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Pensions Aspects

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A Winning Strategy

The power of planning

WHY ESG IS ESSENTIAL FOR CASH FLOW MATCHING SUCCESS

THE TOP CONCERNS TRUSTEES HAVE FOR MEMBERS APPROACHING RETIREMENT

ESG ENGAGEMENT: GOING ABOVE AND BEYOND INVESTOR LETTERS

Pensions Management Institute
Moving pensions forward

Linklaters

Linklaters pensions practice

| Market-leading experience
| Team with breadth and depth
| Innovative and collaborative

Linklaters' pensions practice is one of the UK's leading pensions teams, recognised by clients and legal directories as top tier. We provide high-quality advice and deliver innovative solutions to a diverse range of clients. As a full-service law firm, we also provide our pensions clients with advice which is comprehensive, practical and robust and enables them to navigate through a demanding pensions legal landscape.

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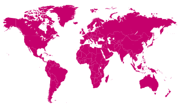
Liability management | Investment issues | Master Trusts
Scheme funding | Corporate restructuring
Regulatory and compliance | DB and DC governance
Scheme design and benefit changes | Member disputes



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Our ability to make a **real difference**

By Ruston Smith, Chair, PMI

Global assets under management are expected to top $145.4 trillion by 2025 according to PWC – 15% of which will be in private markets. Pension funds will be a significant owner of part of these assets. Whilst Pension Fund Trustees have an ultimate legal obligation to deliver the best realistic net risk adjusted returns to deliver defined benefit (DB) pensions, or to optimise defined contribution (DC) members' outcomes, they also have the opportunity to make a real difference to humanity, society and the world we live in.

Investment in countries, companies and communities whether through equity, government or corporate debt markets, provides important capital to innovate, build infrastructure, support climate change transformation or simply grow businesses and create employment. This all has an impact on people and local communities around the world.

Rachel Pether, of the Sovereign Wealth Fund Institute, representing Sovereign Wealth Funds with AUM of $8.3 trillion, says "the world's global asset managers are unified in the sole goal of investing responsibly and in making a collaborative contribution to transforming the world to a low carbon net zero planet".

The 'G' – A major influence of change

In the equity and corporate debt world, change is influenced by the people that run companies – the management. Boards of directors are judged not just on the profit they make but also on how they:

- Use their capital
- Treat their employees, suppliers and stakeholders
- Work with local communities
- Act responsibly in the way they operate and treat Mother Earth (the environment).

Boards of companies will increasingly be assessed and judged not just on 'what' they deliver through long term shareholder value but also on 'how' they do that; the 'how' as much as the 'what'.

For example, the extent to which climate change transformation leads to the genuine maximisation in the reduction in the absolute level of emissions before the use of negative emissions, like forestry, as offsets.

'No' to shuffling of deck chairs

A real measure of global success will be the aggregate absolute reduction in emissions across all asset classes 'before' the offset of negative emissions – and the 'real ratio of change' between the absolute reduction compared to credits used. The question is what global 'real ratio of change' would be considered a good outcome.

A poor outcome would be 'a shuffling of deck chairs' – with the 'transfer' of carbon-intensive assets to private markets and a 're-allocation' of the ownership of forestry, as credits, to reduce residual emissions.

Generating returns to deliver benefits

To generate the returns that are needed to deliver the benefits for members, trustees will continue to need asset managers with investable universes that offer the right level of diversification and choice for stock selection within private, as well as, public markets.

UK defined benefit plans put nearly one-quarter of their assets into alternatives, which is the asset class that could potentially deliver the greatest level of change through innovation, and the development of enablers for climate change: renewable energy infrastructure, social housing, forestry, urban regeneration, regional small and mid-size enterprise (SME) financing, and tech-for-good.

Dame Elizabeth Corley, Chair of the Impact Investing Institute, said: "The importance of the role of pension funds in stimulating greater corporate accountability for outcomes beyond financials cannot be over-stated. There is growing recognition that companies have much greater responsibilities towards society and the planet than are routinely acknowledged and that equity owners play a crucial role in holding management to account."

Within the investment process, environmental, social and governance ESG) factors and climate change transformation will be assessed by a suite of metrics that will continue to evolve and improve as asset owners identify metrics that more closely correlate with the outcomes they want to see.

This also means that, while respecting trustees' fiduciary obligations, the 'impact' we make will be increasingly important alongside the returns we generate. The outcomes we deliver and the extent to which we can encourage genuine engagement will define our true ability to act in customers and pension scheme members' best interests, as will the way we communicate it to members and customers in an everyday language they understand, enabling them to join in a two-way conversation.

The Department for Work and Pensions (DWP) have recently launched an excellent nationwide initiative, the Occupational Pensions Stewardship Council, to bring together trustees and pension funds, of all sizes, to create a collaborative hub to share best practice and learnings, and develop efficiencies around stewardship, with the ability to work together, using scale for good, in engagement and voting opportunities.

Learning environment

As we enter perhaps one of the greatest tests of time, there's never been a more important role for pension fund trustees to consider and understand the future impact of the trillions of UK pension scheme members' money that is invested on their behalf – to deliver the right outcomes for future generations.

With the expected pace of change, it will, therefore, be important for trustee boards to create the right learning environment, and to maintain the right level of knowledge and understanding, to enable them to make the right choices.

Guy Opperman, the Pensions Minister, said "An important part of Trustees' knowledge and understanding must include an understanding of the risks and opportunities of climate change on members' savings. Climate change will have a long lasting impact on our planet and future retirement incomes, for generations to come. Trustees have a responsibility to do the right thing for their members and an opportunity to support the UK to be a global leader in the most important issue of our time".

The Pensions Management Institute, the UK's largest recognised professional body for pensions professionals, will continue to lead by developing its training and qualifications to support the industry and its professionals, on climate as part of ESG, in delivering for pension scheme members.

Features Section

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ESG engagement: going above and beyond investor letters

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Pensions Management Institute
Academy

Certificate in Pension Trusteeship unit 2 exam

Don't miss out on a chance to sit this exam! To register please visit **www.pensions-pmi.org.uk/pmi-academy/qualifications/certificate-in-pension-trusteeship**

Dates for the rest of the year are as follows:

- Friday 29 October - Bookings open 13 September and close 13 October, 4pm
- Friday 26 November - Bookings open 15 October and close 10 November, 4pm
- Friday 17 December - Bookings open 15 November and close 1 December, 4pm

Certificate in Pension Scheme Member Guidance

This qualification takes places all year round, with individuals able to apply at any point in the year.

Who is this course for? Pensions staff who regularly liaise with members selecting options from a pension scheme.

Assessment method: this qualification consists of a multi-choice test which assesses modules one to four – it is compulsory to pass this test. Modules five to eleven have case study-type assignments for each module – it is compulsory to pass this part of the online programme.

In order to attempt the oral assessment, it is necessary to have completed the core module assignment and the application module case study assignments.

Qualification Package (Non-Member) £755

Please note: to sit this qualification you must be at least a student member.

If you are interested in this qualification, want to know more, or want to book yourself on, please contact James Cumine directly: **JCumine@pensions-pmi.org.uk** or visit our website **www.pensions-pmi.org.uk/pmi-academy/qualifications/certificate-in-pension-scheme-member-guidance**

Autumn 2021 revision courses

We offer revision courses to help learners prepare for their exams. Revision courses are in place to help learners refresh parts of their study, ask tutors any burning questions and to go over sections of the learning material. The revision courses are not in place for learners to cram in last minute study and should not be used as the only study preparation for the PMI exams.

Each session runs for 3 hours and costs £55. The revision session will take place via ZOOM.

Defined Contribution Arrangements	14 Sep
Professionalism and Governance	15 Sep

Autumn 2021 Exam dates

Certificate in Pensions Calculations
Monday 13 September - Friday 17 September

Retirement Provision Certificate and Award in Pension Trusteeship
Wednesday 15 September

Advanced Diploma in Retirement Provision
Monday 4 October - Thursday 7 October

Private sittings

Due to popular demand, the qualifications team will be holding private sittings of the Award in Pension Trusteeship (CPT unit 1) and Certificate in Pension Trusteeship unit 2 (CPT unit 2). Exams will take place online only.

If you would like to hold a private sitting please contact the Qualifications team here – **PMIQualifications@pensions-pmi.org**.uk or visit our website **www.pensions-pmi.org.uk/pmi-academy/qualifications/award-in-pension-trusteeship**

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

Continuing Professional Development (CPD)

Fellow and Associate members with CPD from 2020 outstanding have been notified to complete and submit their CPD using the PMI CPD recording tool on the 'My PMI' area of the member portal, or by providing a completed and signed self- declaration form. 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 2021 CPD.

2021/22 Membership Renewals (Student, Certificate, Diploma, Associate and Fellow members)

Your 2021 -2022 membership became due on 1 September 2021; renewal email reminders with your invoices have been sent out.

You can pay your subscription online by following the steps below:

- Visit **https://my.pensions-pmi.org.uk/** and login
- Click the 'renew now' button and proceed to checkout.

If you have not received a reminder or you do not see a 'renew now' button or invoice in your membership portal, please contact the membership team at **membership@pensions-pmi.org.uk**

PMI Membership Fees

Membership Category	Fees 2021/22
Student	£160
Certificate	£205
Diploma	£255
Associate	£350
Fellow	£450
Retired/non-working	£75

Obituary

It is with great sadness that we announce the passing of Alan Barber.

Ian Eggleden, FPMI PTPMI (Accred) has written a tribute to Alan.

"I knew Alan for many years from the time when he was Head of Finance and Facilities of PMI and I was a member of PMI Council. I was not full time at PMI House so I had to rely on Alan to keep me on the straight and narrow - he was very good at that!

After his retirement, he moved to Whitely Bay where he settled happily and enjoyed walks with his dog along the beach. He became a 'Member Nominated Trustee' of the PMI Pension Scheme and, I must say, he was a stalwart of the Trustee Board and an excellent trustee; always prepared to contribute or to challenge when necessary. He put in a lot of effort and was conscientious about his pensions knowledge and training.

All the meetings were held in London and I remember that he had some epic journeys to get there on time although he nearly always made it. He left home at the crack of dawn to catch the London train but if he didn't make the meeting on time, it was genuinely never his fault. He was regularly thwarted by the weather, by snow or floods, but often delays were caused by track, signal or engine failures.

Alan had a cheeky demeanour and dry sense of humour. We will miss all that and he will be very fondly remembered. Our best wishes go to his daughter Sarah and all the family."

Our thoughts and prayers are with his family and friends at this time.

Membership upgrades

Members wishing to upgrade in September 2021 will be required to pay the annual subscription for the new upgraded membership at the appropriate rate. To check if you are eligible or to upgrade your membership, please contact the Membership team at **membership@pensions-pmi.org.uk**

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":**

Jayshree Chotai	Karen Dyson-Marshall
Sarah Lloyd	Dan Brown
Kathryn Worsley	Phil Derbyshire
Angela Coulson	Paula Swinhoe
Kerry O'Neil	

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 Diploma membership and can now use the designatory initials **"DipPMI":**

Crena White-Lewis

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":**

Simon Flood	Deon Van Schalkwyk

Fellow membership

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

We are pleased to announce that the following people have been elected to Fellow membership and are entitled to use the designatory initials **"FPMI":**

Damon Lacey	Paul Capel
Sarah Allard	Ian Reid

Corporate subscription

PMI Corporate membership is a great way to get involved with the PMI network. It offers you and all your employees and colleagues member access to research, events, networking and representation at key groups. You can also use your membership to share your knowledge with other member businesses and promote a stronger sense of community cooperation.

Find out more **www.pensions-pmi.org.uk/membership/new-members/become-a-member/corporate/**

EPMI

EPMI is open to senior professionals who do not have a PMI qualification but can successfully demonstrate their professional competence and have a minimum of 10 years' specialist knowledge of pensions.

Find out more **www.pensions-pmi.org.uk/membership/new-members/become-a-member/membership-by-experience/**

Do you know of anyone who fits this description?

You can recommend a colleague or friend by contacting the Membership team at **membership@pensions-pmi.org.uk**

Pensions Management Institute – London

The PMI London Group committee would like to thank everyone who attended our online AGM on Wednesday 14 July. It was good to be able to give our members an update on the work done by the group. We're pleased to confirm that Amanda Burden, Martin Lacey and Andrew Riley were re-elected to the committee. Damon Lacey stood down from the committee at the AGM, and we'd like to thank him for all his work and support. Mike Kelly was elected to the committee and we're looking forward to welcoming Mike and working with him.

We were delighted to be joined by Fiona Hathorn, founder and CEO of Women On Boards UK, immediately after the AGM. Fiona presented on the topic of how pensions industry choices can directly impact women's pay and pensions, why it matters to the wider economy and what the pensions industry can do now to make a difference.

Remember to keep an eye out for details of our upcoming social events and business meetings via the PMI London Group LinkedIn group.

Pensions Management Institute – Southern

The PMI Southern group concluded our 2020/21 program of events with a virtual half day seminar on 12 May and our final business meeting after our AGM on 22 June. Many thanks to our members for attending, to the committee for organising and particularly to our speakers:

- Fiona Frobisher, The Pensions Regulator (TPR)
- Ros Connor, ARC Pensions Law
- Kevin Wesbroom, Capital Cranfield
- Luke Bartholomew & Max Macmillan, Aberdeen Standard Investments.

Our events will start again shortly and full details will be provided to members. It will be great if we can get back to face-to-face rather than virtual meetings; time will tell whether that is possible. If you are interested in joining the group and would like details please contact our membership secretary Alistair Strachan, **Alistair.strachan@pearson.com**

Pensions Management Institute

Events

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

21–24 Sep
Introduction to Pensions (Basics)
Online

27 Sep - 1 Oct
Secretary to the Trustee (Introduction)
Online

28 Sep
PMI Academy - Spence & Partners: Getting small schemes successfully to buy-out
Online

12–15 Oct
Introduction to Pensions (Advanced)
Online

19–22 Oct
Secretary to the Trustee (Advanced)
Online

26 Oct
PMI Academy - BlackRock: climate – building your knowledge
Online

10 Nov
ESG & Climate Change Seminar
Online

16 Nov
RetirementMatters Training Course: the Fundamentals of Retirement Savings
Online

24 Nov
PensTech & Admin Summit
Online

7 Dec
Pensions Aspects Live
Online

A Winning Strategy

The power of planning

This month's feature articles include:

Why ESG is essential for cash flow matching success / The top concerns trustees have for members approaching retirement / ESG engagement: going above and beyond investor letters

Why ESG is essential for cash flow matching success

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

With defined benefit (DB) pension schemes maturing and many turning cash flow negative, cash flow matching portfolios are increasingly important. Fiduciary managers must lead in ensuring environmental, social and governance (ESG) factors play an increasingly integrated role in the process and portfolios of cash flow matching strategies. Integrating ESG is a vital evolution, not only in delivering on trustees' regulatory obligations but in ensuring that portfolios are more resilient and value additive. Here, we set out why integrating ESG matters, and what we consider when identifying managers to help us provide bespoke cash flow matching ESG to pension schemes.

ESG investing has matured today, forcing a shift in focus from 'why' ESG factors should be integrated into investment processes to 'how'. Integrating ESG investment principles into portfolios is improving as data becomes more standardised and transparent.

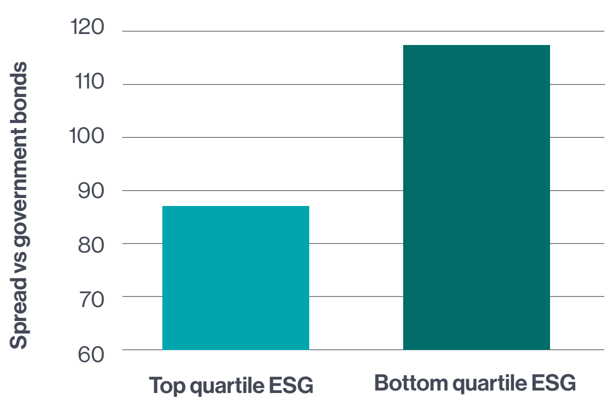
Cash flow matching is a key tool to help pension schemes meet increasing income needs. A cash flow matching portfolio is designed to explicitly match a scheme's future pension payments, primarily by holding credit assets to maturity, with coupon and principal repayments to match cash outflows. Therefore, these portfolios are concerned with delivering predictable and reliable income, hence the likelihood of the issuer defaulting on payments is crucial. Cash flow matching portfolios typically focus on higher-quality credit assets with a higher probability of delivering payments as expected. Whilst investment return isn't the primary focus of cash flow matching strategies, the yield available on securities in the market can constrain the level of matching. An effective solution is, therefore, able to capture as much yield as possible whilst preserving capital value.

Embedding ESG in credit risk

Companies with stronger governance and better control of ESG risks are more likely to meet their debts. Credit strategies aiming to hold the bond until it matures will therefore place greater emphasis on the manager's initial credit and ESG assessment. This is prevalent in longer-horizon portfolios where the manager could hold the bonds for over 20 years. For example, an energy company's ability to service its long-term debt is unlikely to be affected by short-term revenue fluctuations. But a lack of a green energy transition plan could put the company's earnings at risk over 20 years, raising its likelihood to default on its debt. Limiting exposure to high-risk ESG companies should be an important factor in trustees' approach to investing, to match their cash flow needs.

The challenge, of course, is that investors typically get paid less to hold higher ESG rated bonds. The chart below shows investment grade bonds, segmented by their ESG-ratings, with credit spreads for top-quartile bonds averaging about 25% lower than those with poorer ratings. So a cashflow matching manager should demonstrate to you how they are integrating ESG, but also their process for maximising value.

Corporate credit spreads are linked to ESG



Source: MSCI ESG Research, Bloomberg, as at 1 May 2021

Case study: ESG assessment of cash flow matching manager

Credit funds only represent a quarter of the ESG product universe and, within that, a fraction represents cash flow matching strategies[1]. With the lack of off-the-shelf cash flow matching solutions, River and Mercantile seeded a new solution that could accommodate the needs of all our clients. We considered not only the managers' performance but also the risks and processes in place to deliver sustainable returns whilst integrating ESG. This case study outlines how we applied our ESG framework when evaluating one such cash flow matching manager.

ESG assessment of cashflow matching manager

Portfolio

Portfolio analysis acts as an objective and quantitative measure. We determine how a manager scores versus their benchmark, both on an overall ESG basis and at a more granular level, including climate change factors like carbon emissions. We consider ESG momentum; managers with poorer ESG scores are not immediately excluded if they can evidence positive progression.

A line-by-line ESG assessment of the portfolios showed they were A-rated by MSCI ESG Research and scored particularly well on climate change criteria. A negligible proportion of the portfolios presented a severe reputational risk. The manager's ESG analysis also continues to evolve, e.g. the recent introduction of an enhanced climate risk model into their credit process.

Investment

The investment pillar considers whether the manager's ESG resource is sufficient, the ESG investment processes, and dependency on external data providers. Top scoring managers showcase a relevant and value additive ESG process, alongside stringent monitoring using a range of internal and external tools.

The manager dedicates significant resources to ESG in the investment process, both within the Credit Investment team and the Responsible Investment team. The ESG policy is suitable for the strategy and uses several third-party data providers to support analysis.

Engagement

We want managers who promote positive change by engaging with company management, but we are cognisant that this can be harder to evidence for credit managers, given the inability to vote.

The manager engages with all the companies it invests in, with each analyst tasked with identifying areas of engagement relevant for each specific issuer. The manager could also evidence collaborative engagement with other organisations.

Corporate

Here, we assess some of the best-known ESG factors, including board independence, human capital management, and climate policies. We look for well-run companies actively contributing to societal and environmental issues including diversity in the workplace and decreasing carbon emissions.

The manager scored strongly on corporate environmental reporting, having signed up to several ESG standards including the UN PRI and the UK stewardship code. The manager has actively reduced business carbon emissions and participated in social projects such as supporting the sciences.

Source: River and Mercantile, August 2021

[1] Source: Morningstar; ESG universe is defined by all fund names containing 'ESG','Sustainable', 'Responsible', 'Ethical' and 'SRI'

The top concerns trustees have for members approaching retirement

By Jonathan Watts-Lay, Director, WEALTH at work

There are many risks around accessing pensions which have become increasingly complex and uncertain. With this in mind, WEALTH at work conducted some research with the Pensions Management Institute to look at this in more detail and have revealed the results.

WEALTH at work reveals its latest survey results and discusses the steps trustees can take to support members at retirement. There are many risks around accessing pensions which have become increasingly complex and uncertain. With this in mind, we carried out research with the Pensions Management Institute to look at this in more detail. The survey revealed some interesting findings and highlighted some of the concerns trustees have for their members, which include:

Pension scams

Nearly all (94%) of trustees fear their members nearing retirement will face predatory attention from scammers. Reduced household income caused by the pandemic has meant that some members are more vulnerable than ever and a report by Action Fraud found that pension scams had become one of the most common types of fraud to occur last year.

Unfortunately, it's a problem that has been around for some time and the Pension Scams Industry Group estimate that £10bn may have been lost to pension scams by 40,000 people since 2015.

Tax

Almost 9 out of 10 (89%) trustees are concerned that their members may not understand the tax implications when accessing their pension and these anxieties are not misplaced. Individuals can unknowingly and easily incur huge tax bills when accessing their pensions, all of which can have a material impact on income levels in retirement.

Members need to be aware of the tax traps which include moving into a higher marginal income tax rate when cashing in defined contribution pension pots, triggering the Money Purchase Annual Allowance or losing out on the ability to pass on a pension inheritance completely free of tax.

DB pension transfers

4 out of 5 (80%) trustees have concerns about their members' lack of understanding of the risks they face if they transfer out of their defined benefit (DB) scheme. Assessing whether it is right to transfer is highly complex with multiple risks to consider around how to manage the money once transferred. Ensuring access to appropriate advice is key, which is, of course, a requirement for anyone looking to transfer a defined benefit scheme over the value of £30,000.

Member engagement

Gone are the days of looking at an annual benefit statement once a year and simply receiving a guaranteed income at retirement. Now members have complex and often perplexing choices. Many simply procrastinate action or put the paperwork in the 'too difficult' file. This experience is mirrored in our findings which show 7 out of 10 (70%) trustees are concerned over a lack of engagement with their members. Financial education and guidance play a fundamental role in improving engagement with members. Whilst information may be available for members on websites or in literature, having someone to speak to about their pensions is far more engaging. While social distancing rules mean that many have had to restrict attendance at face-to-face seminars, digital solutions such as interactive online seminars, and telephone support for guidance, has become increasingly popular.

Running out of money

When we consider the concerns already mentioned, it comes as no surprise that 3 out of 5 (60%) of trustees are apprehensive that their members' money will run out too soon in retirement. This may be due to many reasons including poor decision-making at retirement, not saving enough throughout life, underestimating life expectancy or simply not managing their investments appropriately during what may be 30 years or more in retirement.

Support levels are on the up

On a positive note, the survey found that almost half of trustees provide financial education (49%) for their members at retirement, which is an increase of 14 percentage points since our survey in 2019.

There has also been an 18 percentage point increase in the provision of financial guidance for members with 46% now offering it.

Nearly a third (30%) of trustees are providing or facilitating regulated advice for their members' at retirement, which is up 9 percentage points from the 2019 results.

Many members lack the resources to realise the multiple risks around accessing their pensions. It's therefore really encouraging to see that more trustees are now putting financial education, guidance and regulated financial advice in place to help their members understand their retirement income options, as this support is needed now more than ever. Carrying out due diligence on providers can make the process far more robust. This should include checking that any financial education and guidance providers are workplace specialists with experience in providing support to members. This will help members understand key issues at retirement such as tax implications, risks around DB transfers and how to spot a pension scam. Due diligence on regulated advice firms should cover areas such as the qualifications of advisers, the regulatory record of the firm, compliance processes (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 can help them become more financially resilient and should lead to better outcomes for all.

About the survey

WEALTH at work conducted a survey with the PMI to investigate the concerns trustees have for their pension scheme members in the run-up to their retirement and what support provisions they are putting in place. The survey received 63 respondents from a range of trustees which were completed online from June 2020 to April 2021.

Why ESG is essential for cash flow matching success / The top concerns trustees have for members approaching retirement / ESG engagement: going above and beyond investor letters

ESG engagement: going above and beyond investor letters

By Vicki Bakhshi, Director, Climate Strategist, Responsible Investment, BMO Global Asset Management

Over the past couple of decades, responsible investing has evolved from a niche area of our industry to much more mainstream. Engaging with companies on environmental, social and governance (ESG) issues is a huge part of what it means to be a responsible investor, because using our influence in this way can help drive real, positive change for people and the planet. We recently discussed ESG engagement with three of the companies we engage with to understand how they've witnessed engagement evolve and to get their opinions on what good engagement looks like.

In our discussion with mining company BHP, healthcare company Clicks Group and packaging company Smurfit Kappa, the main takeaway was that investor engagement on ESG issues has levelled up significantly in the past couple of years in terms of quantity, but that it's the quality of the engagement which really makes the difference in terms of that engagement having an impact.

A simple investor letter doesn't quite cut it anymore

The companies we spoke to agreed that investor engagement is most effective when it is personalised and specific. That involves the investor doing their homework, and building an understanding of which ESG issues are most material to that company's business, and how the company is currently performing against sector best practice. This knowledge then allows investors to make targeted suggestions or expectations for how the company can improve accordingly. Companies can use this engagement to raise the ESG issues at hand internally at the Board and senior executive level – and the more specific the engagement is, the more useful it is for the company in terms of considering and implementing recommendations.

> "What we have found in our engagement with the more engaged, sustainability-orientated investors is this encouragement to be more ambitious... that's been very useful for us, especially from a large investor, because it provides a reference point when talking to the Board and senior management."
>
> *Garrett Quinn, Head of Investor Relations, Smurfit Kappa Group*

Reporting on progress

Investors should also ensure they improve their ESG engagement reporting. Again, the shift here should be away from quantity and towards quality – many companies are trying to learn from the experience of others, so details are useful here. The number of companies engaged and the total number of dialogues can create some pretty impressive stats – but the real value comes from diving deeper into these dialogues to give a detailed story about the engagement and the outcomes reached. At BMO Global Asset Management, this is an area we are very committed to. Each year we produce our responsible investment review, which includes plenty of engagement case studies and demonstrates instances where our engagement has created positive change. We also produce annual impact reports for a growing number of our responsible and sustainable strategies, which include examples of our engagement with companies over the past year, alongside impact metrics such as carbon intensity and executive pay levels.

Escalation routes are available

From the investment side, however, it's important to note that one-to-one dialogue isn't always successful. But instead of just divesting from a company unwilling to cooperate on ESG issues, responsible investors can adopt a stronger stance to trigger a corporate reaction by using various escalation techniques. We can collaborate with other investors to increase pressure on a company; we can use our voice at the ballot box to vote against management on key resolutions and thereby send a clear signal to the company; and we can attend AGMs for the chance to have direct, public dialogue with boards and top executives.

Recent examples of oil companies unwilling to adequately address climate change concerns demonstrate how serious attention is now being paid to the issue. We recently put investor pressure on Shell by

voting against its energy transition targets at its recent AGM to push the company to adopt more ambitious targets. And then, in a landmark court ruling, the company was ordered to cut its CO_2 emissions by 45% by 2030. ExxonMobil and Chevron have also faced intense shareholder pressure over their failures to set proper strategies for a low-carbon future. Hedge fund activists at Engine No. 1 successfully replaced two ExxonMobil Board members with their own candidates, while 61% of Chevron shareholders voted in favour of an activist proposal from campaign group Follow This to force the group to cut its carbon emissions.

Final thoughts

What came across clearly in our discussion with BHP, Clicks Group and Smurfit Kappa is that ESG engagement is most dynamic and works best when investors work in partnership with companies to encourage them to be more ambitious around their sustainability goals and how to achieve them. This can ultimately drive companies to take concrete steps towards ensuring their products and services contribute towards a better, more sustainable future for us all.

> **"What's really been useful is for asset managers and shareholders to have taken the view that they understand that corporates are on a journey towards improved sustainability performance."**
>
> *Bertina Engelbrecht, Group Corporate Affairs Director, Clicks Group*

As outlined above, as investors we do have escalation routes available and, ultimately, divestment is an option, but we believe we can add more value to the world around us if we use our influence as stewards of large amounts of capital to keep driving important ESG conversations, rather than automatically selling out of holdings that don't align to our sustainability criteria.

Risk warnings

The value of investments and any income derived from them can go down as well as up and investors may not get back the original amount invested.

Views and opinions have been arrived at by BMO Global Asset Management and should not be considered to be a recommendation or solicitation to buy or sell any companies that may be mentioned.

Accessing alternative assets to build diverse portfolios

By James de Bunsen, Manager, Janus Henderson Diversified Alternatives fund, Janus Henderson

Assets under management in private markets have grown exponentially in recent years, hitting $4.74 trillion by the end of 2020*, and growth is set to continue on this trajectory. It is a growing universe, but one which is out of reach for most investors, as assets are generally held in long-dated funds with no redemption rights and large minimum investment limits.**

Historically, alternative assets have largely only been tapped by institutional investors, given their ability to take a longer-term view and lock up capital much more readily than their wholesale counterparts, who have struggled to gain access due to issues such as scale and liquidity.

Recently, however, investors across the board have shown more appetite to explore alternative assets, partly due to returns in public markets becoming less certain. Equities are expensive on almost any measure and credit spreads are at record tights on central bank buying.

With a clear abundance of capital, coupled with the pressure on investment managers to ensure portfolios are diversified, investing in private markets seems like an obvious strategy. There are various ways investors can access this growing segment of the market.

Wrapping illiquid assets in **closed-end funds**, where managers do not have to deal with inflows and outflows, is one solution. The risks associated with share price volatility exceeding that of the underlying net asset value (NAV) due to short-term and medium-term supply and demand dynamics can be mitigated. A lot can happen in the economy and markets between quarterly NAV announcements, therefore a share price adjustment is logical and healthy. Additionally, whilst these price moves might overshoot the actual impact on the underlying NAV, this presents ample opportunity for active managers to add value.

Private equity, whilst not offering much by way of diversification from traditional equity markets, does offer the potential to make higher returns than those from listed equivalents. This is in part due to the benefits associated with investing during the most explosive growth phase of a company and the entrepreneurial drive of company's founders combined with the nous of more experienced corporate veterans. There is greater flexibility to rapidly finance the building of platforms around existing successful firms, the absence of onerous quarterly public results reporting schedules, and the ability to act quickly and decisively at key junctures than in listed companies that have more bureaucracy to contend with.

Specialist credit investments will behave in a similar manner to traditional credit markets in terms of doing well when company earnings are sound and default risk is lessening. The key difference is that assets such as loans and asset-backed securities tend to have floating rate coupons, meaning that when interest rates rise, there is much less of a negative impact than fixed rate bonds. They also tend to be physically backed by company assets or property and therefore recovery rates in the event of default are much higher than unsecured bonds. Often, these investments are not liquid enough to feature in open-end structures, so returns can be higher than other similarly rated credit due to their illiquidity premium.

Infrastructure and renewable energy investments have much in common, particularly in terms of their very long-term, often inflation-linked revenues, which are generated by assets that are vital to the functioning of modern economies and the move to de-carbonise. These assets usually generate a high level of cash flow and pay most of that out to investors via dividends. These companies tend to be non-cyclical in nature and more defensive than many sectors during economic slowdowns.

Some areas of the property market have characteristics more in common with infrastructure than mainstream commercial property assets, especially for long lease assets with very high-grade tenants. Alternatively, there are opportunities in more specialist areas of the market, which large property funds have low exposure to due to smaller lot sizes. This specialist focus can often bring higher yields and more room for yield compression, and therefore lead to price appreciation, especially where assets can be managed and lease terms improved.

UCITS hedge or uncorrelated funds encompass a large range of assets and strategies; some are riskier than traditional funds, employing either notional or financial gearing, while some explicitly seek to generate returns with a lower level of risk than mainstream markets. Managers have an array of tools at their disposal, most obviously the ability to short assets or to invest in less liquid securities. It is important to have an extremely thorough understanding of how returns are generated and what the key risks are in order to ensure hedge fund exposure holds up well in both mild and unruly markets. The benefit to accessing these different asset classes, with their varied risk and return drivers, means that asset managers are able to construct robust, highly diversified portfolios across the alternatives spectrum. With the added layer of active asset allocation, it is possible to tilt these portfolios towards more attractive areas, depending on the backdrop and outlook, allowing investors to look beyond the global equity, bond and credit markets, both for returns and for diversification.

*Preqin Global Private Equity & Venture Capital Report 2021 ** Preqin Future of Alternatives 2025

Gold – creating opportunities from risks

By Claire Lincoln, Head of Institutional Sales EMEA, World Gold Council

Any path to recovery is beset with challenges, something exemplified by financial markets' performance so far this year. The first six months of 2021 saw swings in asset prices, sentiment and optimism as the global economy continued its quest for a much-needed recovery. Some say we are hitting an inflection point with growth, inflation and policy stimulus potentially peaking, but uncertainty remains high.

Pension funds are in an unenviable position - trying to meet return targets of the past whilst managing liabilities against a backdrop of low yields, mounting inflationary risks and liquidity concerns.

> **The hunt for yield may still be on but higher-yielding assets bring with them greater volatility.**

Consequently, effective portfolio diversifiers should therefore be a natural companion to riskier allocation strategies. And alternative assets are proving more popular amongst pension funds with this approach in mind. Gold is one of a handful of assets that can serve multiple and constructive roles in a portfolio and our analysis shows it is a clear complement to equities, bonds, and broad-based portfolios. A store of wealth and a hedge against systemic risk and currency depreciation, gold has historically improved portfolios' risk[1] adjusted returns (table 1) and provided liquidity to meet liabilities in times of market stress.

Table 1: Gold would have increased risk-adjusted returns while reducing portfolio volatility and drawdowns

Comparison of a hypothetical UK pension fund (PF) average portfolio and an equivalent portfolio with 5% gold over the past 1, 5, 10 and 20 years based on pound sterling returns*.

	20-year		10-year		5-year		1-year	
	No gold	5% gold	No gold	5% gold	No gold	5% gold	No gold	5% gold
Annualised return	6.6%	6.9%	7.6%	7.5%	8.8%	9.2%	10.7%	11.1%
Annualised volatility	7.7%	7.5%	6.7%	6.6%	7.5%	7.3%	9.4%	8.9%
Risk-adjusted returns	0.861	0.921	1.12	1.13	1.18	1.25	1.14	1.25
Maximum drawdown	-19.2%	-16.2%	-10.0%	-9.1%	-10.0%	-9.1%	-10.0%	-9.1%

* As of 31 December 2020. The hypothetical PF average portfolio and weights are based on Willis Towers Watson Global Pensions Assets Study 2019 and Global Alternatives Survey 2017 and as described in Chart 13. Risk-adjusted returns are calculated as the annualised return/annualised volatility. Maximum drawdown is calculated as the largest fall in a portfolio before the total value reaches a previous peak. Source: Bloomberg, ICE Benchmark Administration, World Gold Council

Gold is long recognised as a beneficial asset during periods of uncertainty. Historically, it has generated long-term positive returns in both good and bad economic times. Looking back almost half a century, the price of gold in US dollars[1] has increased by an average of nearly 11% per year since 1971 when the gold standard collapsed. Over this period, gold's long-term return has been comparable to equities and higher than bonds.

We refer to gold as having a dual nature, and this is reflected by its diverse sources of demand and is one of the reasons why it differentiates itself from other investment assets. Gold is owned by investors to protect and enhance wealth over the long term as it is no one's liability, and it operates as a means of exchange due to its global recognition. Gold is also in demand via the jewellery market, valued by consumers across the world, and it is a key component in electronics. Together, these diverse sources of demand give gold a particular resilience: the potential to deliver solid returns in various market conditions.

Gold market summary H1 2021

Gold's behaviour during H1 not only highlighted its dual nature but also how its diverse sources of demand and supply interact. Gold was driven lower primarily by interest rates in Q1, and then again in late June, on the back of a more hawkish statement by the US Federal Reserve. Concerns of higher inflation offset part of the drag that interest rates brought. And the strong response from governments to aid the recovery through monetary and fiscal policies made some investors think about both currency risks and capital preservation. In addition, gold benefitted from a recovery in consumer demand in Q1, although second and third waves of the virus have presented challenges since.

Gold market outlook H2 2021

Looking forward, our analysis indicates that gold's performance could continue to be heavily influenced by the movement of interest rates, the US dollar, and the economic recovery. For example, a further rise in interest rates could continue to create headwinds for gold. This is consistent with gold's historical behaviour in periods when monetary policy becomes tighter, often resulting in price pullbacks.

However, we believe that central banks will be cautious in terms of the speed at which they start to remove asset purchase programmes or increase interest rates. A hasty move could result in large market swings and potentially destabilise the economic recovery.

Inflation is likely to remain a top of book concern. But while inflation has been on the rise in many regions, there are mixed views as to whether the increase in consumer prices will be temporary or more sustained. If price inflation becomes persistent, history shows that gold could perform well[2]. Furthermore, gold appears more highly correlated to broader inflation metrics, such as growth in money supply, which could result in inflation bubbles, currency debasement, and potential market volatility around the world.

In summary, the short-term performance of gold is likely to be influenced by the direction of interest rates and the robustness of the economic recovery ahead. Yet for longer-term strategic investors such as pension funds, an allocation to gold could help boost overall portfolio health, and provide the resilience needed, as investors re-position for what promises to be a decisive decade ahead.

[1] The relevance of gold as a strategic asset 2021 - US edition | World Gold Council
[2] Investment Update - Beyond CPI: Gold as a strategic inflation hedge | World Gold Council

Accessing future cash flow to understand the journey plan

By Kelvin Xu, Director, Penfida

Ultimately, future cash flows of the sponsor pay pension contributions. A largely historical approach to covenant assessment, focused on past performance and the balance sheet, can misjudge the level of covenant support available or even misrepresent the risks that a scheme faces. A forward-looking approach is an essential part of a robust covenant assessment framework.

Why is a forward-looking covenant framework important?

A holistic approach to covenant assessment combines both quantitative and qualitative factors, including the development and analysis of risk scenarios affecting the sponsor and the scheme on an integrated basis. A key element of this framework involves an assessment of the sponsor's likely future profitability and cash flow, considering the outlook for the business, the market in which it operates and the position of the scheme relative to other stakeholders.

Whilst understanding the historical financial performance and the balance sheet are important, and indeed schemes can rely to a certain extent on the sponsor's assets, if one were to solely focus on these elements, there is a risk of overestimating the level of covenant support without taking into consideration the potential headwinds in a given industry. A pertinent example currently would be high street retail where future cash flow generation may never return to historical levels and balance sheet value could be overstated in stressed scenarios.

How can a forward-looking covenant framework be implemented?

A best practice approach is to consider several financial forecast cases, including more prudent and downside scenarios, recognising that the future is inherently uncertain. The estimated future free cash flow generation can demonstrate how the asset base could be maintained in the future and how different stakeholders including schemes might be funded. Future cash flows can also be discounted to arrive at an estimated net present value of the covenant, in a similar way to how an actuary discounts a scheme's future cash outflows to determine the present liability.

The value of the covenant can then be compared on a like-for-like basis against the scheme's deficit and a measure of investment risk (e.g. a value-at-risk measure). The relative size of the covenant compared to the scheme's deficit can provide an immediate quantitative measure of relative covenant strength. Overall covenant strength will also need to take account of qualitative factors.

What about an integrated risk management framework?

Building on the forward-looking covenant assessment framework, this approach can also allow a scheme to assess its reliance on the sponsor covenant by analysing the impact of different scenarios and thus an acceptable level of investment risk.

For example, in industries where the sponsor's profitability is sensitive to interest rate and GDP changes such as banks and insurance companies, one could align the sponsor's financial forecast cases based on different interest rate and gross domestic product (GDP) projections for example, in industries where the sponsor's profitability is sensitive to interest rate and GDP changes such as banks and insurance companies, one could align the sponsor's financial forecast cases based on different interest rate and GDP projections with the same scenarios modelled for the scheme as assessed by the scheme's actuary and investment adviser to identify the integrated nature of the risks and to test the scheme's and the sponsor's risk capacities.

The outcome will be an assessment and formation of appropriate journey plans, contingent protections and an integrated monitoring framework, including key integrated metrics to be measured on an ongoing basis.

To find out more

On 26 October 2021, at Penfida's PMI Academy training session, we will be exploring the concept of evaluating covenant on a forward-looking basis and how this can be used for integrated risk management. Find out more here **www.pensions-pmi.org.uk/events**

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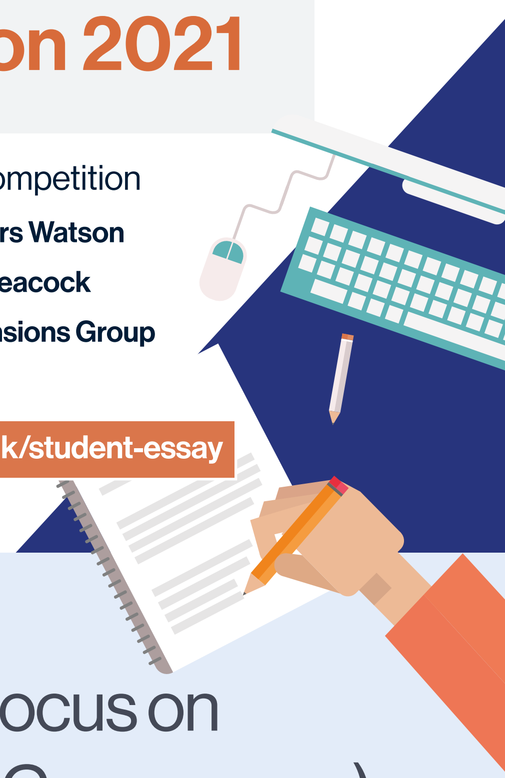


Congratulations to the winners of the 6th student essay competition

1st Place: Jed Newton, Senior Pension Administrator, Willis Towers Watson

2nd Place: Clare Bryant, Associate Consultant, Lane Clark & Peacock

3rd Place: Camilla O'Brien, Senior Pensions Administrator, XPS Pensions Group

For more information please visit: www.pensions-pmi.org.uk/student-essay

To what extent will an increased focus on ESG (Environmental, Social, and Governance) **improve member outcomes?**

By Jed Newton, Senior Pension Administrator, Willis Towers Watson

Changes made in 2018 to the Occupational Pension Schemes (Investment) Regulations 2005 required that pension scheme trustees outline their ESG policy in their Statement of Investment Principles ('SIP'). The European Union later introduced the Shareholder Rights Directive II which has necessitated further disclosures since October 2020[1]. Pension schemes are not the only entities affected by ESG reporting as companies are required to make reports in accordance with the Taskforce for Climate Related Financial Disclosures ('TCFD'). The Financial Reporting Council ('FRC') also recommends that public interest entities report against the disclosures of the Sustainability Accounting Standards Board ('SASB')[2]. It is clear that there is an increased focus on ESG principles. Appropriately implemented, ESG policies can improve outcomes for members - both as employees and as pension scheme beneficiaries.

The Member as an Employee

An employer needs to have sufficient financial and human capital if it is to effectively support employees and ongoing business. Marsh & McLennan concluded that businesses who score highly on ESG implementation tend to experience higher levels of employee satisfaction[3]. The London School of Economics and Political Science found that employee satisfaction has a positive impact on productivity and profitability[4]. It therefore follows that sound ESG implementation can improve a company's balance sheet. This conclusion is supported by a University of Oxford study which also indicates ESG and sustainability policies can positively affect profitability[5].

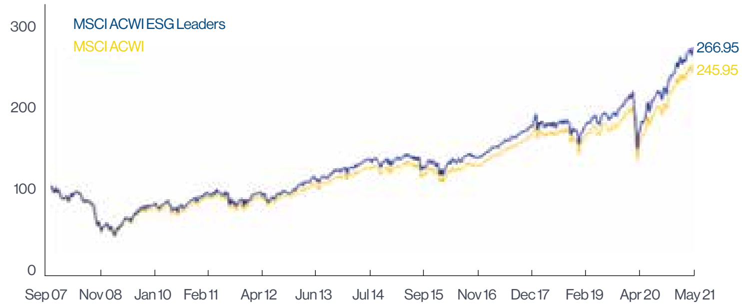
If an employer becomes more profitable it will have more available capital. This capital may be used to maintain the business and in turn the ongoing employment of staff (who therefore remain part of an occupational pension scheme). Funds could also be used to improve the employee benefits package, offering higher salaries or benefits in kind. This may help an employer attract or retain existing talent, which may maintain or further augment profitability levels. If employees attain or maintain higher levels of disposable income they will be more able to manage their personal finances. Employees may be disincentivised from opting out of their pension scheme if they have sufficient income net of pension contributions to manage their expenditure. Member outcomes are therefore improved as more employees are able to make provision for their retirement.

The Member as a Pension Scheme Beneficiary

Pension funds exist to provide retirement income, and Trustees have to ensure that their pension scheme will meet the saving needs of the membership. The impact of ESG will differ depending on whether the pension scheme has a Defined Contribution ('DC') or Defined Benefit ('DB') structure.

Benefits - Defined Contribution Schemes:

Some pension schemes have been prepared to make a significant commitment to ESG principles. LifeSight (the DC Master Trust administered by Willis Towers Watson) made ESG principles a core part of its default investment strategy in 2018[6]. Adopting ESG investment principles is a way to help ensure that savings needs are met, and they do not need to be seen as a measure which is taken for the benefit of legislative compliance and at the detriment of the pension savers. Adrian Woodcock of Willis Owen found that the return in ESG funds exceeded the return in non ESG counterparts in the three and five year period to 31 March 2021 "with a five-year return of 94.49% for the MSCI ACWI ESG leaders index versus the MSCI ACWI index return of 93.75%"[7].



MSCI ACWI ESG Leaders Index (USD)[8]

Each investment fund will perform differently depending on the weighting of investments across different asset classes, market sectors and geographies - and past results do not guarantee future returns. It remains clear that ESG-tailored funds can outperform their non-ESG counterparts, which may in part relate to the increased profit levels that ESG-aligned companies can experience (as outlined earlier in this essay). This increased return would help to provide a higher fund value on retirement. This may facilitate a more generous lifetime annuity, a greater lump sum, or a higher fund value to be accessed using a drawdown arrangement.

Benefits - Defined Benefit Schemes:

Funding is a critical issue for trustees of DB pension schemes, as underfunding will restrict the ability of the scheme to pay the benefits due to the membership now and in the future. The Pensions Regulator ('TPR') indicated that DB pension schemes (excluding those which are in the process of being wound up) were underfunded by £203.353 billion as of 31 March 2020[9].

Trustees and sponsoring employers are keen to reduce funding deficits, and this must be done in a way which is agreeable to both parties. One common approach is Liability Driven Investment ('LDI'). Under a LDI solution, some of the scheme's assets are invested in bonds or financial instruments (such as interest rate and inflation swaps) which match the same sensitivity to interest rates and inflation as the scheme's liabilities. This means that if the value of the scheme's liabilities increases the matched assets will compensate by increasing at the same rate. LDI solutions will commonly have a return-seeking component which aims to outperform the matched portfolio. If the assets increase at a greater rate than the scheme's liabilities the extent of any funding deficit will reduce. The return-seeking portfolio may invest in a range of different asset classes, and ESG funds may be considered.

As outlined previously ESG funds can outperform their non-ESG equivalents, and their use in a return-seeking component of an LDI strategy could generate higher excess returns and reduce a pension scheme's deficit more quickly. This would increase the security of scheme benefits and reduce the corresponding risk that the scheme in question fails and is transferred to the Pension Protection Fund ('PPF'). The PPF's compensation caps mean that, depending on the extent to which a pension scheme is underfunded on wind-up, members could lose up to 10% of their benefits on a transfer to the PPF[10].

Even though some ESG funds will underperform their non-ESG equivalents in the short term, pension schemes usually have a very long investment horizon. This means that ESG funds may remain a suitable investment option. TPR's DB Investment Guidance states that "consideration of ESG factors allows [trustees] to evaluate the short and long term financial risks and opportunities of [scheme] investments by looking at the current practices of the firms in which [trustees] invest". For example, a pension scheme may invest in a fund which holds significant positions in oil, gas, or coal. The fund may be projected to perform well in the short term but if negative views of the non-renewable energy industry develop (for example, in the event of an industrial accident), past gains in the underlying investments could be eroded. With 80% of the public expressing concern about climate change[11] trustees may change their ESG policy to invest in funds which are less sensitive to adverse environmental developments (such as those investing in renewable energies). In the longer term these funds may generate more reliable returns which will help the scheme reach its funding targets.

When a pension scheme reaches a higher funding level the need to generate excess returns will reduce, as there is little practical reason to accrue and maintain a significant surplus. As a result a pension scheme may be able to move some of its return-seeking ESG assets into the lower-risk matching portfolio to lock in the accrued gains. As the expected return on the scheme's investments will lower the scheme's discount rate will decrease. This may result in scheme members receiving higher transfer values as the actuarial present value of the member's benefits will be higher. With all other factors remaining constant, the lower the expected investment return the higher the amount that is needed now to pay the member's benefits into the future. This is illustrated in the table below.

Cost of providing a lump sum of £100,000.00 in two years:	Amount required	Calculation
Where investment returns of 1.8% per annum are anticipated	£96,494.92	£100,000 ÷ 1.018^2
Where investment returns of 2.6% per annum are anticipated	£94,995.99	£100,000 ÷ 1.026^2

The above example does not take into account the other assumptions (such as mortality) which will form part of an actuarial calculation basis, which may change from time to time to reflect changing financial and demographic conditions. On the understanding that ESG aligned funds can achieve returns which are at least equal to non-ESG funds, the principle remains that they can be used to help a scheme reach and secure a higher funding level. The benefits of transferring defined benefit pensions remain contested which is reflected in the rigorous regulations surrounding pensions transfer advice. However, if a financial advisor is able to conclude that a transfer value offers sufficient value for money taking into account the transferor's circumstances, a measure which increases transfer values may provide greater value for money and result in improved member outcomes upon the transfer's completion.

Potential Risks and Limitations

One issue which burdens ESG concerns what it actually means in practice. One scheme may consider that reducing environmental impact is achieved by simply avoiding investment in non-renewable energies, whereas another may feel that investing in renewable energies is also required. To one scheme improving social impact may emphasise avoiding investments in countries with alleged human rights abuses. Another scheme may curate their social impact by focusing on prohibiting investments in unhealthy products such as tobacco and alcohol. Additionally, considering the governance aspects of investment could be focused on the composition of a company's Board of Directors, or it could relate to the political lobbying and donations that the Board carries out. Inevitably each potential investment will be stronger in some areas than in others, each with inherent risks which may adversely impact the scheme's investment experience and which must be managed and hedged accordingly.

The potential merits of schemes offering DC members the chance to invest in ESG aligned funds have been discussed in the context of investment returns. However, it is arguable that this does not account for the overarching member experience of a DC scheme member.

Fund managers derive their revenue from charges on the assets under management, and in most DC schemes the member will be responsible for meeting at least some of the costs. This might be through a conventional annual management charge or a fixed transactional fee. The additional due diligence required in forming and maintaining an ESG-aligned investment fund may result in higher fund charges. The higher charge may be warranted to the extent that the ESG fund provides positive returns, but if the performance of the ESG fund is less than or merely comparable to a non-ESG equivalent with a lower charge the additional cost may reduce any additional financial benefit.

DC schemes that are used for the purpose of automatic enrolment are required to have a default investment strategy which uses 'lifestyling'. This means that the invested funds will move into conventionally 'safer' funds to preserve the capital or real-term value of a member's fund at retirement. Some DC schemes have incorporated ESG principles into their default investment strategy which means that members do not have to do anything to access ESG-aligned funds. However, other schemes may only make ESG-aligned funds available to members who want to direct how their contributions are invested (subject to the limitations of the scheme's investment options). In the absence of a structured decumulation strategy members may leave their investments in more volatile funds even on the approach to retirement. The member could receive higher returns but the opposite is also true, and the member could find their funds diminished with insufficient time to wait for the markets to recover. The member therefore could suffer a financial detriment.

The focus on ESG is here to stay and there are clearly ways in which both DB and DC scheme members may benefit as a result. However, it is crucial that the implementation of ESG policies is carefully considered so that any gains are realised, and members have the information and resources to make positive decisions at the most appropriate time.

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Why going concern matters in the preparation and audit of pension scheme financial statements

By Christine Scott, Head of Charities and Pensions, ICAS

By now, most pension scheme trustees are likely to have had discussions with their auditor about preparing a going concern assessment and will have noticed that a bit more is being asked of them. It is understandable that trustees will be keen to understand why this process is more onerous and why more audit work on going concern is needed.

The reasons are two-fold:

- A revised auditing standard issued by the Financial Reporting Council (FRC) on going concern, requiring auditors to undertake additional procedures. Revised International Standard on Auditing (ISA) (UK) 570 applies to audits of financial statements for periods commencing on or after 15 December 2019.
- General concerns about the impact of the COVID-19 pandemic on the financial health of sponsoring employers.

While these developments primarily focus on the corporate sector, private sector pension schemes are impacted as they prepare their financial statements in accordance with UK accounting standards and any audit work must be undertaken in accordance with the FRC's auditing standards, known collectively as ISAs (UK).

A pension scheme is considered a going concern if its operations will continue for the foreseeable future, which is likely to be the case unless there has been an insolvency event at the employer. Its assets and liabilities are then recorded in the financial statements on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business.

In order to conclude whether the scheme is a going concern and to identify any related material uncertainties, the trustees must make an assessment.

The assessment must meet the requirements of both UK accounting standards (Financial Reporting Standards (FRS) 102) and the pensions Statement of Recommended Practice (SORP). This includes consideration of all available information about the future of the scheme, which looks forward at least twelve months from the date the financial statements are signed.

Although the trustees' responsibility for undertaking the assessment has not changed, the auditor's approach to their work on going concern has been strengthened by changes to auditing requirements. Therefore, trustees should notice an increased emphasis on going concern matters by their auditor from the planning stage throughout the audit process.

The auditor will require the trustees' assessment in writing.

In December 2020, the Pensions Research Accountants Group (PRAG) updated its guidance on pension scheme financial statements and going concern in response to the revised auditing requirements and the possible implications of the pandemic. It is available to PRAG members on its website – www.prag.org.uk

The Institute of Chartered Accountants in Scotland (ICAS), the Institute of Chartered Accountants in England and Wales, and PRAG issued guidance on pension scheme reports and financial statements in the context of the COVID-19 pandemic (May 2020). The going concern aspects of this guidance should be read in conjunction with PRAG's going concern guidance. The joint guidance is available on PRAG's website and the ICAS website – www.icas.com

Among the changes to the revised ISA (UK) are greater emphasis on the need for the auditor to demonstrate how they have challenged management's going concern assessment, and to thoroughly test the adequacy of the supporting evidence and evaluate the risk of management bias.

In evaluating the trustees' assessment, the auditor will likely consider and conclude on factors including:

- The relevance and reliability of the underlying data used to make the assessment
- The underlying assumptions used by the trustees in making their assessment and evidence in support of those assumptions
- Trustees' future plans for the scheme, including whether the plans are likely to strengthen the financial health of the scheme and be feasible in the circumstances.

A key factor will be the ability of the sponsoring employer to continue to support the scheme over the twelve to fifteen months after the date the financial statements are due to be signed.

Trustees will also need to document their evidence to support any statements made.

It is good practice for a trustee to sign the trustees' assessment on behalf of the board when the financial statements are signed, so that all matters up to the date of signing are considered.

The auditor will also consider any additional relevant facts or information which have become available since the date of the trustees' assessment.

Trustees will need to make complex and sometimes difficult judgements about the going concern status of their scheme and the PRAG guidance will support them in doing so by providing examples of matters and circumstances that may lead to non-going concern or material uncertainty disclosures.

The guidance provides a template for an assessment and includes examples of:

- Key matters which may be considered by the trustees in making their assessment. These include employer covenant strength, scheme cash flow forecasts, and funding levels
- Evidence to support conclusions reached.

Where the non-going concern (cessation) basis is adopted, its impact on items in the financial statements must be reported. In the case of most investments the value will not change as they are usually valued on an exit basis. and even where a scheme enters the Pension Protection Fund assessment period there is unlikely to be any need to disinvest immediately on a distressed basis.

Trustees will also notice changes in the wording of the auditor's report around going concern. The auditor must state in their report that the trustees' use of the going concern basis of accounting is appropriate and explain how they have evaluated the trustees' assessment, along with the key observations from their own evaluation. Where there is a material uncertainty, this will need to be referred to in this section of the auditor's report.

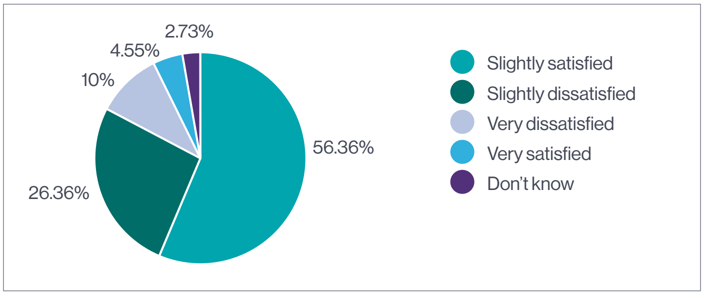
Taking the Pulse of pensions: PMI's 6th survey results

By Lesley Alexander, President, PMI

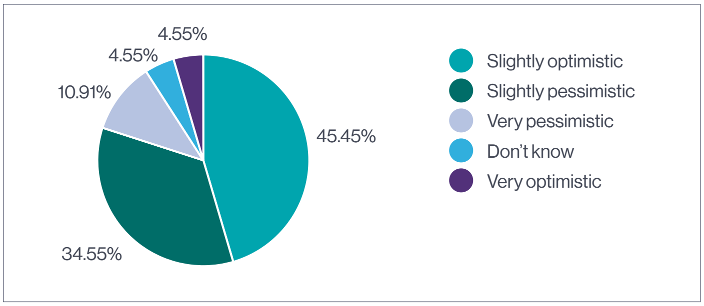
I've climbed out from under a pile of consultation documents and responses to review the outputs from the sixth and latest Pulse survey. Taking the Pulse of our members when it comes to the direction of UK pensions policy has become an important tool in informing PMI's response to the morass of consultations I've already mentioned, and in identifying underlying trends. Following our usual pattern, we started by asking the same four questions about the direction of pensions policy and confidence in the Pensions Regulator's (TPR's) activities and focus.

There was very little change in the results to our first two questions about satisfaction and optimism levels since our last survey. Just over half of members are satisfied with the direction of policy and feel similarly optimistic. While that means the respondents are more positive than negative, there are some areas of caution. For example, the combined Code of Practice and increased reporting requirements are a cause for concern. Members feel that latest developments will give rise to a significant increase in workloads for trustee boards and administrators. Undoubtedly, resourcing is under strain and not just for pension schemes themselves. Questions have been raised about whether the Regulator has adequate resource to produce the right guidance and whether the skills and experience are in place to focus on the new legislative requirements.

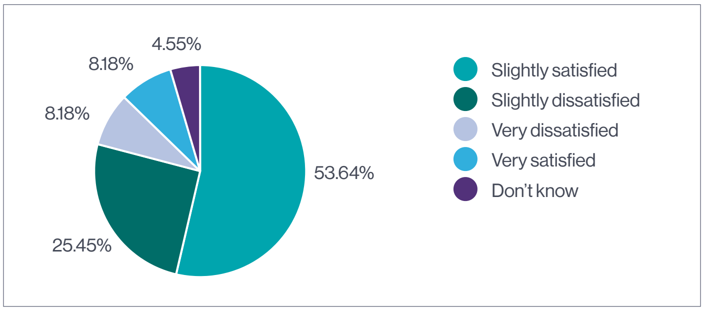
1. How satisfied have you been with the direction of pensions policy over the last six months?



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



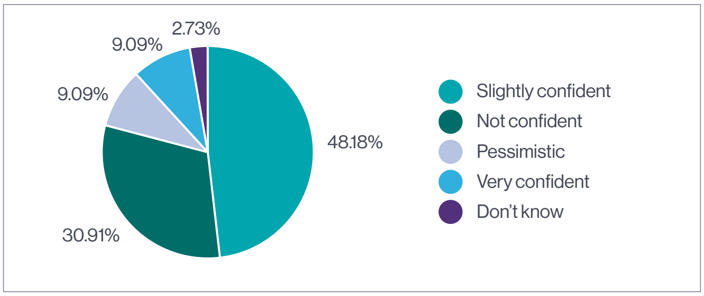
3. How satisfied have you been with the actions of the Pensions Regulator over the last six months?



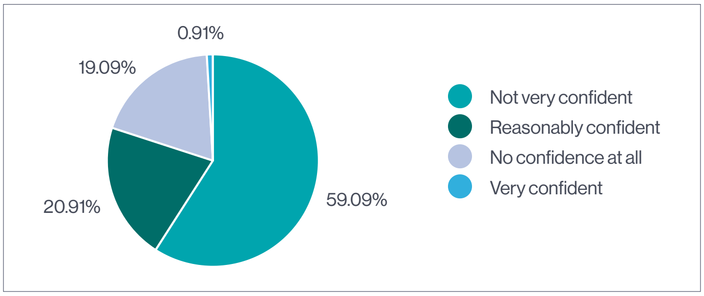
The second part of our survey covered a range of topics from the Pensions Dashboard to the new reporting requirements for the Task Force on Climate-Related Financial Disclosures (TCFD). The Dashboard programme has so far had the gestation period of two elephants, and we still appear to be no closer to the actual birth. We asked members about their confidence level on the latest timetable for delivery of the Dashboard. Over three quarters of respondents said that they were not very confident or have no confidence at all that the Dashboard would be delivered by 2023.

Major reservations were expressed about data formats and security. When looking at the responses, it would be fair to say that administrators are very much in the spotlight as the pensions industry recognises the ever-increasing burden falling on the same shoulders – legacy systems, incomplete and inaccurate data to fix Guaranteed Minimum Pension (GMP) equalisation and more member disclosure, whether that be in the form of extra reporting or simplified annual benefit statements. Following on, in question 8, we asked our members what the principal obstacles to delivering the Dashboard are. As you can see, resources, cost and data are understandably identified as the main areas of contention. Those mentioning other concerns listed data security and outstanding legislation to compel data sharing.

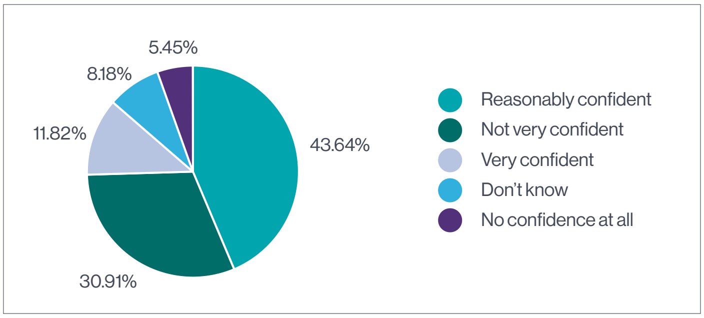
4. How confident are you that the Pensions Regulator will focus on the right areas in the next six months?



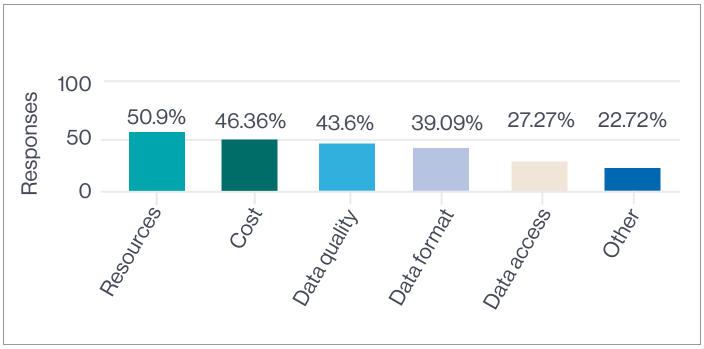
5. How confident are you that the Pensions Dashboard will be delivered by 2023?



6. How confident are you that either your own scheme, or schemes that you advise, will be able to provide data for the dashboard by 2023?



7. If you are not confident, what are the principal obstacles?

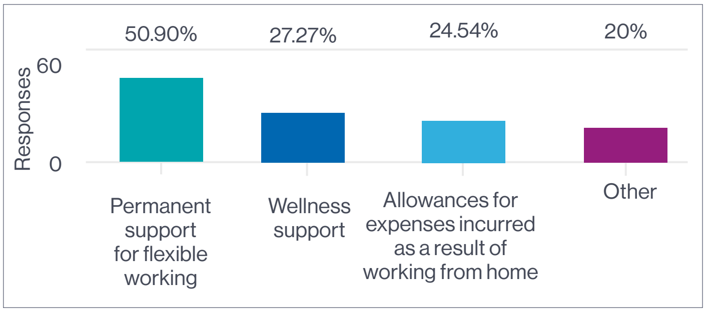


It is clear from the responses that PMI members see the vital nature of the Dashboard and its value to savers, but feel that there are significant issues still to be resolved if the latest timetable is to be achieved.

In a departure from our normal focus, being first and foremost a membership organisation, we wanted to gain some insight into the experience of our members working through the pandemic. We asked how employers could help PMI members as they come out of lockdown and return to a degree of 'normality'. For those respondents to whom this is relevant, more than half said that permanent flexible working would be valuable, accompanied by wellness initiatives from their employers. While a return to the office will be welcome for those who do not have a living environment conducive to home working, it is clear that our members value the upside of flexible working that COVID-19 has foisted upon so many.

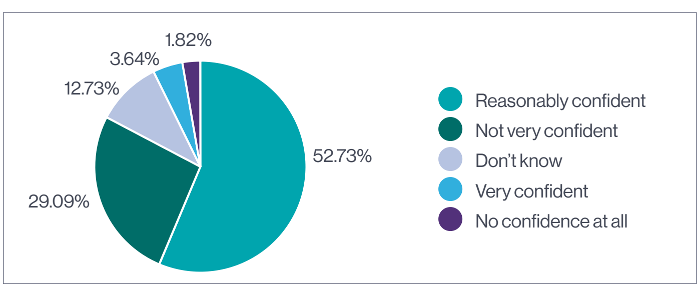
When it comes to TCFD reporting, just over half of the respondents were confident the asset managers would be able to provide all the necessary information. Again, some respondents highlighted those areas where managers may fall short. For example, non-UK managers running niche investment strategies and older pooled funds might struggle to supply the requisite data. Another point that the PMI raised in its own response to the TCFD reporting consultation was the need for the Financial Conduct Authority (FCA) to use equal and opposite force in mandating asset managers to provide the appropriate data. Trustees and pension schemes cannot single-handedly bear the brunt of the new reporting requirements without the help of their managers and advisers. Overall, our members would also appreciate consistency in the data templates and the form of measurement to be used. There's now a further consultation from the Regulator on climate change guidance which is very much focused on the practicalities of reporting and I would encourage you to let the Regulator know your views.

8. In what way could your employer help you as we come out of lockdown?

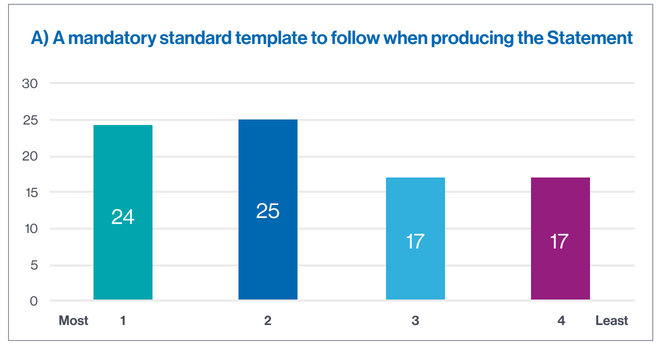


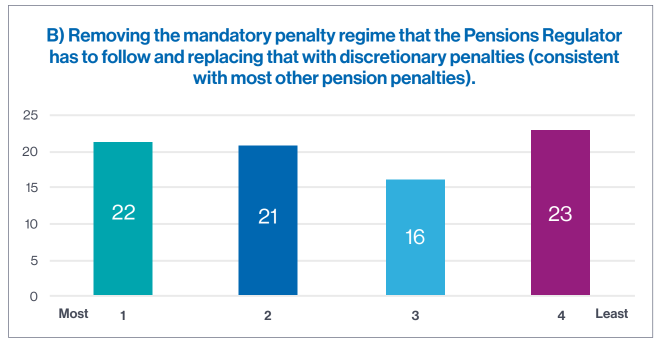
Finally, we tried to crack the good old chestnut of the Chair's Statement for defined contribution (DC) schemes which the Department for Work and Pensions (DWP) has put up for review. I for one would like to thank the DWP for recognising that the statement simply isn't fulfilling its intended purpose. It has become a source of both angst and anger over recent years, where otherwise well-run schemes have fallen foul of some of the more esoteric regulatory requirements and found themselves on the receiving end of financial penalties. So, what did our members think? Overall, the survey was able to glean that the majority of the respondents favoured separating the statement into two parts – one which is member-facing and the other to record the scheme's regulatory compliance. In addition, more than half would welcome a mandatory standard template – but that may be because they wish to avoid a potential fine! There were mixed views on whether giving the Regulator discretion on penalties would be an improvement or whether further clarification on the content of the statement would be beneficial. Perhaps it's time back to the drawing board and think about what will best serve our scheme members rather than a regulatory box ticking exercise?

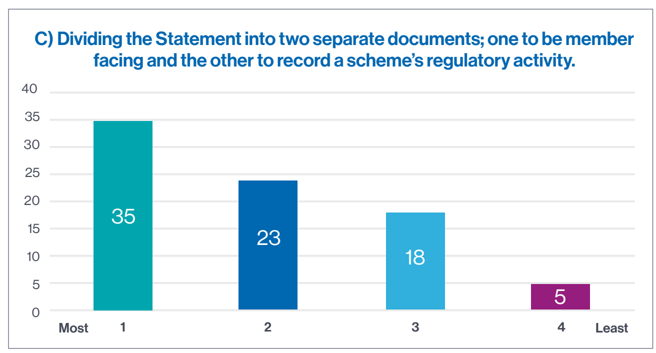
9. To what extent do you believe that asset managers will be able to provide information necessary for trustees to comply with TCFD reporting requirements?

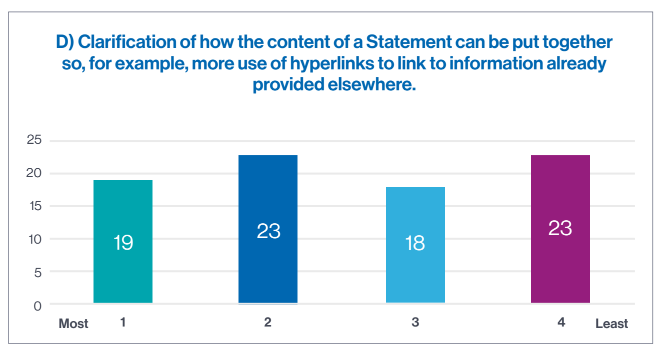


10. The DWP's recent Post Implementation Review on DC governance requirements focused on the Chair's Statement for DC schemes. The review recognised that the current requirements for this are not working well and that further work is needed to address concerns raised in the review. Rank from 1 to 4 which of the ideas you think will lead to most improvement for members and governing bodies of schemes (1 being most improvement and 4 being least).









So, did our latest survey turn up any hitherto unknowns? Perhaps not, but it's essential that the PMI's consultation responses and representations to policymakers at all levels reflect the experience and expertise of the broad church that is PMI's membership. We appreciate your insights and hope you'll continue to participate in taking the PULSE of pensions.

TCFD at a glance: 5 things trustees should know

By Paige Willis, Associate, Sackers

With a summer explosion of TCFD publications, we set out the basics for schemes:

01 What is TCFD?

Back in 2017, the Taskforce on Climate-related Financial Disclosures (TCFD) published 11 recommendations for all organisations aimed at identifying, assessing, managing and disclosing climate-related financial risks and opportunities. The Government's 2019 Green Finance Strategy set an expectation for listed companies and large asset owners to make disclosures in line with these recommendations by 2022. Such disclosures are intended to become mandatory across the economy by 2025.

02 What does it mean for pension schemes?

Following consultation, the Department for Work and Pensions (DWP) published revised Climate Change Governance and Reporting regulations (the Regulations), which were made on 13 July 2021, together with draft statutory guidance. These ask pension trustees to meet governance and disclosure requirements in line with the TCFD recommendations. Trustees must satisfy certain requirements (e.g. analysing the climate-related risks relevant to the scheme, their potential impact, and the adequacy of relevant scheme processes), and then incorporate the outcome of their TCFD review into a report (the Report).

03 When do you have to comply?

The requirements are being phased in, with larger schemes (those with relevant assets equal to or exceeding £5 billion) having to comply first, from 1 October 2021. The Report must be published within seven months of the end of each relevant scheme year on a publicly available website, free of charge (with a link to it included in the scheme's annual report, and members informed as to where it can be found). The Financial Conduct Authority (FCA) also published consultations in June on climate-related disclosures for those entities it regulates. Whilst this will be helpful (in the longer term) to trustees in satisfying their own reporting obligations, the FCA regime is only intended to take effect for accounting periods beginning on or after 1 January 2022. The mismatch in timing means that occupational schemes could find themselves struggling to get hold of complete information to fulfil their requirements.

04 What are the penalties for non-compliance?

Failure to comply is taken seriously: the Regulations permit (and in certain circumstances, require) The Pensions Regulator (TPR) to issue penalty notices to trustees of up to £5,000 for an individual (and £50,000 for corporates) in the case of more serious failures of governance.

05 Next steps

On 5 July, TPR published draft guidance (intended to complement the DWP's) outlining its approach to the new requirements, together with a revised monetary penalty policy. Amongst other things, TPR sets out non-exhaustive 'example steps' the schemes should take and report on, its expectations of schemes, and trustee knowledge and understanding (TKU) requirements.

Whilst the schemes in the first wave of compliance should already be well under way with their work, TPR's publication serves as a useful nudge, and checklist, for trustees. It also reminds us that those schemes not obliged to adopt the requirements should still consider doing so voluntarily, bearing in mind trustees' fiduciary duty to actively consider climate change as a financially material risk.

Having great long term relationships with my clients is why I work in pensions

By David Saunders, Senior Partner, Sackers

It would be a lie to suggest that I'd harboured a long term ambition to forge a career in pensions or the law. The more honest reality is that, after completing a degree in French and German (now largely wasted beyond the holiday order of a 'pression'), the idea of starting work at that stage didn't seem remotely appealing and I cast around for better plans. Even without the long-term ambition, the law was intriguing and so law school it was, successfully putting off the start of a proper job until age 26.

When I meet new recruits to Sackers who are often just completing their training, I'm struck by how many of them feed back a passionate dislike for some of the legal practice areas they've spent time in. That wasn't my experience and sometimes I reflect on how I could just have easily ended up as a corporate or banking lawyer, as opposed to advising pension schemes and employers. (That said, six months in Frankfurt putting together securitisations was definitely not a highlight of my own training.)

In the end, the human aspect of pensions is the single biggest thing that drew me and so many others to it – from the perspective of the pension scheme members impacted by your advice to the clients receiving it. Building long term relationships with my clients has been the greatest pleasure of my career and I have met some of the kindest, inspirational and positively motivated people. The pensions industry is a force for good, so it's no surprise to me that we are now taking up the baton of environmental, social and governance (ESG) factors and climate change with such gusto.

I'm incredibly honoured to be elected to succeed Ian Pittaway as Senior Partner of Sackers. Sackers is a truly special firm with a uniquely supportive and inclusive culture. I am confident that choosing an openly gay man to head up the firm wasn't even a consideration for my fellow partners. We value every member of our staff and every client of the firm as part of a Sackers family. I take over at the helm with the firm in rude health and a reputation second to none in our field. It's a huge privilege to build on the foundations of the past as a platform to seek out exciting opportunities in the future, and I hope that my new role will give me the chance to meet even more of those kind and inspirational figures in our industry. I have always practised 'open door' for real, not just in words, and that will remain my style as I get my feet under the senior partner's desk.

My advice for anyone starting out in their career is to have high expectations from those who are employing and training you and don't accept anything less. The early days can feel daunting and overwhelming, so don't be afraid to look to the senior lawyers around you for reassurance, close supervision and support to help you grow and develop in your own way.

What is LGBT+ lens investing?

An LGBT+ lens investment approach is a natural extension of the body of research and supporting data known collectively as 'the business case for LGBT+ diversity & inclusion'. The business case, and its related investment thesis, states that companies with effective LGBT+ inclusion have been proven to outperform their peers over time, with both bottom line and share-price multiple associated benefits.

These benefits include improved financial return, economic empowerment, social inclusion and wellbeing. Viewed more widely, LGBT+ lens investing can also be understood to promote and drive effective organisational diversity and inclusion in target companies by encouraging more equal cultures.

Implementing an LGBT+ investment lens is a powerful new frontier

By Matt Cameron, Global Managing Director, LGBT Great

Twenty years after introduction, the gender investment lens has been adopted by many professional investors with increasing value realised. The same opportunity is on offer with an LGBT+ investment lens. This new frontier requires brave and bold leadership and will belong to those who choose to embrace it.

Why should professional investors adopt this lens?

Our industry has typically focussed on the 'E' and 'G' elements of environmental, social and governance (ESG) factors, and less on the 'S'. Yet the events of 2020, the global pandemic and calls for racial justice and social equity, have told us that social sustainability matters, and that investors can potentially better serve their clients and members, by providing equitable attention to the 'S'.

The 'S' is a powerful driver of innovation and financial outperformance. Several studies have highlighted the commercial opportunity for adopting an LGBT+ lens specifically. The Credit Suisse market-cap-weighted basket of 350 LGBT+ inclusive companies outperformed against the MSCI Inc. ACWI Global Equity Index by 3.78% per annum1. Estimated global LGBT+ gross domestic product is $3.9 trillion US dollars and household wealth of the community stands at $23 trillion[2]. The numbers speak clearly for themselves.

What can our industry do?

1. Leverage internal diversity & inclusion with purpose.
Progress towards an LGBT+ lens must start with reviewing the internal policy to culture and inclusion overall. The plan should be aligned to the overall commercial business case and alongside other diversity dimensions in equal measure. Executive sponsors must lead and influence this topic to ensure that diversity and inclusion are positioned as a competitive business enhancer instead of 'just' HR policy. Role modelling of good practices will encourage greater confidence and stewardship.

2. Encourage professional investors to adopt LGBT+ methodologies and tools.
The approach to applying an LGBT+ investment lens can be multi-faceted but must always respect potential regulatory constraints on the gathering and use of data in different jurisdictions. An LGBT+ review and scoring tool, like LGBT Great's iiBT tool, can be deployed to create a universe of investible companies and assets onto which a portfolio manager can overlay their in-house preferred 'traditional' investment approach (e.g. growth or value investing) to construct an optimised portfolio. Developing an effective active ownership framework will provide greater structure and clarity.

3. Equip executive leaders with the information and confidence they need to influence.
The lack of data remains a key barrier to LGBT+ lens investing. Improving the access to reliable data can be achieved by a 'do it yourself' approach whereby professional investors develop in-house capability. Collaborating with data providers and engaging with target companies together will provide a joined up approach. To find out more about LGBT+ lens investing, you can read our full report here: **lgbtgreat.com/ANewFrontierReport**

"Fully understanding and integrating environmental, social and governance (ESG) factors into investment decision-making is essential in this new world. The 'S factor' has led to recent discussion around tangible actions that corporations can take to evidence diversity, equality and inclusion. Therefore, as an industry, we are willing to make some progress, but much more needs to be done, and our 'S' now needs to be much more profound. The LGBT+ community is seeking more from professional investors, and now is the optimal timing for the C-suite to explore this exciting new frontier."

Matt Cameron, Global Managing Director, LGBT Great

1. Bloomberg.com: Credit Suisse Says LGBTQ-Inclusive Stock Basket Has Outperformed, 2020.
2. LGBT Capital: LGBT GDP Wealth & Travel Data, 2020.

Trust dies but **mistrust blossoms…**

By Dr Keith Hoodless, Director of Lifelong Learning, Pensions Management Institute

By building on the work of recent years in developing the trustee market and improving governance by launching its accreditation service for trustees in 2019 (APTitude), and more recently with working with the Association of Member Nominated Trustees (AMNT), to improve and develop lay trustees working within the sector, the PMI has recently launched the Diploma in Pensions Trusteeship (DPT).

It is an organic process that we can no more be mere consumers of good governance, we must be participants; we must be the co-creators. Good governance requires working toward common ground and it isn't easy.

We still, even now, keep seeing the names of Maxwell (Mirror Group Newspapers, 1991), Jeffrey Skilling (Enron 2001), Sir Philip Green (BHS and Arcadia 2016 and 2020) and Carillion (2017) in the headlines of popular newspapers, all creating mistrust and distrust in those who are looking after our retirement provision. This drives into the heart of individual scheme members when we see things such as 'another pensions scam', 'stealing your old age', 'pickpocketing your pension' and 'fat cats continue to get the cream'.

Lost in the melee of negative headlines and the clamour to find culpability and victims, are the excellent efforts of the trustees in managing, through significant deficits, to keep these types of pension schemes afloat.

It is for those reasons that when evaluating the development of this qualification we had a four-way approach to review: through comparability, through regulation, through trust, and, moreover, through confidence.

1. Comparability to offer ALL trustee's compatibility in terms of the qualifications we offer.
2. Regulation being deemed as necessary, particularly in a sector like the pensions sector, which exposes individuals and companies to a risk.
3. Our need to build trust, and that trust is built with consistency.
4. Our need to instil confidence, and the understanding that confidence comes from discipline and training.

Developing the Certificate in Pension Trusteeship (CPT) qualification allowed us to certificate not only trustees' knowledge and understanding, but also the soft skills necessary to operate in that sphere. We could, therefore, further enhance the credibility and display the professionalism that exists within the sector. We have extended this offer to all trustees now, and it is being well received.

The Pensions Regulator is quoted as "rightly expecting trustees to meet high standards of trusteeship, governance and administration" and positively welcomed the PMI's approach to lay trustee governance.

The AMNT "welcomed PMI's new accreditation scheme, which gives formal parity of esteem between lay and specialist trustees".

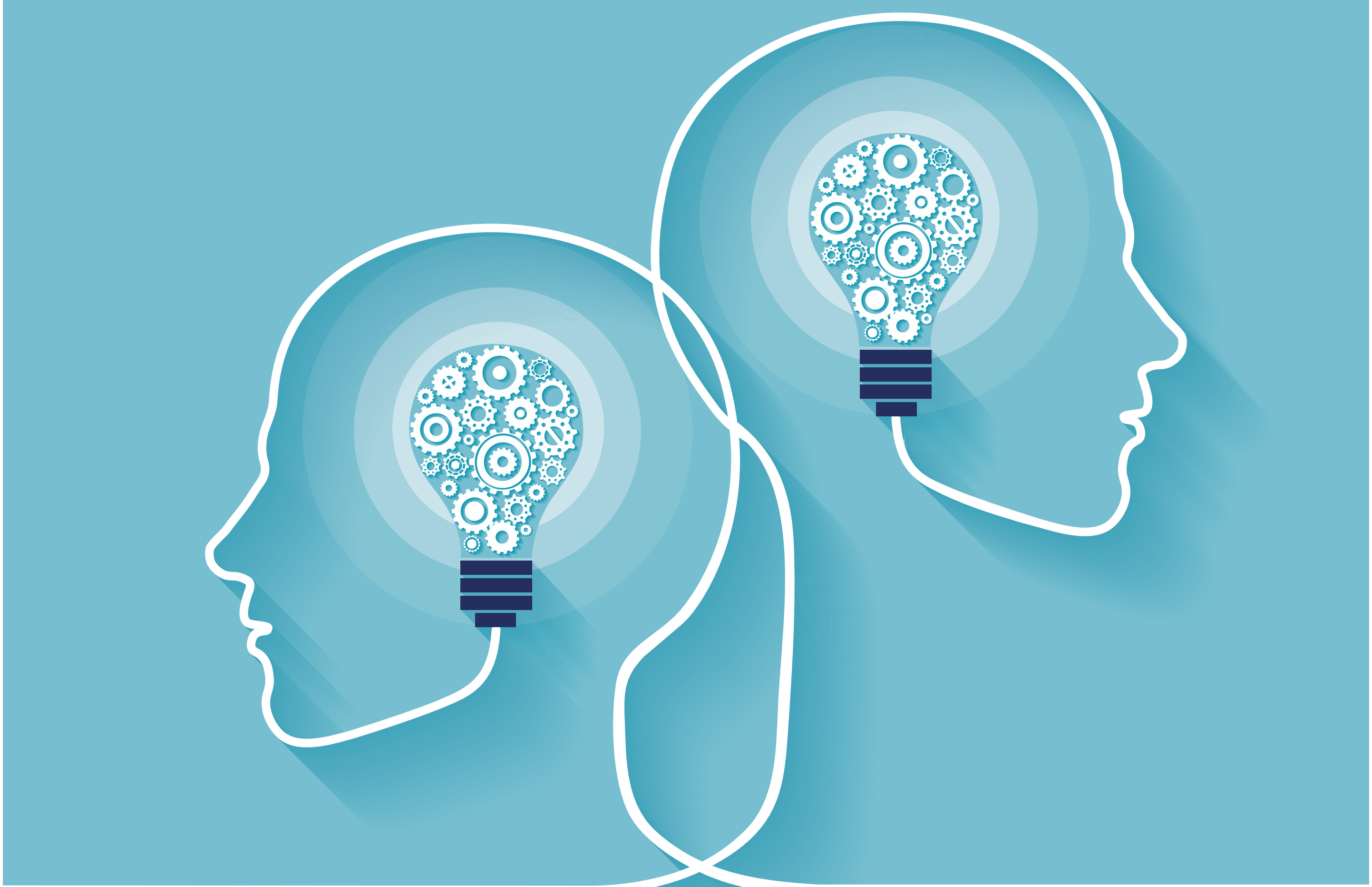
More senior, professional trustees now have the ability to display their professional integrity through a higher level qualification (Level 5) with the Diploma in Pension Trusteeship (DPT).

The DPT is primarily aimed at professional trustees who want to show differential within the market from lay trustees. It allows for greater confidence and displays a greater depth of knowledge of practice within the sector. The DPT fits directly with the Standards of Professional Conduct for Trustees (at a higher demonstrational level than lay trustees) and the APPT Code of Conduct for Trustees (Sections 1,2 and 3, as a golden thread through authentication and answer in sections 5, 6 and 7).

Our recent member survey, which had over 750 member respondents, shows around 70% of our members are heavily invested in the availability of qualifications that will better benefit their journey and career. As their professional development organization of choice, PMI will be producing more educational content through the PMI Academy. Please keep checking into the website, and through social media, for further details.

Employee engagement and workplace pensions: how to tackle the knowledge gap

Getting employees to engage with their workplace pensions and tackling the pensions 'knowledge gap' are two challenging issues for employers. Here are some potential solutions.



By Laura Stewart-Smith, Head of Workplace Savings and Retirement, Aviva

Let's open with a fictional workplace scenario. A salesperson walks confidently into a warehouse and demonstrates an innovative electronic device to a firm's attentive employees. A £10 note is pushed into one end of a hand-held machine. Seconds later, a £20 note appears at the other end. The workforce is stunned and everyone in the company wants to buy one. They love it. It's new tech, it's portable, and it makes money. Then there's a further shock when the salesperson reveals: "you've already got one of these. It's your pension scheme!"[1]

Of course, there are many ways of engaging employees with their workplace pensions, and sometimes it can be extremely challenging, particularly with younger members of staff. Recent research [2] by Aviva showed a huge 'knowledge gap' about saving for retirement. It revealed that almost half (47%) of employees do not know how to plan for retirement, while 42% have not even started thinking about it yet.

Employers can help play a big role in tackling this knowledge and engagement gap by providing information and guidance to employees about how to maximise their finances in later life. The potential benefits are many: engaged scheme members might well be motivated to perform well and could be less likely to suffer financial stress. In addition, there's the possibility that they could retire at a time that's right for them. But for many employees, pensions remain shrouded in mystery or clouded by worry.

So, what can we do to encourage all employees to become engaged with their retirement savings? Here are five essential ways to help make this work.

1. Make it a big part of induction

It's worth taking a look at your induction processes to make sure they cover workplace pensions in depth at the earliest possible stage. As well as dealing with this subject verbally, include details in an information pack for new employees to take away – and make sure the language is as straightforward as possible. You can also signpost where new members can go for support.

2. Embrace helpful online planning tools

Pension providers' websites often include online tools to show the potential effect of increasing or decreasing payments. Directing scheme members to these tools can help them to reach a new level of understanding, as they can show how adding a relatively small amount to their contributions can make the difference between a satisfactory lifestyle in retirement and merely 'getting by'.

3. Financial education for the bigger picture

Financial education seminars are a great way to get people thinking about the future. You could recruit pension providers and other professionals to help employees to look at their finances in general, rather than concentrating solely on pensions. When they've seen the 'big picture', many employees may feel inspired to take a more active role in planning their long-term futures. They also need to know that auto-enrolment doesn't mean automatic financial security. Instead, employees should be thinking about the lifestyle they'd like to achieve and how to get it.

4. Tailor communications for different generations

It's important to ensure that your pensions communications acknowledge the different needs and priorities of employees. For example at different life stages, with younger workers, communications on saving in general may be useful – the word 'retirement' is likely to be a turn-off.

When you're talking to employees aged 30 to 50, acknowledge the fact that they're likely to be dealing with more immediate concerns, such as the expense of raising a family. Employees who are closer to retirement will be more aware of the need to plan for it. Support them by encouraging them to think about the decisions they need to make from age 55.

5. Timing matters

It's not just a matter of what you tell your employees, or even how often you tell them. It's also about when you tell them. Perhaps just before the end of the tax year or before an annual bonus is paid.

With so many financial pressures, it's easy to understand why your employees may be reluctant to think about a retirement that could be a long way off. But we all know how quickly time goes by, so it's worth putting in a little effort to get your employees to think about their future.

A pension fund is the basis for most people's retirement and the standard of living they enjoy after work. If you can take steps to help make that future brighter for your employees, you can be sure they will thank you for it when the time comes. Why not start by using some – or all – of these suggestions to get your people thinking about what kind of a future they'd like to have.

It's always worth gaining insight into what employees are thinking about pensions and workplace benefits, which form part of Aviva's Age of Ambiguity initiative. In our latest report 'Thriving in the Age of Ambiguity'*, we asked what employees have gained and lost in financial wellbeing during the pandemic – and what employers can do to boost future resilience. Download the report **www.aviva.co.uk/adviser/documents/view/br01629c.pdf**

Sources

[1] Assumes an individual is a basic rate tax-payer in a pension scheme paying the minimum level of contributions. A £10 net employee contribution would attract £2.50 in tax relief and an employer pension contribution of £7.50.

[2] Aviva report 'Thriving in the Age of Ambiguity'* 2021

A conference with a fresh twist

By Emma Barry, Head of Marketing, NextGen

When we decided to run a full-day conference, we wanted to consider things differently. We didn't want to reinvent the wheel of organising conferences – they're a mammoth task as it is! But, we wanted to bring a fresh approach, questioning whether we had the topics our NextGen and PMI members would be interested in, and the speakers to keep them switched on all day.

NextGen is all about showcasing the amazing people up-and-coming within the pensions and investment world, so we knew providing a platform for their voices was a no-brainer. What we truly believe is that there is a space for all voices, and that means those wise industry experts we've come to know and trust. So we wanted a good mixture of different people.

Then we began debating topics, considering the hot ones of the moment, like pensions Dashboard, or environmental, social and governance (ESG) investments. Those are definitely things we love to talk about. We could talk about ESG until the cows come home! But plenty of extremely qualified and talented professionals are covering these topics at the moment. So we wanted to provide something different, something unique.

Between finding brilliant speakers and interesting topics, our first conference with a fresh twist blossomed.

Diversity in action

That richness in quality and ideas that diversity of thought can really bring was evident from the get-go!

Kicking off with the inspiring topic of encouraging new faces on decision-making boards combined the wisdom of Andy Cheseldine alongside the intelligent charm of Dana Day, the self-driven passion of Anna Darnley and the experience of Matt Sims. It made for a magic combo of insightful gems, you could see sparks igniting within each of them, bouncing off each other with increasing energy and enthusiasm. It was like watching the effectiveness of diverse thinking in action!

Within the second session, we broadened our speakers geographically all the way to Uganada, and outside the reach of pensions and investments and into the broader recruitment industry and social governance, diversity and policy spectrum. The topic of growing your career in a virtual world is one we've all come to face unexpectedly. It's a shared challenge, regardless of background, experience, or any other differentiator or label – we're really all in the same boat. So hearing the ways Simon Peter Mulima has faced similar challenges in the past, and comparing it to Emily Forsyth-Davies' approach broadened the options.

Dr Scarlett Brown and Martin Wigfield provided some real insider expertise. A huge takeaway here was the number of different things we can still do in a virtual world to build our careers – and there's no one-size-fits-all – different strokes for different folks and all!

We were thrilled about the third session of the day – the chance to share NextGen's first research paper about recruiting with cognitive diversity in mind. Equally exciting were our brilliant speakers – NextGen committee members Hadassah Shulman, Lauren Peacock and Joe Craig. They presented some of the stories within the report, highlighting the ways recruitment processes can be inherently biased. Some were eye-opening, in particular the shocking difference 'whitening' a CV made to applicants' chances. This trio took a tough, serious subject but managed to make it fun but respectful – true artists really!

The fourth topic of the day saw our most 'pension-y' subject of all the sessions – the small pots pension problem. NextGen's Caroline Escott kept our speakers on track – it's a subject they're all deeply passionate about and could no doubt talk about all day. Alyshia Harrington-Clark is, undeniably, the pro when it comes to small pots. It was refreshing to hear her speak in such a simple way that even those without background knowledge of the issues could grasp the subject. Opening our eyes to the scale of the problem were Duncan Stevens and Tom Simmonds, who have spent years in various guises and organisations tackling the issues, and are now focusing on reuniting people with their lost pensions via Gretel.

We finished the day with a Dragon's Den style pitch from the new kids on the block. Matt Dodds put the founders of Octopus Moneycoach, Guiide, Maji and Collegia, through their paces to find out what's up-and-coming in the pensions and investments world and why it's important. This session was all about diverse ideas. The problems they are hoping to solve are ultimately the same – help people make the most of their money so they can plan and use it well when they retire. But the diverse approach is what enriches our industry: solutions that provide advice and guidance, solutions that help people save and educate, solutions that keep savings in one place. It's just a shame Matt didn't have a pot of cash ready to dish out to Sahil Sethi, Eduardo Chazan, Adam Price and Kevin Hollister at the end!

Old world pensions, new world approach

During the day, watching the interactions between all our speakers – industry experts and newer faces – it was interesting to see the dynamics change.

We saw that the effectiveness of diversity isn't necessarily about bringing one individual's diverse views – it's about that person's way of thinking igniting something within someone else.

It's changing the path of a debate. Leading a conversation down a different route to a different outcome, or at least exploring it. It's livening things up a little.

When we threw out 'the way these things are usually done', and got the creative sparks flying, the ideas flowed. Organising this conference was hard work but such good fun. We had the freedom to:

- choose topics that are different from the status quo
- break away from the agenda of commercial business
- select speakers for their talent and eloquence
- open the debate to competition, and new organisations and ideas
- base all of this on the wants and needs of our NextGen members.

People think of pensions as a slow-moving industry, but change comes fast when you share ideas, work together and push to move the conversation forward.

If we could predict what the topics will be next year, we wouldn't be pushing hard enough or moving forward fast enough. But we do know there'll be more than enough to talk about for another vibrant conference.

Looking back at the **road travelled**

By Charles Counsell, Chief Executive, The Pensions Regulator

The Pensions Regulator's (TPR's) Chief Executive Charles Counsell reflects back on a year like no other, outlining how the Regulator has responded to challenges of the pandemic and continued its work to support the pensions industry and protect savers.

In our recently published Annual Report and Accounts (ARA)[1] we have reflected on a year that has been like no other. The report, which is our second while under the shadow of COVID-19, marks the first full year where our activities and those of our regulated community have been affected by the pandemic.

As the ARA shows, our clear, quick and tough approach has been essential in our successful response to the challenges of the pandemic. We have been able to meet the needs of the pensions industry so that savers have been protected.

We recognised that the pandemic would affect our regulated community in different ways, and therefore applied easements in automatic enrolment (AE) and for pension schemes more broadly, such as pausing our review of chair's statements and giving employers more flexibility with deficit repair contributions (DRCs). We believe that these represented a quick, clear and proportionate response.

As we began to ease towards a 'new normal' from a business perspective, we reverted to pre-pandemic reporting requirements for providers and trustees and have continued to keep our guidance and support updated as the situation has evolved.

As well as responding quickly to the immediate and ongoing challenges of the pandemic, we continued to deliver successfully against our statutory objectives to make workplace pensions work and protect savers.

We forged ahead with new and complex work, including the launch of guidance for superfunds, stepping up the fight against scams, and preparing for new legislation set out in the Pension Schemes Act 2021. This year also saw the launch of our bold new strategy to put savers at the heart of all we do. Our corporate strategy set out our 15-year vision for the future of regulation and our rolling corporate plan set challenging new targets which we quickly started to deliver against.

The supervisory relationships we have built with schemes has meant we were in regular dialogue with them so that we have been able to hear first-hand their challenges and help them adapt to the changing environment brought about by the pandemic.

To support trustees and protect savers we also published a policy on ending enforcement action more quickly if the targets of its action come up with an acceptable proposal so that savers achieve a good outcome more quickly without the need for legal proceedings. However, where needed, we did not ease up on our determination to prosecute fraudsters who threaten savers' retirements. Our enforcement work this year includes the extradition of an alleged fraudster from Spain, securing a confiscation order to force charity boss Patrick McLarry to pay back over £280,000 he stole from the charity's pension scheme, and a £35 million settlement in our anti-avoidance case against the owners of bed manufacturer Silentnight.

All of this work throughout the year could not have been achieved without the resilience of our staff. Without missing a beat, and with the support of our internal processes and business continuity measures, our dedicated staff quickly adapted to working from home and all of the challenges that entailed. We were able to push forward with our work, striving to protect savers now and in the future.

We know there will be challenges ahead, we are not out of the woods yet - the impact of COVID will be felt for some time to come. As the government's support package for employers comes to an end this autumn, those challenges will become clearer. However, as our recently published perceptions tracker shows, we are right to set the bar high for ourselves and for those we regulate so that we can continue to meet ambitious targets.

The annual perceptions survey, which tracks how effectively we are perceived to be fulfilling our statutory objectives, shows the majority of respondents (70%) judged our response to COVID to be 'good' or 'very good'. Of the remainder, 17% rated our response as 'fair', with only 2% entering a 'negative' rating.

As a regulator, gaining the trust and respect of those we work with is crucial. It is essential that the industry believes what we say – from following our guidance to understanding that we will take enforcement action where we need to.

Having the backing of our regulated community also means we can advocate effectively for them when working with government and other organisations. This is why we welcome the survey results which show 75% of respondents rate our overall performance as 'good' or 'very good', 95% believe we were trustworthy, and more than 77% agree we are visible, fair, clear and evidenced-based. We can't realise our ambitions without our regulated community all pulling in the same direction and trusting that we are doing the right things as a regulator. We will do all we can to maintain and build upon that trust, so that we all continue to work successfully together to achieve the best for savers.

[1] www.thepensionsregulator.gov.uk/-/media/thepensionsregulator/files/import/pdf/annual-report-and-account-2020-2021.ashx

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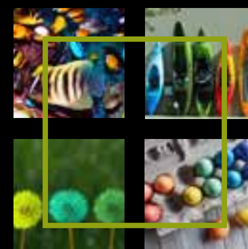

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Pensions Systems Analyst
Ref: CB17889 Glasgow £30,000 - £35,000 pa
Working closely with the pensions admin team you will be gathering technical info to create test cases. Experience of performing DB pensions calculations for different member statuses, including contracted-out members in addition to detailed knowledge of UK pension legislation and to be proficient with MS Excel are essential.

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Pension Systems Configuration Analyst
Ref: CB17930 Surrey/WFH £50,000 - £65,000 pa
If you are a technically savvy individual with pensions experience who understands the importance of excellent client service, then we want to hear from you! Responsibilities will include analysing scheme benefit structures and incoming client data, data interface analysis and configuration, data migration analysis, mapping and validation.

Pensions Administrator
Ref: CB17908 S. Yorkshire £24,000 - £28,000 pa
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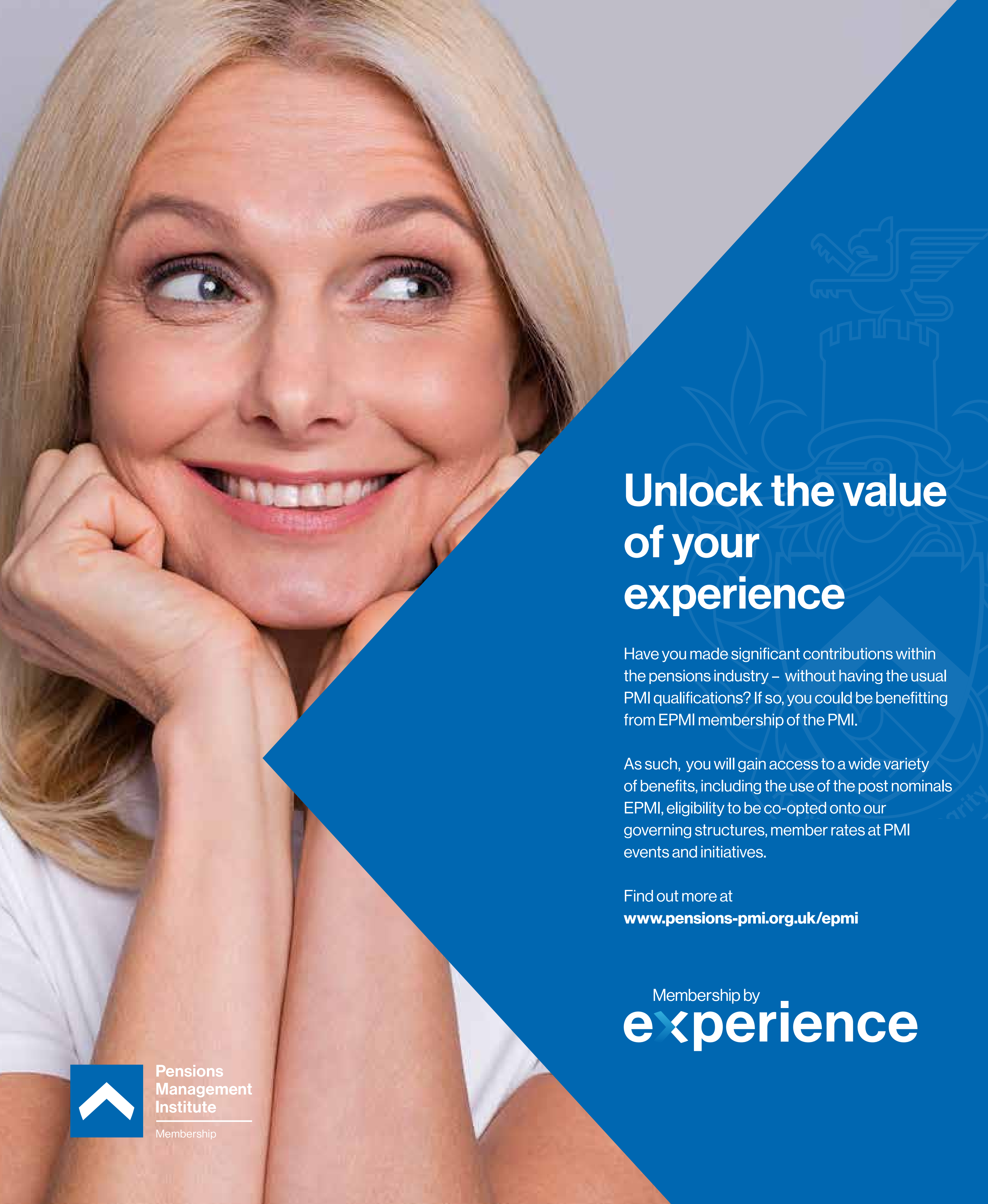
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