Pensions Aspects

www.pensions-pmi.org.uk

Edition 43 | June 2022

Why technology and analytics are vital

for employee pensions and financial wellbeing

Pensions Management Institute
Moving pensions forward

Foreword

Celebrating the Pinnacle of Pensions

By Jessica Taylor
Events Manager, PMI

In April we launched the inaugural PMI Pinnacle Awards. These unique awards recognise the height of pensions excellence and those who are making a real difference to the profession.

Winners will be celebrated at an exclusive awards ceremony on 15th November at the Londoner, the world's first super boutique hotel. This is not one to miss out on!

The Pinnacle Awards will celebrate the people and new ideas that contribute in making a real impact in the pensions world. Winners will be recognised in the following areas:

PEOPLE

This category recognises the remarkable people of pensions; those who are making a real difference to the industry

- Star in the making
- Team of the year
- Frontline hero of the year
- Leader of the year
- Lifetime Achievement Award

INNOVATION

Celebrating the innovators who are pushing the boundaries to help move pensions forward

- Innovation in learning
- Innovation in systems or technology
- Innovation in new product or service
- Innovation in trusteeship

IMPACT

Showcasing those who are making a significant, lasting impact on the industry

- Impact on climate
- Impact on customer experience
- Impact on the profession
- Impact on society

Why enter?

This is your chance to be given a stamp of approval by the leading body for pensions professionals. Winners will get:

- Use of a winner's logo
- A winner's trophy
- Inclusion in a promotional video
- A written case study published in our magazine and digital supplement, which you can also use in your own marketing
- Inclusion in a press release

It's not too late to submit your entries, which close at the end of June. Shortlisted entrants will be announced in August.

Visit PMIPinnacleAwards.com to find out more and to book your tickets.

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Membership

Membership update

Membership Renewal

Your membership will become due for renewal 1 September 2022. Members will be receiving their renewal notices by email shortly.

Membership Record

Please ensure that your personal details and contact email address have been correctly updated on the PMI database to ensure that you receive your membership renewal and there is no interruption to your membership service. If you require a reminder of your username/password to log in and check your details, please contact the membership department at **membership@pensions-pmi.org.uk**

Continuing Professional Development (CPD)

Fellow and Associate members with 2021 outstanding CPD were notified to complete and submit their CPD using the PMI CPD recording tool on your 'My PMI' area of the member portal, or by providing a completed and signed self declaration form by the end of June 2022. Failure to comply may result in the withdrawal of their designatory initials FPMI and APMI or members will be required to make up any shortfall in their CPD in 2022.

Certificate Membership

Certificate membership is open to those who have completed one of our qualifications at the Certificate Level – for more information please see the PMI's website.

We are pleased to announce that the following people have been elected to Certificate Membership and can now use the designatory initials "**CertPMI**":

Stephen Walter

Leuan Solanki

Liam Hanahoe

Stephen McKechnie

Scott Farquharson

Lesley Brown

Diploma Membership

Diploma membership is open to those who have completed one of our qualifications at the Diploma Level – for more information please see the PMI's website. We are pleased to announce that the following people have been elected to Diploma Membership and can now use the designatory initials "**DipPMI**":

Luke Rowley

Stephen Campbell

Matthew Wells

Senh-Phu Ung

Associate Membership

Associate Membership is open to those have completed the Advanced Diploma in Retirement Provision and worked in the pensions industry for at least three years.

We are pleased to announce that the following people have been elected to Associate Membership and can now use the designatory initials "**APMI**":

Lena Wyszynska

Michael O'Sullivan

Qualifications

PMI Learning update

The benefits of undertaking the Certificate in Pension Scheme Member Guidance Qualification (CPSMG)

Are you a member of a Pensions organisation who regularly liaises with members who are selecting options from a Pension scheme? If this sounds like you, it may benefit you to have a quick delve into the PMI's CPSMG qualification, as the qualification could provide you with the confidence you need to support individuals with their queries.

The CPSMG qualification is an ideal qualification if you are proactively trying to improve member outcomes so that members are provided with the correct guidance on benefit options available to them. As this guidance is in non-regulated advice, the qualification provides an overview of the distinction between regulated and non- regulated advice, as well as the different types of Pension Schemes and the many factors that need to be taken into consideration when making important decisions. The CPSMG covers a multitude of options and situations, such as: joining, leaving, transferring, retirements, communication, death and divorce.

The CPSMG qualification is broken up into three parts; one being a multiple-choice test, the second being case assignments and the third an oral assessment, where you meet with an assessor acting as a member emulating a real-life call.

The value of taking this qualification is astronomical in the fact that members are actively testing their member engagement, communication manner, as well as Pensions knowledge, receiving constructive feedback from tutors on where to improve or what to focus on to achieve higher grades.

The qualification is aimed at giving you the confidence you need, as well as the information to succeed in your role at gaining trust with the members you could be speaking to daily.

Are you a Training Manager wanting to spread confidence to your team as they take members' calls? This qualification may be an ideal venture for the team you manage, so that you can be sure they are providing members with the correct guidance.

If this article has interested you, why not get in touch with a member of the Qualifications team, who would be happy to set up a call or meeting to answer any of your queries: PMIQualifications@pensions-pmi.org.uk

Events

PMI Events

Pensions Aspects June

All events are subject to change; please visit pensions-pmi.org.uk/events for the latest updates.

Dates	Event(s)
15 June 2022	**Turning the tide** – managing and leveraging ESG reporting Online
29 June 2022	**Pensions Aspects Live** IET London, 2 Savoy Pl, London WC2R 0 BL
5 July 2022	**PMI Academy training with BlackRock** – Building solutions for your needs, through uncertain market conditions Online
13 July 2022	**RetirementMatters Training Course** – The fundamentals of retirement savings Hybrid
29 September 2022	**Trustee Workbench** Online
3 October 2022	**Introduction to Pensions (Basic)** Online

Dates	Event(s)
5 October 2022	**Introduction to Pensions (Advanced)** Online
6 October 2022	**RetirementMatters Training Course** – The fundamentals of retirement savings Online
10 October 2022	**Secretary to the Trustee (Basic)** Online
13 October 2022	**Secretary to the Trustee (Advanced)** Online
19 October 2022	**Annual dinner**
25 October 2022	**The Pinnacle Awards** The Londoner Hotel, 38 Leicester Square, London WC2H 7DX

Insight Partner Article

Nudging in the right direction

By Emily Whitelock
Senior Associate, Sacker & Partners LLP

Pension Wise launched alongside pension freedoms in 2015 to provide free, impartial guidance upon accessing flexible benefits. Currently, trustees are only required to *inform* members that Pension Wise is available where a member wishes to take or transfer flexible benefits. However, from 1 June 2022 trustees will be required to go further by providing a "Stronger Nudge" to guidance.

Subject to certain exceptions, from 1 June 2022 trustees and managers of occupational pension schemes will need to refer members to appropriate pensions guidance, Pension Wise, when they apply to transfer or start receiving flexible benefits (broadly, DC or cash balance benefits, including DC AVCs). They will also need to ensure members have received, or formally opted-out of receiving, this guidance before progressing an application for them to transfer or take flexible benefits.

Trustees and scheme administrators will need to update their processes to get ready for June. The new requirements are intricate, but can be broken down into five key areas.

1. Does the Stronger Nudge apply?

The Stronger Nudge won't apply in all cases. To assist with filtering out the applications which will not be caught, trustees may wish to triage transfer and retirement requests by first asking:

- Does the application relate to taking or transferring flexible benefits?
- Was the application made / the communication in relation to the application received on or after 1 June 2022?

If the answer to both questions is yes, the Stronger Nudge may apply. If it's no, then there is no need to provide the Stronger Nudge to the member in relation to the particular application. In practice, however, it may be easiest to update all transfer / retirement packs to refer to the Stronger Nudge, even if internal process documents include the two above questions at the outset.

2. Do any exemptions apply?

The DWP's goal is to refer beneficiaries to Pension Wise as early as possible, but these exemptions recognise it may not always be helpful to do so. Therefore, the Stronger Nudge will also not apply in relation to a transfer if:

- the member is under age 50
- receiving flexible benefits is not the purpose, or one of the purposes, of the member's application (eg it is a transfer for the purpose of consolidating benefits)
- the member has received the Stronger Nudge from a different scheme (in relation to the same application) or
- the member is transferring to a scheme which must comply with the FCA's disclosure rules.

3. Have trustees explained the process to members?

Application processes in relation to transferring and taking flexible benefits will need to be updated to incorporate explanations about the Stronger Nudge. Trustees will need to:

- explain the member cannot proceed with their application unless they have received and notified the Trustee of receipt of guidance, or opted-out
- explain that, in order to opt-out, the member must notify the Trustee (and explain what to include in that notification (see point 4 below))
- offer to book an appointment for the member with Pension Wise (trustees can provide members with a scheme phone number, instead of arranging this in writing)
- take reasonable steps to book the appointment if the offer is accepted
- provide the member with details of how to book the appointment themselves (by providing Pension Wise's "Stronger Nudge" phone number and web address) if the offer is not accepted.

4. If the Stronger Nudge applies, has the member validly opted-out?

To opt-out, the member must provide the trustees with verbal or written confirmation. Generally, this must be in the form of a separate communication which is concerned solely with the opt-out. This can be by way of a phone call, online opt-out form, email or a separate form provided with an application. Trustees may wish to take an approach consistent with their usual communication methods.

However, the opt-out doesn't have to be in a separate communication if the member has:

- confirmed that they qualify for a serious ill-health lump sum
- made an application solely to transfer flexible benefits, or
- received pensions guidance or regulated advice in relation to the same application in the 12 months before the Trustee received the application.

5. Actions for trustees post-Stronger Nudge

Trustees' next steps will depend on the member's actions.

- If the member notifies the Trustees they have received the guidance, or provides the Trustees with an appropriate opt-out notification, the Trustees can then process the application.
- If the member contacts the Trustees in relation to their application but has not confirmed receipt of guidance or provided an opt-out notification, the Stronger Nudge must be repeated (see 3 above).

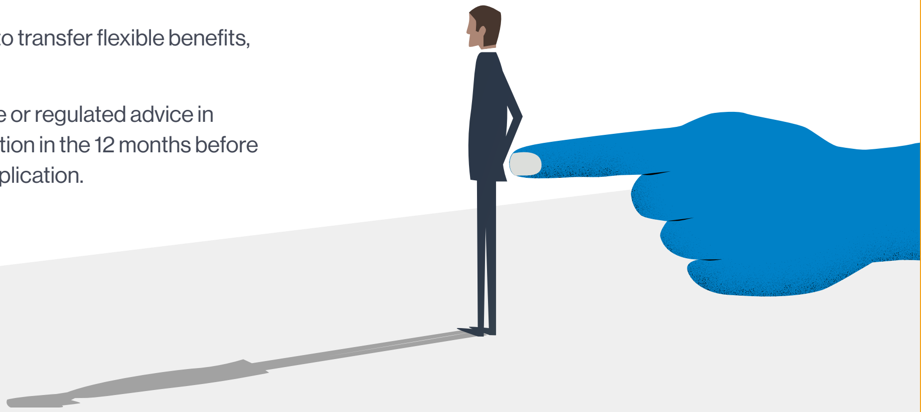
The Trustees must also keep certain records, including the member's receipt of the guidance or opt-out notification. As well as being a legal requirement, this will also help Trustees to decide whether to refer the member to pensions guidance again if they get back in contact at a later date.

Beyond June 2022?

Trustees and administrators undoubtedly have a lot on their plates to get ready for the new nudge requirements. This coincides with similar changes being introduced by the FCA in respect of contract-based schemes.

However, the direction of travel for Pension Wise and advice on accessing flexible benefits seems far from being an isolated compliance exercise for 2022. The Work and Pensions Committee's view is that the Stronger Nudge may not be sufficient. It has been proposed that more frequent, and automatic, appointments with Pension Wise may be an appropriate measure to avoid savers making poor decisions about their benefits.

With pensions guidance and the focus on protecting savers from scammers set to continue to be at the forefront of policy-making, the Stronger Nudge may well be the foundation of additional requirements in time.



Insight Partner Article

New proposals to improve the accessibility of illiquid assets for DC schemes

By Paul Tinslay
Professional Trustee, Dalriada Trustees

The Department for Work and Pensions (DWP) has issued a new consultation, 'Facilitating Investments in Illiquid Assets', seeking views on policy proposals and draft regulations to improve the accessibility of illiquid assets for defined contribution (DC) pension schemes. This includes proposals for DC schemes to disclose their policies on illiquid investment and, for schemes with over £100m of assets to disclose their current asset classes to members.

This consultation also provides responses to two earlier ones with the same objective (to enable investment in productive finance):

- 'Enabling investment in productive finance', which set out the exclusion of performance fees from the 0.75% cap on charges in default arrangements; and
- 'Future of the defined contribution pension market: the case for greater consolidation'.

As trustees we then ask ourselves, should pension savers put more money into 'illiquids'? An official working group, set up and chaired by UK authorities, certainly thinks so. In its recently published report and recommendations[1], the Productive Finance Working Group (PFWG), calls on government, the Financial Conduct Authority (FCA) and the pensions industry to promote the Long-Term Asset Fund (LTAF), a proposed new authorised open-ended fund structure that the Chancellor has committed to launch and the FCA has consulted on.

[1] A roadmap for increasing productive finance investment (bankofengland.co.uk)

What are illiquid investments?

A brilliant colleague described this very simply to me as: anything which cannot be sold quickly at a fair price e.g., a house. However, you can sell illiquid assets very cheaply and much more quickly e.g., sell your house for £1.

However, the official definition of 'illiquid assets' is proving to be more difficult to articulate. The DWP has laid out two possible options, on which it is seeking industry views:

1. Illiquid assets could be defined at the fund/vehicle level. Schemes use a range of different vehicles to invest in illiquid assets. Some of these vehicles are, in effect, liquid, i.e. they (or shares in them) can be traded frequently and sold with ease despite investing in illiquid assets.

   An example could be an Investment Trust (IT), where the shares of the IT are traded frequently, but the underlying investments held by the IT are not (at least at a fair price).

2. Illiquid assets could be defined at the more granular asset level. If the investment itself is not able to be sold frequently, perhaps daily, this could be counted as an illiquid asset no matter the investment vehicle through which this is disclosed. This could be done by listing asset classes that are considered illiquid. This would require a scheme to 'look-through', for example, a multi-asset fund to understand the allocation within a particular fund.

What's the case for illiquid investments?

While we debate the definition, why all the activity? According to the PFWG, appropriately managed investment in long-term assets has the potential to generate better returns for investors because of their typically longer-term investment horizons. It also cites benefits to the wider economy, climate change and supporting financial stability. According to the report:

"Without such actions by all stakeholders, greater investment in less liquid assets and the opportunity of securing greater potential long-term value for pension scheme members in their retirement will be harder to achieve."

In terms of the potential assets available for investment, The Pensions Regulator has stated that DC assets are expected to reach £1trn by 2030, creating opportunities for innovation.

There seems to be a space, but would illiquid investments always work?

I don't see illiquid investments as immediately compatible with freedom and flexibility in pensions which, in my experience, is normally lifestyling towards a cash or drawdown pathway or, commonly, the 'I have no idea' pathway.

Also, illiquid investments don't immediately seem compatible with some other initiatives to secure greater potential long-term value for pension scheme members, such as pot follows member. This might need to change to 'pot will follow member once the gating period is over'.

With the DWP's first definition of illiquid investments we may be able to alleviate these challenges. However, I understand the DWP favours the second definition.

Bibliography
A Roadmap for Increasing Productive Finance Investment

Achieving the objective

I find myself turning to the macro. If the main objective of this illiquid investment activity is to secure greater potential long-term value for pension scheme members (according to the PFWG), it seems equally important to consider how else this objective could be achieved.

According to The Investing and Savings Alliance (TISA), only 8% of the adult UK population are using advice, mainly due to costs. UK consumers have very low levels of financial capability and the interpretation of financial guidance rules results in people not receiving the level of support required to help them make an informed decision. This is resulting in considerable financial detriment across the majority of households in relation to short, medium and long-term financial planning and saving. TISA is campaigning for a change in the regulations, to accommodate greater use of personalised data, to facilitate engaging with customers in a way that helps them make their own decisions across a range of basic money management activities.

Would this also not secure greater potential long-term value for pension scheme members? This would include the value of member engagement, not just in the investment, and according to TISA would also have benefits to the Industry and UK economy. Most importantly, It would help all DC savers investing the anticipated £1trn by 2030 in DC assets (including illiquids).

Insight Partner Article

Illiquid investing for DC Schemes

By Callum Stewart
Head of DC Investment, Hymans Robertson

You will have heard about the UK government's "Build Back Better" growth plan, which requires significant investment in infrastructure. But, what do we mean by infrastructure?

Infrastructure is commonly defined as the facilities and essential services required for the effective functioning of modern economies. Examples of infrastructure assets include schools, hospitals, airports and power generation assets. Infrastructure is an asset class of considerable diversity; this makes it challenging to evaluate specific opportunities but also underpins the asset class's diversification potential.

Why invest in infrastructure?

Return potential

After costs and charges, the potential returns from the asset class are attractive for long-term investors such as DC schemes. In addition, underlying income and the value of infrastructure assets is heavily linked to inflation. These features are attractive to DC schemes looking to deliver good long-term returns above inflation, with the aim of providing good retirement outcomes for members.

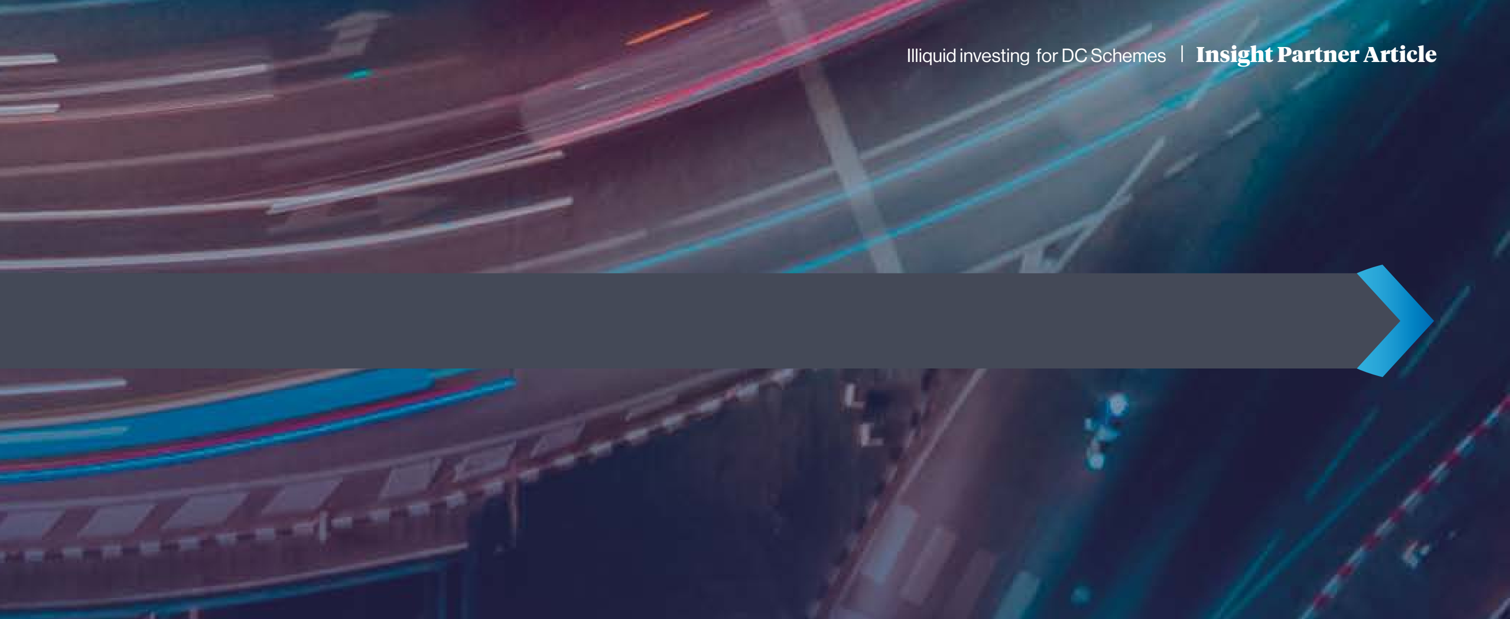
Diversification

Infrastructure has demonstrated a significantly different return stream to traditional equities and bonds. This means there are opportunities to improve diversification within portfolios whilst maintaining or potentially improving longer-term return expectations.

Impact

By definition, infrastructure investing means investing for the future. This means there is the potential for each £ invested to have a positive impact on the world around us. With many pension schemes putting in place longer-term goals to address climate change, infrastructure may be an attractive asset class to explore to progress towards interim climate targets (e.g. climate solutions).

Generating a positive impact on the world around us by investing in tangible infrastructure projects also provides opportunities to engage DC savers – we think savers will respond positively to news that their money is being used not just to generate good returns, but to do good in the world.



Government support

Governments in many countries are showing greater awareness of the socio-economic costs of sluggish productivity growth and wealth inequalities and the role high quality infrastructure can play in addressing them. The Build Back Better and Levelling-Up policies in the US and UK, for example, suggest a greater appetite to take concrete action. At the same time, the pandemic and heightened geopolitical risks have highlighted the need for more resilient supply chains which will also involve increased investment in infrastructure. The single most important source of demand for new infrastructure though is likely to be decarbonisation; meeting the net zero challenge will involve massive investment across many segments of the infrastructure market from power generation to carbon capture and storage.

In the UK, for example, the government's net zero strategy calls for £695-825bn of public and private sector capital to be mobilised over the period 2022-35 (£45-55bn per annum), much of which will be invested in enabling infrastructure. Similar projections were provided by the UK's National Infrastructure Commission in its first infrastructure assessment report.

We think there is potential for more than £100bn of DC assets to be committed to infrastructure investments by the end of this decade, reflecting growth in the size of DC schemes.

What is the potential role in DC strategies?

DC savers can afford to take more risk in the earlier stages of their savings journey, provided this risk is expected to be rewarded over the longer term. We think the more higher risk infrastructure investments have a role to play in the earlier stages, providing opportunities to enhance long-term returns. Closer to retirement, savers still need adequate returns but managing risk becomes increasingly important. The more income-oriented (and lower risk) core and core plus opportunities having a role to play here. With a significant proportion of returns provided by income, the value of DC savers' assets will be less sensitive to shorter-term price fluctuations. Indeed, these characteristics are also likely to be attractive for retirement portfolios where capital (and inflation) protection becomes even more important.

A sensible (cautious) return expectation from infrastructure is in the range 4-8% per annum (after fees). At this level, infrastructure has the potential to improve retirement outcomes for DC savers by up to 20% depending on allocation size. However, with allocations to some of the higher risk opportunities, there is further potential to enhance long-term returns and retirement outcomes.

How can infrastructure be implemented in DC schemes?

We think blended funds are now an essential feature for future-proofing your DC scheme's investment strategy. This means you can make changes to the underlying asset allocation, without creating onerous consultation and reporting requirements each time a change is made. This will be increasingly important as the ability for DC schemes to access more sophisticated asset classes and fund structures improves.

Managing liquidity

One of the key concerns when investing in illiquid assets is managing liquidity. For infrastructure investing, a long-term time horizon is critical as underlying capital deployed within funds may be locked away for 10 or more years. Infrastructure investments can also take a number of years to 'ramp-up'. This period is typically around 3 years, but it can take longer.

The long-term capital commitment should not be an immediate concern for DC schemes given savers' very long time horizons. Indeed, there is an alignment of interests in terms of time horizon and corresponding opportunities. A key risk is facilitating cashflow, particularly during periods of market stress. In practice, cashflow would be fulfilled using liquid assets. This can be achieved using blended funds, provided the platform provider has sufficient capabilities.

So, what are the main takeaways?

There are significant opportunities in infrastructure investments which could lead to improved outcomes for members. There is also the opportunity for pension schemes to integrate their climate and wider sustainability goals in line with the broader portfolio.

PMI Activities

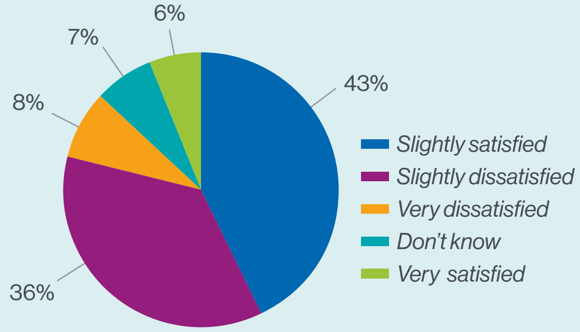
The Pulse

By Rosie Lacey FPMI
Pensions Manager, De La Rue

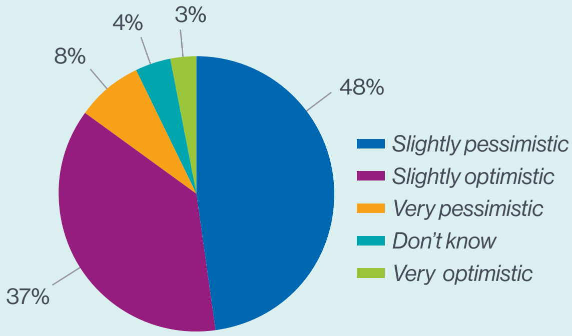
After the flurry of consultations issued in the summer and autumn things appear to have quieten down with the focus now on the CDC consultation and more importantly the Dashboard. This period of calm before the storm that will come in the summer with the implementation of the new code has given me the chance to review the results from our latest pulse survey. The Pulse survey helps the PMI identify where our focus should be when responding to the consultations. It also shows us any underlying trends. As usual the survey starts with the same four questions about the direction of travel for pensions policy and the confidence there is in the Pensions Regulator (TPR's) activities and focus.

We have seen a change in the results for the latest survey with our first two questions on satisfaction and optimism for the direction of travel for pensions policy. Less than half our members are satisfied with the direction of pensions policy over the last six months. We have seen an increase in those that are now slightly dissatisfied and very dissatisfied. This change in views is also reflected in the level of optimism for the next six months. Many members expressed the view that there were too many changes all coming through at once resulting in a stretch in resourcing. And the view doesn't appear to be any different for the next six months.

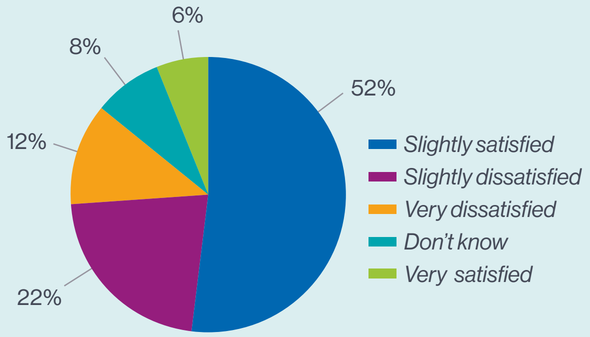
How satisfied have you been with the direction of pensions policy over the last six months?



How optimistic are you about the direction of pensions policy over the next six months?



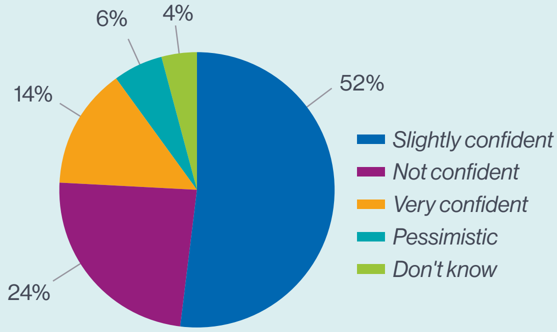
How satisfied have you been with the actions of the Pensions Regulator over the last six months?



How confident are you that the Pensions Regulator will focus on the right areas in the next six months?

This question received the most positive score with more than half of the respondents saying that they are slightly satisfied that the Regulator will focus on the right areas, and we have seen nearly a 50% increase in members saying they are very confident the Regulator will focus on the right areas. But of those who responded concerns were expressed over the actual powers the regulator had but in contrast many welcomed the focus on small schemes and the drive to better governance of these schemes.

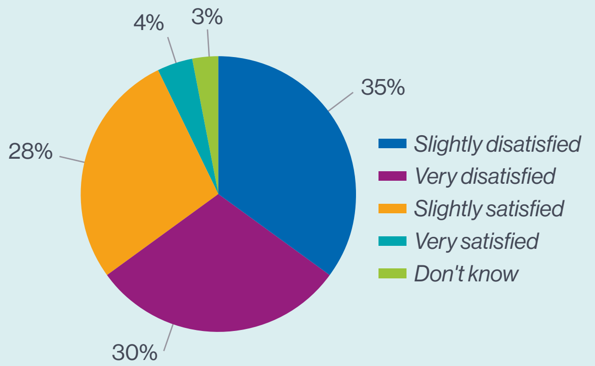
The second half of the survey focuses on some of the more topical issues that the pension sector is facing now from the increase in the Normal Minimum Pension Age to diversity and inclusion on trustee boards.



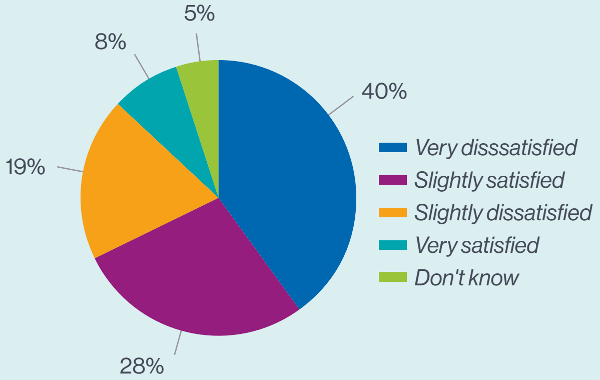
PMI Activities

How satisfied are you with the Government's handling of the increase to the Normal Minimum Pension Age to 57 from 2028?

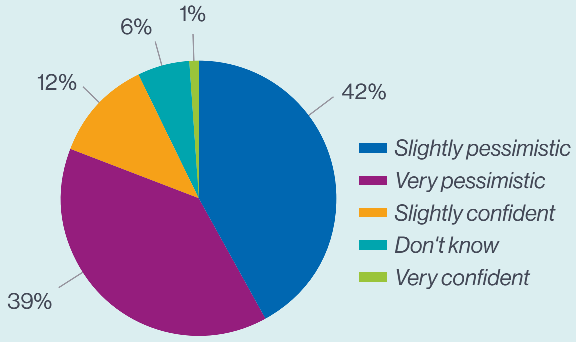
The responses to this question confirmed the PMIs view that the change in the NMPA was another poorly communicated change. The results echo the findings of the NMPA survey that we published late last year. This survey confirmed that very few of those who would be affected where aware of the change.



When asked about the Governments proposal for Statement Season, we saw a common theme appear, unsurprising around capacity issues. Whilst some agree that it is a good idea in principle to issue statements, but it was clear in practical terms there are timing and capacity issues. From a delivery and environmental standpoint, we should be working towards online statements, and we know many schemes already deliver excellent online statements and videos. It was felt that most members were unlikely to engage with it and how does this fit in with the pensions dashboard?

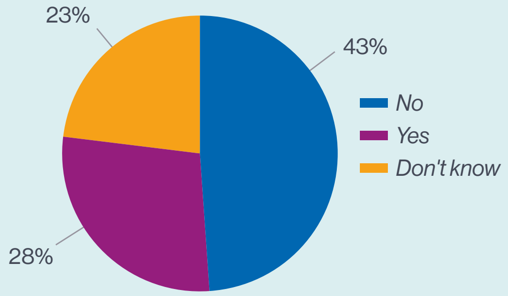


We asked a question on the continuance of the triple lock in the future. Over 80% of respondents agreed that it was unlikely to continue in the future without at least some change. There was an overriding view that in fact it was time to do away with the lock altogether as it was expensive and outdated. But we should provide a note of caution here. It might be expensive, but it is agreed that some form of increase needs to be maintained.

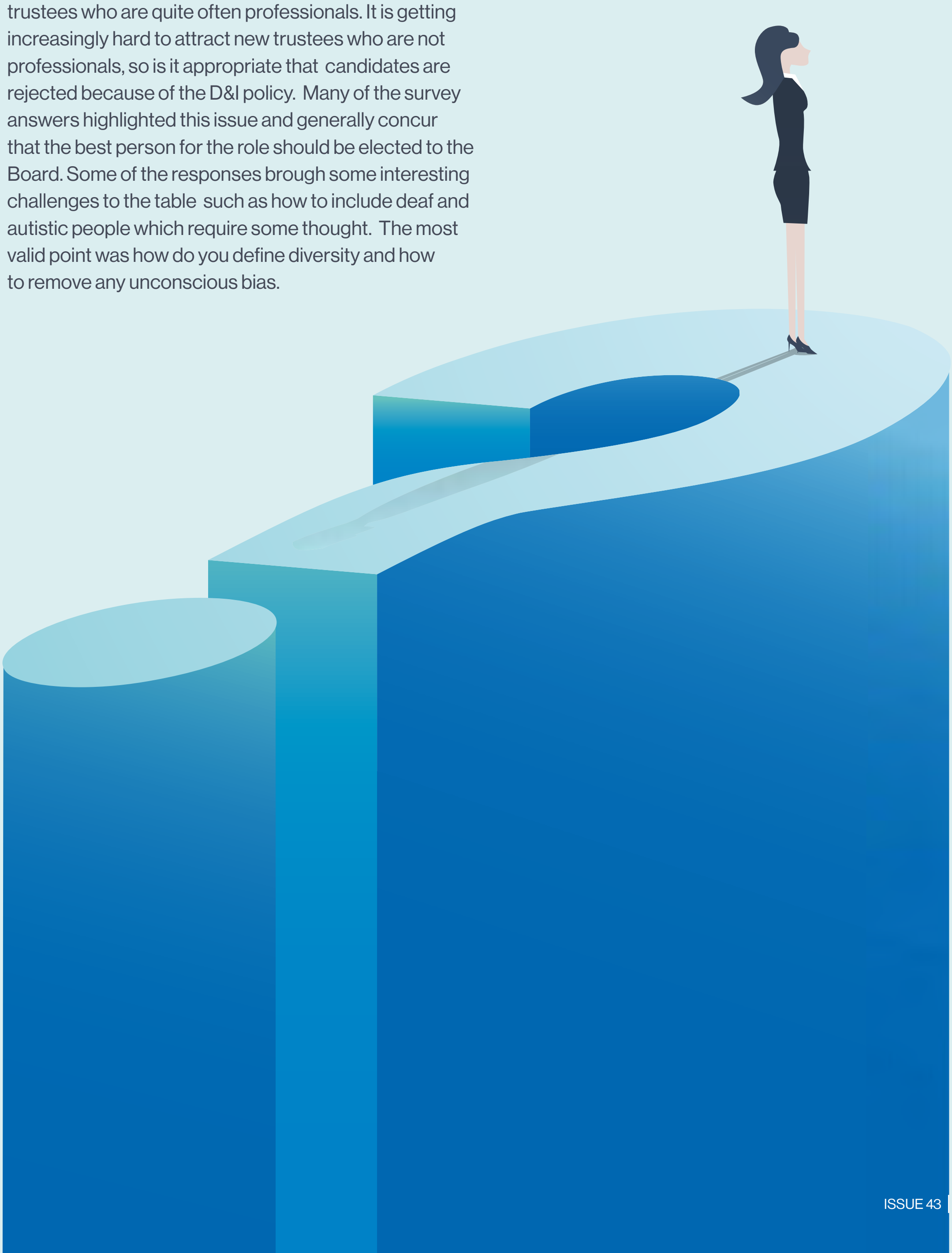


The next three questions covered diversity and inclusion (D&I) on trustee boards and how important this is to the Boards.

Firstly, we wanted to understand how diverse existing Boards were. From the responses we received we concluded that almost 50% of Boards were not that diverse. To understand the reasons behind that our next two questions explored this is in a little more detail.



Just under 75% of respondents said they did not have or didn't know if their Scheme had a D&I policy. The remaining 25% said they did have. From the feedback given it led me to wonder how practical it was to require boards to have a D&I policy? Boards are made up of a mixture of member elected trustees, employer nominated trustees who are quite often professionals. It is getting increasingly hard to attract new trustees who are not professionals, so is it appropriate that candidates are rejected because of the D&I policy. Many of the survey answers highlighted this issue and generally concur that the best person for the role should be elected to the Board. Some of the responses brough some interesting challenges to the table such as how to include deaf and autistic people which require some thought. The most valid point was how do you define diversity and how to remove any unconscious bias.



Insight Partner Article

Why should pension funds embrace global real estate today?

By Mary Cahani
Director, UK Pensions, Invesco

Whilst investors are struggling to allocate to bonds and equities given market uncertainty and inflation, why are we so positive about global real estate?

With its potential to offer stability in an uncertain world and perception as a good inflation hedge, the current environment of rising rates, inflation and market volatility makes a compelling case for investing in bricks and mortar worldwide.

In the face of interest rate rises, commercial real estate returns - especially in the US - have often been excellent. The last six times US rates rose for three consecutive quarters, cap rates, or yields, declined - meaning US property values increased. US commercial real estate delivered returns of more than 20% in 2021.[1]

Turning to inflation, real estate returns have been more highly correlated with inflation than stocks or bonds. Clearly a positive in an inflationary environment and why many investors use real estate as an inflation hedge.

This is, in part, derived from leases creating a revenue stream that can adjust to inflation. In some cases, especially in continental Europe, rents are directly linked to inflation - so if inflation rises so does rental income and therefore performance.[2]

Looking at the US, where we have the most detailed historic information, over the last thirty years commercial real estate has typically outperformed during periods of high inflation. In fact, over the last four periods when inflation in the US exceeded 2.9%, real estate returns exceeded inflation by an average of over 8%. Similar trends can be seen in Europe and Asia.[3]

“We advocate investing globally because the UK represents less than 5% of the global real estate market and it means giving up on opportunities that simply do not exist here.”

Rental growth today is further supported by increasing commodity and therefore construction costs, which restrict the viability of new developments, potentially resulting in higher rents and values for existing buildings.

We advocate investing globally because the UK represents less than 5% of the global real estate market and it means giving up on opportunities that simply do not exist here. Ask yourself - why do pension funds invest in global stocks and bonds but not global property? So, where do we see opportunities today?

The foundation of our approach is based on looking at the constant themes of how we use real estate to connect, live, innovate, and consume – in other words, ‘CLIC’. We look to match these uses with secular trends that create long-term real estate demand, many of which are not present in the UK.

Secular themes include demographics. For example, according to the Asian Development Bank, the urbanisation rate in Developing Asia is projected to grow from 46% in 2017 to 64% by 2050, pointing to continual demand for city-based real estate including residential, offices and logistics.

Our global top picks include logistics around Seoul in South Korea, residential and logistics in Japan, high-rated ESG offices in major European cities, and in the US industrial and speciality sectors, like healthcare and cold storage.

We also focus on sustainability and the environment. Real estate is an asset class where it is possible to affect a direct, demonstrable impact whilst adding investment value.

In summary, a rising interest rate and inflationary environment has historically been good for real estate performance, but above all it is understanding investor demand and long-term secular trends that should be the primary focus when seeking to deliver positive investment returns.

1 Source: Invesco Real Estate using data from Moody’s Analytics, NCREIF, and RCA as of February 2, 2022. Periods of rising rates = periods when the 10-year Treasury yield moved higher for at least three consecutive quarters. NPI cap rate = current value cap rate. Economic growth = real GDP. Capital flows = trailing 12-month RCA transaction volume.

2 Source: Invesco Real Estate using data from NCREIF, and Moody’s Analytics as of February 2, 2022

3 Source: Invesco Real Estate using data from NCREIF, and Moody’s Analytics as of February 2, 2022. Private real estate = NCREIF Property Index (NPI); Public Real Estate = NAREIT All Equity REIT Index; Stocks = S&P 500 Index; Bonds = Bloomberg US Aggregate Bond Index. Since inception returns for NPI are from 1Q-1978 to 4Q-2021. You cannot directly invest in an index.

Risk warnings The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations) and investors may not get back the full amount invested. Property and land can be difficult to sell, so investors may not be able to sell such investments when they want to. The value of property is generally a matter of an independent valuer’s opinion and may not be realised. Real estate loans are typically non listed on regulated markets and need to be valued via the application of appropriate models (potentially applied by independent experts): this may lead to inaccurate valuations which may not be reflected into transaction prices. Changes in interest rates, rental yields and general economic conditions may result in fluctuations in the value of assets. Real estate investments are exposed to counterparty risk, which is the risk that a counterpart is unable to deal with its obligations. The manager may use derivatives (complex instruments) and borrowings, which may result in the asset being significantly leveraged and may result in large fluctuations in the value of the asset. Real estate investments can be exposed to new sustainability-related regulatory requirements that may negatively affect the value of those assets which are not compliant and can envisage significant costs to be invested to comply or to simply improve their sustainability profile. In addition, real estate investments can be also significantly exposed to negative economic effects stemming from climate change, natural disasters and the general preference of investors for assets with better sustainability features.

Important information Data as of 13th April 2022 unless otherwise stated. Views and opinions are those of the author and are based on current market conditions and are subject to change.

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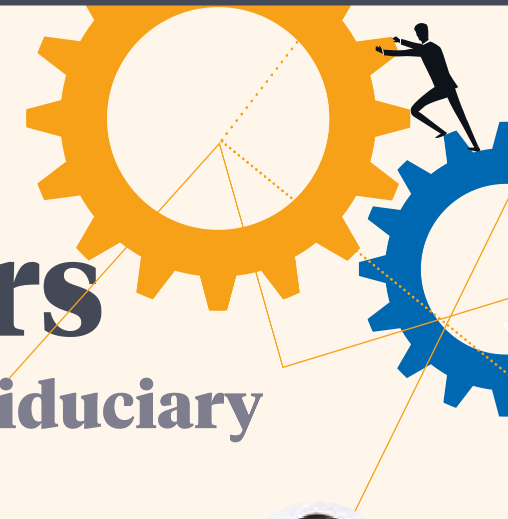
Insight Partner Article



The push and pull factors

leading to digital, ESG and a Fiduciary Management transformation

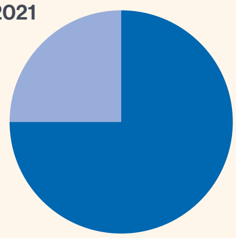
By Ajeet Manjrekar
Head of UK Client Solutions, Schroders Solutions

The push and pull factors on trustees and pensions schemes inevitably become the push and pull factors on Fiduciary Managers. COVID-19 accelerated the digital transformation of pension schemes, and providers responded with new governance technology. New research suggests Fiduciary Managers need to up their game once again, to help trustees understand and manage the ESG and climate risks they face.

There's no doubt that the pandemic transformed working practices. At the beginning of 2021, we saw the demise of the quarterly meeting - 80% of trustees felt it had lost its relevance[1]. We dubbed this as a transformative shift to 'continuous governance'.

Changes like this often have a combination of 'push' and 'pull' factors. Push factors included the need for more regular meetings for trustees to stay on top of the rapidly changing pandemic situation. Working restrictions pushed trustees to adopt technological solutions to meetings. Video calls, secure online platforms and funding-level trackers became familiar tools. At the beginning of 2021, 75% of trustees felt they needed better access to information[1]. Just one year on, 79% felt they had better transparency by using interactive tools to govern their investment arrangements[2]. The ubiquitous availability of digital tools facilitated the widespread shift to shorter, more frequent, and more targeted meetings.

2021

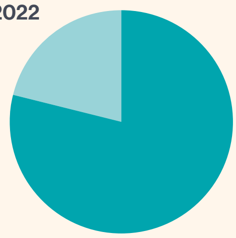


Source: Schroders Solutions, Navigating the key issues facing schemes 2021

75%

of respondents feel that they need better access to information

2022



Source: Schroders Solutions, Navigating the key issues facing schemes 2022

79%

of respondents have better transparency through the use of interactive tools to govern their investment arrangements

There are, of course, pull factors. It is simply more convenient for trustees and their advisers to gather online than to travel across the country to meet in person. Given the excessive demand the information age has on our limited capacity for attention, shorter, outcome-oriented meetings have a potent attraction[3]. These pull factors mean virtual and hybrid meetings will remain relevant despite working restrictions having lifted.

Digital transformation is not new to pension boards. Many have been going through this journey long before COVID-19. The pandemic was an accelerator. Perhaps technology is finally coming of age for pension scheme trustee boards. But are trustee appetites for data satiated? Far from it. Our recent survey showed 89% favour greater use of risk dashboards to better quantify the investment and non-investment risks they face[2]. This should go beyond the three pillars of integrated risk management (funding, covenant, and investment). Dashboards must also inform decision-making on other aspects affecting the desired outcome, such as ESG and climate risk.

The push and pull factors of regulation and impending environmental crisis make ESG integration inevitable. As trustees' ESG and climate requirements grow, they need better access to governance tools to engage and ensure alignment with their providers. There is more and more ESG and climate data available today, with an increasing array of tools available for trustees to 'footprint' where they are. This can provide an effective baseline to assess how the current investment arrangements sit versus trustee beliefs. Not only is it important for trustees to understand where they are today, but also looking forward. Two-thirds of our survey respondents agreed they should set "climate milestones" to frame how their investment strategy might evolve, and implement strategies that achieve ESG goals. Whilst this is a mandated priority for only the largest schemes in 2022, it could apply to all schemes by 2025[4].

The push and pull factors on trustees and pensions schemes inevitably become the push and pull factors on Fiduciary Managers (FMs), as they adapt to meet the needs of their clients. Third-party evaluators also have a big role to play in pushing the industry forward and driving competition. As highlighted in recent research by EY-Parthenon, not all Fiduciary Managers are born (made) equal regarding ESG. There is a wide range of capabilities across the market and various approaches taken. The quality of ESG reporting provided by FMs to their clients varies considerably in quality, breadth, depth and complexity. For example, less than 40% provide individual scores and ratings for E, S and G, benchmarking of ESG scores or non-carbon ESG metrics[5].

In addition, ESG integration within investment processes does not carry the same meaning across FMs. Most FMs focus their ESG efforts on the manager selection and monitoring processes. Very few FMs apply ESG considerations within the investment strategy-setting processes. For trustees and scheme sponsors, it is important to understand how far, and how fast, their FM is integrating ESG into their investment approach. With the right approach, it's possible to integrate ESG not only across equities but also credit, alternatives, cashflow matching and Liability Driven Investment. And this needn't be at the sacrifice of return—a pervasive ESG myth that needs debunking.

Continuing to deliver on the needs of pension schemes requires continuous investment, innovation and evolution from Fiduciary Managers. Whether it be adapting to new working practices, satiating data appetites, or meeting new regulatory requirements, technological transformation will be one of the key enablers.

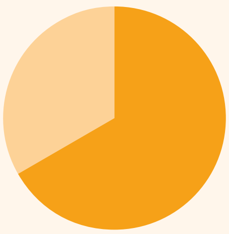
[1] Source: Schroders Solutions, Navigating the key issues facing schemes 2021

[2] Source: Schroders Solutions, Navigating the key issues facing schemes 2022

[3] Source: Lorenz-Spreen, P., Mønsted, B.M., Hövel, P. et al. Accelerating dynamics of collective attention. Nat Commun 10, 1759 (2019).

[4] HM Treasury, A Roadmap towards mandatory climate-related disclosures, November 2020

[5] Source: EY-Parthenon, ESG investing under fiduciary management, September 2021



Source: Schroders Solutions, Navigating the key issues facing schemes 2022

2/3rds

of survey respondents agreed trustees should be setting "climate milestones"

Insight Partner Article

Why technology and analytics are vital to the success of employee pensions and financial wellbeing

By Nick Clynes
Principal, Barnett Waddingham

With today's challenging workforce climate, managing pay and reward have become key challenges. So, your ability to make smart decisions quickly, based on the analysis of relevant information and data, is crucial to success.

Technology and data analytics are commonly used in every successful HR & Reward team, as evidenced by the growth in Reward Analyst jobs. A trend is now emerging for trustees and employers to use data analytics, supported by technology, to address the long-term financial wellbeing of their members and workforces.

Ten years on from the introduction of auto-enrolment (AE), one of the biggest costs of employment is an organisation's workplace retirement savings arrangement. Despite the success of AE in increasing the numbers of people now saving, the value of most pensions is perceived as low by employees. And engagement rates are poor, with apathy being both good and bad for retirement savings. Barnett Waddingham's research shows 65% of employees remain anchored to the AE contribution rate and 51% are on target to achieve a poor retirement outcome.

So far, member-facing pension technology has failed to deliver a material change to savings behaviours, increase engagement levels or improve retirement outcomes during the accrual phase — regardless of members' age, earnings or industry sector. The pension provider market has invested heavily in apps, mobile optimised websites and consolidation tools that put retirement savings information in the palm of savers' hands, but usage lags a long way behind that of online banking. Even where members are registered for online services, most fail to act. They therefore remain anchored to default investment strategies and contribution levels.

One of the positive outcomes from the Covid-19 pandemic is the importance given to wellbeing as a key contributor to the success of a business. Looking after the long-term financial wellbeing of employees is beginning to play a larger part in an employer's social and governance policies. Employers are now looking for opportunities to help their employees achieve better retirement outcomes, which also helps trustees engage and communicate with their members.

Interactive technology that helps employers and trustees make smart decisions regarding the design of their workplace savings arrangements, engagement campaigns and investment strategies is having a positive impact on employees' financial security in retirement. This is leading to a greater sense of wellbeing and a higher perceived value of an employer's spend.

Those responsible for the design and governance of pension arrangements have always had a broad understanding of the membership profile. But without being able to combine factors such as financial affluence, projected outcomes and savings rates, the degree to which a particular pension scheme design will result in a good member outcome has been impossible to assess.

The majority of employers employ a diverse range of employees with differing characteristics and, therefore, retirement income needs and expectations. Without the use of technology it is almost impossible for employers and trustees to gauge what actions, interventions and engagement methods will help the various groups improve outcomes, without undertaking time-consuming and costly projects. The result is often to 'do nothing' or undertake bland engagement campaigns that do not call out to any particular group and do not deliver positive results for employers; most importantly, the pension scheme members.

Understanding and addressing issues such as the gender and ethnicity pension gap is another key area employers are looking at. Trustees are now considering the profile of their membership to ensure that they engage and communicate with members in appropriate ways. Access to information and tools is critical to this work. It's important to get under the skin of data so that you can bring insights to the surface and understand the unique profile of a scheme's membership – its **DNA**.

Inevitably, cost is a major influence on the key decisions surrounding the design and governance of engagement campaigns. Technology that allows the available budgets to be spent effectively will be self-funding. It is true to say that employers do not want to buy tech for tech's sake. It is the impact on their bottom line and the wellbeing of their workforce that supports the business case, which the evidence now supports. At Barnett Waddingham we have seen a number of employers take focussed actions to address members' savings behaviours. Year on year, the proportion of members now on target to achieve a good outcome has increased from 54% to 76%, without the need for the employer to change their contribution structure.

Being able to collaborate in a virtual world has also driven the development and use of technology. Tools which facilitate collaboration remotely mean better decisions can be taken more quickly and are based on real-time data, rather than having to defer decisions until further research and analysis can be compiled and considered.

However, technology and data analytics can only go so far. Knowledge, experience and diversity of thought are required to ensure the right actions and decisions are made, aligned to factors such as the organisation's objectives, culture and economic climate. For instance, the cost of living crisis and market turbulence we're experiencing are a huge concern. So, being able to identify and support those most affected within your workforce will be important over the coming months; this is where insightful data will have wider benefits beyond just retirement savings.

It is clear that employers and trustees should and can deliver the changes that are needed, ten years on from auto-enrolment, by taking advantage of the new technology that is in the market. Being compliant and considering static, backward-looking MI reports should no longer be the norm.

Article

Understanding the impact of longevity

By Howard Kearns
Longevity Pricing Director, Insight Investment

Longevity risk is the largest liability risk facing most UK defined benefit pension schemes, but despite the ability to minimise it using longevity swaps, most of this risk is unhedged. If pensioners live for longer this could lead to a huge monetary impact – forcing pension schemes to delay buy-out or seek significant deficit contributions.

The monetary impact of longevity risk could be substantial

To understand the real-world impact that longevity risk could have, we considered a sample £1bn scheme aiming to achieve buy-out in 10 years. We assumed that after five years, its members' life expectancy would rise by two years.

Our analysis estimated that the scheme would need to find an extra £120m to meet its resulting funding shortfall. This compared with needing to generate an additional £30m in investment returns over the scheme's journey to buy-out if it implemented a longevity swap at the outset.

Liabilities in the UK pensions market are typically estimated at about £2 trillion, with published data on longevity hedging and insurance transactions suggesting that most of the associated longevity risk is unhedged. A rise in longevity expectations in line with our scenario would have huge implications across the market.

Large changes in life expectancy are possible

A rise in life expectancy of this magnitude is possible. Longevity expectations have fluctuated significantly over the past two decades, according to the Continuous Mortality Investigation (CMI) Projections Model.

It predicted material increases in the life expectancy of 65-year-olds in England and Wales in the early 2000s, which then fell back substantially. It projected in 2009 that a 65-year-old male would live for 23 and a half years, and a female about 26 years. In the most recent 2021 release, the CMI projected a life expectancy for 65-year-olds of about 22 years for males and 24 and a half years for females.

Trustees' focus will likely sharpen on longevity risk

Given such large moves in life expectancy, trustees may wish to consider the possibility that recent reductions in longevity expectations could be reversed as innovations in technology and healthcare drive meaningful improvements.

Taking into the account the potential impact on a scheme, and the ability to hedge this risk effectively and efficiently using a longevity swap, we expect longevity risk to be the subject of much sharper focus over the next decade.

Case study: the impact of longevity risk on a pension scheme

- Size of pension scheme: £1bn assets under management
- Funding status: 90% funded on a buy-out basis
- Time horizon: Targeting buy-out in 10 years
- Longevity shock: A 2-year increase in life expectancy for the pension member population that happens after five years
- Longevity swap: At inception, a risk fee of 3% pa (leading to £30m in additional contributions)
- Return assumption: Investment returns of gilts + 1.7% pa in all scenarios

Annual contributions	No longevity swap	With longevity swap
Longevity shock does not occur	Nil	£3m pa from outset
Longevity shock does occur	£24m pa (for last five years)	£3m pa from outset
Cumulative contributions	**No longevity swap**	**With longevity swap**
Longevity shock does not occur	Nil	£30m
Longevity shock does occur	£120m	£30m

Important information

Investment in any strategy involves a risk of loss which may partly be due to exchange rate fluctuations.

Academy Partner

Where next with value for money?

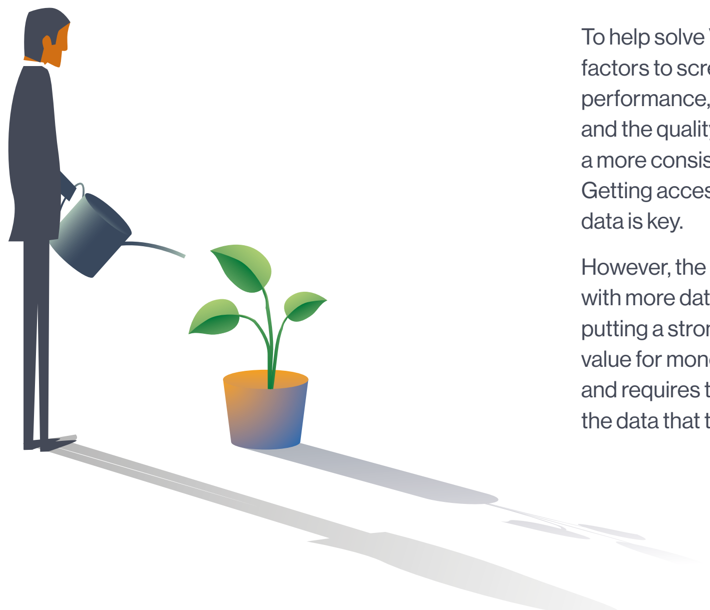
By Scott Foster
Head of Digital & Governance Solutions, UK, CACEIS

"A focus on Value for Money is a key part of ensuring defined contribution (DC) pensions maximise the income savers have at retirement"
The Pensions Regulator

Since the introduction of auto enrolment in 2012, we've seen significant growth in defined contribution pots. As the burden of investment risk shifts to DC savers to maximise their retirement income, with it has come an increasing focus on value for money. Costs, compounded over the long term are one important component of this.

In 2017, the Financial Conduct Authority released their Asset Management Market Study, which referenced the challenges amongst institutional investors in obtaining and understanding essential information on costs. Remedies to improve transparency and data governance are now becoming a crucial part of robust decision-making to drive good pension scheme governance and protect members' pension pots.

'Value for money' was born – a framework to ensure pension savers' investments were not being eroded by high costs and charges. Fast forward to today, and although Defined Contribution workplace pension schemes started their cost collection journey through the DCPT templates, we're seeing that many are now starting to adopt the Cost Transparency Initiative (CTI) templates that were introduced in 2019. These aimed to provide an industry standardised framework for the collection and reporting of costs and useful contextual data so that meaningful comparisons can be made between schemes. In our experience of collecting CTI templates, the adoption of CTI templates and collecting data on a like-for-like basis has increased to 80% across UK asset owners, which shows remarkable progress towards the path to standardisation, which is key to unlocking the elusive value for money question.



Three years, new insight and changing priorities

When the CTI templates were initially launched, the biggest challenge for DC schemes centred around the collection of cost data from their asset managers. This is now a frequently trodden path as the data collection process is well-developed.

There is now a growing focus on appropriate context to make sense of cost data, which is only one input in the value judgement equation. Low cost doesn't guarantee good value. Here, trustees need to consider the investment strategy, asset class (some active asset classes, such as Emerging Markers or smaller companies usually have higher costs associated relative to developed markets or large-cap companies). Portfolio turnover is another key factor to analysing variable transaction costs. Higher turnover ratios and trading activity can be explained by opportunistic movements, or higher transaction spreads due to sudden market events. Furthermore, investment returns must be considered in the context of costs, and the remit of each strategy.

Specific asset classes will also have nuances to consider when assessing the performance of a mandate. For example, when comparing total cost and performance metrics, LDI mandates tend to look less favourable on a net performance basis, compared to a growth-seeking equities mandate. Context on each asset class, as well as the investment strategy, should be carefully considered when assessing overall value in relation to performance.

These additional layers of information over and above cost data are essential to more effectively assessing value for money.

To help solve V4M, the inclusion of a multitude of factors to screen against - such as costs, investment performance, investment strategy risk, quality of service and the quality of governance oversight - could drive a more consistent better-value for members process. Getting access to accurate, timely, and decision-useful data is key.

However, the V4M puzzle will not simply be solved with more data. To avoid another tick-box exercise, putting a strong governance framework around the value for money process is a critical step in the process and requires trustee boards to really make sense of the data that they are reviewing.

Context is key

What's next and what could good look like?

In the last quarter of 2021, the Pensions Regulator (TPR) issued a joint discussion paper with the Financial Conduct Authority (FCA) to request views from the pensions industry on value for money. With a view to building on the existing work in this area, the discussion paper focussed on the additional metrics that could help quantify value for money in order to make comparisons between schemes meaningful.

The TPR highlighted that "there is a growing consensus that there needs to be a broader culture shift. Both we and firms need to do more to foster a holistic approach to assessing long-term value in pensions and driving good saver outcomes. Transparency over what constitutes value for money is a prerequisite for achieving this".

This transparency translates into additional metrics that might emerge for assessing value for money. Taking this a stage further, investment performance and investment risk, in combination with total costs, are key components to assessing value. We believe the introduction of performance metrics that are held to the same standard will create a more robust benchmarking framework – and with a focus on a longer-term performance horizon.

To date, at an investment mandate level, there is a focus on one-year performance, as this is the metric that is collected on the CTI template. However, this does not correspond to the long-term nature of pensions savings, and market challenges can have more of an amplified effect on one-year performance numbers versus, say, five-year performance.

Risk-adjusted returns metrics could also play an important role in assessing value for money. Measuring the additional amount of return that an investor receives per unit of increase in risk can have many benefits in the decision-making process. It also allows for a more useful comparison between asset classes. We see benefits in establishing an industry-wide benchmark for portfolio performance, including risk adjusted return, at total portfolio level, but in the context of cost and risk taken.

Benchmarking also brings together a new layer of insight. Today, it's used by some pension schemes who leverage service providers to collect and analyse cost data, and then integrate this into a benchmarking tool so pension schemes can review their total costs against similarly sized schemes. It's a critical step in value for money assessments and can be extended to include a universe of comparable data. This could include the average size of scheme and investment, comparability of investment strategy, maturity of investment and commonality between methodologies used.

Above all, we must not lose sight of softer factors, such as the quality of communication. Member engagement is a key part of one's pension, and high-quality communication can facilitate this.

In closing, if I was to offer one piece of advice to pension schemes and trustees based on my experience in this area, it would be that lower costs are not the final solution. Risk adjusted returns are key, and service levels are a keen indicator of good governance and oversight.

Value judgements require high-level metrics at a bird's-eye view, but the key to unlocking that data requires contextual data, which is extremely important to painting a full picture on value for members, which includes information such as market activity, market values, turnover, flows and performance returns data.

This wave of new data flowing in can quickly lead to over-analysis, so define what good value means, put the right people in place to collect the data, and set up annual monitoring plans to track trends in these statistics over the long term.

Academy Partner

How avoiding home bias can help boost yields as rates rise

By Michael Walsh
Multi-Asset Solutions Strategist, T. Rowe Price

After a long period of very low yields, interest rates are expected to surge. However, the yields on many developed market government bonds are very low, limiting their capacity to act as "safe haven" investments. From a portfolio management perspective, the freedom to invest in global bond markets offers opportunities to take advantage of diverging monetary policy.

... low yields have limited the capacity of these bonds to act as "safe havens"...

While Russia's invasion of Ukraine has brought added uncertainty to an already volatile period in markets, the determination of central banks to tackle rising inflation risk is unlikely to change. After a long period of very low yields, interest rates are expected to surge. This is presenting bond investors with an age-old problem: How can you add yield to a portfolio in a way that does not bring too much exposure to rate risk?

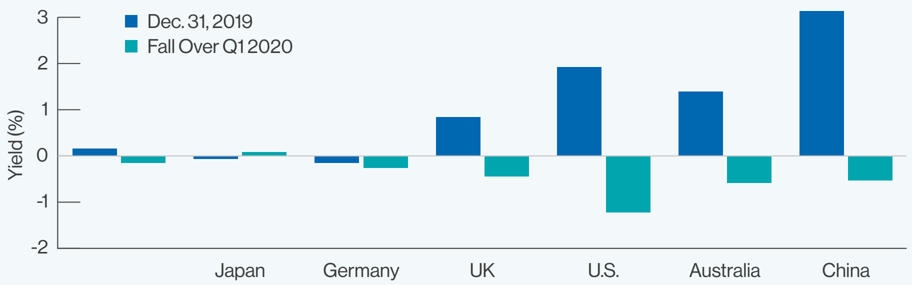
Over the next few months, we will be exploring the search for yield from several angles. In this article, we will focus on how fixed income investors can potentially boost yield by abandoning home bias and diversifying across countries. For most portfolio managers, bonds issued by their home country's government are seen as key low-risk building blocks for multi-asset portfolios. Such bonds are easily understood by end investors, provide an anchor for riskier assets within a portfolio, and avoid currency risk. However, we believe that investing more globally in fixed income markets comes with significant benefits —not least because it increases diversification.

Academy Partner

Lower-yielding bonds have less room to fall

(Fig. 1)

How the yields of different bonds declined in Q1 2020



As of March 8, 2022.

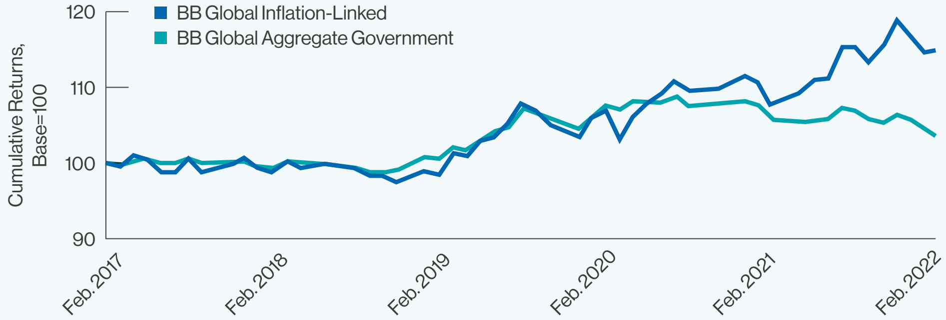
Past performance is not a reliable indicator of future performance.

Sources: Bloomberg Finance L.P. Analysis by T. Rowe Price. Yields used are for the generic 10-year government bond for each currency.

Inflation-linked bonds have outperformed over the past year

(Fig. 2)

They have fared well on an absolute basis and relative to fixed rate sovereigns



As of February 28, 2022.

Past performance is not a reliable indicator of future performance.

Sources: Bloomberg Global Inflation-Linked Index hedged to EUR, Bloomberg Global Aggregate Government Index he

For much of the period since the global financial crisis, yields on eurozone government bonds have been among the lowest in the world. European Central Bank policy rates have remained at or below zero since 2012, and this has tended to pull even long-dated government bond yields substantially lower over time.

Such low yields have limited the capacity of these bonds to act as "safe havens" in times of market stress as well as reduced income for investors. During the pandemic outbreak in the first quarter of 2020, for example, yields on many benchmark government bonds fell sharply (meaning the prices of those bonds rose, protecting the value of portfolios in a difficult period). However, the yields on bonds that were already very low-yielding fell by significantly less than higher-yielding bonds from other countries (Figure 1). This illustrates that investors are reluctant to purchase large amounts of low - or negative - yielding government bonds, even in times of crisis; it also shows why higher-yielding, nondomestic government bonds can act as a useful "shock absorber" in periods of market turmoil.

However, the value of government bonds as safe havens has been questioned more recently. Since the start of 2022, investors have seen the value of equity holdings fall sharply as sentiment has soured due to accelerating inflation and Russia's invasion of Ukraine. Growing inflation expectations have driven bond yields higher and resulted in a more positive correlation between equities and fixed income—at just the wrong time for investors seeking diversification.

In this situation, the low-risk asset of choice may well be inflation-linked government debt, where the value of coupon and maturity payments increases with measures of domestic inflation. Such bonds have fared well in recent months, both on an absolute basis and relative to fixed-interest government bonds.

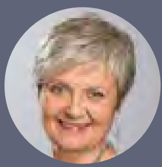
Again, looking beyond the domestic market can bring opportunities as the current inflation wave is increasingly an issue across much of the globe. The UK, U.S., Japan, Canada, and Sweden are all sizable issuers of inflation-linked government debt.

From a portfolio management perspective, the freedom to invest in global bond markets offers opportunities to take advantage of scenarios where monetary policy is diverging, as it is now. We are finding potentially attractive positions in select emerging markets, where central banks had to tighten monetary policy in the aftermath of the pandemic due to rising inflation. These countries are further progressed in their hiking cycles relative to major developed markets such as the U.S., eurozone and UK, where tightening of policy is only beginning.

China's local currency debt is another example. Rather than hiking rates, the Bank of China is expected to continue easing to support growth, while Chinese bonds are also benefiting from inclusion in major global fixed income benchmarks. We see a global investment platform and specialist skill in assessing a wide range of fixed income instruments as being key to selecting exposures to help meet investors' requirements against the current volatile backdrop.

Article

Affordability versus Adequacy – the DC dilemma



By Kim Gubler
Chair, PASA

There was a time when the industry talked about how much simpler and more affordable DC was to run than DB. It was the reason many employers opened a DC section or scheme when they closed their DB arrangements. But when we talked about affordability, this was focused on employer funding rather than total cost.

When we talked about simplicity, we were talking about the lack of complex regulation – not how easy it is for people to understand their pensions. So, when we complain about the raft of rules and regulations impacting on DC schemes, we have to look at things in context.

According to government statistics, auto enrolment has meant more than 10m people have started paying into a pension for the first time. We now have nearly 90% of eligible people paying into a pension, and most of these will be in DC. Around the world, countries struggling with the rising affordability of providing defined benefits have cast an eye over the implementation of our auto enrolment system.

We have many more people saving into a pension, so is auto enrolment a success? I think the answer is, as always, it depends. From an affordability perspective, probably. The problem comes when we start to look at DC from an adequacy perspective.

It's broadly recognised the amount of contributions going into a DC pension is the primary driver in determining people's standard of living. According to DWP's statistics, nearly £106bn was being saved by eligible employees in 2020. Despite this, it still only amounts to an average of less than 5.5% of (relevant) earnings. While there are clearly DC schemes with high contributions, most are at the minimum level for auto enrolment. Time after time, research has found people think this is enough for a comfortable retirement. And therein lies the problem – it isn't. Of course, the replacement ratio for lower earners is 'easier' to achieve than it is for middle income earners. But a small percentage of an average salary is not a lot.

The industry has been trying to 'engage' with DC savers for decades to address the issue of lack of engagement, with partial or little success. We've created apps, online modelling, online retirement, to/through retirement options. Yet sign-up is still dismally low – even for the fintechs. Often the pots aren't big enough to trigger interest. This is made worse by the construct of our working lives. Depending on where you look, the 'average' person will have 12 or 13 jobs. This could be more if you take into account flexible working. This means a person starting work now could have 12 or so pension pots by the time they want to retire.

If the government couldn't do anything about how much people pay into their DC pensions, they needed to make sure this money is optimised. Looking at some of the government's initiatives and regulations, they seem to be based on the optimisation principle. Making these DC pensions as adequate as they can be!

We all know DC master trust authorisation was an acknowledgement of the role these vehicles will play in creating retirement income for people. It set high standards of probity and governance in all aspects of delivery. So high, not all master trusts could meet them. 'Voluntary' consolidation has reduced the number of DC master trusts, and it's highly possible it could shrink further. This market consolidation is supported by both government and the Regulator… on the basis that bigger is always better – and easier to regulate? In fact, it led government to drive consolidation in most smaller DC schemes of less than £100m which can't/don't want to go through the process of demonstrating value for members. The objective is to ensure when people pay into any DC scheme, their contributions are optimised – and adequacy is maximised. Hopefully though, there won't be a revisit of the drive for DC scheme consolidation for those less than £5bn – because very big isn't always better!

The DC Chairs' Statement made Trustee Boards accountable to their ultimate customer – the pension saver. I might be being a bit of a rebel, but I think it really doesn't matter if savers don't read them. The discipline and regulatory oversight which underpins the Chair's Statement helps with the adequacy optimisation principle.

Dashboards' primary role is to connect people to their pensions. If you can find all your pensions, you might be able to understand them and you might be able to act for yourself to optimise your pension adequacy. Ultimately, dashboards' job is to help people make better decisions about their retirement plans. This could be consolidating their pots, and if these are small, then all the better as we all know small pots are stretched when delivering value for money.

In June the regulations on stronger nudges come into effect. Here we're talking about guidance to help people make the right decisions for their own particular circumstances. It's possibly (and likely to be) too late for people to improve their retirement outcomes by the time these stronger nudges arrive. But hopefully, giving people access to free Money & Pensions Service advice will help them optimise, and maximise, what they have.

As an optimist, my hope is in the long term we'll be able to balance affordability with adequacy. Then we'll really be able to say people are getting the best value from their DC pensions.

PMI Activities

Has the Apprentice-ship sailed... or are we just not on board yet?

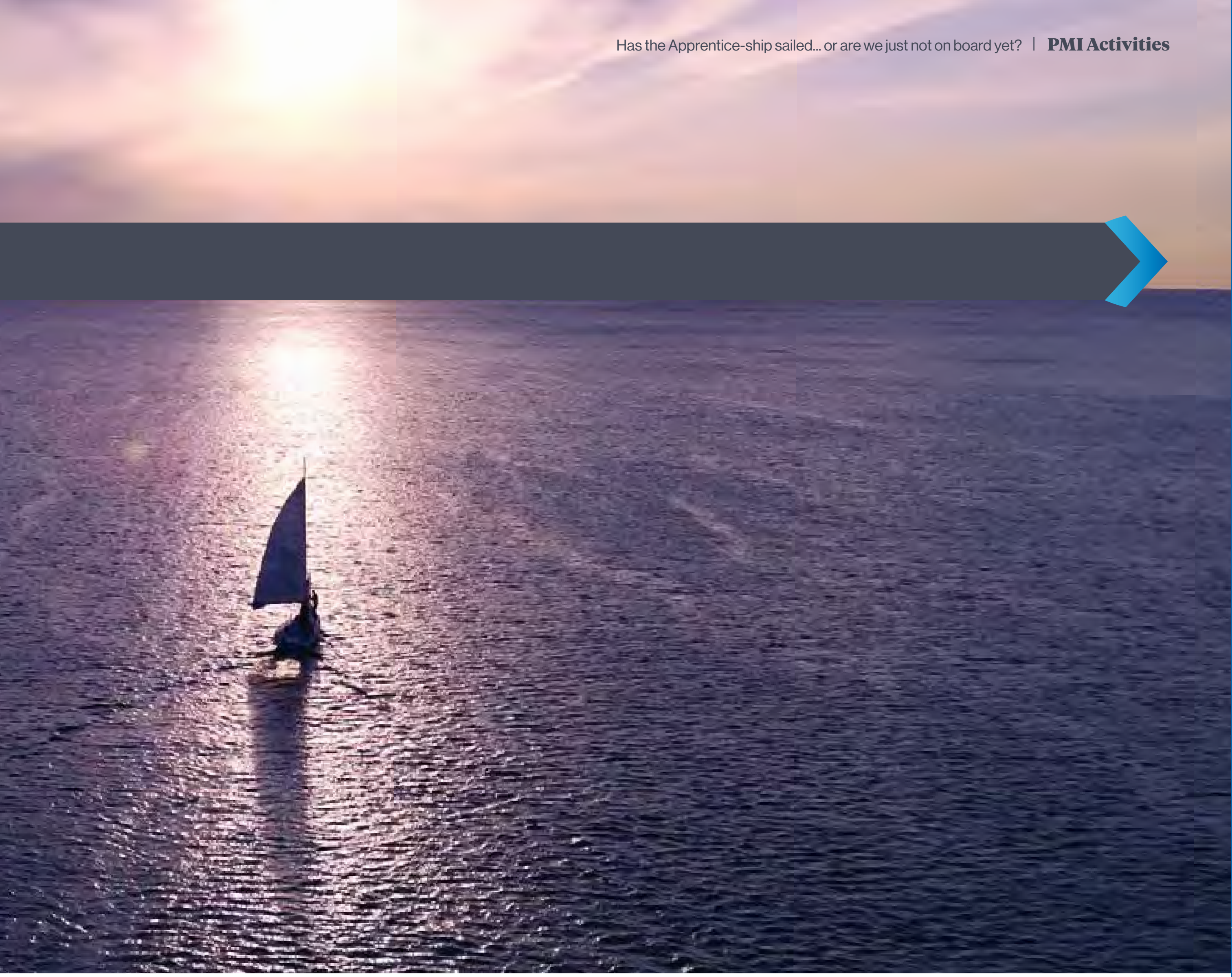
By Dr. Keith Hoodless
Director of Lifelong Learning, PMI

As organisations look to move from traditional DB and DC schemes to the adoption of a CDC approach should we be looking at Apprenticeships as an opportunity to develop our existing workforce to meet the future needs?

Even more though, when we look across the problems in the sector, and certainly with HR issues and recruitment, the world of financial services is right on the cusp of the next wave of disruption.

Every financial organisation is ploughing fiscal resources into any number of projects as they work hard to update legacy systems and improve operating effectiveness and customer experience. This can be said of nearly every industry as we recover from the pandemic, (which in itself sends unique challenges in the direction of the financial services sector) as the competition for top talent heats up. Indeed, attracting and retaining the best people - essential for successfully competing and innovating in this increasingly difficult environment - is further complicated by the fact that financial organisations are no longer just fighting for skilled people with traditional sector rivals, but also against the 'new way we do stuff round here'. When this is combined with UK unemployment levels being at near historical lows, then financial institutions are facing a situation where a lack of good candidates is making it increasingly hard to hire the innovative and well-trained talent they need to complete these transformations, combat security issues, deal with increased regulations, and conduct the effective big data management they need to.

It is my firm belief that Apprenticeships provide us with an opportunity to resolve some of these problems.



Let's start with the purpose of an Apprenticeship

An Apprenticeship is a form of learning. Individuals in employment learn 'on' and 'off' the job to gain the knowledge, skills and behaviours needed to be occupationally competent for a defined occupation. The Department for Education's definition is spot on.

If, as Government intends, an Apprenticeship is about occupational competence and tackling the skills gaps and shortages in the UK economy, then Apprenticeships must be far more than a level 3 programme, and one of the main myths to be debunked from this is that the Apprenticeship programme is aimed purely at school leavers. It can be, but it isn't wholly. It is perfectly possible to use Apprenticeship Levy funding to train existing employees, so long as they are enrolled on an Apprenticeship programme.

An Apprenticeship can be a Junior Administrator (Level 2), a Senior Administrator/ Consultant (Levels 2-4), a Technician (Levels 4-6) or even a Financial Services Professional (Level 6). There are even higher Apprenticeships in the sector at Level 7.

The training of an Apprentice is (in the main) paid for from this Apprenticeship levy. The levy was introduced in April 2017, as part of government reforms on how apprenticeships were funded. It is, essentially, a UK tax on employers and in the current (2022/23) tax year it is payable by all employers with an annual pay bill of more than £3 million at a rate of 0.5% of their total pay bill. It is also possible to receive 95% of funding for training outside of the levy (please contact me if this interests your organisation).

How does it work?

- HMRC collect 0.5% of your payroll monthly
- Funds collected are credited to your online 'levy account'
- Your credits are topped up by 10% from the government
- You recruit apprentices and/or ask your existing employees to undertake apprenticeship training
- Then you find one or more approved training providers
- You transfer your levy credits to the provider(s) to pay for the training
- When the training is completed the provider contacts an EPAO to assess the process (for Pensions this is normally the PMI)

However, almost three years down the road and many organisations in this sector still aren't taking advantage of the funding. For this reason and within this sector, I have identified 5 unique challenges that suggest why they should.

PMI Activities

1. The skills gap

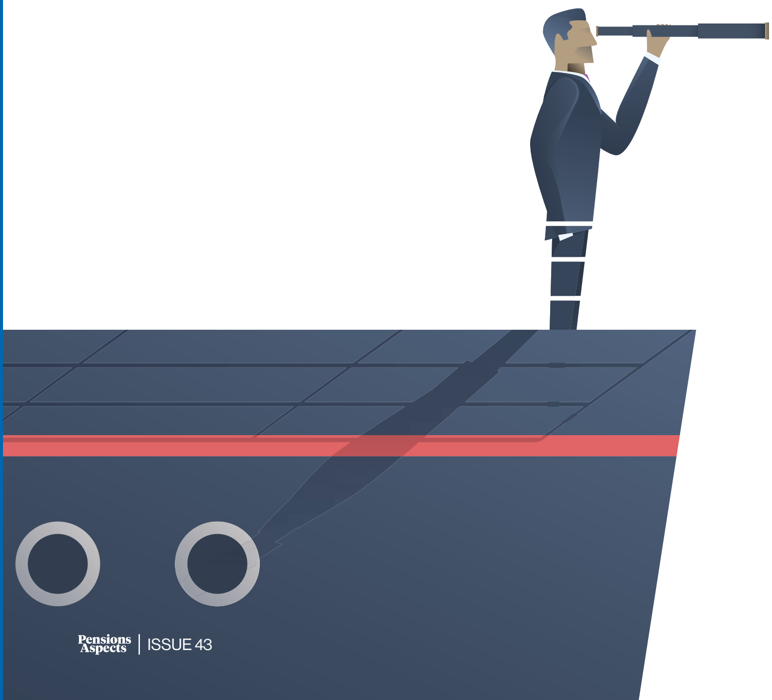
The skills gap in the finance industry is continuously widening. Ignoring the changing nature of work, the changing patterns of work and roles within it, and the changing needs of those performing those roles are, if not handled correctly, a direct threat to growth.

2. Shortage of mid-career candidates

And it's not just a lack of fresh-faced millennial grads that's a problem - there's a shortage of mid-career candidates as well. The financial crisis of 2008 and the low economic years that followed caused many people to leave the financial services industry, meaning there are fewer mid- and upper-level professionals in the financial services job market today, even though the situation is materially different and better.

3. Retaining millenial talent

Retaining employees is of vital importance in a period where only around 10% of millennials plan to work for the long term, and those who do want to see investment in them as well as the organisation. It costs an organisation an average of £11,000 to hire a replacement should it fail to retain an employee - and that doesn't include the cost of severance and training a new employee. To put this into perspective, this means that if 90% of the millennial workforce might not be sticking around for long, then cost-per-hire figures could soon be stacking up to levels that cannot be afforded.



4. Creating an attractive company culture

We see year on year valuable information as to what the future workforce will be like, from Baby Boomers to Gen X and Gen Y. The latest of these suggests that the iGen (Gen Z) workforce is about belief systems and culture – 'do I think we are on the same page' – the employment package therefore has to be about investing resources and time in the individual as much as it is about qualifying workplace objectives and outcomes.

5. Jobseekers have more choices and more power

As top talent and qualified financial services professionals become increasingly hard to find, jobseekers in this market have the pick of the litter – the market is currently 'job saturated'.

Apprenticeships are part of the solution to all of the above problems. They allow:

- provision of qualifications and training for existing staff;
- support for the recruitment and training of any newly appointed apprentices;
- the needs of existing employees to be met in CPD and;
- iGen/new employees to see direct investment in them as individuals.

This is why the PMI has now taken a more active role. We are now the End Point Assessment Organisation for the following standards:

Level 3 Workplace Pensions (Administrator or Consultant)

Level 4 Actuarial Technician

Level 6 Financial Services Professional

We are looking at this further and with more standards. The PMI as sector body for Pensions has been supporting the sector in all aspects of delivery since 1976, and we continue to do so.

The PMI will help organisations on the path to introducing, delivering and ultimately as EPAO assessing the Apprenticeship standards correctly. If you wish to discuss this further, then please contact me at the PMI **(khoodless@pensions-pmi.org.uk).**

https://www.pensions-expert.com/DC-Auto-enrolment/Fifth-of-businesses-are-interested-in-CDC-schemes?ct=true

Membership by Experience (EPMI)

The journey in joining the PMI's Membership by Experience (EPMI)

By Zoe Plowman
Head of Pensions, Ensors Accountants LLP

As an accountant you expect to specialise in a specific sector, but one presumes that will be Manufacturing, Software etc. My EPMI status was accredited in recognition for my experience as a pension scheme accountant/auditor and my contribution to the pension industry in excess of 10 years. So – how did I get involved in pensions?

I qualified as a Chartered Certified Accountant in 2002, and up to that point had mainly dealt with Corporates and Not for Profits. The only experience of pension schemes were my own GPP scheme and the odd SSAS scheme set of accounts preparation.

Whilst as a firm we have been providing pension scheme audit services to clients since the introduction of the Pensions Act 1996, my first exposure to these was in 2009 when I transferred to the Ipswich Office. I was given a sizeable portfolio of schemes and very quickly got up to speed with the statutory requirements; the terminology and the Statement of Recommended Practice, but more than that I developed a specialism in the accounting and auditing of trust-based pension schemes; DB, DC and Hybrid, through experience, listening to Trustees and advisers and technical research and attendance at courses, breakfast seminars, PMI events, anywhere that would take me; my inner pension geek was born and I very quickly became the pensions team lead and the go-to expert for Pensions in the firm.

I am passionate about the quality of our work, I work closely with Trustees and advisers to ensure that we provide the highest standards of quality, service and reliability to offer a compliant but also proactive service.

I believe that commitment to staff is vital; I learned that success is only achievable with a strong team, and investment by means of extensive training, guidance and support is paramount.

Over the years I have watched the team evolve and grow. We now act for a sizeable portfolio of Trust-based schemes from small SSASs with about £1m of net assets to larger DB, DC and Hybrid schemes with several million of assets.

Clearly we must be doing something right as the Pensions Team received the accolade of Pensions Accountancy firm of the year in the 2018 and 2022 Pension Age awards!

My involvement with PMI is in the Eastern regional group. I act as Treasurer and I assist with organisation of events and pooling speakers from the wide professional network that I have gained over my career. I was honoured and delighted to be invited to apply for membership of PMI as an EPMI in recognition for my services to pension schemes and my commitment to the sector.

To join the PMI's Membership by Experience please go to **www.pensions-pmi.org.uk/epmi**

Learning to swim at the deep end

By Pete Harris
Former Director of Pensions, Telent Ltd

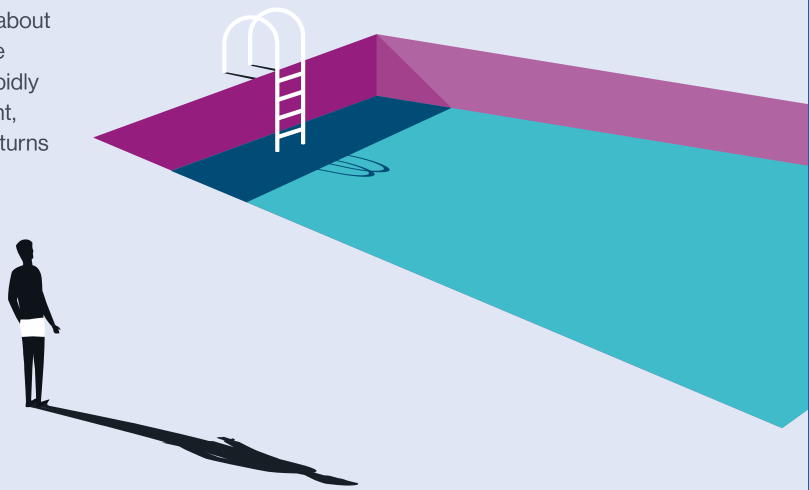
With a degree in pure mathematics I didn't really have any clear idea of where my career might take me (the word "actuary" was entirely absent from my vocabulary) other than a vague thought that I might go into teaching.

Despite achieving membership of the CIPD, I cannot claim to have been the greatest HR Manager, or rather to show my age, Personnel Manager ever to draw breath, but there was one area of the work which, in retrospect, was an almost inevitable destination for me. Specialising in doing hard sums isn't generally the primary entry requirement for the HR profession, but it can be very useful in the field of compensation and benefits. I spent a few successful years running share incentive and bonus schemes, restructuring executive contracts, managing global pay before (in 2003) diving into the deep end of being asked to assume responsibility for a major DB scheme with no previous pensions experience.

This meant that I had to don my mental cramp-ons and ice-axe in order to clamber my way up a very steep learning curve. The challenges I have faced meant that this curve didn't flatten out for a long time. These included: Pensions Act 2004, Tax Simplification, the sponsor selling most of its business, leaving it with annual revenues which were an order of magnitude less than the scheme liabilities, a takeover of the sponsor which potentially threatened the independence of the trustee, the financial crisis of the late noughties, and ongoing concern from the Pensions Regulator about the risk to the PPF. Even when, through strong governance, the position of the scheme started to improve, the need to learn rapidly didn't go away, as we moved into a world of liability management, data scrubbing, investment in assets generating contractual returns and eventually the largest full scheme buy-out yet undertaken.

Through all of this time, there have been two main drivers for my learning, firstly what I needed to meet the challenges thrown my way, and secondly the need to organise a structured programme for trustee directors. I have also benefited enormously from the expertise and knowledge of the fabulous trustees, advisers, service providers and colleagues with whom I have worked along the way

Having completed buy-out and subsequent scheme wind-up, I was able to sit back and think more widely about my own future development. I was therefore delighted to come across Membership by Experience from the PMI. It suited me perfectly. I have been learning throughout my career but mainly in a practical rather than an academic fashion, and this was a way of gaining recognition for that and, more importantly, as I move to the next stage of my career, of gaining access to the research, networking opportunities, and structured development provided by the PMI.



To join the PMI's Membership by Experience please go to **www.pensions-pmi.org.uk/epmi**

Article

My experiences of the PMI Certificate in Pensions

By Ryan Wakefield,
Pension Administrator, First Actuarial

I recently studied for my Certificate in Pensions Calculations (CPC), which focuses on pension calculations in the areas of scheme transfers, leavers, retirements and deaths.

I was new to pensions and I wanted to be good at my job and develop new skills. And if I'm honest, I wanted some letters after my name! I didn't go to university because I made the positive choice to get some real-world experience instead, and I have no regrets. It helps that I got good A level grades, including maths. I started my pension administration career at Barnett Waddingham and now I work for First Actuarial.

Studying for the CPC starts with a fact-finding exercise. PMI provides a number of scheme booklets that explain the scheme rules. And then you work through case studies and past papers.

It's learner-led. Your employers should have a point of contact for the qualification. The amount of contact time depends on how much the individual learner asks for. I worked hard for the qualification – it's something everyone commented on – and approached my contact whenever I needed clarification. I got a generous allocation of study leave from First Actuarial, but I also studied in my own time.

The course is exam-based, and since the pandemic, the exams have taken place online. There are seven exams to pass in two exam windows per year. In each exam, you're tested on three different scheme types. There are calculations to perform and letters to write.

There are usually two exams per category. For example, with leavers, deaths and retirements, there's one that is with special circumstances (such as changes in accrual or AVCs), and one without. Students tend to sit those two exams in the same window, as a lot of the material is common to both.

Another important thing to note is that you can take all your materials – including your notes and previous papers – into the exam. The idea is that in the real world, you'd have access to information anyway; you wouldn't be expected to remember everything.

First Actuarial is encouraging more administrators to study for the CPC. It's definitely helping me do my job better. It has boosted my confidence with manual calculations, because of all the practice I've had with CPC case studies, which are quite true to life. It's broadened my knowledge of different scheme types. And it helps me explain benefit calculations clearly to members, because I understand them so well myself.

I started studying transfers just before the increase in pension scams hit the news and the new regulations appeared. It's been useful to get a head start on such an important issue – and to understand why it's so important for members to consult an independent financial adviser, for example.

I'd advise students to consult the PMI website, which has a page of CPC resources, with links to the scheme booklets, case studies, practice papers and examiner reports of past papers. Do as many past papers as possible, and practise typing quickly, as the exams are time-limited.

It's well worth doing, and I'm looking forward to starting my next PMI qualification.

If you are interested in our CPC qualification, please contact our team
pmiqualifications@pensions-pmi.org.uk

TPR Column

TPR takes tough action to protect savers

By Nicola Parish
Executive Director of Frontline Regulation, The Pensions Regulator

Here TPR's Executive Director of Frontline Regulation Nicola Parish provides a round-up of the regulators' recent enforcement work, including two important prosecutions.

We recently secured significant court victories in two important prosecutions.

Earlier this spring **two fraudsters were handed prison terms** totalling more than a decade for their part in a £13.7 million pension scam. This prosecution and substantial custodial sentence send a clear message that TPR and the courts will take tough action against fraudsters.

Following a prosecution brought by TPR, Alan Barratt, 62, of Burnham Road, Althorne, Essex and Susan Dalton, 66, of Brookdale, Rochdale, Lancashire were sentenced at Southwark Crown Court last month (April) after admitting charges of fraud by abuse of position arising from their roles as trustees of pension schemes.

Barratt received a sentence of five years and seven months while Dalton was sentenced to four years and eight months in prison. The pair were also banned from acting as company directors for eight years following a request by TPR.

The court set a timetable under the Proceeds of Crime Act (POCA) to investigate whether any of the of the money taken in the fraud can be recovered from the defendants, with an initial hearing set for 4 November. This is a despicable case which highlights the devastating impact pension scammers have on their victims.

Barratt and Dalton were part of a criminal enterprise that tricked hundreds of savers into transferring their hard-earned pension pots into scam schemes under their control. In their role as trustees, the pair enabled millions of pounds to be taken from the schemes and channelled offshore, where it was used to enrich others involved in the criminal enterprise and to profit themselves.

Pension scams ruin lives. Savers should always be careful when making any decision to transfer a pension pot that's taken a lifetime to build and should contact MoneyHelper, part of the Money and Pensions Service, for impartial guidance first.

TPR Column

Sentencing of former Norton Motorcycles owner

In March, a former owner of Norton Motorcycles was given a suspended prison sentence for illegally investing pension schemes' money into his business. He was the sole trustee of the three pensions schemes which invested in Norton Motorcycles.

Stuart James Garner illegally took money from three pension schemes in his care to prop up his struggling business. As a result of his criminality, savers, whose interests he was supposed to safeguard as a trustee, have been affected by substantial financial losses to their retirement savings and have been caused significant distress.

Following a prosecution brought by TPR, Mr Garner, 53, of Park Lane, Castle Donington, Derby was sentenced to eight months imprisonment, suspended for two years, for each of three counts of breaching employer-related investment (ERI) rules. He was also disqualified from acting as a company director for three years and ordered to pay TPR's costs of £20,716.

In February Mr Garner had **pleaded guilty to three charges of breaching ERI rules** by investing most of the money of each scheme into his business, Norton Motorcycle Holdings Ltd.

Derby Crown Court heard how the offences related to three defined contribution schemes: Dominator 2012, Commando 2012 and Donington MC. The investments, made between 2012 and 2013, were made in return for preference shares. These shares were issued by Norton Motorcycle Holdings Ltd for which Mr Garner was both the director and majority shareholder.

Rules on employer-related investments are vital to protect members' savings, and as this case proves, we will take action against those who flout them.

TPR protects schemes of all sizes

We are committed to putting savers at the heart of all we do, and we take a dim view where their needs are neglected.

As our recently published **regulatory intervention report** demonstrates, we will take enforcement action to safeguard savers in schemes of all sizes, and against individuals.

The report also shows that even if a target of our enforcement is overseas, it is no barrier to us using our powers.

We used our anti-avoidance powers against SMT Scharf AG, a German mining equipment business with global interests and subsidiaries, in support of the scheme for the employees of the Dosco Group, a UK-based engineering business.

We issued a £2million contribution notice to the overseas parent company – and secured a £130,000 settlement with a senior company executive to help protect a 600-member defined benefit scheme.

A financial settlement was secured with a former Chief Executive of the Dosco Group, Martin Cain.

SMT Scharf AG sold the Dosco Group to a management buyout company which had no realistic prospect of being able to support the business. As a result the pension scheme's sponsoring employers went bust eight months after the sale.

Scharf showed a complete disregard for the scheme which was left with no funding or prospect of financial support.

The case sends a clear warning to corporate entities and individuals that we will take action where appropriate to protect schemes.

Compliance and enforcement bulletin

We recently also published our latest **compliance and enforcement bulletin** which shows how many times we used our powers between July and December 2021.

The bulletin highlights that the use of powers, including in relation to automatic enrolment, has remained broadly steady since the previous bulletin covering the six-month period of January to June last year.

Despite the challenges of the past two years since the start of the pandemic, our indications are that employers have continued to do the right thing for their staff. However, we are not complacent, and we continue to keep a close eye on compliance.

Putting savers at the heart of all we do means being clear about our expectations and taking enforcement action where we need to in line with our risk-based proportionate approach.

Pension Conundrum

P i Pensio Pension conundrum C drum

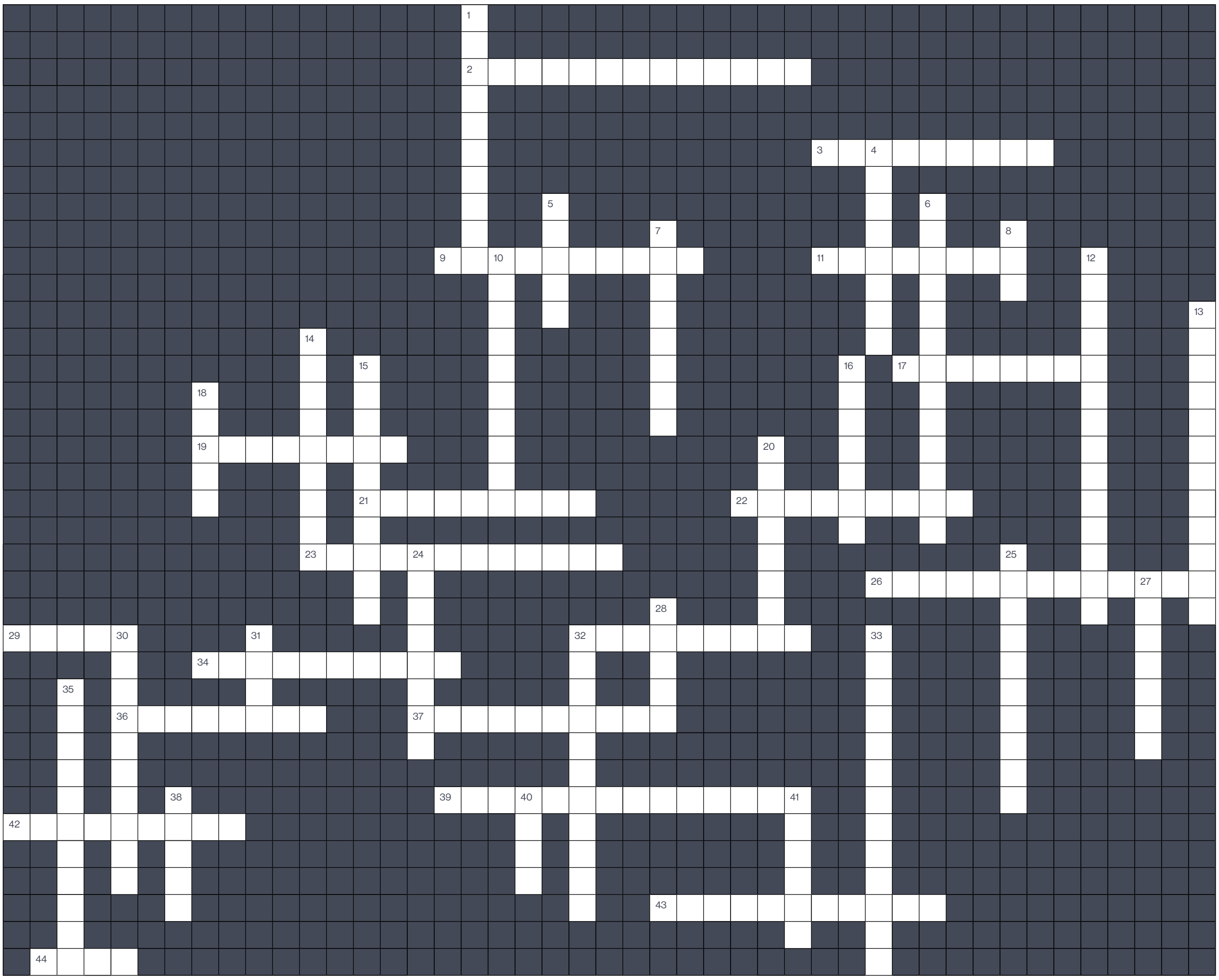
Crossword

Across

2. Payments to funds (13) **3.** Increase variation (9) **9.** Introduction of rules (10) **11.** Make the best (8) **17.** A summit (8) **19.** Production limit (8) **21.** Systemic analysis (9) **22.** Fall in currency value (9) **23.** Measurement of uncertainty against expected reward (4,8) **26.** Combination of economic and social circumstance (5,8) **29.** Importance, worth (5) **32.** A trustee (9) **34.** Collection, analysis, interpretation of data (10) **36.** Poor returns (3,5) **37.** A state of uncertainty (10) **39.** Position, learning a trade under another (14) **42.** Basic underlying structure (9) **43.** Enforcing criminal charge (11) **44.** Those born between 1997 and 2012 (3,1)

Down

1. Outstanding quality (10) **4.** Unsteady (8) **5.** Rhythmical throb (5) **6.** The exchange of information (13) **7.** Relating to the running of a home (8) **8.** Of crucial importance (3) **10.** Administration, regime (10) **12.** Sign-up without active authorisation (4,10) **13.** Lucidity (12) **14.** Gauge indicating the level of a given factor (9) **15.** Stocks, bonds, real estate etc combined (5,5) **16.** Non-religious (7) **18.** Large scale, overarching (5) **20.** A resident of the capital (8) **24.** Assign (8) **25.** Devices (10) **27.** Authority to act (7) **28.** To jolt (5) **30.** State of possessing paid work (10) **31.** Secure (4) **32.** Return that does not vary with external factors (5,6) **33.** Measure of cost against one's means (13) **35.** Responsive to input (11) **38.** Promises (5) **40.** Buoyant structure (4) **41.** Proposed course of action (7)



Answers from Issue 42

Across
1.Derisking **3.**Transientdata **4.**Regulatory **11.**Protection **12.**Equalisation **15.**Transitionrisk **17.**Incentive **19.**Analytics **20.**Automation **22.**User **27.**Gap **29.**Talent **30.**Critical **32.**Equities **34.**Avenue **35.**Processor **38.**Recruit **39.**Benefit **40.**Filing

Down
2.Restructure **5.**Calculate **6.**Code **7.**Cloud **8.**Data **9.**Buyout **10.**Modernise **13.**Sponsor **14.**Input **16.**Scheme **18.**Sampleaudit **21.**Datalake **23.**Strata **24.**Feed **25.**Dashboard **26.**Source **28.**Drive **31.**Algorithm **33.**Scam **36.**Superfund **37.**Info

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Appointments

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Appointments