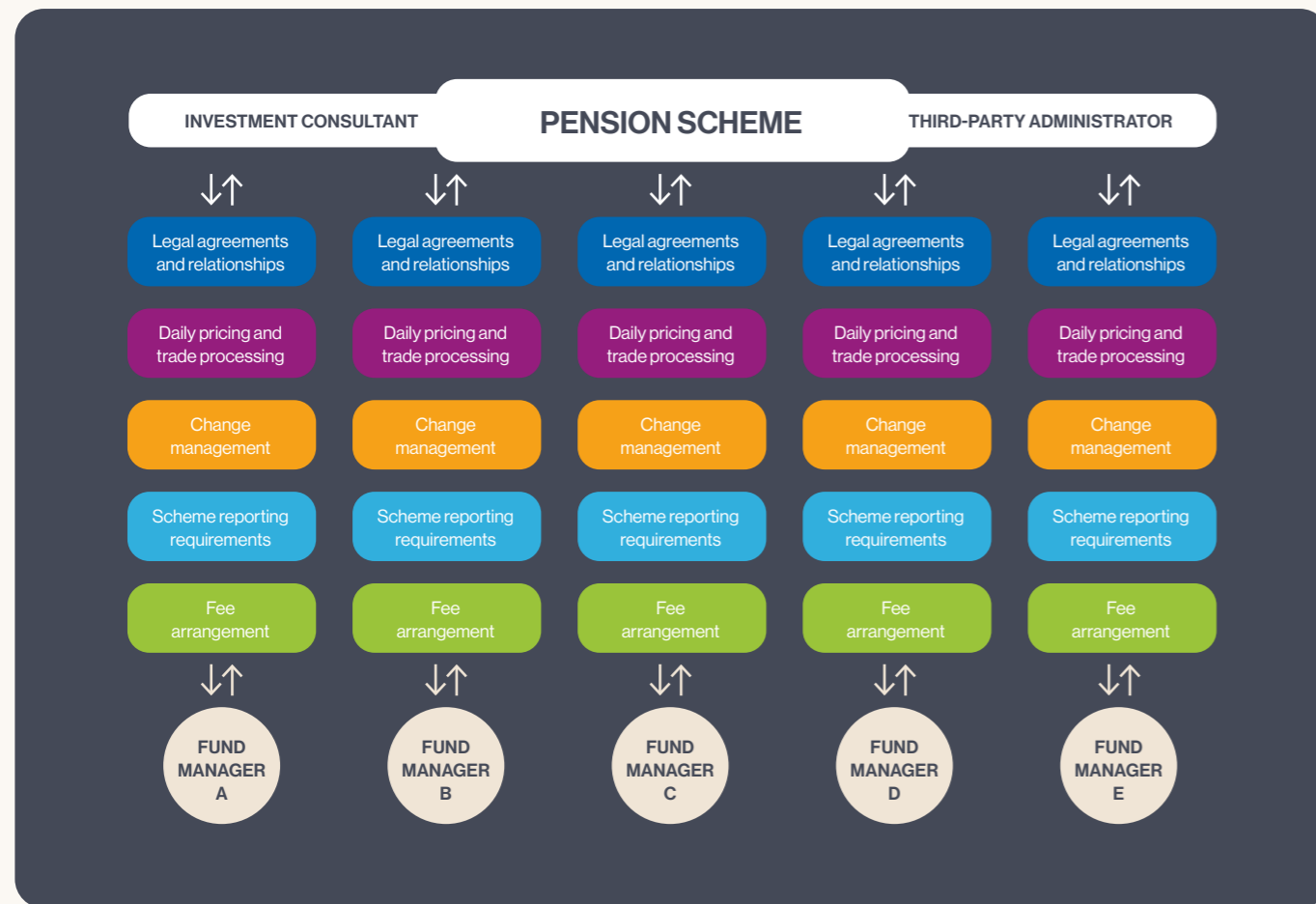


Diagram 1: Managing a pension scheme without access to a platform

Most pension schemes invest in a range of funds across a number of different asset managers, introducing multiple touchpoints for day-to-day operational requirements, reporting and change projects.

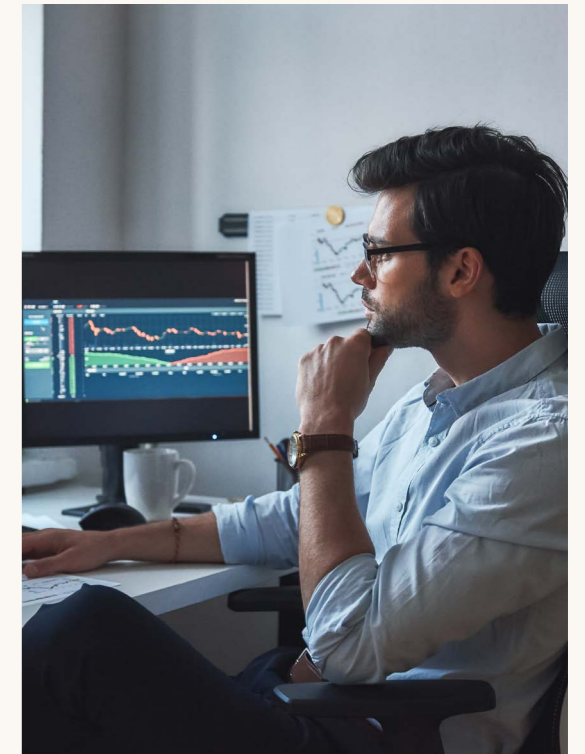
This can create complexities for scheme administrators, and can also present challenges for trustees and their advisors when making changes to their investment strategy.

Smaller schemes may also find that they have limited bargaining power in fee negotiations, potentially limiting their investment choice. This makes it more difficult to meet changing investment priorities and deliver improved outcomes for members.

Investment only platforms enable schemes to combine their investments into blended or white-labelled fund solutions, streamlining operational, reporting and regulatory processes and providing a single point of contact for pension scheme managers.

With a large book of assets under management, they can also use economies of scale to bring their assets to bear in any fee negotiations and so drive cost efficiencies for schemes, widening access to new investment opportunities.

Let's now take a look at some of these challenges and solutions in more detail.



# Simplifying fund manager relationships

## Challenge

Most schemes require access to a range of different funds and investment vehicles in order to deliver their current - and future - investment strategy.

This means managing legal agreements, fund governance processes such as Anti-Money Laundering (AML) and relationships with multiple fund managers, which can be complex, expensive and time-consuming.

## Solution

Platforms will set up fund link agreements with all underlying fund managers and manage the initial and ongoing governance processes (for example AML and due diligence), providing time and cost efficiencies for schemes, which in turn will significantly reduce the need for legal resource.

Numerous fund manager touchpoints are replaced by a single legal agreement and point of contact with the investment only platform. While schemes and their consultants will maintain oversight of fund performance, platforms can manage the operational due diligence requirements for each fund they make available to clients.

Using their purchasing scale and operational expertise, platforms can also provide access to a wider range of investment vehicles. This could include LDI options for DB schemes, or private market investment opportunities, which can prove complex and operationally challenging for DC schemes in particular.

Underlying investments from different managers can then be combined into blended and white-labelled fund solutions, enabling schemes to simplify their investment structure.

Blends can consist of other blended funds, often with several levels of hierarchy. This means that any changes to individual blended funds are automatically reflected in other blended structures, making communication and member administration simpler and more efficient, and providing greater flexibility when making changes to the underlying investment strategy.

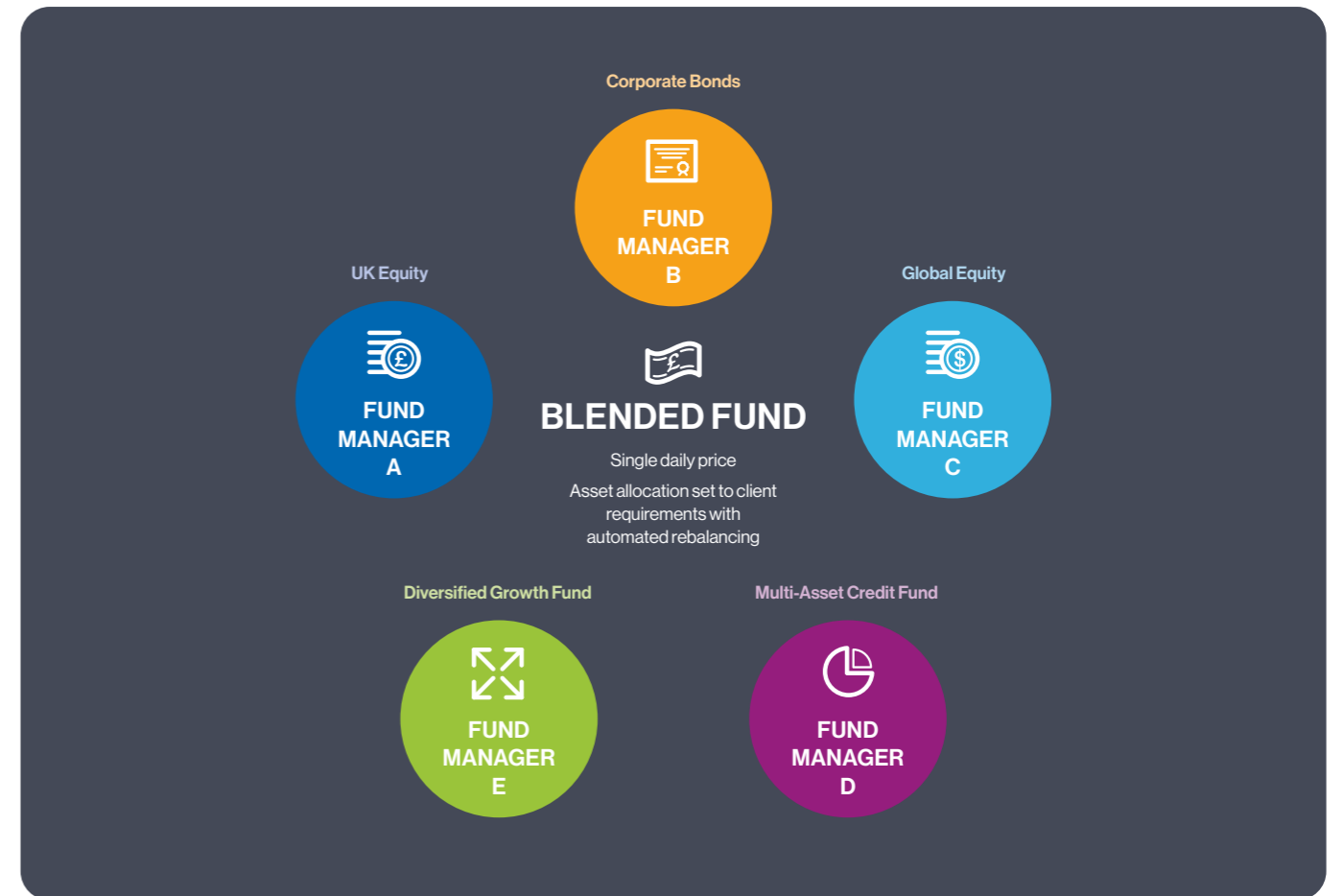


Diagram 2: A blended fund solution

# Simplifying operational processes

## Challenge

Where pension schemes invest with a number of underlying fund managers, daily trading and pricing can involve many different trading cycles, system integrations and touchpoints.

Daily price files received from each of the underlying fund managers must be used to calculate fund and unit holdings for members, and trade instructions must also be processed separately with each individual fund manager.

This requires significantly more oversight from the scheme administrator, who will also have to manage multiple points of contact when queries or problems arise.

## Solution

The platform acts as a single point of contact for all pricing and trading activity.

On a daily basis the platform will receive all aggregated trade instructions from the scheme administrator and manage the dealing and pricing cycle with each of the underlying fund managers on its behalf, usually via straight through processing. It will derive a daily unit price for each fund on the platform, reflecting the latest prices received from the underlying fund managers.

In addition to improving operational efficiency, the platform's robust, automated processes – with oversight from its pricing team – serve to mitigate operational risk and manual pricing errors.

In addition, automated rebalancing solutions can be implemented to maintain target asset allocations and support schemes in continuing to meet their investment objectives, whether this is dynamic derisking towards buyout for DB schemes, or managing allocations within tailored target date fund structures for DC members.

With net inflows, and the ability to offer box management, platforms are often able to match trades by offsetting redemptions with purchase instructions from other platform clients. This reduces transaction costs for all clients and mitigates bid/offer spreads imposed by some underlying funds.

Utilising an investment only platform removes a layer of complexity for pension schemes, reducing the operational burden on the scheme administrator and minimizing the scope for error.

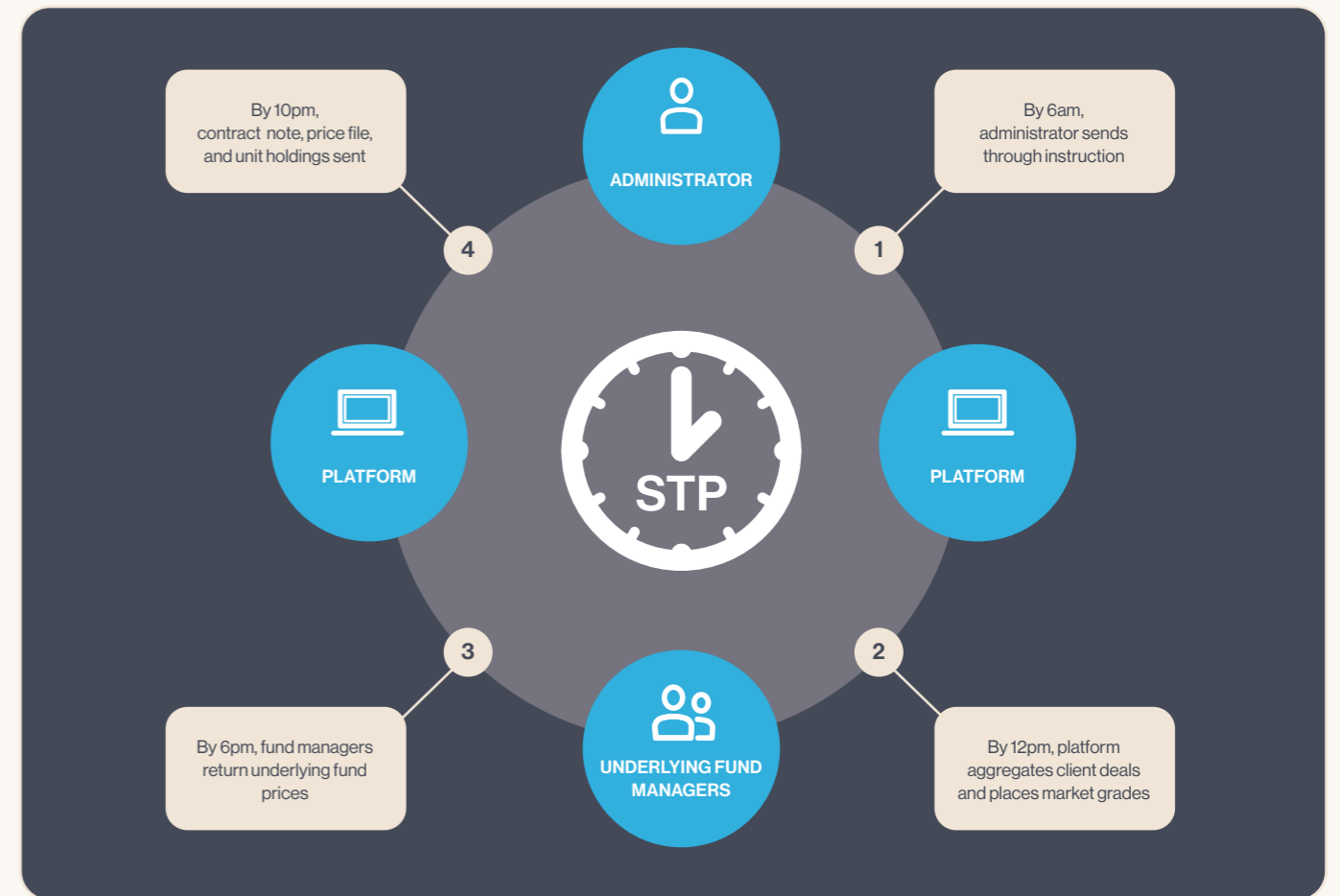


Diagram 3: An illustration of straight through processing using the Phoenix CIS process example



## Simplifying change management

### Challenge

From incorporating more sustainable options to accessing investments with higher growth potential, investment strategies evolve regularly to reflect the changing priorities of trustees and their members.

Making significant changes to an investment portfolio can be a complex process when assets are allocated across multiple funds and fund managers. Significant resource is required to successfully manage change across a scheme's portfolio.

Schemes will also need to manage the impact on members, which could include blackout (i.e. non-trading) periods while underlying changes occur, and the risk of out-of-market exposure caused by dealing, settlement and valuation timing differences.

### Solution

Platforms can offer valuable expertise, support and resource for change projects, managing transitional activity with fund managers on their clients' behalf.

This can include managing new fund additions, the re-registration of assets, in-specie transfers and cash trades as well as providing project oversight.

A good indication of a platform's ability to support the change trustees require is the ability to offer a pre-funding or lending facility, which enables trading times to be aligned during fund settlement periods and helps to mitigate out-of-market risk.

By working with the right platform provider, schemes can benefit from dedicated transition management support delivered by a team of experts, who will work to mitigate risk, reduce the impact on scheme members and achieve the right outcomes during transitional activity by significantly reducing (if not removing) out of market exposure.



## Simplifying scheme governance and reporting

### Challenge

Robust governance, underpinned by accurate and timely reporting, is a key requirement for pension schemes, and the evolving regulatory environment has increased the need for data and information to ensure trustees and their advisors are able to comply with their scheme's governance requirements.

From fund performance reports and transaction cost data to climate metrics and value for money assessments, the range of reports that schemes must now produce continues to grow. This can be difficult to manage across multiple funds without additional external resource.

### Solution

The right investment only platform can provide valuable expertise, enhance governance and reduce the reporting burden on trustees, their advisors and scheme administrators.

By working with underlying fund managers and third party data providers, platforms can produce fund performance reports for each blended or white-labelled fund the client invests in, collating data on all underlying funds within the blend. They can also deliver member-facing fund factsheets, valuation and transaction statements, and other reports that are required on a regular basis.

The right platform provider will also be able to support trustees with increased governance requirements, including climate metrics for their scheme's TCFD report, or value for money assessments in line with DWP guidance. Working in partnership, they will also look ahead to what schemes are likely to need in future, from enhanced Environmental, Social and Governance (ESG) metrics to Taskforce on Nature-related Financial Disclosures (TNFD) and Diversity and Inclusion (DEI) reporting requirements.



## Simplifying fee arrangements

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### Challenge

Where schemes invest directly with fund managers, they will need to negotiate fees and arrange payment of management charges for each individual fund.

Standalone schemes may find that they have limited bargaining power, which restricts investment choice and makes it more difficult to implement changes to their investment strategy as it evolves.

Coordinating the various fee types, for example Gross or Net of fee funds - alongside administration and advisor fees - can also be cumbersome and complicated to explain to members.

### Solution

Partnering with a platform provider can deliver significant economies of scale for pension schemes and their members, and create time and cost efficiencies when managing fee arrangements.

Utilising the strength of their entire book of assets under management, platforms can negotiate the most competitive fund manager fees on behalf of their clients, and can also ring fence any preferential terms that schemes and their advisors already benefit from.

The level of automation offered through a platform's systems can also facilitate flexible charging structures. Management and platform fees can usually be collected through the daily pricing of funds, via a fixed fee arrangement, or a combination of both, depending on need and preference.



# Future proofing your scheme through investment only solutions

The rapid pace of change across the pensions industry and regulatory environment means that trustees and their advisors are regularly seeking new solutions to the new challenges and opportunities that arise.

A good investment only platform provider will partner with schemes over the long-term to deliver the innovation and expertise they need to meet changing requirements, whether that's facilitating change to their underlying investment strategy or supporting trustees in continuing to meet their fiduciary duties.

Here are some of the areas where investment only platforms can help schemes evolve to best position themselves for current and future opportunities.

## Governance and reporting

Scheme governance continues to change, with further increases in reporting requirements expected in the coming years.

While current TCFD regulations only apply to schemes with assets over £1 billion, this mandate is likely to be expanded to smaller schemes in future as well. Schemes that do not fall in scope of the regulations might still choose to provide climate reporting to their members.

The Taskforce on Nature-Related Financial Disclosures - or TNFD - is also providing a framework for how organisations can address and disclose nature-related risks and opportunities, with further implications for pension scheme reporting.

Platform providers can work across a scheme's funds and managers to access the data needed for the compilation of these reports, working with each fund manager to access the data thereby ensuring high levels of data coverage and presenting this information back to trustees and members in a clear and meaningful way.

Whatever the changes to scheme reporting requirements in future, partnering with a platform provider can help to ease the burden on trustees as they develop reporting to support these regulatory obligations.

## Diversifying your scheme's investment portfolio

With trustees coming under increased scrutiny to ensure, and evidence, that they are delivering value for members, many schemes are now focusing on portfolio diversification and looking at ways to access alternative asset classes. This might include private equity, private credit and infrastructure, which offer higher investment growth potential over the long term.

Daily pricing and dealing requirements mean that DC schemes and Master Trusts still face a number of operational and liquidity challenges in this area, however the solutions enabled by investment only platforms can remove many of these barriers.

The right platform provider will be able to accommodate and manage less liquid funds, which typically have non-standard dealing and pricing cycles, including trade notification requirements and liquidity constraints. They should also be able to accommodate less liquid assets within a blended fund structure that includes both liquid and illiquid components, allowing for efficient cash flow between the different components of the blend.

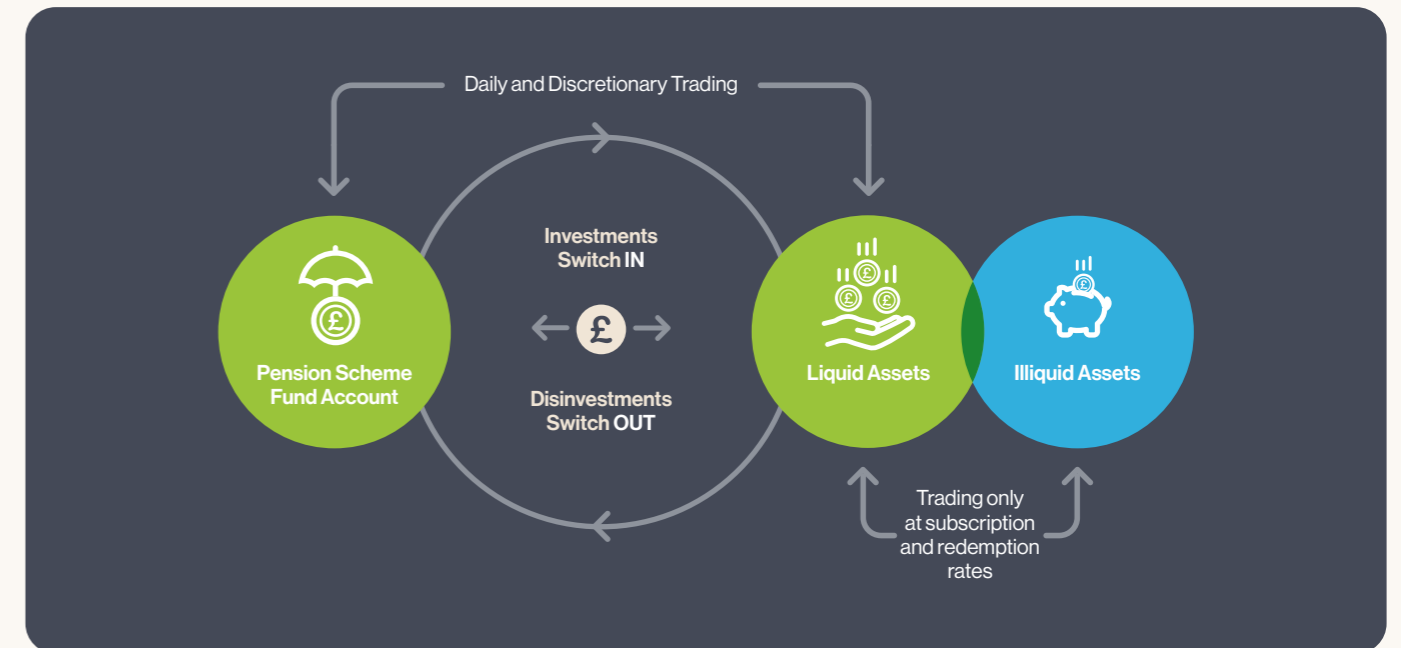


Diagram 4: A blended fund solution with liquid and illiquid components



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### Supporting your journey to net zero

The focus on responsible investing continues to gather pace, and trustees of pension schemes are increasingly aware of the need to incorporate more sustainable investment options into both the default and self-select funds that they make available to members.

Investment only platforms can simplify the transition, providing access to a wide range of sustainable investment choices and making changes under the bonnet of a scheme's white-labelled funds – often without the need for blackout periods or additional member communications.

Some platforms are also developing their reporting capability to help trustees and pension scheme members better understand the environmental, social and governance (ESG) impact of the funds they invest in.

In future, new reporting will provide valuable metrics such as the carbon footprint and carbon reserves intensity of funds, and the percentage of assets invested in activities with Science-Based Targets.

Over time, this will enable trustees and scheme members to make informed choices about the funds they invest in, supporting the scheme's journey to net zero.

### Accessing at- and post retirement solutions

As DC schemes mature, and members increasingly come to rely on the income that they have accumulated in workplace DC pensions, trustees will need to consider suitable retirement options that they may wish to make available to their members at and post retirement.

Many schemes will be looking for readily available options that they can share with their members, including flexible income drawdown and annuities, while others – in particular larger schemes and Master Trusts - may choose to build their own solutions for members that support both accumulation and decumulation, as the retirement 'cliff edge' is replaced with a more gradual transition away from the workplace.

Platform providers are already exploring how they can offer both ready-made and bespoke at- and post-retirement solutions, enabling trustees to discharge their obligations as appropriate or provide decumulation options that simplify the transfer process for members. This is a current key focus area where we expect significant innovation in the next few years as more members begin to rely on their DC pension savings as they reach retirement.

The flexibility offered by platforms means that these solutions can be built around the requirements of the scheme and tailored to the individual needs of trustees and members.





## Key Takeaways

- Investment only platforms manage all fund manager legal agreements on their clients' behalf, providing time/cost efficiencies and access to a much wider range of funds.
- Investment only platforms can combine underlying investments into a straightforward blended or white labelled fund solution.
- Platforms manage the end-to-end daily pricing and trading cycle, simplifying operational and administrative processes and reducing operational risk.
- Expertise and support is available for change projects, with platform providers managing transitional activity with underlying fund managers on their clients' behalf.
- Much of the performance and regulatory reporting that schemes are expected to deliver can be provided by a platform's reporting function.
- Platforms can provide economies of scale, using the strength of their entire book of assets to negotiate the most competitive fund manager fees.
- Platforms offer partnership and expertise, ensuring schemes are future proofed for changes to their investment strategy and the regulatory environment.

As illustrated in diagram 5, investment only platforms enable schemes to implement a structure with a single point of contact that is far simpler and more efficient than the one illustrated in diagram 1.

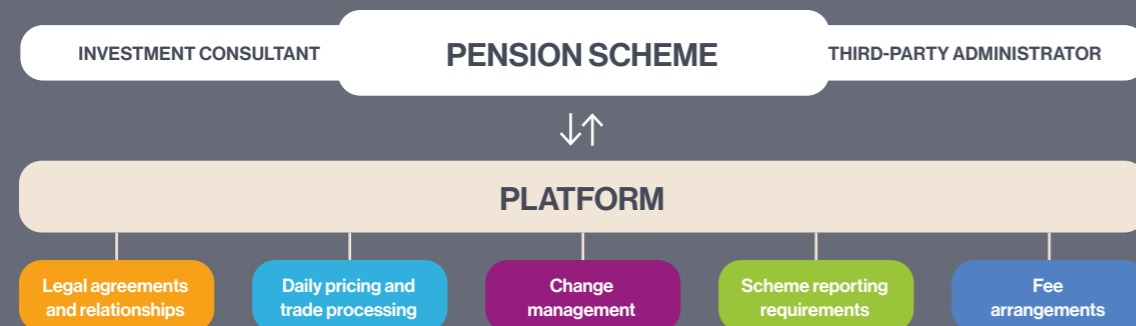


Diagram 5: Managing a pension scheme via an investment only platform

### About Phoenix Corporate Investment Services

At Phoenix Corporate Investment Services we have over 20 years' experience delivering bespoke investment only solutions that meet the strategic and investment objectives of the trustees we work with and their members.

We're proud to be part of Phoenix Group, the UK's largest long-term savings and retirement business. Our purpose is helping people secure a life of possibilities, which drives everything we do.

We hope that this manual has equipped you with an understanding of the solutions that investment only platforms can enable, and how schemes can maximise these benefits to deliver better outcomes for members – now and in the future.



# Contact us

**Email:** [PMIQualifications@Pensions-pmi.org.uk](mailto:PMIQualifications@Pensions-pmi.org.uk)

**Twitter:** <https://twitter.com/pmipensions>

**LinkedIn:** <https://www.linkedin.com/company/pensionsmanagementinstitute>

**Website** [www.pensions-pmi.org.uk](http://www.pensions-pmi.org.uk)

**Registered office:**

Devonshire House  
60 Goswell Road  
London  
EC1M 7AD



**Pensions  
Management  
Institute**  
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