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Pensions Aspects

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A sustainable portfolio

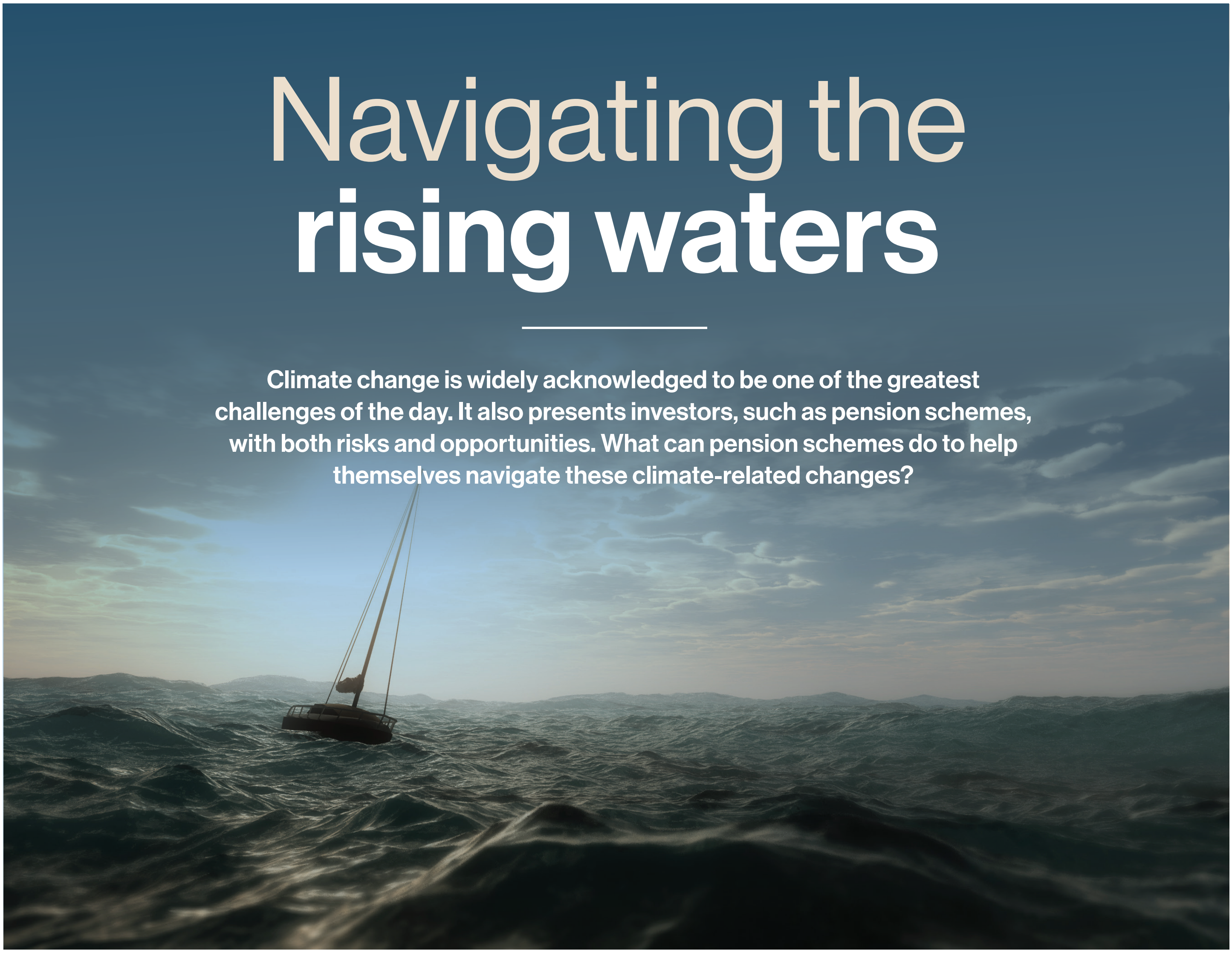
The responsibility of positive investment

ENGAGING WITH FUND MANAGERS TO DELIVER BETTER ESG OUTCOMES

REPORTING ON OUR FIRST YEAR AS A PRI SIGNATORY

THE KEY TO MAKING YOUR PENSION FUND MORE SUSTAINABLE

Pensions Management Institute
Moving pensions forward



Navigating the **rising waters**

Climate change is widely acknowledged to be one of the greatest challenges of the day. It also presents investors, such as pension schemes, with both risks and opportunities. What can pension schemes do to help themselves navigate these climate-related changes?

By Karen Heaven, Managing Director, Investment Consulting, Redington Ltd

Pension scheme trustees have the ability to influence the investment of huge pools of capital, whether that is by making investment decisions for a Defined Benefit (DB) pension scheme, or selecting funds for members to choose (or default into) in Defined Contribution (DC) arrangements.

One of the greatest challenges of our time is climate change. For some years now, governments and financial regulators have been legislating to address this challenge. The economic impact on companies – both of climate change itself and of changing environmental regulation – is very real.

The extent to which pension schemes focus on climate change-related issues will differ from scheme to scheme, and will be dependent on a scheme's individual circumstances. However, climate change – and the legal and regulatory responses to it - pose new challenges and opportunities for pension scheme investing. Understanding and managing these risks appropriately is, therefore, key for investors, such as pension schemes, to effectively meet their duties.

Due to the combined weight of money that they manage on a day-to-day basis, asset managers have a critical role to play in ensuring that companies are appropriately addressing climate issues that they face. Managers who are able to mitigate the risks and capture the opportunities associated with climate change will be best placed to help address, and capitalise on, this challenge.

Whilst progress to date on climate issues has been meaningful across many countries and industries, further improvement could be made if more managers are encouraged to move away from box-ticking and are instead encouraged to start difficult conversations with companies regarding their climate-related performance. These conversations should happen not just in respect of assets managed in Environmental, Social and Governance (ESG) - or climate-focused funds, but in all funds, and across the range of asset classes – not just equities.

One way in which managers can help make a positive change is to push for better transparency on issuers' carbon data. Higher-quality data will allow managers to better understand the financial impact climate-related risks and opportunities have on a company.

Whilst climate-related data availability and consistency has been a persistent issue, we are hopeful that progress will be made as more firms seek to enhance their disclosure procedures in line with the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations.

Similarly, pension schemes must also now provide greater transparency, for example, around their own stewardship policies under the Shareholder Rights Directive II (SRD II) legislation.

Whilst we believe that there is much more that the investment community can do on climate issues, we are cognisant that progress will not be made overnight, and so we must expect a long-haul with plenty of lessons to be learned along the way.

Challenging managers on their actions will be one important mechanism for mitigating climate risks and benefiting from climate-related opportunities – and ultimately creating a better future for people to spend their hard-earned retirement savings in.

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Spring 2021 Exam Dates

Pensions Management Institute
Learning

Certificate in Pensions Calculations

Next online exam dates: **9-12 March 2021**

Applications are now closed.

For study materials:
www.cpc-learning-materials.com

Retirement Provision Certificate

Next online exam dates: **24 March 2021**

Applications are now closed.

For study materials:
www.pmi-rpc.com

Award in Pension Trusteeship

Next online exam dates: **24 March 2021**

Applications are now closed.

For study materials:
www.trusteetoolkit.thepensionsregulator.gov.uk

Advanced Diploma in Retirement Provision

Next online exam dates: **12-13 April 2021**

Applications are now closed.

For study materials:
www.pmi-learner-support-materials.com

Revision Courses

Please book yourself on to one of our revision courses to give you more support to pass your exams.

The Qualifications team have also scheduled revision courses, which are taking place online, via ZOOM, and cost £55 per session. They can be found here **www.pensions-pmi.org.uk/events/pensions-management-institute-revision-courses.**

Private sittings

Due to popular demand, as of 2021, the qualifications team we will be holding private sittings of the APT (CPT unit 1) and CPT unit 2 exams which will take place online only.

If you would like to hold a 'private sitting' please contact James Cumine or Vanessa Jackson directly to enquire about availability.

VJackson@pensions-pmi.org.uk

JCumine@pensions-pmi.org.uk

Private sittings can hold no less than 10 individuals and at least 4 weeks' notice must be given so that we can try and hold the exam on your chosen date.

Pensions Management Institute
Membership

Membership renewals

Last chance to renew your Trustee Group membership subscription for 2021

Trustee memberships were due for renewal on the 1 January 2021. Subscription renewal notices were sent out to all Trustee Group individual members. If you have not received your renewal notice, a copy of this can be found in the 'My Transaction' area of your membership portal. Alternatively, please contact the Membership team at membership@pensions-pmi.org.uk or on 0207 392 7410.

All Trustee members with outstanding membership fees will be lapsed by the end of March 2021.

If you are an existing Trustee Group Board scheme member, please contact the Secretary to the Trustees or the Responsible Person to ensure that your subscription is paid to renew your membership.

Trustee Board schemes can join the PMI Trustee Group at a reduced rate of £95 per trustee. All Trustees from the board must join to receive this discount. PMI Trustee Boards can receive additional benefits including the ability to sign up for collective training to be independently recognised by the PMI. For details of the full range of benefits as an individual or entire Trustee Board, see our website www.pensions-pmi.org.uk/membership/new-members/member-benefits for further details.

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 person has been elected to Certificate Membership and can now use the designatory initials **'DipPMI':**

Laura Vardy

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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':**

Rebecca Downing
Elaine Kershaw
Carly Bennett
David Smith
Brett Dance
Andrea Roe
Eric Gillyatt
Matthew McDermott
Julie Hall
Gabriela Alexa
Margaret Wharton
Rose Hartshorn
Jayne Howson
Gillian Fedun
Katie Clarke
Lee Gregory
Jonathan Carlile
Selina Staniforth
Kevin Rigby

Fellow Membership

Fellowship is open to Associates with five years' membership and five years' logged CPD.

We are pleased to announce that the following eligible Associate has been elected to Fellowship and is now entitled to use the designatory initials **'FPMI':**

Ashleigh Field

5th PMI and ITM Student Essay Competition

Thank you to all those who have registered for our 5th Student Essay Competition.

Please don't forget to submit your essay by Friday 19 March 2021, 5:00pm to the Membership team at membership@pensions-pmi.org.uk and results will be announced on Monday 19 April 2021. Good luck to all!

The winning essay will be published in our May 2021 edition of Pensions Aspects magazine.

Events

Flagship events

Pensions Management Institute
Events

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

21-22 April	**Investment Forum** Online
11 May	**PMI - NextGen Conference** Online
16 June	**Trustee Workbench** Online
7/8 July	**DC and Master Trust Symposium** Online
11 Nov	**ESG & Climate Change Seminar** Online
24 Nov	**PensTech and Admin Summit** Online
07 Dec	**Annual Dinner** The Savoy, Strand, London, WC2R 0EU
07 Dec	**Pensions Aspects Live** The Savoy, Strand, London, WC2R 0EU

Regional news

Pensions Management Institute
Scotland

The Scotland Regional Group discussed its 2021 programme and contribution to the PMI virtual conference to be held in March. Details of the programme will be available in the next edition of Pensions Aspects magazine and will certainly include the new Pension Schemes Act and updates on how schemes can address GMP inequalities including past transfers-out.

Pensions Management Institute
London

With the Easter bank holidays within touching distance, the London Regional Group hopes all of our members are looking forward to some well-earned time off!

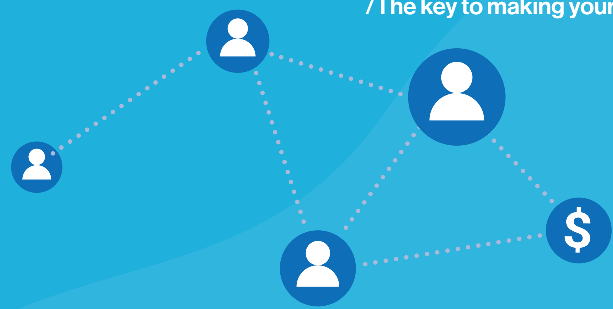
Remember to keep an eye out for details of our upcoming business meetings via the PMI London Group LinkedIn Group page. In March 2021, we'll be looking at what the future holds for the Master Trust market and in May 2021 we'll be taking stock of how schemes are getting to grips with some of the practical challenges of GMP equalisation. Details will also follow by email to PMI's London Regional Group members once these events are confirmed.

We'd like to take this opportunity to remember Peter Weiner. Much has already been said of his contribution to pensions and he was a strong supporter of the London Regional Group. His passion for pensions and his good humour will be missed.

A sustainable portfolio

The responsibility of positive investment

This month's feature articles include:



Engaging with fund managers to deliver better ESG outcomes

By Ajeet Manjrekar, Co-Head, River and Mercantile Solutions

Voting and engagement are crucial aspects of responsible ownership and valuable tools for encouraging companies to adopt better standards of corporate governance and management of Environmental, Social and Governance (ESG) issues. Here, River and Mercantile's Ajeet Manjrekar explains how fiduciary managers can support trustees to meet their regulatory obligations by challenging and influencing underlying fund managers' behaviour and policies.

A report[1] in 2019 by The Association of Member Nominated Trustees (AMNT) severely criticised the fund management industry on its lack of transparency on voting policies. The report also identified significant gaps in fund managers' voting policies in several key ESG issues. Lack of transparency and lack of ESG voting policies presents a significant challenge for trustees given their growing stewardship and ESG regulatory obligations. Indeed, the AMNT shared this research with the Financial Conduct Authority (FCA) as part of a formal complaint.

It therefore stands to reason that fiduciary managers can be expected to engage with fund managers on their ESG policies and behaviours as part of their fiduciary duty. Engaging with fund managers can generally be done in one of two ways: first, by way of voting engagement, where shareholders use their position to vote for or against certain actions; and secondly, by direct engagement, working directly with the fund manager to deliver better ESG outcomes for all stakeholders.

Whilst normal corporate governance voting standards and practices don't necessarily apply to pooled investment vehicles or funds, it is possible to take a similar approach to voting policy as with directly held assets. For example, a specific area cited in reviews has been the make-up of boards in terms of gender and racial diversity, along with the proportion of independent directors that represent investors' interests. It is possible to vote against the appointment of fund directors if this is a concern. Likewise, if there are ongoing reservations about the actions of a board during the year, it is possible to withhold support for the annual report and accounts.

Similar to voting activity, direct engagement with fund managers can take many forms but I believe that, to be powerful, it needs to be ongoing. This means that it starts with the initial fund selection process and continues via regular fund reviews. These reviews must consider not just the fund performance and investment process, but operational factors and the actions and policies of the wider investment firm.

We have illustrated below how we at R&M successfully engaged with a global fund manager who was not consistently applying their policy on investing in cluster munitions across different investment jurisdictions.

As ESG policy and reporting from fund managers is rightly coming under continued scrutiny from regulators, it impacts on trustees. By ensuring that their fiduciary manager is engaging with and holding managed funds accountable, trustees should be able to feel comfortable that much of their own fiduciary and regulatory obligations are in order.

ESG engagement example - cluster munitions

R&M view

- We believe that all our underlying managers should have clear policies excluding investment in cluster munitions.
- Where these are not in place, we have requested these are implemented, and where the investment is permitted we have challenged the validity of rationale.
- It is important to us that such policies are applied globally across the asset management organisation rather than just in jurisdictions where such exclusions are required by regulation.

Identification of issue

The R&M Group do not invest in cluster munitions and believe that any underlying managers in our portfolio should have clear policies in place.

ESG analytics and monitoring

We perform regular analytics on a look- through basis of all managers in our portfolio (using MSCI ESG Research), to ensure no cluster munitions exposure.

As part of our operational due diligence (ODD), however, we noted there was an inconsistency within our manager's policies. The Luxembourg vehicle we invest via had an exclusionary policy, but this was not applied firm-wide.

Engagement

We spoke to the manager to confirm their position on cluster munitions, who advised that in addition to Luxembourg the exclusion was also being extended to their UK and Canadian fund ranges.

Outcome

It is positive that the manager is already extending the exclusions across other fund ranges, although we do not believe this covers all of their funds, so we will look to engage on this point again at the next ODD.

[1]Source: AMNT (Association of Member Nominated Trustees) review into fund managers' voting policies and practices, May 2019

Reporting on Dalriada Trustees' first year as a **PRI signatory**

Dalriada Trustees became a signatory to the United Nations Principles of Responsible Investment (PRI) in September 2019, the first Professional Trustee firm in the UK to do so. Over the last year or so we have been working to better incorporate Environmental, Social and Governance (ESG) factors both within how we undertake our role as trustee and in how we operate internally.

By Clár Christie, Responsible Investment Officer, Dalriada Trustees

As we begin our first round of PRI reporting this month, we have reflected on our first year as signatories and noted some of the things we have learned below.

This is a journey

There is no quick fix to account for ESG within your investments. It is not as simple as switching to an ESG tilted fund. While this may be a reasonable action, the market for such funds is not well developed and by rushing to address ESG through fund choices we risk setting off on the wrong path. Our goal as trustee is to truly embed ESG factors into our processes. By this we don't just mean fund selection, but all the strategy considerations that come before selection and all the monitoring that comes after. We want ESG factors to become a business-as-usual investment consideration, much like interest or inflation rate hedging, rather than a separate aspect. We have learned that we need to walk before we can run.

As a reminder, there are six Principles within the UN PRI Framework:

1. We will incorporate ESG issues into investment analysis and decision-making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the Principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the Principles.
6. We will each report on our activities and progress towards implementing the Principles.

Principles 1, 2 and 6 focus on integrating ESG into investment analysis and implementation and improving our disclosures in this area. Working on these three Principles has been a particular challenge as many of the tools in the marketplace, and much of the fund selection approaches, do not adequately cover the spirit of what the Principles are trying to achieve. As a Professional Trustee we need to do more, but it is also clear that greater effort is required from both consultants and investment managers before integration of ESG becomes mainstream.

Quality and availability of data is a barrier

The quality and availability of data is one of the main barriers to incorporating ESG and climate change into our investment strategies. Significant development is required along the full investment chain and so we are unlikely to have reliable ESG data in the short term. Until then, we will have to rely on a qualitative approach to understanding ESG and climate risks across our potential investments, become comfortable with using what data is available, but ensure we carefully consider the impact of any uncertainties.

Regulation

The increased focus on ESG and climate change in regulation is a positive step forward. If not for the recent regulatory requirements, many trustees would not yet have started on this journey. At Dalriada we believe that, to get the most benefit from the new regulations, it is important that we do not take a tick box approach. Instead, we have worked hard to embrace the spirit of the regulation in how we have approached this across our Trustee cases. It is also clear that there will be further regulatory updates in this space. Our expectation is that focusing on the why, rather than the what, will help to future-proof our processes.

However, we cannot ignore what a remarkably strange and difficult year this has been for everyone. While many trustees had plans to go above and beyond the regulatory requirements, the pressures from the pandemic may have forced them to change direction.

We have recognised in our responses to regulatory consultations that, whilst we agree with the spirit of the changes, it is important for those setting regulation to appreciate that a lot of small scheme trustees will have limited resources and will ultimately rely on their advisers. We must find a way to set regulation so that the outcome is not simply more cost falling on the schemes. We strongly believe that placing more responsibility on all parties within the investment chain can support this aim.

Take a step back to see the big picture

When we are going through the investment process it is important that we take a step back and think about each element. With the new Implementation Statement requirements, the Statement of Investment Principles (SIP) has become even more important. These new requirements lead us to consider the SIP in a different way, as more of an objective setting document guiding the strategy and implementation rather than a last step documentation exercise.

As we look forward to the coming year, we are excited to take the next steps in this journey and are optimistic of the progress we can continue to make towards supporting the PRI principles.

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The key to making your **pension fund more sustainable**

By Rona Train, Partner, Hymans Robertson

"So, Mr Chief Executive, we really like what your company is doing in relation to environmental improvements and we're pleased to see you're working effectively towards your net zero climate change pledge. It's also encouraging to see your positive policies on diversity across all aspects of your business. But what are you doing to make your pension fund more sustainable?"

We've maybe not got to this type of conversation in boardrooms across the UK, but it's only a matter of time until we do. Many organisations are working hard within their own businesses to become more responsible - not just because they feel they have to, but because they believe that it's the right thing to do from a financial perspective. But at the same time, many of these companies' pension schemes are doing little or nothing to reflect the organisation's own Corporate Social Responsibility (CSR) policies in their Defined Contribution (DC) pension scheme investments. This, we believe, will need to change over the coming years.

There's been an increased interest from government and regulators in where pension scheme money is invested, as well as a drive towards greater disclosure. The new requirements in relation to the Taskforce for Climate Related Financial Disclosures (TCFD) will bring this even more clearly into focus. Trustees must now set out in their Statement of Investment Principles (SIPs) how they will deal with Environmental, Social and Governance (ESG) issues, and climate change specifically. Implementation Statements will need to provide details on how the trustees and their managers are putting their policies into practice. Independent Governance Committees (IGCs) of contract-based arrangements have a raft of new responsibilities to consider in relation to providers' ESG policies. We've already completed the reviews for both IGCs and Master Trust trustees to benchmark the responsible investment credentials of their providers – with some interesting results.

At this point in time, the reality is that chief executives of most UK companies will have little or no idea of where their company pension scheme's default investment strategy is invested. Most likely, they will have opted out of the scheme due to annual or lifetime allowance issues. But, with all aspects of a company's business coming under increasing scrutiny (and in some cases, contracts being won or lost partly on a company's ESG practices), now is the time for them to take a greater interest.

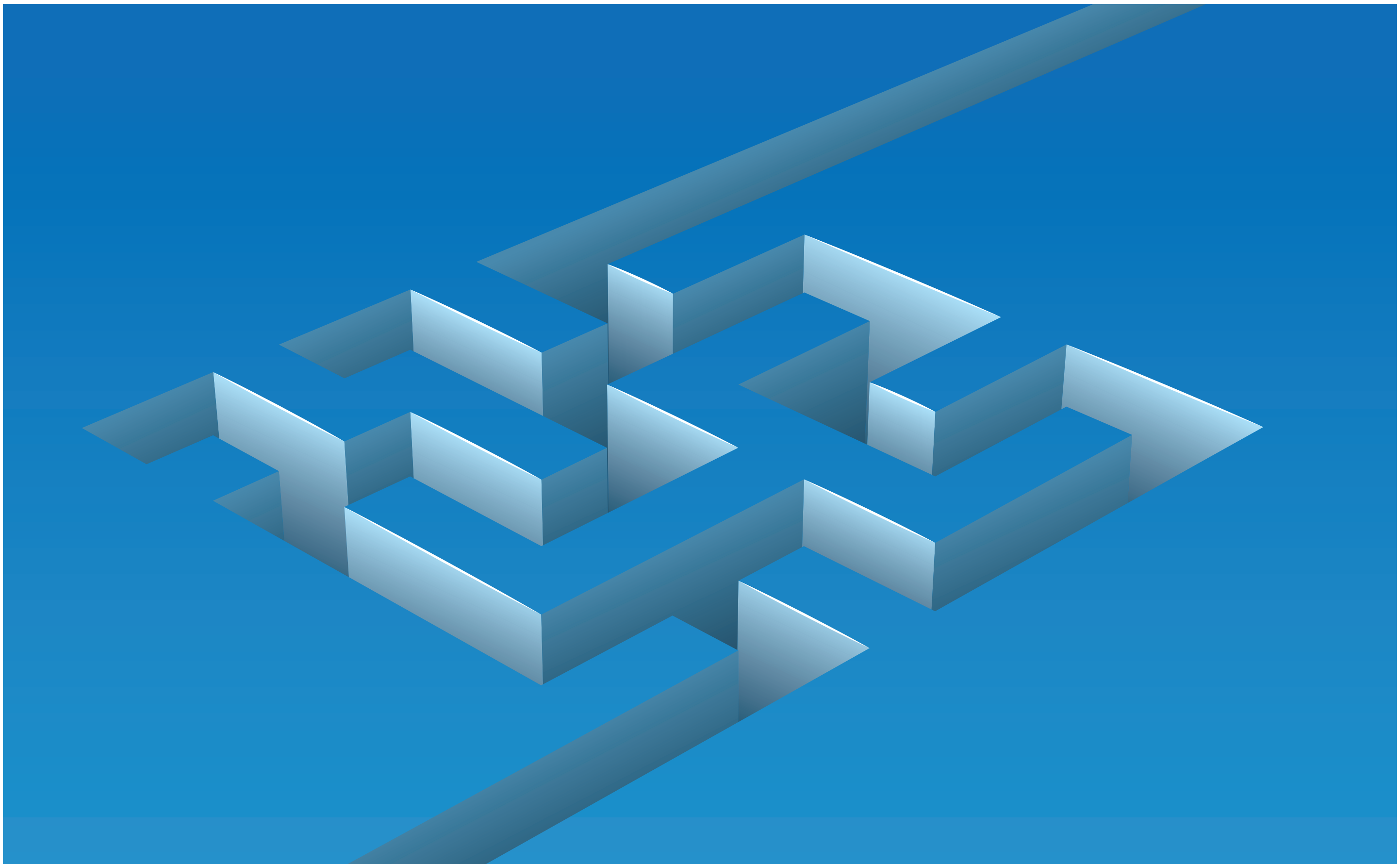
We've found that many of our clients have already started to consider the way in which the pension scheme is invested and how this dovetails with the company's wider policies on Corporate Social Responsibility (CSR). Several clients have invited their company's CSR managers to present to the trustees or governance committees to outline their current policies and future plans. This has then led to informed and inclusive discussions about how the investments of the pension scheme shape up against the company's policies and plans.

For some clients, we've already started to see a genuine desire to better reflect the values and plans of the company within the pension scheme. We've been able to explore, with them, the funds and strategies that are currently available to DC pension schemes which might bring the two closer together. As a result, some have directly changed the investment strategies of their default arrangements. Some have wanted to go even further and work with their fund managers to explore whether more bespoke strategies could be built to enable better alignment to take place.

For those within single trust schemes, this tailoring of a default strategy can be achieved relatively easily. It's harder to achieve this through the 'off the shelf' default strategies of Master Trusts or contract-based arrangements, but for those companies with the appetite to do this, tailored strategies can be built with many of the leading Master Trusts and Group Personal Pensions (GPP) providers.

We're still in the early stages of developments here, but we fully expect this to become a greater area of focus, certainly for larger company schemes going forward. As many of you will know, we've made changes to our own staff pension scheme here at Hymans Robertson to help us align more closely with the direction of travel of the firm as a whole. We see this as a journey rather than a final position, where we can develop our strategy over time to reflect both the changing market background and the products that are available.

If you're not doing so already, we challenge you to assess how well your own pension scheme aligns with the CSR policies and plans of your sponsor – and to be bold enough to make changes where you believe this is warranted.



Investment exclusions - a route through the maze

By Sam Dalling, Associate, Sackers

With the need to invest responsibly in mind, many pension trustees are asking whether part of the solution may be to set a no-go policy for some types of investment asset.

Trustees cannot impose their own ethical views on members, so a decision not to invest in a particular asset simply because the trustees happen to think it distasteful is a non-starter. But that does not mean there aren't other valid routes to adopting an exclusions policy. Allow us to explain. There are, in our view, four potential paths to tread. These are explored below, each with their own set of challenges.

1. The non-financial – i.e. ethical – exclusion

Whilst trustees cannot impose their own moral views, there is a potential legal route based on the views of the scheme's beneficiaries. Whilst this sounds attractive, in fact it is probably the trickiest to implement from a legal point of view. There remains some debate about the precise nature of the legal test but whichever way you look at it, the law sets the bar very high. Not only is the support of the membership as a whole required, but any exclusion must be shown not to incur risk of financial detriment to the fund. Safely meeting these tests presents a significant, and most probably insurmountable, hurdle to jump for most pension schemes in practice (except perhaps if you are a charity sector trustee: it seems unlikely you would be pulled up for avoiding investments in alcohol if your employers specialise in curing liver disease...).

2. The financial 'risk/return' grounds.

So, if ethical exclusions are out, the next most obvious place to look is by demonstrating a financial justification. The thinking is sound enough: if an advisor can confirm that there is an under-priced regulatory or reputational risk within sector X or Y and that can be shown to present a financial risk to the trustees' investment in the long term, surely that is sufficient for disinvestment?

But there remain some circles to square with such an approach.

First, how legitimate is it for the trustees themselves to make that judgement call? Where delegation is made to an investment manager to actively manage a portfolio, a specific decision to limit the manager's discretion to decide what is in the best financial interests of the portfolio needs some careful thought. For passive mandates there may be a stronger argument, but again the trustees may need to test their rationale against a market view.

Then there is the question of the actual financial impact. In practice, divesting a handful of stocks may make little difference to the overall portfolio. So the 'financial' rationale for the exclusion might look rather thin.

Finally, trustees may unwittingly back themselves into an uncomfortable spot in the future. Take coal for example. Say trustees take the view that the market has under-priced the regulatory risk and so divest. If the trustees' correctly predicted market adjustment subsequently occurs, by their own financial logic they should then be buying back in. Difficult, isn't it?

3. Non-directed exclusion

In fact this may be the most common exclusion framework adopted by trustees in practice. 'Adopted' is a term used loosely, as this is achieved without an express decision. Instead, in considering responsible investment, trustees may have selected a particular manager or fund which has attractive, financially-based Environmental, Social and Governance (ESG) credentials. The trustees may select such a fund based on a financially motivated conviction in the manager's overall approach. But, on closer inspection, the manager may be found to be operating an exclusion policy of their own.

Provided the decision to appoint that manager was properly taken (i.e. for financial reasons in the round, rather than on the basis of the manager's exclusion policy), it can mean exclusion by the side gate. It isn't perfect, and does not allow trustees to have any input on specific exclusions, but it might actually achieve something close to what the trustees were keen to achieve without them having to make any difficult decisions of their own.

Exclusion on macro-financial grounds.

This is perhaps the most interesting of the four approaches, and relies on trustees thinking 'bigger picture' about a financially-motivated approach.

Take coal: rather than a decision to disinvest specifically from thermal coal on a narrow 'coal is bad' basis, trustees decide, on a macro level, that their investment strategy should prefer industries aligned with the transition to a low carbon economy. The trustees may have a strong conviction in the financial merits of such an approach. After all, companies that are not well aligned with that transition may run a higher risk of becoming bad investments. Taking this in the round, it is not too much of a stretch for trustees to identify that there may be some companies that can, by definition, have no place in such an approach. Thermal coal is excluded not for its own sake and in isolation as a financial decision, but as a natural consequence of a broader financial approach.

This may sound like it is splitting hairs, but it has particular force when allied with a similarly motivated engagement policy. If the trustees believe in a strong engagement policy aimed at applying asset owner pressure on companies to align with the Paris Accord, they might reasonably take the view that a divestment threat will be a useful 'stick' to beat such companies with. And, taken to its logical conclusion, some businesses may simply be beyond the pale: engaging with a business dependant on mining thermal coal to force it to better align with a net-zero world might be thought the definition of futile. So if the trustees have a financially motivated belief in engagement and engaging could only ever be fruitless in some areas there is a consequential divestment.

Conclusion

Exclusions require very careful thought, and both legal and investment advice, but by thinking of the bigger picture, there may a route through the maze.

Examples currently remain limited. NEST, the government-backed Defined Contribution Master Trust, has shifted away from tobacco investment, while the Universities Superannuation Scheme announced in June it would exclude investments in selected tobacco and weapons manufacturers, and coal mines. Such decisions appear to have been financially motivated. But with growing pressure from campaigns like MakeMyMoneyMatter more trustees are going to have to think hard about what they will and won't allow in their schemes.

Insight Partner

Key considerations for those **considering early pension access**

By Jonathan Watts-Lay, Director, WEALTH at work

Jonathan Watts-Lay outlines key considerations for pension scheme members looking to access their pension early, and what employers and trustees can do to help.

Recent HMRC figures have indicated a surge in early pension withdrawals in the over 55s, which is thought to be due to pressure on household income caused by the pandemic. This has also led to many individuals deciding to retire early when facing redundancy.

Conversely, others have put their retirement plans on hold as they aim to re-build their pension pots that have been adversely impacted by the investment market fluctuations. A poll by YouGov found that 13% of over 55s are planning to delay their retirement, whilst a Fidelity study suggests 38% of people will put back retirement by around two and a half years.

Despite the promises of the vaccination programme, it will take time for the economy to recover. It is thought that redundancies are likely to continue and many will still be on furlough or reduced hours, increasing the pressure on household income and potentially resulting in yet more members accessing pensions early. But few realise the implications involved.

Jonathan Watts-Lay outlines some of the key considerations and what employers and trustees can do to help.

Paying unnecessary tax

There are a number of tax considerations to be aware of when withdrawing from Defined Contribution (DC) pensions. Firstly, up to 25% of a pension pot can be received as tax-free cash, however, anything beyond this is potentially taxable at 20%, 40% or 45%.

Also, when someone draws money from their pension beyond their tax-free cash entitlement, in most cases a money purchase annual allowance is introduced. This means an annual limit of £4,000 will apply to all future pension contributions, instead of the usual £40,000. If contributions beyond this limit are made, a tax charge will be due. This could be significant for those who are not yet retiring and are continuing working and contributing into their workplace pension scheme.

For many, other savings and investments may be a better source of short-term cash than pensions as it can help to avoid unnecessary tax being paid and allows the pension to grow in a tax-free environment.

Making retirement savings last

Many people live longer than they expect, and so members may underestimate how long they think their savings need to last. For example, The Institute for Fiscal Studies found that those in their 50s and 60s underestimate their chances of survival to age 75 by around 20%, and to 85 by around 5% to 10%. Before accessing their pensions, members need to consider if they will have enough money to last throughout retirement.

Pension scams

A report by Action Fraud found that pension scams had become one of the most common types of fraud to occur last year and that £30.8m has been lost to them over the past three years.

In addition, The Pensions Regulator (TPR) revealed it was investigating over £54m worth of lost pensions savings, in cases affecting 18,000 savers. However, the Financial Conduct Authority (FCA) warned that this number is likely to be much higher.

TPR has advised trustees to urge members "not to rush decisions and provide them with clear, relevant and timely information so they can make informed decisions". They also instruct trustees to follow the Pension Scams Industry Group code of good practice, based on three key principles including: raising awareness of pension scams for members and beneficiaries; having robust processes for assessing whether a scheme may be operating as part of a scam; and being aware of the known current scam strategies.

DB pension transfers

XPS Pension Group suggests some schemes are seeing an increase in Defined Benefit (DB) transfer requests in the wake of COVID-19. However, Lane Clark & Peacock (LCP) data suggests the trend in actual transfers is towards a smaller number of higher value transfers, with the average hitting £556,000 in the three months to June 2020. It may be that going forward the three biggest factors in members initiating a transfer request are; transfer value, the specifics of the scheme including strength of the sponsor (whether perceived or real), and lastly, wanting to access cash due to financial constraints brought on by the pandemic.

Ensuring access to appropriate advice is key especially given that XPS Pension Group highlighted that 64% of transfers showed at least one sign of being a potential scam in November. Pricing is also key as contingent pricing was banned on the 1st October 2020, and so DB transfer advice will need to be paid in advance. This means clear charging structures are crucial – the individual needs to be clear what they will pay even if the transfer does not progress.

Many trustees now facilitate access to reputable advisory firms having gone through a due diligence exercise to address these issues.

What can employers and trustees do?

Employers and trustees play a key role in ensuring members make informed choices concerning their pensions. Providing financial education and guidance can help members to understand their options, and the generic risks and pitfalls of certain actions. It can also help them to decide if they would like further support such as regulated financial advice, although this, of course, is a requirement for anyone looking to transfer a DB scheme over the value of £30,000.

For a long time it was considered risky for trustees to provide members access to advice. However, Eversheds Sutherland and Royal London[1] suggest this theory only looks at 'the risks of doing something and ignores the risks of doing nothing'.

When done correctly, facilitating access to regulated advice carries little risk. Due diligence should cover areas such as qualifications of advisers, regulatory record of the firm, compliance process e.g. compliance checks of 100% of cases, pricing structure, and experience of working with employers and trustees.

Ultimately, empowering members by providing them with access to appropriate support should lead to better outcomes for all.

[1] https://www.eversheds-sutherland.com/documents/services/pensions/es-rl-policy-paper.pdf

Incorporating diversity & inclusion in **investment decisions**

By Geri McMahon, Responsible Investment, Aon, and Jennifer O'Neill, Responsible Investment, Aon

Good investment decisions are key to successful pension schemes. Considering diversity and inclusion can achieve better investment decisions by:

1. Creating a more diverse board
2. Informing investment beliefs; diversity is part of ESG
3. Informing manager selection decisions
4. Influencing fund management decisions; considering diversity within investee companies

Diversity and inclusion can therefore be a lens in your decision-making.

A lot of different flowers make a bouquet[1]

"Diversity is having a seat at the table. Inclusion is having a voice, and belonging is having that voice heard.[2]" While a dictionary may define diversity as differences in, for example, race, gender, culture, income or sexual orientation, in reality we all know that each one of us is unique and it is these points of difference that, when combined, create new and exciting opportunities.

Combining different perspectives has been proven to improve decision-making, as well as fostering cultural and social health, innovation and long-term sustainability in business. A person is not diverse, but a collection of people with different personality traits, experiences and skills creates a diverse team; just like the bouquet.

Pension scheme trustees are responsible for making complex and often time-critical decisions which may involve specialist knowledge in areas such as investment. As a result, the effectiveness of a trustee board is fundamental to the successful management of a pension scheme. A diverse board of trustees with complementary skills and inclusive decision-making processes will be better positioned to consider new and emerging opportunities and risks, compared with a board dominated by one or two loud voices, or where the board all approach issues from the same perspective.

Improving the diversity of the trustee board can be about attracting more diverse candidates to put themselves forward and promoting trusteeship as an opportunity for personal development, while investing in training and then recognising individuals' different skills and taking advantage of their expertise in new areas. Training for the whole trustee board on areas such as unconscious bias, or giving top tips such as how to challenge advisers[3] or how to manage behavioural biases when chairing meetings[4] can then facilitate a whole board dialogue.

Diversity is social

Many trustee boards will have had recent discussions regarding their investment beliefs and their approach to integrating Environmental, Social and Governance (ESG) matters into their decision-making. Diversity is a key part of the 'social' and 'governance' pillars but is still an area that is often not considered.

Over the last few years, asset managers have been receptive to client demand for ESG considerations to be accounted for in their decision-making. It is evident that trustees hold significant power along with their assets, and it is vital to wield this power to drive positive change. We have been championing asset diversification as a risk management tool for years – why not apply it to people as well as asset classes?

One way to bring diversity and inclusion to the top of the agenda is to ask the right questions and highlight the importance of the subject. Next time you are faced with an ESG presentation by your fund manager, try asking questions on diversity monitoring and recruitment policies for their staff.

Miss World or a missed opportunity?

First, let's stop using the outdated term "beauty parade", especially when it is becoming more likely it is an all-female team you will be assessing! Gender neutral language is not a woke sensation, it is vitally important in ensuring that the diverse team you have built is also inclusive.

Research from 2020[5] found that, globally, diverse investment teams significantly outperform those without any ethnic or gender diversity. At the same time, in the US, all-women and mixed gender fund teams outperformed all-male teams over the majority of 2020.

"Are you missing millions?"[6], laid out the commercial incentives for focusing on gender diversity in business, and suggested a framework for assessing business's maturity regarding gender equality: foundation, defined, advanced and leading.

Challenge your fund managers to explain how they consider diversity in their investment decisions. In the same way that we woke up and realised that investing in well governed companies that do not destroy communities or our planet turned out to be good for performance, we will soon realise that diversity and inclusion provides sustainable financial benefits too.

Using a diverse lens

This article demonstrates how to use diversity and inclusion as a lens in investment decisions, but it can be used successfully in many other areas of pension schemes too. Aon's guide 'Practical Diversity and Inclusion for Trustees'[7] covers practical steps in trustee selection, trustee decision-making and investments but also wider issues such as member communications, actuarial factors and other difficult trustee decisions.

We challenge you to make more use of a diversity lens in decision-making for your pension scheme. Challenge your investment managers and advisers, embrace different perspectives and build a team where everybody is an expert in something; just not the same thing.

[1] Islamic proverb

[2] Liz Fosslein

[3] https://www.aon.com/unitedkingdom/retirement-investment/trustee-effectiveness/ten-questions-to-help-trustees-to-challenge-their-advisors.jsp

[4] https://www.aon.com/unitedkingdom/retirement-investment/trustee-effectiveness/chairing-a-meeting-checklist.jsp

[5] Investment teams with more women or ethnic minorities outperform | Financial Times (ft.com)

[6] https://30percentclub.org/assets/uploads/UK/30__Club_Reports/AreYouMissingMillions_Report.pdf

[7] https://www.aon.com/unitedkingdom/retirement-investment/trustee-effectiveness/practical-diversity-inclusion-guide-for-trustees.jsp

Pensions Management Institute
Membership

Mentoring and Development Programme 2021-22

We are pleased to announce the official launch of our second Mentoring and Development programme delivered in conjunction with the Institute of Leadership and Management and sponsored by The People's Pension. Following a highly successful pilot, we have expanded the initiative to welcome many more mentees and mentors to the programme.

We hope the participants enjoy the second programme as much as our first cohort did.

Throughout 2020 we remained in close contact with all pairs, having several virtual catch-ups with our mentors and mentees throughout the year to discuss the progress of the programme. We want to thank all our participants for providing such valuable feedback and useful tips for how we can make the programme even more successful for years to come.

The PMI have taken this on board, and we will be providing more support and useful information for our participants to ensure they remain on track for a successful completion of the year long programme in March 2022.

Our pairs have been carefully matched up based on their profile and development needs.

We will be following the progress of our mentors and mentees throughout the year so keep an eye out for progress updates from the participants themselves.

We want to say a huge thanks to all our participants who have completed our first programme and we hope you make the most of your newly acquired skills and knowledge.

Mentoring and Development Programme 2020

Mentee testimonials

"I have really enjoyed getting to know my mentor. Her experience and knowledge has really helped me to explore some of the areas I was wanting to get a better grasp of. Her regular emails of things she thought I would find beneficial have been really interesting and have enabled me to take part in webinars etc. that I would have otherwise been unaware of."

Louise Fearn, ITV

"If there is anyone sitting on the fence, not knowing whether to join the program or not, then it's a no brainer for me; you simply must put your name forward. There is lots to gain and you can talk freely; your career is important to you and this program will help you get to where you want faster."

Timothy Kuria

"Conversations with mentor - having the ability to get an independent view on things and taking the time out/away from the day-to-day to have these conversations/focus on the bigger picture."

Hanna Crossfield, UK Power Networks

"Getting to know another professional from a similar background; being able to talk and discuss ideas; see how other people work in different companies."

Kate Baxter, Barnett Waddingham

"The Institute of Leadership and Management resources have been very interesting and insightful and exceeded my expectations. There is such a great range of topics that whatever your interests or backgrounds there is a host that would be useful for anyone's personal development. The 'managing upwards' and 'dealing with conflict' topics I found particularly useful.

Having the opportunity to talk to a mentor who earlier in their career would have been in my situation who was willing to share their personal experiences of what they have found in their career. From techniques they used to retain information for exams to how to present skills and experience in interviews."

Stewart Mott, Prospect

Mentor testimonials

"Work to the preferred style of the mentee, rather like a university tutorship. Some prefer structured discussion on syllabus topics, some prefer more holistic discussion around work in general."

Liam Broderick FPMI, Premier Pensions Management Ltd

"Get as much info as you can from your mentee. Identify early on what they want to get out of the course.

I have enjoyed our meetings. It has been interesting to hear experiences from someone in a different department of the industry and at a different company."

Stuart Briely APMI, First Actuarial LLP

"I would encourage mentors to be open about their experiences and share events that have not gone well. That is potentially much more useful to mentees than sharing experience of success. Also, I suggest being as flexible as possible and to focus on the mentee's needs. "

Nigel Bottom FPMI, Motorola Solutions UK Limited

"I feel like I have helped my mentee with tips and techniques for upwards and peer management and to think about what aspects of their role they really enjoy in terms of future career focus."

Nicola Morgan FPMI, Fujitsu Services

"Allowing my mentee to discuss any work-related and study issues frankly and openly."

Liam Broderick FPMI, Premier Pensions Management Ltd

How should pension schemes **embrace responsible investing**

By Andrew Overend, Partner & Co-Head of Investment, First Actuarial LLP

What does 'responsible investing' mean? Maybe I should have volunteered that I did not know the answer when I was asked to write this article.

In fact, I am not sure anyone really knows. Of course, you will be able to find people who can give a confident answer; that it is about wise voting at a company meeting or tilting a portfolio away from companies that belch out CO2 or engaging with company management to ensure board diversity… but I do not believe there is a standard definition.

Is a standard definition even realistic for such a subjective topic? One investor might shun an oil company on account of its carbon footprint whilst another might invest and engage to encourage management to pursue a greener agenda. Both might have valid reasons for claiming they are investing responsibly.

Investment managers have spotted an opportunity here. They know pension scheme trustees want to be seen to invest responsibly (the naming is clever – the alternative would be ridiculous), so managers are now keen to point out how Environmental, Social and Governance (ESG) factors are embedded into their products. Even long-standing funds where all that has changed is the marketing approach, telling us that the way the fund operates was always the embodiment of responsible investing.

This green-washing of funds is unhelpful. Whilst I am not sure how to properly describe responsible investing, I am confident that it cannot be achieved simply by selecting funds labelled 'ESG' or 'Impact' or 'Sustainable'.

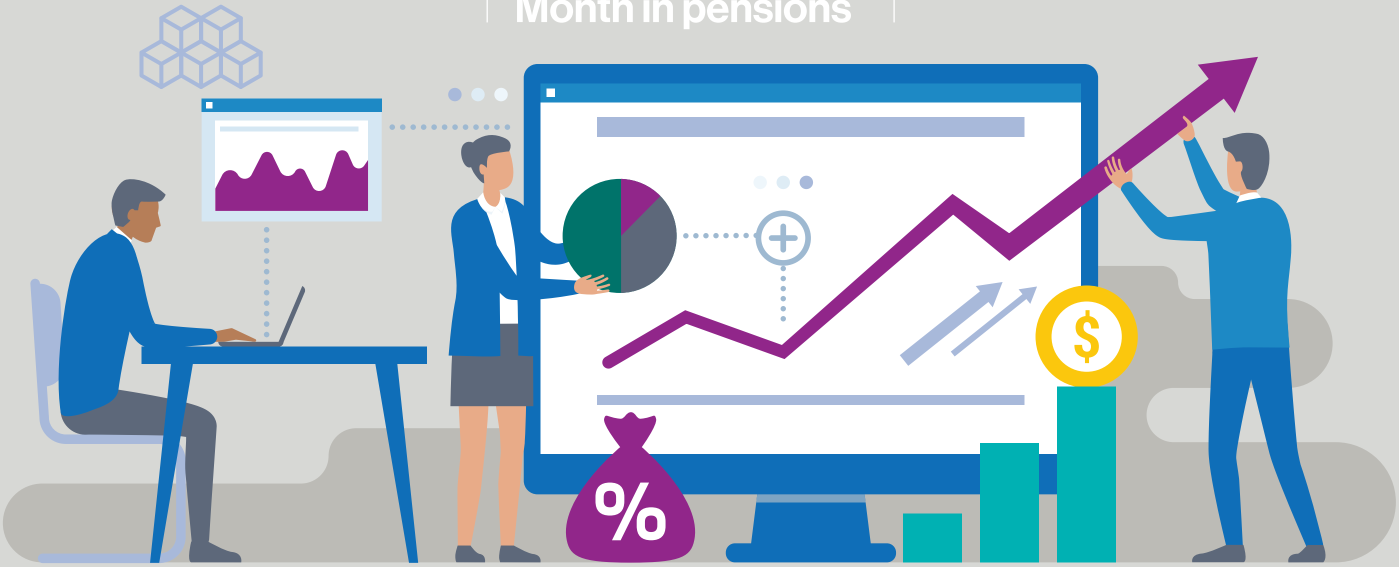
Maybe the best approach to responsible investment needs to be a personal one; think about what matters to you and identify investments that will make a difference in those areas. Helpfully, if we look beyond the jargon, investment managers are starting to publish useful information. It is increasingly easy to identify any ESG tilts a manager may apply and to understand their approach towards engagement and voting.

You may want to identify managers who can demonstrate strong credentials in the governance areas that matter to you. Alternatively, you might be worried about the risk of capital loss resulting from climate change. This might lead you to favour investments in windfarms and battery technology companies rather than the fossil fuel industry.

Many of the trustees I work with are frustrated with recent legislative changes; frustrated at having to make repeated changes to their Statement of Investment Principles (SIP) to accommodate wording that makes little sense; frustrated at having to produce an implementation statement that is unlikely to get many hits on the website where it must be published; frustrated at having to pay their investment consultant to help them with all this extra work.

And yet, whilst I share these frustrations (or at least two of them), I do think the sentiment behind the new requirements is sound. Essentially, the intention is to encourage trustees to mitigate the long-term risks they face, to think what responsible investing means to them, and to hold investment managers to account against those objectives.

Despite the frustration, that can't be a bad thing.



Responsible investing in 2021

By Sabrina Pervez, Associate, Linklaters LLP

'Responsible investing' and 'ESG factors' are buzzwords that many will have been familiar with for quite some time, with most sectors now considering the environmental, social, human and economic impact of their business decisions. However, following the tumultuous nature of 2020, we expect that Environmental, Social and Governance (ESG) factors will become even more significant in the coming months and years, with a global focus on 'building back' in a better and greener way.

So far, the government's approach has been to strengthen ESG disclosure requirements affecting pension scheme investments, as opposed to mandating specific targets. Such measures include: requiring ESG policies to be listed within Statements of Investment Principles (SIPs); including implementation statements within annual reports; and publishing these documents online.

Moreover, the Pension Schemes Bill, expected to become law by the time you are reading this, includes provisions intended to strengthen the obligations of occupational pension schemes in relation to climate change risk. Under these provisions, trustees may be required to ensure there is effective governance of the scheme with respect to the effects of climate change. Indeed, 2020 saw several high-profile climate pledges from governments, corporates and pension schemes alike. We expect that the focus in 2021 will need to be on turning these pledges into tangible plans of actions.

However, although the focus of the Pension Schemes Bill is on climate change, it is important to remember that this is just one element of ESG. The COVID-19 pandemic and the Black Lives Matter movement have brought increased prominence to the 'S' limb within ESG, too. Despite these areas not currently being afforded as much legislative distinction, trustees may want to start focusing on how they can prioritise these other areas. Aside from the clear moral benefits of doing so, it is worth remembering that factors such as worker wellbeing and relations, diversity and inclusion, supply chain issues and corporate purpose and values, do also have the potential to be financially material.

With responsible investing gaining pace, trustees should also be aware of the risk of 'green-washing': unsubstantiated claims that present an environmentally responsible image. Investors need to feel confident that what they are investing in is, in fact, as sustainable as it claims to be and not simply green-wash. We are expecting an Financial Conduct Authority consultation in the first half of 2021 on their proposed principles to help firms be 'fair, clear and not misleading', when promoting products from an ESG perspective, which should help to combat this risk.

It is clear that as 2021 progresses, so too will the significance of responsible investing.

How did I get here? Young people and the pensions industry

By Michael Callari, Junior Business Development Manager, CACEIS

If you'd asked me at eighteen what I wanted to do when I grew up, the pensions industry would have been the last thing on my mind. Like many young people, I'd had next to no financial education at school. If you'd asked me on my last day at university how a pension worked, I wouldn't have had a clue.

The need for education

I believe passionately that more needs to be done at secondary schools and universities to educate younger people about financial topics like pensions, taxes and mortgages. Finance wasn't really talked about as part of the education system, yet these areas are so important in everyday life. Only now that I'm in the pensions industry do I realise how important having a pension is.

My journey

I knew that post-university I wanted to go into business development or marketing, but I wasn't sure which industry I wanted to go into. A recruiter asked me if I was interested in financial services in a business development role. I hadn't considered financial services, but I knew I wanted to pursue business development. I had little idea of what a custodian bank or even a pension was, so this was all quite daunting. Still, I decided to go for the role.

The role was to support our senior business development in building out the pensions business for what was KAS BANK (before being acquired by CACEIS), with a career plan set out to eventually becoming a business development manager. Knowing there were opportunities to move up in the organisation and I'd be rewarded for hard work made this an attractive proposition for me. The recruitment process involved interviews with the senior team at KAS BANK, as well as a personality test to make sure I'd fit the role and the team. The interviews and competency-based questions were things I'd experienced applying for previous roles. The personality test was new to me. I think it's an important tool in the recruitment process, now that I've gone through the experience myself. Fortunately for me, I got the job and, three years on, it's the best decision I made.

Myths and reality

After three years, I'm still eager to learn more. Many of my preconceptions about the finance industry have been dispelled. It's not Wolf of Wall Street or The Big Short. The industry I joined is hard working, professional and very goal-oriented. I work for a multi-jurisdictional bank in a business development role. I get to travel around the UK as well as across Europe, attending conferences and networking events, pitching to pension schemes, consultants and trustees.

There are so many different players in pensions too – working in the industry doesn't mean you work for a pension scheme. There are consultants, banks, actuaries, lawyers, professional trustees, marketing firms and more.

I was surprised at the level of diversity in the industry and how much it's debated at conferences. I thought the city would be a male-dominated world. To me, it meant going to university and wearing sharp suits. But I've met people of all different ages, ethnicities and backgrounds. More needs to happen to encourage further diversity but positive strides are being made, particularly through initiatives like NextGen.

Importance of pensions

I want a comfortable retirement, and this is why pension schemes are here, to help achieve this goal. But if I didn't work in the pensions industry, I wouldn't have a clue what a pension really is and how it works - like many people my age. I'd be lost in the jargon. I'd be disengaged with my corporate pension. Now I know the importance of this long-term saving instrument. Who would have thought three years ago that I'd find myself preaching to friends and family about why they should be engaged with their pensions?

I had no idea that pension contributions were invested in assets like bonds, property and stocks. This a powerful tool for engaging younger people – what investments are held within their scheme. Someone against animal testing, for example, might not realise their pension pot is being used to invest in organisations that use animal testing.

My advice to younger people and the pensions industry

I feel very fortunate to have joined such a large organisation as CACEIS, and I'm acutely aware that many of my peers are struggling, particularly since the onset of the coronavirus. New opportunities emerge on a regular basis and I'm always happy to roll up my sleeves and pitch in. If I had any advice to someone looking to enter the financial services industry, I'd suggest interviewing with a number of companies first before making any firm decisions. The cultures of companies vary enormously so it's important to find one that really suits you. One of my main reasons for joining CACEIS (formerly KAS BANK) was the culture of the organisation and the potential opportunities given to me at such an early stage of my career.

Equally, I'd also encourage companies themselves to be more broadminded in their selection criteria. I'd encourage any firm to use programs that encourage younger people into the industry. This could mean running internships and apprenticeships for people who have just finished school or college, as well as placement and graduate programmes for the university students. It can often be a low cost to firms but you could be attracting talent that is the future of the organisation. Furthermore, I would not look solely at grades, but in conjunction with work experience and the personality of the potential employee. For example, a graduate with a first in their degree might look good on paper, but that doesn't necessarily transfer to the work environment. Attending career fairs at universities and colleges can also be a way to attract younger talent.

Environmental concerns

Like many younger people, I'm passionate about the environment. For too long we've exploited the world's resources and, over the last few years, the impact of climate change has really hit home. The pensions industry is playing a lead role in protecting the environment. At CACEIS, for example, we provide climate reporting tools as part of our clients' Corporate Social Responsibility duties. More generally, we help our clients manage and monitor the risks and opportunities associated with climate change. I'm delighted to be a part of this and hope to do more over the coming years.

I feel privileged to be a part of the pensions industry, a more diverse industry than I could ever have imagined. And I truly believe it provides a societal good. My own journey over the last three years has enabled me to mature as a person, adapt to the workplace environment and learn far more than I initially thought possible. If I can do it, anyone one can do it.

Pensions Management Institute

MTWG Innovation

Innovation in regulation and supervision of Master Trusts

This is the final essay in a series of six produced by the PMI's Master Trust Innovation Workstream. The other essays looked at what we expect a good Master Trust to look like in certain areas in five to ten years' time. This essay draws on those themes and looks more widely at what is needed from a regulatory and supervisory perspective.

A key challenge for The Pensions Regulator (TPR) is to regulate Master Trusts in a way that adequately and appropriately guards against failings that could undermine confidence in the Master Trust market, while avoiding stifling competition and innovation. Perhaps predictably, with what is still a young regime, there is also still uncertainty and ambiguity around some of the regulatory requirements of supervision and TPR expectations . This ambiguity could be greatly reduced provided TPR is proactive over the coming years in providing clear guidance, both on minimum compliance and best practice, which allow the Master Trust market to develop and innovate in a way that benefits members.

Investment

Investment is an important area where TPR will need to develop its thinking and guidance for Master Trusts. A lot of the focus during Master Trust authorisation was on general governance, systems and processes, and financial reserves. Little scrutiny was given to investment governance, and this will need to be a greater focus as part of TPR's ongoing supervision regime, including developing thinking on how Master Trust trustees should carry out their value for member assessments.

Disclosure

There has been a tendency for legislative disclosure requirements for occupational pension schemes to be unduly prescriptive. Previous essays in this series identified room for technology to revolutionise member engagement with pensions. However, it's important that this doesn't get bogged down in technical compliance with prescriptive disclosures or requirements around engaging with members through electronic means. A review and simplification of the legislative regime in this area is needed to support better engagement with members in the future.

Technology in default tailoring

Technology was also identified in a previous essay as a means to allow better tailoring of default funds for Master Trust members. In order for this kind of innovation to succeed, trustees will need to feel confident that using technology in this way does not expose them to greater risks of claims from members that tailoring was inappropriate. TPR has a role to play here through engagement and guidance in helping trustees understand the processes they should go through and challenges they should make in satisfying themselves that novel uses of technology in this area are appropriate.

Decumulation

More regulation of decumulation is also needed from the Department for Work and Pensions (DWP), while ensuring this is not done in a way which stifles innovation. At the moment there is very little governing how Master Trusts - or Defined Contribution (DC) schemes in general - should go about offering decumulation options or helping members make appropriate choices. DC decumulation should be a regulatory priority given the risks to members of poor decisions as part of decumulation.

Consolidation

As part of consolidation over the next five to ten years we will also see employers evaluating the Master Trust they have chosen and considering whether to move providers. Regulation around DC bulk transfers has been simplified in recent years but some technical difficulties on the tax side remain. These make moving to a Master Trust in the first place more complex than it needs to be. Tidying up areas of legislation like this would be beneficial.

Dynamic between providers and trustees

From a governance perspective, one of the challenges in provider-led commercial Master Trusts is the dynamic between the provider and trustees. While the authorisation process recognised the tensions that can arise from this and sought to ensure that measures were in place to address this, further work can be done by TPR to encourage providers and trustees to manage this relationship productively and in the interests of members.

CDC

Initial legislation to enable Collective Defined Contribution (CDC) schemes will not initially extend to enabling CDC to be provided through Master Trusts. Unless the legislation is extended to cover Master Trusts, it is likely to become a niche option that is only realistic for large employers. It is important that further legislation is introduced extending CDC to Master Trusts sooner rather than later.

Summary

We've identified some areas where more regulation is needed to protect members interests, and some areas where regulation needs revision to avoid acting as an unnecessary barrier to good Master Trust development. TPR will also need to develop its expertise and focus in certain areas to address evolving risks, ensure clarity of expectations, and support Master Trusts in achieving best practice.

Visible role models can help the **pensions industry to build equal culture**

By Matt Cameron, Global Managing Director, LGBT Great

Diversity and inclusion organisation LGBT Great talks to the PMI about their work to develop the visibility of LGBT+ equality across the investment, wealth management and savings industry. Global Managing Director, Matt Cameron, shares the details of Project 1000 in an interview.

Matt, tell us a bit about you?

I'm 33 and was born in Blackpool, in north-west Lancashire, into a working-class family. My dad is a gardener, my mum is a finance assistant and my brother is a dairy farmer. In 2009, I started a career in recruitment specialising in the financial services industry. Five years later, I moved into partnership with Clare Scott and became the co-managing director of The Ocean Partnership. I launched LGBT Great's Project 1000 in November 2017 with the support of Legal and General Investment Management, Fidelity International, T. Rowe Price, St James' Place Wealth Management and Northern Trust Asset Management.

Throughout my childhood, I struggled with coming to terms with my sexuality and my identity because I couldn't see anyone else like me. I attended a state school called Carr-Hill 11-18 High School in Kirkham and was the first person in my extended family to complete A-Levels and attend university. I read medieval and modern history at the University of Birmingham and moved to London in 2009 with stacks of student debt, a clapped out Ford Fiesta and a suitcase!

Looking back, my first few years in London were tough and I suffered from acute anxiety and poor mental health. I felt plagued by worry and insecurity, and totally lacked confidence in myself.

There were some real low points and I remember feeling so down that some days I couldn't face the world. What I needed was some help, inspiration and motivation; I needed a visible role model who could give me the support and confidence that I needed to be me. I needed a beacon of hope.

Why did Project 1000 launch, specifically?

Project 1000 was launched specifically to firms in our industry to initiate and develop the visibility of LGBT+ employees and supportive allies. Since it began, the project has gained support from 375 industry professionals in firms all over the world who have 'stepped into the light' as visible role models. Given the traction, we also have others who have pledged support whom we are working with to include in the 1000. So far the project has gained the support of investment management firms, investment consultants and hedge funds. However, with a few exceptions, the pensions industry has remained noticeably silent.

Together with the PMI we are determined to change this. I have two personal objectives for the pensions industry specifically: to support employees in being comfortable in their LGBT+ and ally identities, and to bring our industry together in a joined-up approach for the benefit of savers and investors.

Why is Project 1000 important for the pensions industry?

At LGBT Great, the concept of role modelship is intrinsically linked to inclusive leadership and we see the former as an embodiment of the latter. Role models can have a positive impact on minority groups by demonstrating allyship and support, exemplifying good behaviours and by providing the confidence that employees need to thrive. Feeling supported at work and being able to embrace your full identity is statistically proven to reduce stress and improve overall mental wellbeing.

92% of LGBT+ employees working within the investment and savings industry are seeking visible support and allyship at executive and board level. However, our study 'Aiming for Great' found that only 10% of firms were found to be meeting this expectation. In addition to this, expectations of both talent and investors are also increasing as the LGBT+ rights equality movement progresses, and the lines of sexual orientation and gender identity become increasingly fluid.

Project 1000 provides our industry with a measurable and quantifiable vehicle in which to begin, and build, progress by helping, inspiring and motivating others. It has increased visibility and consciousness across the sector and we have been inspired by the support it has received from the ally community in particular. For example, last year we had an influx of support from influential allies who wanted to do their part. This proves that there is some good in the world and that allyship does exist in our industry, despite the negative perception externally. Project 1000 is partly about making these supporters visible. Allies are critical and together is the only way!

How did Project 1000 gain momentum?

The first phase of the Project 1000 plan has been to create the space in which people feel confident enough to be visibly 'out' or to be visible allies. Through a series of positive action social media campaigns, we have been able to galvanise support from a broad range of firms and provide a tangible way for others to contribute.

For example, the #hereiam campaign was our first major push and this achieved over 2000 views on YouTube. The executive leaders #Top100 campaign went on to achieve 1.6 million website hits. Our educational, awareness-building campaigns have been instrumental in encouraging those who have been traditionally silent and invisible to become vocal and visible.

What does being a Project 1000 role model actually involve?

There are several ways to engage with Project 1000 and here are 5 key points:

1. Being a visible ambassador for LGBT+ diversity and inclusion at your organisation
2. Permission to share your corporate bio, referencing your support of the LGBT+ agenda at your firm, with your photo alongside our role models web page
3. Permission to have your bio amplified on LGBT Great and your firm's social media platforms
4. Supporting and sharing our awareness-building campaigns on social media
5. Participation in our events and webinars where your time permits.

Project 1000 role models within our member firms have a more intensified role and are involved in initiatives like our research and our new mentoring programme.

How can individuals support and sign up?

This is simple and takes less than two minutes. Applications involve sharing some basic information and then our team follows up to do the rest. Sign up here www.lgbtgreat.com/project-1000-sign-up

The Pensions Schemes Act and a look ahead

By David Fairs, Executive Director of Policy, Analysis and Advice, The Pensions Regulator

David Fairs sets out how the strong package of measures included, in the Pensions Schemes Act, will ensure savers are more protected now and in the future.

The Pensions Schemes Act becoming law marks an important landmark which will boost savers' confidence in their retirement plans thanks to better protection.

The Act provides a strong package of measures to further safeguard UK pension savers. We are extremely pleased to see it become law and have worked closely with the Department for Work and Pensions (DWP) to develop effective proposals that will make a real difference to savers.

Through the new Act, we will build on our clear, quick and tough approach to drive better standards across the pension schemes we regulate and ensure savers are treated fairly by employers.

We will be clear in our expectations when talking to trustees and quick to take tough action where we have concerns. Trustees and sponsoring employers will be expected to demonstrate to an even higher level how their funding approach is prudent, appropriate and sustainable.

Tackling unscrupulous employers

The package of measures gives us enhanced powers to take action against unscrupulous employers, to gather information more efficiently and to scrutinise how Defined Benefit (DB) pension schemes are funded.

The overall package of measures will make using our powers more efficient and introduces deterrents against behaviour that risks savers' benefits. The changes in the Act will also help us drive better standards across the schemes we regulate and better equip us to protect savers.

Enhanced information-gathering powers will significantly aid our investigations by giving us more tools to progress them effectively and efficiently, including by being able to compel people to attend interviews and giving us broader powers to conduct inspections.

New fixed and escalating civil penalties for breaching our information-gathering powers will mean fast, proportionate enforcement action can be taken against those who delay or fail to comply with our requests for information. This will help us secure the information we need sooner.

Climate change

The Act also highlights that pension scheme trustees should be considering the effects of climate change, and we can expect regulations requiring them to engage more fully with the risks and opportunities arising from the response to this global emergency. We too are stepping up to meet this challenge and will be launching our own climate strategy during 2021.

Next steps

While the passing of the Pensions Schemes Act is a significant milestone in boosting the protection of savers, there remains more to do.

We will be continuing to work closely with the industry to produce the necessary codes and guidance to ensure the measures are introduced in the most effective way.

Our revised DB funding code has to be consistent with new legislation set out in the Act and the consultation and development of the DWP's regulations are currently expected to be in the first part of this year. This means we anticipate publishing our second funding code consultation in the second half of 2021.

We recently published our interim response to our first consultation on the first revised code. The consultation aimed to scope out what the revised code may look like under the new developing legislation.

It asked for views on several proposals including TPR's proposed regulatory approach including twin track routes to demonstrating compliance: Fast Track and Bespoke, the principles that should underpin all valuations in the revised framework, and ideas on how these principles could be applied in practice to provide clearer guidelines.

There were 127 responses to the consultation across a broad range of stakeholders, generating 6,000 comments in total.

This first part of the consultation was complex and we are grateful for the well thought through responses which gave light to a number of issues to be considered.

The second funding code consultation in the second half of 2021 will include:

- a full summary of the responses to our first consultation and the approach we have taken in light of these responses and the final legislative package
- the draft code of practice for consultation and our proposed regulatory approach, including developing thinking around:
  - our process to review and update Fast Track guidelines
  - our approach to assessing valuations
  - engagement with DB schemes
  - enforcement
  - an impact assessment and supporting analysis.

A look ahead

Alongside our work to enhance protection for savers through the Pensions Schemes Act, we will also be introducing our new Corporate Strategy early this year. This sets out where we and the industry will need to prioritise in the coming years and continues to build on TPR's transformation into a clear, quick, tough regulator.

The strategy will reflect the changing nature of workplace pensions, outlining the shift in focus, over time, from DB to DC saving.

While support remains in place for pension schemes and employers in the wake of COVID-19, the future financial wellbeing of savers continues to underpin TPR's long-term ambition.

The strategy analyses different groups of savers by generation - Baby Boomers, Generation X and Millennials - recognising that each group faces different life circumstances and risks in relation to their pensions.

For younger savers automatically enrolled into DC pensions, investment performance, value for money and at-retirement decision-making will play a much greater role in retirement outcomes.

From the analysis five strategic priorities emerge:

- **Security** - protecting the money that savers invest in pensions. Maintaining focus on the promises that are made to savers in DB schemes and on protecting their pensions from scammers; over the fifteen-year horizon of the strategy, as assets in DC schemes grow, there will be a shift in primary focus to the security and value that these schemes provide savers.
- **Value for money** - savers' money must be well invested; costs and charges must be reasonable; and good quality, efficient services and administration are driven by robust data.
- **Scrutiny of decision-making** - monitoring those who make decisions that impact savers' outcomes; closely scrutinising any decisions that pose a heightened risk to the quality of these outcomes.
- **Embracing innovation** - encourage innovation and good practice; collaborating with the market to enhance security, efficiency, transparency, simplicity and choice.
- **Bold and innovative regulation** - transforming the way TPR regulates to put the saver at the heart of its work; driving participation in pensions saving and enhancing and protecting savers' outcomes; maintain a sharp focus on bold and innovative regulation, anticipating and preventing issues before they materialise.

The strong package of measures included, and the Pensions Schemes Act, together with the clear vision for our aspirations over the longer term set out in our Corporate Strategy will help us map out and influence the development of the savings landscape.

Being able to forecast and respond to emerging risks and challenges more effectively means that savers are more protected now and in the future.

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