Independent Trustee Report.

IN PARTNERSHIP WITH:

NEWTON Investment Management

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Pensions Management Institute

WELCOME!

The launch of accreditation programmes and increased regulatory complexity has accelerated the professionalisation of trusteeship. In Q2 of 2021, **mallowstreet**, in association with **Newton Investment Management** and in partnership with the **Pensions Management Institute** and the **Association of Professional Pension Trustees**, surveyed 67 independent trustees and interviewed 13 of them in greater depth. The goal was to understand the challenges they and the industry face and identify ways in which managers can support them better. This report presents our findings.

We hope you find it insightful.

Ally Georgieva,
Head of Insight

Ryan Daley,
Senior Researcher

KEY STATISTICS

67
qualified responses from UK independent trustees

30
questions

48%
have DB and DC scheme clients

51%
work for schemes under £1bn

62%
have six or more clients

5,300+
primary data points

13
interviews

8h+
recorded conversations

RECOMMENDATIONS FOR INDEPENDENT AND LAY TRUSTEES

- Keep improving your qualifications and broaden your peer network to benefit from diversity of expertise and thought
- Engage with asset managers more directly to learn from them but also educate them on the specific needs of your scheme
- Point out where their communications need more clarity – and what jargon they need to get rid of to serve you better
- Challenge greenwashing practices at managers using ESG and net zero as a PR exercise rather than value creation
- Request specific ESG reporting and metrics and explain how they help you with evolving statutory requirements
- Help managers develop simple, diversified, liquid, cost-effective products that can improve access to alternative assets
- Engage with platform providers and ask them to be more flexible and innovative and make such products available
- Challenge the Pensions Regulator and the Department for Work and Pensions to address DC pensions adequacy by raising contributions and focusing on improving member understanding and engagement with pensions
- Make member communications simpler, more frequent and interactive – and make greater use of emerging technology
- Work with managers to generate better content that can increase member engagement and education
- Incorporate hedging into DC default funds to improve member outcomes and protect against unrewarded investment risk
- Consider hiring an independent trustee who can bring unparalleled expertise which complements the existing board
- Switch to sole trusteeship to speed up decision-making, especially when working towards an endgame or consolidation

EXECUTIVE SUMMARY

- **INDEPENDENT TRUSTEES ARE KEY DECISION-MAKERS:** they are now professionally accredited and crucial in manager selection, ESG implementation and review. They offer substantial resources and diversity of thought and expertise at a time when the pool of lay trustees is shrinking. Most chair the trustee board of their clients.
- **GROWING REGULATORY COMPLEXITY IS THE TOP INDUSTRY CHALLENGE:** as a result, sole trusteeship is increasing in popularity as it can speed up decision-making and help with consolidation. However, the Pensions Regulator's push for consolidation is met with mixed feelings.
- **ESG REQUIREMENTS ADD TO THE REGULATORY BURDEN:** there is uneven knowledge on the subject, and not all ESG approaches can be evenly applied across asset classes. The complementary experience of independent trustees from different backgrounds helps them learn from each other.
- **DATA AVAILABILITY AND INTERNAL RESOURCES ARE THE MAIN ESG OBSTACLES:** data is often inaccurate and inconsistent, but schemes lack the governance budget and support from asset managers to confront this issue. Furthermore, ESG integration is harder when dealing with fragmented assets on insurance platforms. There is a need for more ESG training – but not necessarily for independent trustees.
- **NET ZERO IS MET WITH MORE SCEPTICISM AND CONCERN THAN ENTHUSIASM:** there are strong reasons for it, but trustees do not expect it to make a sufficient impact because they believe net zero is treated as another PR exercise.
- **DC PENSIONS ADEQUACY IS AT SERIOUS RISK:** member communications are key as defined contribution (DC) pensions replace defined benefit (DB) schemes, but they need to be simplified and of higher quality. Technology can help increase member engagement throughout the member journey, but this is not enough – contributions need to increase too.
- **ACCESS TO DIVERSIFICATION IS UNEVEN:** DC schemes have more limited access to valued asset classes like infrastructure and private credit. Some hedge currency and equity market risk but this is the exception rather than the rule. Small DB schemes face similar issues when accessing less liquid asset classes.
- **COSTS, COMPLEXITY AND A LACK OF INNOVATION IMPEDE ACCESS TO ALTERNATIVE ASSETS:** many schemes access alternatives via pooled funds and DGFs but the costs are too high. Additionally, scheme objectives determine the capacity for complexity and liquidity risks. A more flexible and suitable offering for smaller schemes is vital. Platforms and infrastructure need significant improvement.
- **FEE LEVELS AND ESG ARE NOW CORE MANAGER CRITERIA:** asset managers should charge more realistic fees even if the charge cap is relaxed. ESG integration and implementation have officially become core industry requirements, too.
- **MANAGERS NEED A NEW, SIMPLER WAY OF COMMUNICATING WITH TRUSTEES:** trustees want clearer, simpler and better communications from managers, including in ESG reporting.

KEY STATISTICS

96%
of independent trustees are involved in ESG implementation and review

76%
struggle with the growing complexity of pensions

77%
of independent trustees chair the trustee board at their client schemes

51%
think DC contributions are insufficient and the top risk to pension adequacy

58%
of independent trustees say access to infrastructure investments would be valuable for their clients

46%
would select managers based on competitive fees

48%
want simpler and clearer communications from managers

* Throughout this report, figures may add up to 99% or 101% due to rounding of percentages. Additionally, respondents were able to choose multiple answers in some questions. As a result, figures in some bar charts will add up to significantly more than 100%.

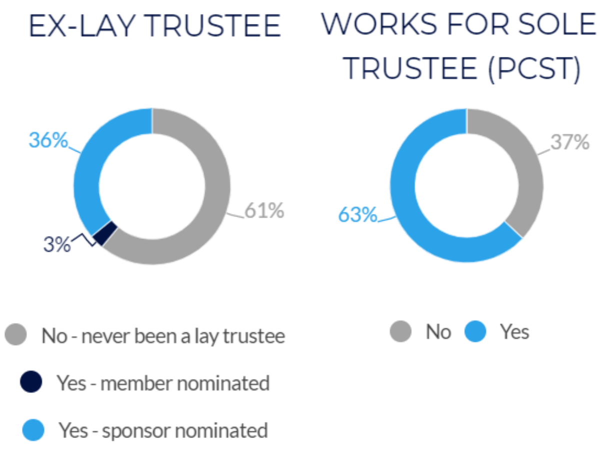
** Comments collected in the online survey are anonymised. Comments collected during interviews are attributed accordingly.

INDEPENDENT TRUSTEES ARE KEY DECISION-MAKERS

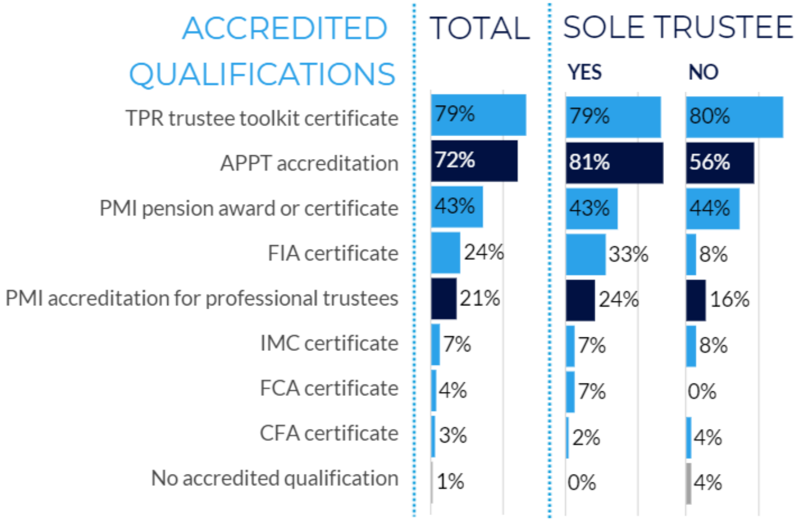
Independent trustees are now professionally accredited and a key part of manager selection, ESG implementation and review.

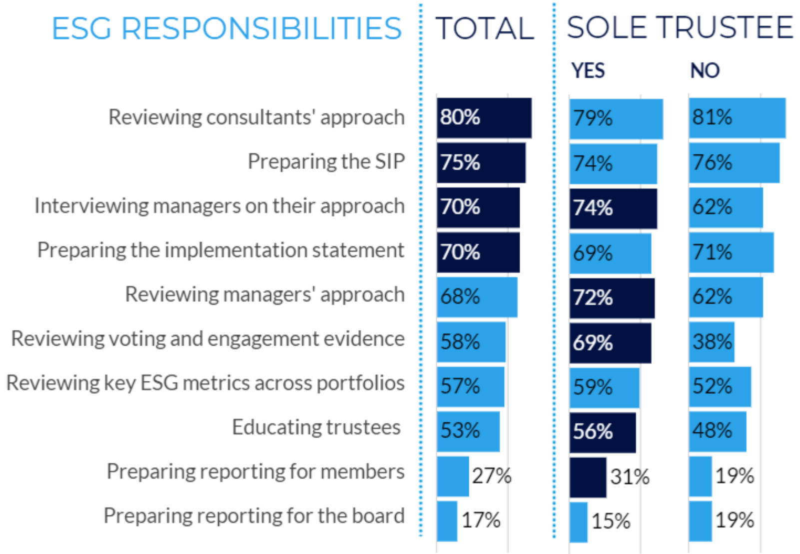
Independent trustees do not come from a lay trustee background – just one-third used to be sponsor-nominated trustees in the past, and scarcely any used to be member-nominated trustees. Two-thirds work for an organisation which acts as a Professional Corporate Sole Trustee (PCST) to at least one of their clients. Nearly three-quarters have been accredited by the Association of Professional Pension Trustees (APPT), while only 21% have an accreditation from the Pensions Management Institute (PMI).

Nearly all independent trustees are directly involved in ESG implementation and review, including reviewing how consultants approach ESG and sustainability (80%), interviewing managers (70%), preparing the statement of investment principles (75%) and the implementation statement (70%).



Specifically, independent trustees working for sole trustee firms are not only more likely to have APPT accreditation; they also have greater ESG responsibilities at the schemes they work for, including reviewing how managers approach ESG and sustainability, voting and engagement evidence, educating trustees and preparing reporting for members. This suggests that sole trustees operate to a higher standard and can help raise the bar at schemes lacking internal resources.





KEY STATISTICS

100%
of independent trustees are involved in manager selection and review

63%
work for an organisation which acts as a sole trustee to at least one of the schemes they work with

72%
have an APPT accreditation

96%
are involved in ESG implementation and review

70%
interview managers on their approach to ESG and sustainability

70%
are responsible for preparing the implementation statement

INDEPENDENT TRUSTEES HELP NAVIGATE REGULATIONS AND COMPLEXITY

Regulatory requirements are increasing exponentially

12 interview mentions

The governance burden on trustees has increased exponentially over the last few years, and it's a challenge for lay trustees to digest what needs to be done and to feel that they're making informed decisions.
- Roger Cooper, PI Consulting

We are obtaining more appointments because of the increasing regulation each year. Trustees of small schemes especially hold their hands up in the air and say, "we can't do this anymore!"
- Adrian Campbell, Dalriada Trustees

The governance requirements are escalating and have become fairly relentless, for both DB and DC, actually. That will only be heightened by the new Pension Schemes Act.
- Roger Mattingly, Ross Trustees

There's so much regulation coming in - and it's a lot of technical stuff, which makes it hard to understand in the first place.
- Dinesh Visavadia, Independent Trustee Services

Independent trustees often have substantial resources

12 interview mentions

Professional trusteeship is our everyday job. We have trustees that come from different backgrounds, such as actuarial, covenant, restructuring, investment, regulatory etc, that we can refer to.
- Adrian Campbell, Dalriada Trustees

There's another 20 trustees so if I've not seen it, then one of them surely will have seen it. This collaboration can be very helpful.
- Alan Baker, Law Debenture

This is my full-time job, whereas company nominated trustees may not have the time to dedicate fully to being a trustee. Larger schemes and DC master trusts have more than one professional trustee.
- Samantha Pitt, Law Debenture

You need to spend time on understanding and implementing new regulation. And I don't think member-nominated trustees generally have that time.
- Dinesh Visavadia, Independent Trustee Services

Detailed expertise is a key benefit

12 interview mentions

Schemes would hire a professional trustee when they need someone with broader experience, such as in a buyout, or if they want to run a fiduciary management exercise, or they want to change their investment policy or the scheme's got a weak covenant.
- Neil McPherson, Capital Cranfield

Most independent trustees have been in the industry for a number of years. They have historical knowledge of pensions - for example, GMP equalisation focuses on a period between 1990 and 1997, but contracting out began back in the 1970s and many lay trustees will have no knowledge of that period.
- Charles Goddard, PAN Trustees

Many challenges for lay trustees require a reasonable amount of training. And we do an awful lot of training internally and externally - we take this very seriously.
- Paul Tinslay, Dalriada Trustees

The amount you need to know and the responsibility that goes with these positions is just too great for anybody to absorb without the safety net of having somebody who does this as a profession.
- Roger Mattingly, Ross Trustees

Pension governance has become very complex

9 interview mentions

The growing complexity of the trustee role is making it harder for internal people who have got a full-time day job to do the trustee role well enough. And that complexity is in areas where many companies don't have expertise.
- Ian Maybury, Independent

Complexity affects the additional time the trustees need to actually understand the regulation. Because for them to get to a position where they can actually understand it and make decisions from an informed position costs both time and money.
- Vassos Vassou, Dalriada Trustees

The goal is to improve governance, but there's lots of specifics within that and increased regulation is just making it much more complicated.
- Neil McPherson, Capital Cranfield

The pool of lay trustees is shrinking

8 interview mentions

Most DB pension schemes are now closed to new entrants, if not accrual, so there's actually a diminishing pool of members that are potentially willing to act as trustees.
- Paul Tinslay, Dalriada Trustees

It's getting a lot harder to find internal company appointees or volunteers in the pensioner community to sign up to the time and the responsibilities of trusteeship.
- Graham Jung, Ross Trustees

Some are thinking, do I want to do this? And does the sponsor want to tie up senior folks?
- Alan Baker, Law Debenture

Independent trustees are less conflicted

5 interview mentions

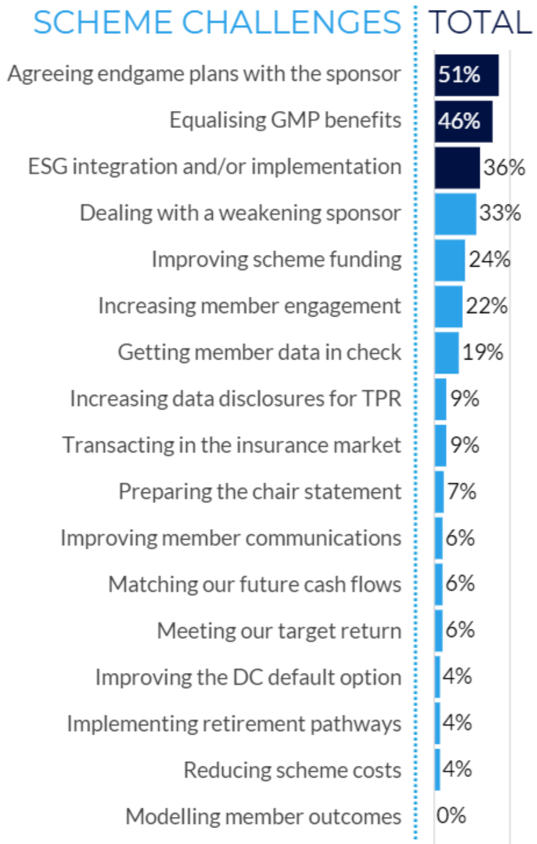
We deal with a lot of cases where the trustees and the employer aren't getting on.
- Vassos Vassou, Dalriada Trustees

There is a funding negotiation in DB, so if you're in finance at the employer, it makes it difficult to be impartial.
- Ian Maybury, Independent

GROWING REGULATORY COMPLEXITY IS THE TOP CHALLENGE

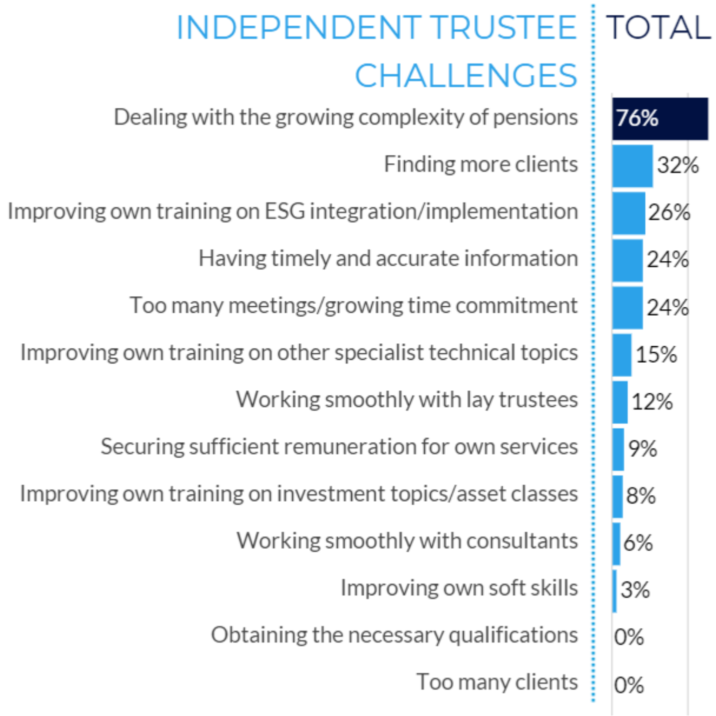
Independent trustees feel the burden of increased pensions complexity as much as lay trustees. As a result, sole trusteeship is growing in popularity.

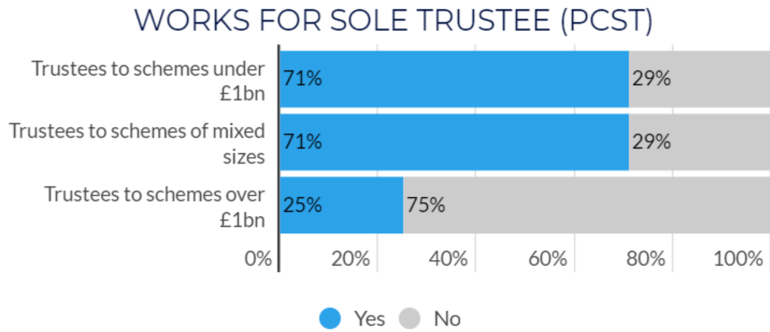
Over three-quarters of independent trustees say the growing complexity of pensions is among the top three challenges they must deal with. Equally, the top three challenges they help their clients with are all regulatory – agreeing endgames, equalising GMP benefits and ESG integration. As a result, other key challenges are receiving less attention – including dealing with a weakening sponsor, increasing member engagement, meeting return targets or reducing scheme costs.



Sole trusteeship is increasingly popular as a way to deal with regulatory complexity and as an alternative to consolidation. It is in particularly high demand among schemes with assets below £1bn.

The days of the 'solo' trustee are gone – nowadays, these are appointments where independent trustee services firms act as professional sole trustees, essentially outsourcing the entire trustee board to a team of experts.





KEY STATISTICS

76%
of independent trustees struggle with the growing complexity of pensions

51%
say agreeing endgame plans is a top challenge for their scheme

46%
worry about GMP benefit equalisation

36%
name ESG integration and implementation amongst their top challenges

71%
of independent trustees working with schemes under £1bn say their company acts as a sole trustee to at least one of their clients

SOLE TRUSTEES OFFER ACCESS TO AN EXPERT TEAM FOR FASTER DECISIONS

Sole trustees are a team of experts

6 interview mentions

Being a professional sole trustee is very, very much a team game. Otherwise, where's the diversity going to come from?
- Paul Tinslay, Dalriada Trustees

Sole trustees work on multiple appointments and they get to see knowledge and experience across all the different schemes and suppliers, be that on the actuarial side or the investment side... you get to see what all the different firms are saying.
- Vassos Vassou, Dalriada Trustees

As a professional sole trustee, we see everything across the whole client base. You don't have to reeducate the people or make your decisions all over again. It's efficiency.
- Graham Jung, Ross Trustees

Sole trustees deal with multiple arrangements and are able to focus on matters far more so than the lay trustees who've got another occupation and role to play.
- Charles Goddard, PAN Trustees

Boards are looking for relevant experience - does the scheme need help on investments, or governance?
- Alan Baker, Law Debenture

Sole trustees can help with consolidation

5 interview mentions

One of the primary reasons to appoint a sole trustee is that DB schemes are now closing and going through their endgames. DC arrangements are still active, but the smaller ones will disappear and they will go to the larger masters trusts.
- Charles Goddard, PAN Trustees

Over 80% of our clients are sole trustee arrangements. Many employers have inherited DC schemes, particularly with takeovers and mergers. They don't know what to do with them. We're getting increasingly asked to take on such schemes to put them straight and wind them up.
- Paul Wilson, MHM Trustee Services

Sole trusteeship is particularly powerful in ensuring effective engagement with key stakeholders and achieving an efficient endgame outcome.
- Roger Cooper, PI Consulting

They improve scheme governance

4 interview mentions

The main reason most sole trustees come in is to bring external skills and wider pension industry experience, make the trustee board better at its own governance and drive better standards throughout.
- Charles Goddard, PAN Trustees

We work on a number of sole trustee appointments and apply the same standards of governance, the same selection processes, same budget management principles and so on, across the board. You gain efficiencies and hopefully better decisions. It's a form of consolidation.
- Vassos Vassou, Dalriada Trustees

They are not suitable for DC master trusts

4 interview mentions

DC master trusts, almost without exceptions, are populated by independent professional trustees. But they can' have a sole trustee, they need a minimum of three separate trustees.
- Roger Mattingly, Ross Trustees

Each scheme, as it goes into the master trust, will be regarded as a section, with its own independent trustee. It can have a sole trustee, but generally there will be two layers of trustees.
- Charles Goddard, PAN Trustees

Personally, I'm not seeing too many DC schemes under sole trusteeship.
- Samantha Pitt, Law Debenture

Small schemes have been moving towards sole trusteeship

4 interview mentions

The small to medium size arena is where the biggest move towards sole trustees would be, which is shown in our portfolio of clients.
- Roger Cooper, PI Consulting

The proportion is more towards sole trustees than co-trustees. And you get a lot of smaller schemes that can't keep all the balls in the air anymore.
- Vassos Vassou, Dalriada Trustees

There is a big move towards professional sole trustees - and it's not just the small schemes.
- Graham Jung, Ross Trustees

They speed up decision-making

3 interview mentions

In a sole trusteeship, it's far easier to get on with it and wind up small DC schemes as fast as we can.
- Paul Wilson, MHM Trustees

Once sponsors see the speed of decision-making you can make under sole trusteeship, compared to the traditional setup, their eyes are opened.
- Graham Jung, Ross Trustees

Companies like the agility and the speed of transaction with a sole professional trustee.
- Roger Mattingly, Ross Trustees

Large schemes show interest

3 interview mentions

We work on a scheme that's £800M, but I know some firms work on appointments over £1-2B.
- Vassos Vassou, Dalriada Trustees

The largest schemes aren't doing it but we are talking to multi-billion pound schemes about professional corporate sole trusteeship.
- Graham Jung, Ross Trustees

Sole trusteeship is no longer just a small scheme solution - larger schemes are considering it too.
- Roger Cooper, PI Consulting

INDEPENDENT TRUSTEES REPRESENT DIVERSE BACKGROUNDS

Independent trustees come from various backgrounds, increasing the diversity of thought and experience to the benefit of their clients.

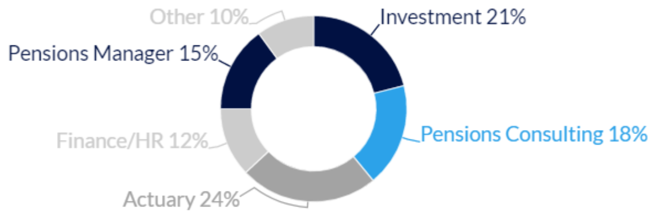
Independent trustees usually come from one of several backgrounds: investments, pensions consulting or management, actuary, or finance and HR.

However, those with an investment background are over four times more likely to have been sponsor-nominated trustees (SNTs) than those coming from pensions consulting. As ex-SNTs, these trustees would have worked in the investment management industry. This parallel experience with pensions and investments has made them a better fit for larger schemes – 29% of independent trustees with an investment background now work for clients above £1bn, compared to none of the ex-pensions consultants.

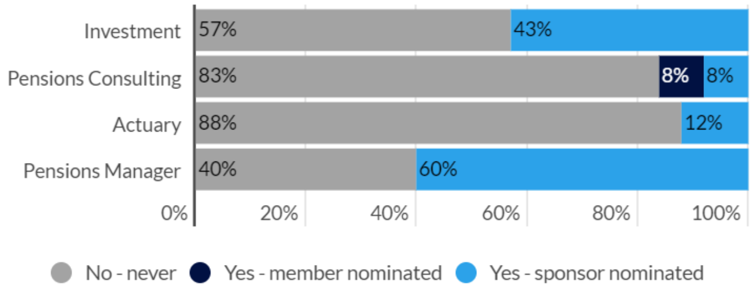
In contrast, ex-pensions consultants who have become independent trustees tend to have a bigger book of smaller clients – 83% of them work exclusively on schemes below £1bn, but 58% have 10 or more clients, whereas just 7% of ex-investment professionals work on as many schemes.

Most independent trustee firms have a diverse client base, representing schemes of all sizes. As part of a broader team, independent trustees have access to varied perspectives and experiences.

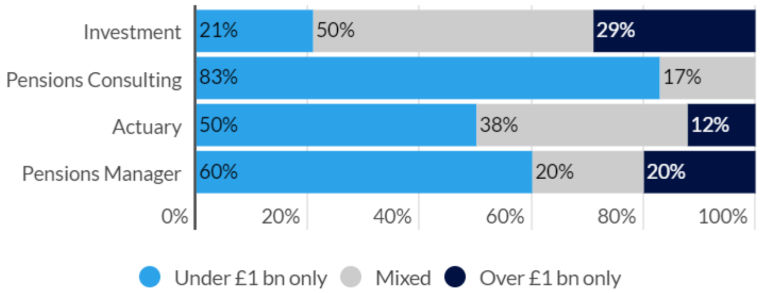
INDEPENDENT TRUSTEE BACKGROUNDS



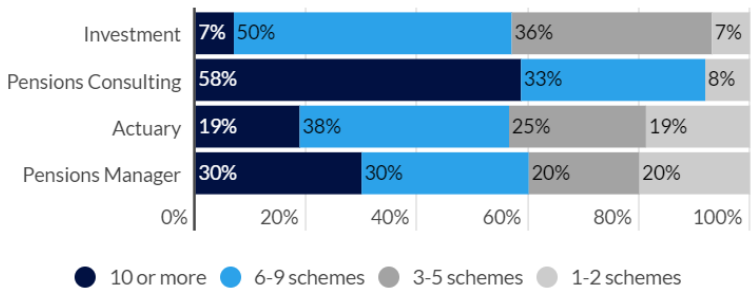
EX-LAY TRUSTEE DEPENDING ON BACKGROUND



SIZE OF CLIENTS BASED ON BACKGROUND



NUMBER OF CLIENTS BASED ON BACKGROUND



KEY STATISTICS

21%
of independent trustees come from an investment background

43%
of them are ex-sponsor nominated trustees

29%
of them work for schemes with assets of at least £1bn

18%
of independent trustees come from a pensions consulting background

83%
of them work for schemes with less than £1bn in assets

58%
of them have ten or more clients

INDEPENDENT TRUSTEES ARE KEY TO SMALLER SCHEMES

Most chair the trustee board of their clients – especially at smaller schemes. However, ex-investment professionals are least likely to become chairs, instead leveraging their specialist expertise.

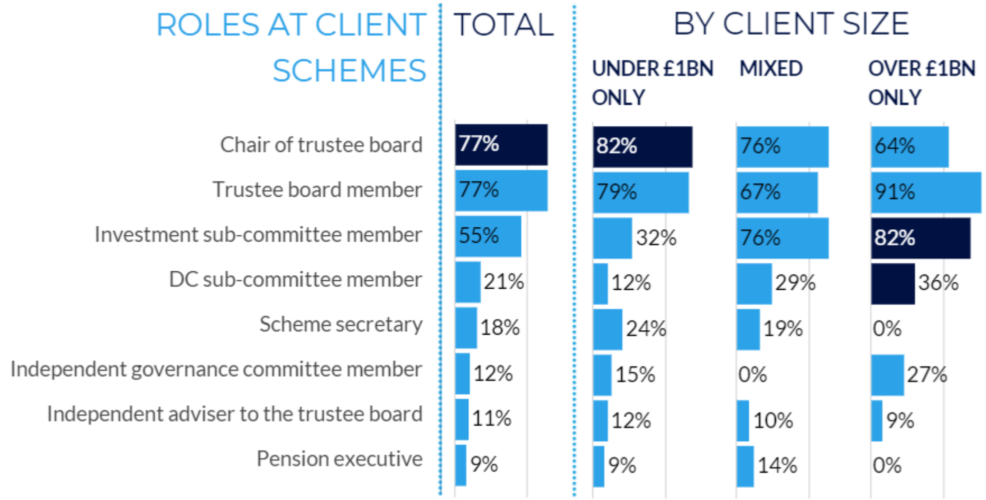
Over three-quarters of independent trustees chair the trustee boards of the schemes they work for – especially for clients with assets below £1bn. This makes them a key resource to pension funds with more limited in-house capabilities.

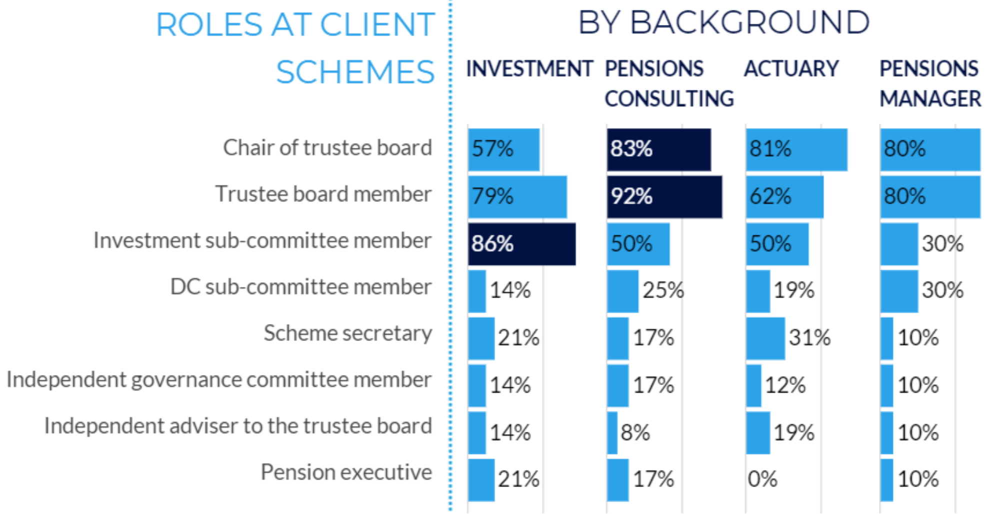
In contrast, 82% of independent trustees working for clients with assets above £1bn sit on the investment sub-committee, while 36% are on the DC sub-committee. It is more common for larger schemes to have these additional governance structures.

It is also interesting to see that just over half of ex-investment professionals now chair the trustee board at the schemes they work for. A much greater proportion (86%) are on the investment sub-committee, instead leveraging their specialist experience.

In contrast, just 50% of ex-pensions consultants join the investment sub-committee at the schemes they work for. The majority (83%) chair the trustee board.

This is another example of the diversity of thought and experience that independent trustees can bring to schemes of different sizes, filling the internal resource gaps specific to each client.





KEY STATISTICS

77% of independent trustees chair the trustee board at their client schemes

82% of independent trustees working for small schemes are chairs

82% of independent trustees working for large schemes are members of the investment sub-committee

86% of ex-investment professionals join the investment committee of their clients

57% of them become chairs

83% of ex-pensions consultants chair the schemes they work for

THE CONSOLIDATION DRIVE IS MET WITH MIXED FEELINGS

With increasing regulatory pressure, interest in consolidation is also growing, but the government's push is met with some resistance.

About half of independent trustees say at least one of their clients is considering consolidation avenues. This includes 31% whose DC clients are thinking about switching to a master trust, and 22% whose DB clients are considering consolidation via a superfund or DB master trust. These are mainly schemes with assets up to £1bn.

It is interesting to see that DB consolidation is slightly less popular than DC master trusts. One possible reason is the greater value for money offered by buyout insurers. Additionally, DB consolidators are right for a very specific segment of the DB market – well-funded schemes with a weak sponsor, which may get better value for money if they buy out instead.

In contrast, the popularity of DC master trusts is rising much faster, but the industry is not exactly embracing them. Until recently, DC schemes would mainly call upon master trusts as their members approached retirement. However, the efficient governance and costs are making them increasingly appealing.

CONSOLIDATION AVENUES CONSIDERED	TOTAL	BY CLIENT SIZE: UNDER £1BN ONLY	MIXED	OVER £1BN ONLY
Joining a DC master trust	31%	35%	33%	17%
Consolidating via a DB superfund/master trust	22%	26%	29%	0%
Neither	55%	53%	43%	83%

KEY STATISTICS

45%
of independent trustees say at least one of their clients is considering consolidation

31%
say their DC clients are thinking about joining a master trust

22%
have DB clients considering consolidation via superfunds or DB master trusts

The Pensions Regulator has made it clear that smaller DC schemes with more limited governance resources should consider consolidating into master trusts. However, many worry the 'disproportionate' increase in requirements will force well-run schemes down this path and see it as 'anti-competitive'. Furthermore, transferring to a DC master trust almost always means transaction costs – even with advance dealing and fund mapping, it involves the selling of assets on one platform and buying them on another. Novation, which would be the equivalent of an in-specie transfer in a DB buyout, is only suitable in rare cases.

> Well-run DC schemes are being forced to transfer to master trusts due to the disproportionate levels of requirements.

> Pushing all schemes into a few DC master trusts will not really improve liquidity and is anti-competitive.

> My DC clients are effectively being bullied into it.

> Scheme governance takes up too much senior management time for the employer.

> Reduced governance and costs are the reason - plus having to assess value for money for DC plans with less than £100m.

> Small DC schemes are not cost efficient to continue 'as is' with increasing governance requirements.

> Current DB consolidators are poor value for money.

> Superfunds are suitable for few schemes. DB master trusts are too inflexible and/or risky for employers to participate in.

> DB consolidation maybe a good solution for a well funded plan with a weak sponsor.

ESG REQUIREMENTS ADD TO THE REGULATORY BURDEN

ESG reporting requirements play a significant role in the increasing pensions complexity and training requirements.

For independent trustees who struggle with regulatory complexity, the second biggest challenge is improving their training on ESG integration and implementation. A third of them say this – compared to just 6% of their peers. This suggests that ESG requirements, including mandatory Task Force on Climate-related Financial Disclosures (TCFD) reporting for schemes over £5bn and all authorised DC and collective DC master trusts regardless of size from October 2021 are adding to the regulatory burden on trustees. Indeed, nearly all of those focused on improving their ESG training are directly responsible for preparing the implementation statement. Interestingly, 62% of them are also responsible for educating trustees.

This means that the need for ESG training is at least partly driven by limited internal knowledge, with independent trustees taking on the responsibility to also educate lay trustees on this topic. And while ESG training and materials are widely available nowadays, managers are increasingly expected to instead offer schemes support in reporting – which is challenging.

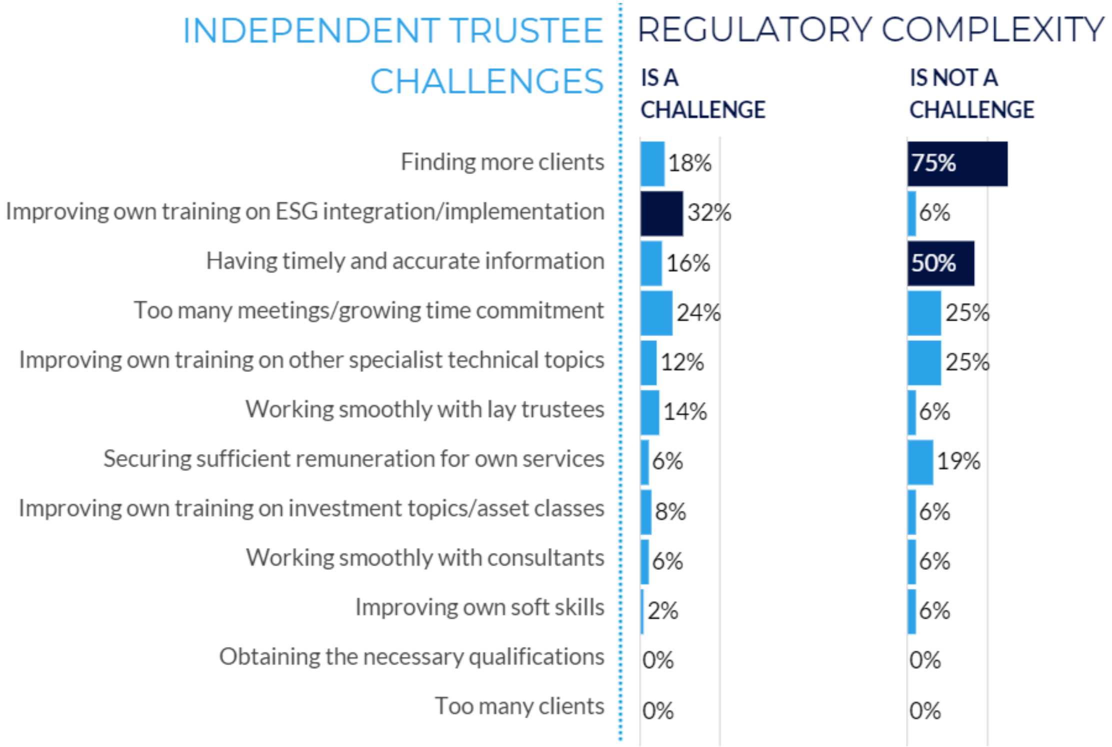
KEY STATISTICS

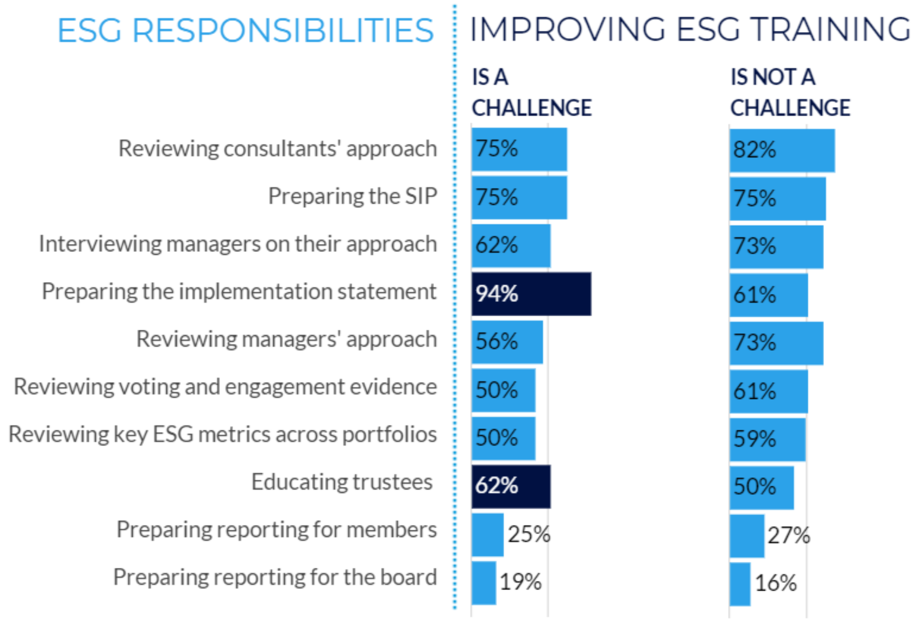
32%

of independent trustees worried about the growing regulatory burden say improving their training in ESG integration and implementation is the second biggest challenge they face

94%

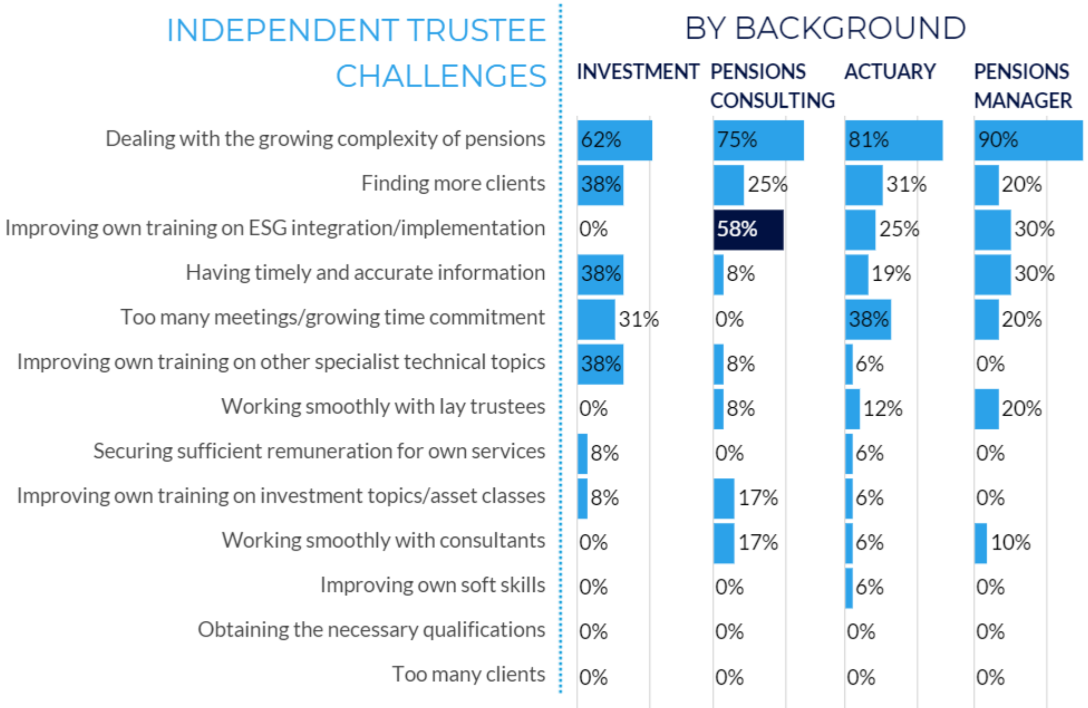
of those focused on improving their ESG training are directly responsible for implementation statements





TRUSTEE KNOWLEDGE ON ESG INTEGRATION VARIES

Some independent trustees are well versed in climate change topics, but not all ESG approaches can be evenly applied across asset classes.



Over half of ex-pension consultants (who tend to work for smaller schemes as shown on page 8) say ESG training is a challenge for them, compared to none of the ex-investment professionals. The latter group likely have greater experience with ESG integration and implementation.

Embedding responsible investing principles in risk management, active engagement and stewardship remain the preferred ESG approaches for most independent trustees – while divestment and exclusions are rarer.

KEY STATISTICS

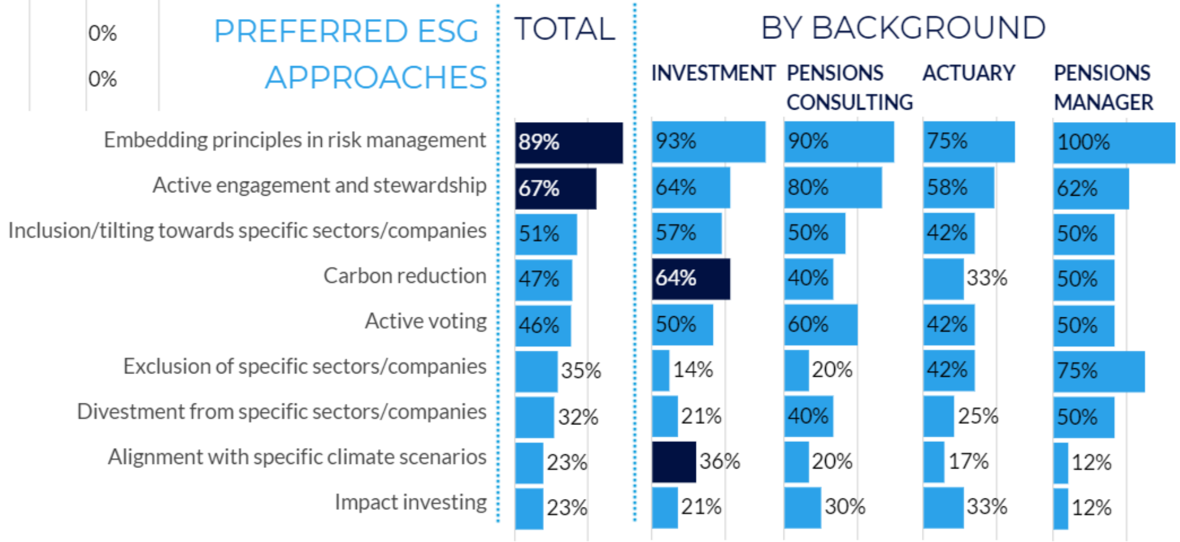
89%
say embedding ESG principles in risk management is their preferred approach

67%
would also like to see active engagement and stewardship

57%
believe their preferred ESG approaches cannot be applied evenly across asset classes

However, 64% of ex-investment professionals favour carbon reduction, and just over a third support alignment with climate scenarios – the most out of all groups.

While ex-investment professionals can support their colleagues on climate transition topics, 57% of all independent trustees say it is not possible to apply their preferred ESG approach equally across asset classes (chart not shown). This is just one of many challenges they face – and a direct result of the lack of standardisation, missing data and a shortage of manager offerings.



DATA AVAILABILITY AND INTERNAL RESOURCES ARE THE MAIN ESG OBSTACLES

Data is not accurate or consistent

29%

- How to obtain contemporary, accurate and comparable data
- Getting valid and reliable data in a consistent format to use in reporting
- Lack of proper metrics and quality data to measure and base decisions on
- Data and metrics consistency is a challenge
- Approaches from managers in presenting meaningful metrics are not uniform
- No access to trustworthy data
- Lacking consistency in data and policies across multiple managers
- Collating disparate data that has no standardisation
- Big focus on 'E' but not enough focus or availability of information on 'S' and 'G'

Schemes lack the governance budget

21%

- Too much onus on pension funds from governments to do their job
- How to get the reward to cost balance right and avoid too much paper pushing
- How to balance ESG against issues of greater importance such as full funding
- Time constraints given the increased governance need and complexity of pensions
- Lack of trustee knowledge how to integrate ESG into the decision making process
- Smaller schemes tend to have a lower appetite for spending time on these issues

Managers offer insufficient support

14%

- How to find the right investments
- Pooled funds come with limitations
- How to reduce disruption to portfolios
- Lack of willingness to practically engage
- Still treating ESG issues as side issues
- Prioritising profits over embracing ESG
- Distinguishing between facts and fantasy
- Lack of standard reporting

Other issues add to complexity

12%

- Implementing the ESG policy is a challenge
- Complexity and the industry's understanding
- Poor support from investment consultants
- An efficient and effective way of reporting is hard to find
- Genuine actions instead of tick-box compliance are needed

The rules keep changing

10%

- Keeping up with best practice in a fast evolving space
- Onerous reporting duties
- Meaningless policies
- Independent verification of ESG standards is needed

Agreeing objectives is difficult

7%

- Reaching agreement on reasonable targets is challenging
- Integrating into DB endgame and DC default is complex

Performance is a concern

7%

- How to achieve target returns
- How to progress our recovery plan
- What if we underperform?
- Can we meet fiduciary duties?
- Short to mid-term risk reward is unclear

ADDITIONAL CHALLENGES INCLUDE SCHEME FIT, RELEVANCE AND COMPLEXITY

ESG integration is harder when dealing with fragmented assets on insurance platforms

10 interview mentions

DC schemes depend on what the provider in a wholly insured setup is prepared to put on the platform for the members and the trustees to choose the default from.
- Paul Tinslay, Dalriada Trustees

It's more difficult for DC schemes because of the nature of the investments, you don't always have an investment manager if you are in an insured arrangement.
- Adrian Campbell, Dalriada Trustees

DC schemes are typically invested via investment platforms. So there may be more limited options available to members, whereas DB funds quite often have segregated mandates and are not restricted to those funds that are on a platform.
- Ian Maybury, Independent Trustee

You will not start seeing very large pots until 15 years from now, running into tens, if not hundreds of thousands. Then, they are far more likely to take an interest because ultimately it does have a meaning for them.
- Charles Goddard, PAN Trustees

Many professional trustees sit on smaller schemes, and they have very little influence at the end of the day because they're all invested in pooled funds.
- Dinesh Visavadia, Independent Trustee Services

Members are not vocal about their ESG views

9 interview mentions

If you put out a member survey, you probably get very few replies, and they're probably the more engaged members. But there's enough studies done that if members know their money's invested responsibly, they may actually invest more.
- Samantha Pitt, Law Debenture

Members are not showing a great deal of interest. They'd like to be told about what the trustees are doing. But engagement is probably minimal at this point.
- Charles Goddard, PAN Trustees

In a recent survey we conducted, 75% of members don't really care if the default fund is ESG tilted. This is even with appropriate questioning. We even posted the Make My Money Matter video for the members to view before the survey.
- Paul Tinslay, Dalriada Trustees

Members want us to basically keep their pension safe, make sure they've got enough to retire on and then do good. This is the opposite to the industry, which is saying, we need to do good and oh, by the way, you need to save some money.
- Graham Jung, Ross Trustees

ESG training is not lacking, but is focused on the wrong audience

9 interview mentions

People are beginning to take an interest in the world's future, and we have an opportunity as an industry to not only communicate with our members, but inform them what's going on.
- Charles Goddard, PAN Trustees

There's more to go on this journey, just to help investors and getting people to understand ESG and what corporations are doing.
- Dinesh Visavadia, Independent Trustee Services

The general public aren't there yet. In two years, you'll find the default is an ESG fund and the choice will be a non-ESG fund for those people that don't believe in the thesis.
- David Fogarty, Dalriada Trustees

I think managers are providing more than enough training, but my first look would be to my advisors. I would expect it to come from them and to be pitched appropriately to the trustee body.
- Ian Maybury, Independent Trustee

There is limited demand from our trustees for more ESG training or material. It's very hard to distinguish between the managers and what they're offering, there is limited differentiation.
- Neil McPherson, Capital Cranfield

ESG is more relevant in growth assets

6 interview mentions

For a lot of DB schemes, there has been quite a significant shift away from growth assets and ESG really started in equities. DC has a lot more growth assets.
- Ian Maybury, Independent Trustee

For three of my DC clients, we've introduced ESG or climate change funds. It's a bit easier to do it in equities, which tends to form the greater proportion of your default in the early years .
- Samantha Pitt, Law Debenture

Smaller schemes have limited agency. For example, a £100mn scheme going to buyout is likely to be derisked, so there's little they can do in terms of ESG.
- Neil McPherson, Capital Cranfield

Managers sometimes treat ESG as a marketing device

3 interview mentions

Managers quite frankly are just trying to make money for their company.
- Vassos Vassou, Dalriada Trustees

ESG is increasingly being used as a marketing tool by managers.
- Neil McPherson, Capital Cranfield

More innovation is needed

3 interview mentions

Some corporate bond funds are not labelled as ESG but the manager will engage with the company in the same way irrespective of its debt or equity.
- Samantha Pitt, Law Debenture

There aren't enough funds out there in our choice with tilts.
- Dinesh Visavadia, Independent Trustee Services

LARGER SCHEMES ESPECIALLY NEED ESG DATA AND METRICS

Schemes over £1bn are further ahead in ESG implementation and require better metrics – and they use their scale to their advantage.

While smaller schemes rely on independent trustees to fill internal resource gaps, larger schemes need help with data and more rigorous reporting requirements. Nearly 70% of independent trustees on schemes under £1bn are responsible for interviewing managers on their ESG approach – compared to only 45% of those working for schemes over £1bn. In contrast, 73% of trustees on larger schemes are responsible for reviewing key ESG metrics across portfolios – compared to just half of their peers looking after smaller schemes. Independent trustees with larger clients are also more likely to get involved in reporting for the board.

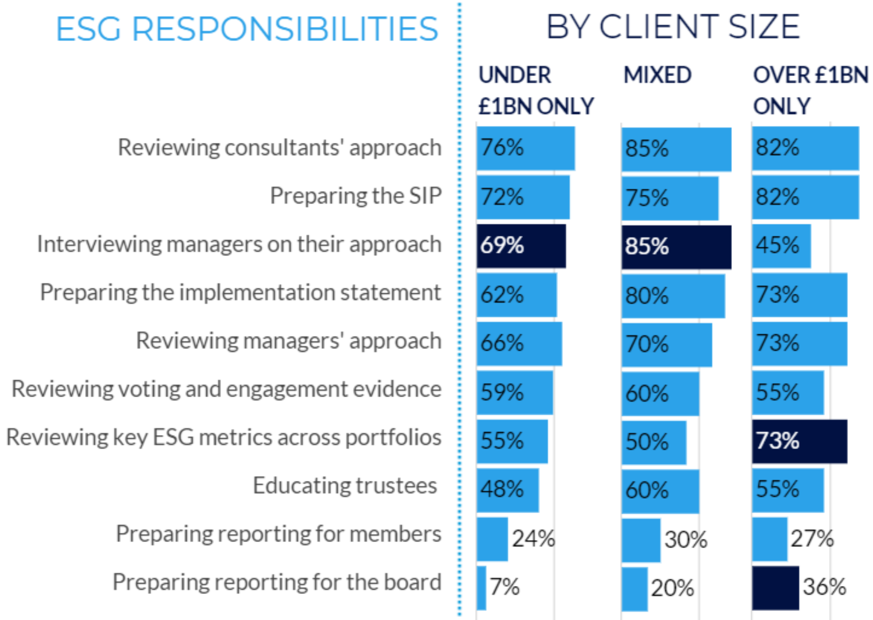
In parallel, larger schemes are much more likely to use their scale to their advantage – 82% focus on active stewardship and engagement, while nearly half would also divest from certain companies and sectors or seek alignment with specific climate scenarios. Larger schemes likely benefit from having an investment sub-committee, which tends to be comprised of independent trustees with an investment background (see page 9). Ex-investment professionals are much better versed in ESG implementation topics than many of their peers (see page 12) – and can be crucial on the road towards net zero, given the hesitance from the pensions industry.

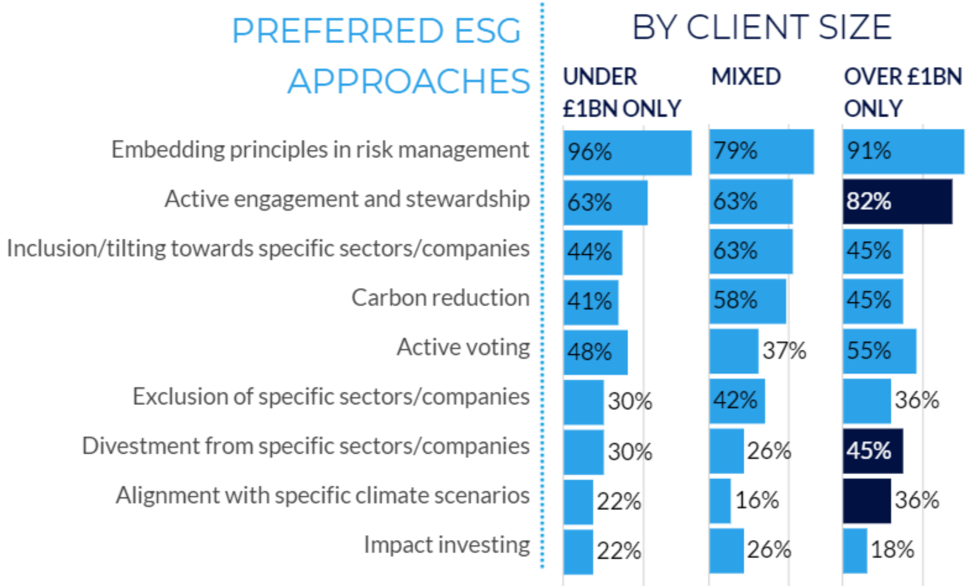
KEY STATISTICS

69%
of independent trustees on schemes under £1bn are responsible for interviewing managers on ESG strategy

73%
of trustees on schemes over £1bn are responsible for reviewing ESG metrics instead

45%
of them would divest from certain companies and sectors





NET ZERO IS MET WITH MORE SCEPTICISM AND CONCERN THAN ENTHUSIASM

✓ Trustees support the move to net zero

27%

- A good and necessary objective
- I strongly agree - and believe the majority of our members do too
- Time to invest in industries which provide a positive dividend stream
- Significant headwinds in investment performance if we do not embrace it
- We need planned and achievable targets and actions
- It is time to set an ambition even without a full detailed plan
- Be prepared to adjust ambitions and plans as new opportunities emerge
- We should at the very least be moving to align with the Paris agreement
- It will ensure the right products are available for all schemes
- It will become the industry standard

✗ Net zero will not make sufficient impact

20%

- There needs to be even stronger and quicker legislative action
- Some industries will seek to offset rather than reduce their carbon footprint
- It is conceptually unsatisfying and won't do enough
- Likely impact is to make some progress but to miss target
- There is little evidence of sufficient action at a global level
- Asset managers need to seriously up their game

✗ It is mainly a PR exercise

14%

- Important trend, as long as it is genuine
- Needs to be done for the right reasons
- Reality won't mirror people's statements
- Be alert to box ticking and greenwashing
- Easy for schemes to declare
- No strategy in place
- A lot of window dressing
- Requires a substantial shift in investment
- Don't be 'first' for marketing purposes

✗ Other concerns show general scepticism

14%

- Members are not well informed
- We are neglecting the 'S' and 'G'
- Some industries will take longer
- Needs close monitoring and reporting
- Challenging to achieve in general
- Hard for small schemes to do

✗ It is too complex and conflicts with other goals and duties

10%

- Physical and transitional risks are not straightforward
- Potential conflict with fiduciary obligations
- Confusing how different targets are reflected in funds on offer

✗ Net zero timelines are too ambitious

7%

- All too far out and easy for current CEOs not to worry about it
- It's about showing the journey and impact rather than a date

✗ It does not improve returns

7%

- Good, so long as it does not impact on potential investment returns
- We are in danger of distorting markets
- A distraction from ensuring secure financial futures for members

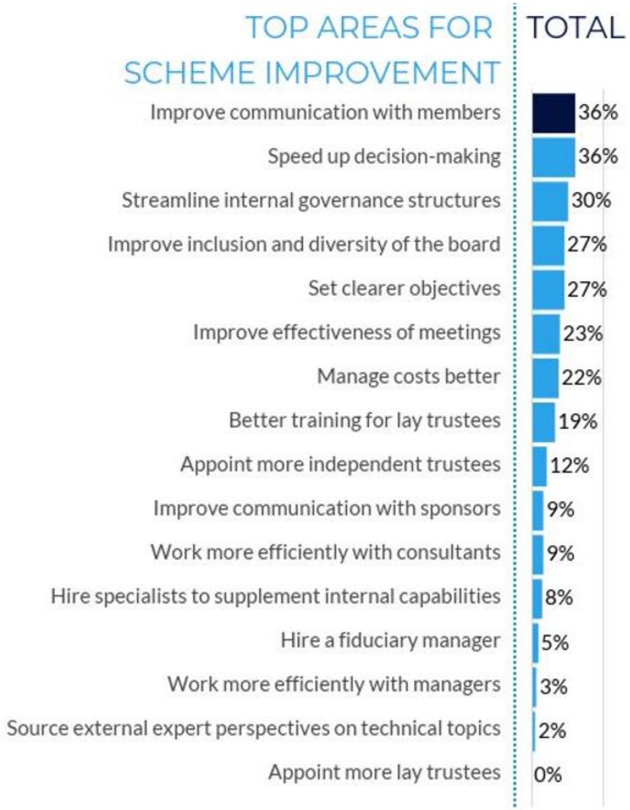
DC PENSIONS ADEQUACY IS AT SERIOUS RISK

Member communications are key as DC pensions replace DB schemes, but driving engagement is not enough – contributions need to increase too.

Over a third of independent trustees say communications with members is a key area where the schemes they work for should improve – a similar proportion want to speed up decision-making. This is interesting, given that member engagement is not among the top challenges for these clients (see page 6). Just 11% say member engagement is among the key risks to DC pension adequacy.

Improving member communications can help with overall engagement and understanding of DC pensions – and independent trustees have substantial experience in this area, learning from the best practices of their own clients, as well as accessing the wealth of knowledge of their colleagues.

However, more than half of independent trustees claim the top risk is insufficient contributions under auto-enrolment. A further 35% point out that members lack sufficient understanding of their pension – while just 7% think the top issue is poor governance, echoing concerns about the push towards consolidation (see page 10).



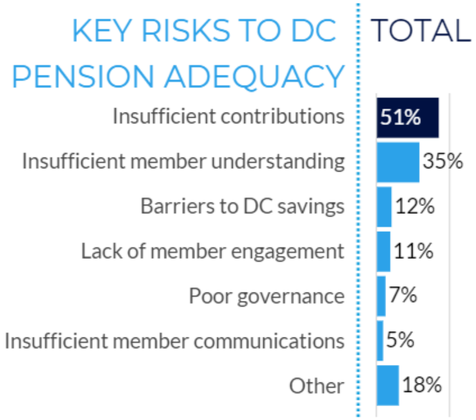
KEY STATISTICS

36%

say member communications are a key area needing improvement

51%

think DC auto-enrolment contributions are insufficient and the top risk to pension adequacy



Inadequate minimum contribution levels do not enable members to achieve a moderate level of retirement income.

Contributions need to be higher - both for members and sponsors... 8% for auto-enrolment is not enough.

TPR needs to focus more on the level of contributions paid by members and less on minimising charges...

Members need education to encourage more investment into their pension funds throughout their working career.

Most members have little understanding of the amount needed for a reasonable retirement.

Almost all investors don't engage with their pensions and make active decisions - they don't really understand.

Most members don't know how to save enough for their retirement. We are heading for a retirement crisis.

TPR need to understand how people actually behave, rather than focusing on how they think people ought to behave.

Remove barriers to save more - reduce costs, simplify tax relief, lifetime limits, annual limits, and options at retirement!

MEMBER ENGAGEMENT NEEDS SIMPLICITY, TECHNOLOGY AND A HOLISTIC VIEW

Member communications need to be simplified and of higher quality

7 interview mentions

You need to communicate little and often. Every communication should take members no more than five minutes to digest. And then it's a continual programme. Tell somebody something three times and it sinks in.
- Paul Tinslay, Dalriada Trustees

I think there are three tiers. There's member disclosure, member communications and member engagement, and they are all very different. I've just signed off on a chair statement, including the statement of investment principles, and it's 150 pages. So how on earth is a member expected to read it, let alone understand it? Using someone's name in communications can make a big difference... Suddenly, you're drawn into it.
- Roger Mattingly, Ross Trustees

To me, one of the top challenges in DC pensions is simpler messaging, e.g. where the money's invested - a day in the life of your money, for example it managed to save X in carbon footprint or water usage.
- Samantha Pitt, Law Debenture

We are really tainted by the lack of interactivity with the membership. But then, it's our fault because our communication is drafted in so much legal jargon that it just puts people off. So we need to improve our communication format, style, and channels.
- Dinesh Visavadia, Independent Trustee Services

DC pensions are very simple in a lot of regards, but people still see the word 'pension' and turn off because they're complicated. Since 2006, we've had all kinds of simplification, which overly complicated matters. And the government could make it a lot simpler. We need background information in a nice, simple format, information about fund performance and risk.
- Paul Wilson, MHM Trustee Services

The chairman's statement will run into many pages. This document is not catered for the individual member, it's technical jargon. As a member, I would like to see reports on my accounts.
- Charles Goddard, PAN Trustees

Technology offers substantial innovations that can increase engagement

6 interview mentions

I'm passionate about digital communications to increase member engagement. You can look at your bank account via your phone and see how much you've got. We should be moving away from paper. Make an app available, so members can go into their pension, see how much they've got, look at 'what if' scenarios, and what they are likely to have in retirement or later in life.
- Samantha Pitt, Law Debenture

We, as a professional trustee, make sure we keep in touch with our members via newsletters, and for some schemes, members have access to online portals or mobile phone apps in which they can access their own pension benefits.
- Adrian Campbell, Dalriada Trustees

There are quite a few algorithmic fintech disruptors now entering the market. They are creating apps, which members are increasingly engaging with almost on a daily basis. They are totally personalising digital communication. They're creating personalised default funds using algorithmic nudges based on certain life events. There is also robo financial advice that is totally customised using avatars and open banking, so connecting with various other financial hubs. It's happening as we speak, and there's a wow factor to it.
- Roger Mattingly, Ross Trustees

Social media is increasingly being used to encourage members to take an interest in retirement savings.
- Roger Cooper, PI Consulting

Engagement is vital throughout the journey to improve the holistic understanding of pensions

6 interview mentions

Particularly with DC, trustees have to look at the key points in the member journey. Members in a lifestyle option need to be alerted to when the lifestyle matrix will start to derisk their invested savings so they can at least ensure that the anticipated outcome, e.g. a retirement account positioned for drawdown, matches their needs. This is vital in the years close to the point they are expected to crystallise their benefits.
- Roger Cooper, PI Consulting

The ability to defer your state pension, or once you're 55, to strip out some tax-free cash and give it to your partner to invest it in their pension - I would imagine the vast majority of the general public doesn't even realise you can do these things. If there's no DB benefit, yes, there is the state pension. The rest of it you need to fund yourself. So, when you get to retirement, there's nothing stopping you buying an annuity. It doesn't need to be a lifetime annuity anymore - it can be a temporary one.
- Paul Tinslay, Dalriada Trustees

There is absolutely a need for advice building up to the time of taking the benefits. Where there's an AVC scheme alongside the DB scheme, if members can take the tax-free cash from the AVC scheme and maximise the pension within the DB scheme, it would probably be the right thing to do, but they need to realise it.
- Roger Mattingly, Ross Trustees

Engagement needs to be there from the beginning with auto-enrolment. It's got to be throughout life and ramping it up as members approach retirement age.
- Paul Wilson, MHM Trustee Services

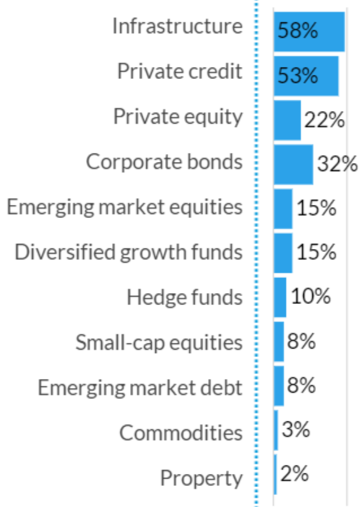
ACCESS TO DIVERSIFICATION IS UNEVEN

DC schemes have more limited access to valued asset classes like infrastructure and private credit.

Over half of independent trustees say access to infrastructure and private credit investments would be beneficial for their scheme clients. Additionally, one in five states the same about private equity, while about a third value access to corporate bonds.

However, while at least half of DB schemes are currently investing in infrastructure, private credit and private equity, less than one in five DC schemes can say the same about their default and self-select funds. Meanwhile, DB and DC schemes have broad access to a number of asset classes, including the least valued one of all – property.

MOST BENEFICIAL ASSET CLASSES



KEY STATISTICS

58% of independent trustees say access to infrastructure investments would be valuable for their clients

55% of DB scheme clients are currently investing in this asset class

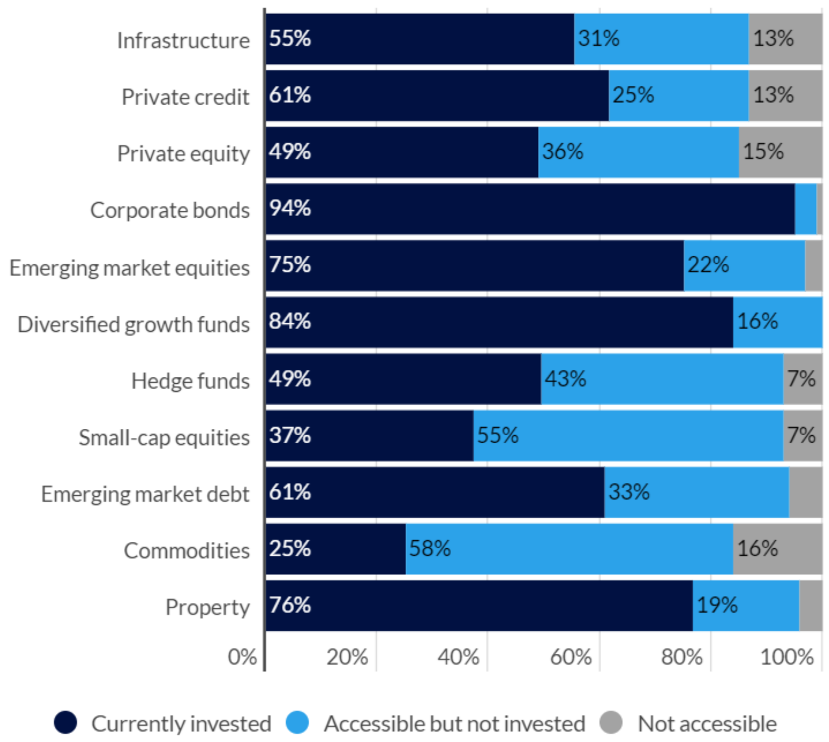
12% of DC schemes can say the same

53% of independent trustees value access to private credit

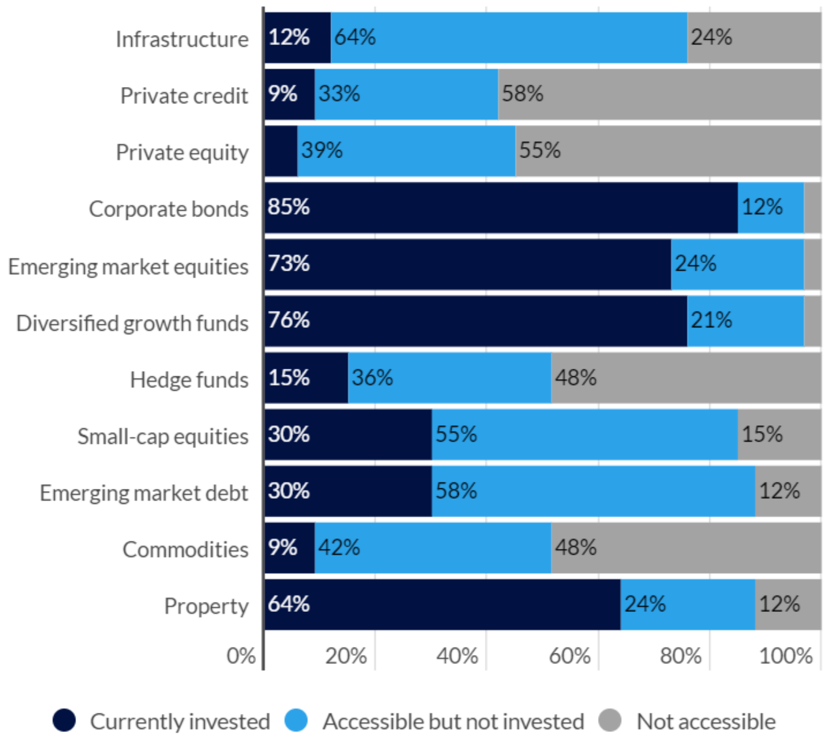
61% of DB schemes are currently investing in this asset class

9% of DC schemes can say the same

DB SCHEMES ACCESS TO ASSET CLASSES



DC SCHEMES ACCESS TO ASSET CLASSES



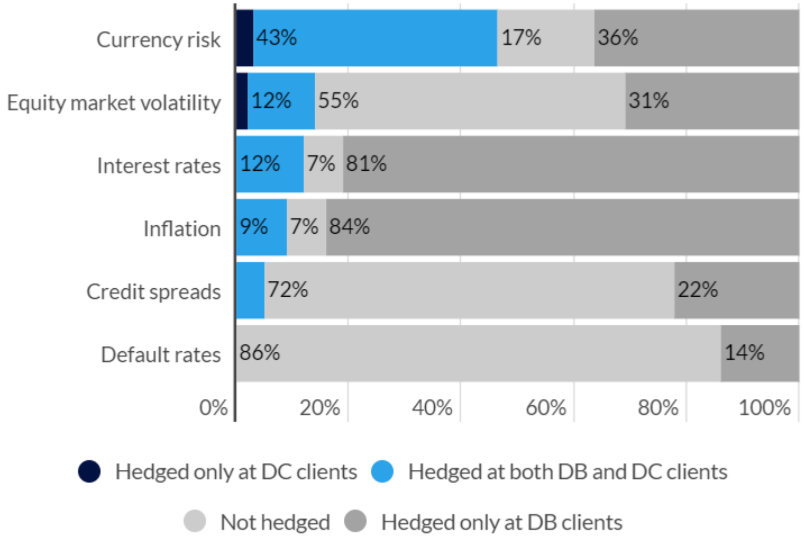
DC SCHEMES ARE ALSO BEHIND ON RISK HEDGING PRACTICES

Some DC schemes hedge currency and equity market risk but this is the exception rather than the rule. In comparison to DB schemes, risk hedging is much more limited in DC pensions.

Just under half of independent trustees state that their DC clients hedge currency risk, but less than 15% hedge other risks, such as equity market volatility, interest rates or inflation. This contrasts the 80% or more who report their DB clients hedge interest rate and inflation risks, and additional third who have DB clients hedging currency and/or volatility risks.

DB pension benefits depend directly on interest rates and inflation, given the nature of investments used to hedge these long-term liabilities. However, DC outcomes are arguably not any less exposed to inflation risk and its impact on the future value of money. Additionally, DC assets are fragmented and subject to a shorter time horizon as a result: each member's pot is independent and headed for a cash pay-out within the next 15-20 years, given current retirement pathway arrangements. In contrast, DB liabilities are pooled and being transferred to insurance companies, where they will remain pooled after members retire.

RISK HEDGING AT DB VERSUS DC SCHEMES



The lack of risk hedging at DC schemes is worrying given the reservations about industry consolidation and looming threats to DC pension outcome adequacy (see pages 10 and 17). Other challenges resulting from constant regulatory change also limit the focus on improving DC default funds and modelling member outcomes (see page 6). This leaves DC schemes at a substantial disadvantage and highlights the need for products and services specifically targeting such schemes.

KEY STATISTICS

46%
say currency risk is hedged either only at DC clients or both DB and DC schemes

36%
say only DB clients hedge currency risk

14%
say equity volatility risk is hedged either only at DC clients or both DB and DC schemes

31%
say only DB clients hedge equity volatility risk

9%
say inflation risk is hedged at both DB and DC clients

84%
say only DB clients hedge inflation risk

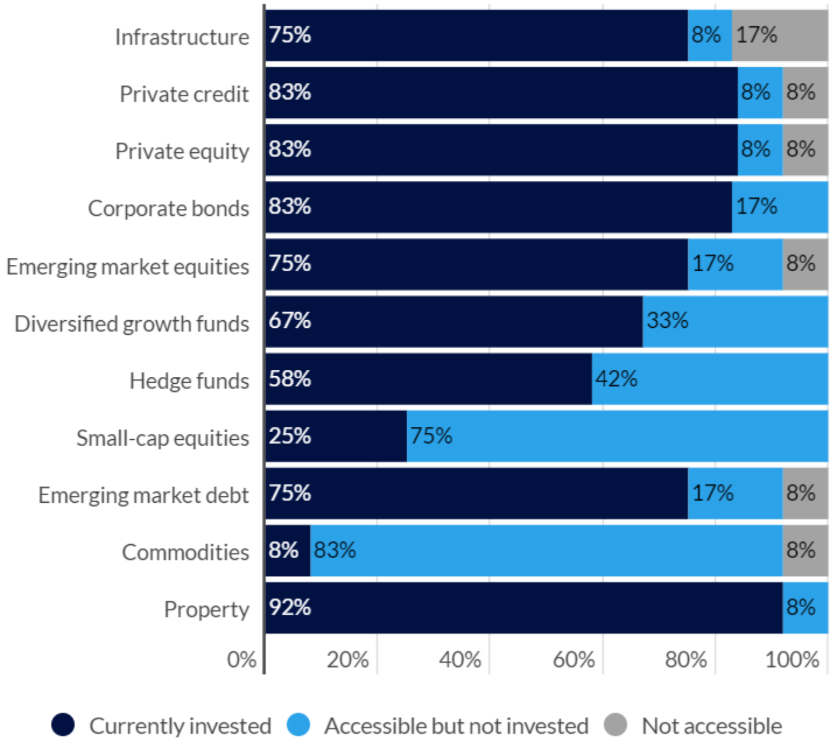
SMALL DB SCHEMES CANNOT ACCESS ALL SOLUTIONS EITHER

DB schemes with assets under £1bn also face limitations in accessing beneficial investment options, including infrastructure and private markets.

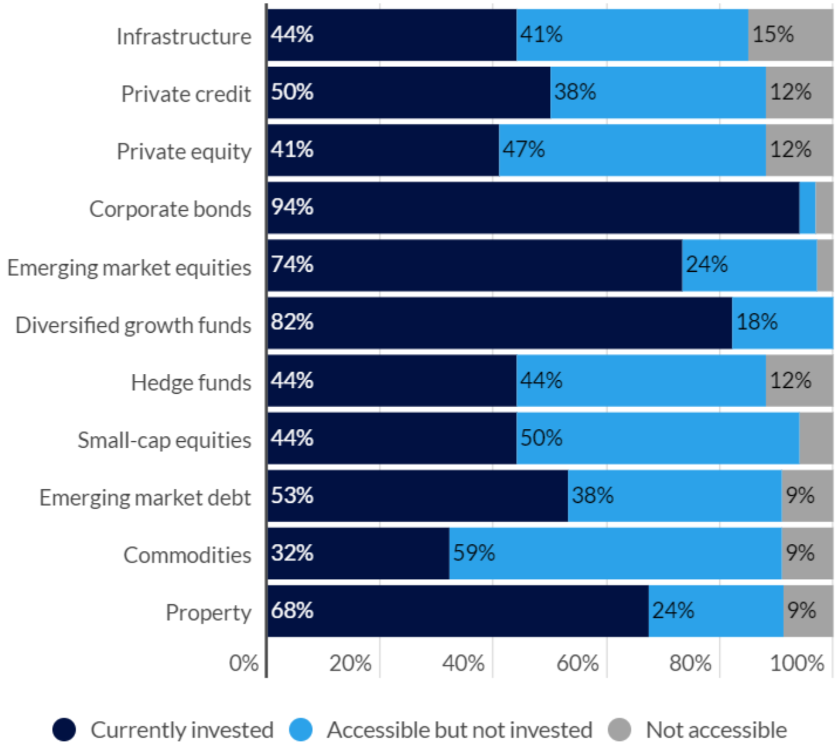
Over three-quarters of independent trustees working primarily for DB schemes with assets over £1bn state that their clients are already investing in value-added asset classes such as infrastructure, private credit and private equity. However, less than half of independent trustees to smaller schemes with assets under £1bn can say the same, and many choose not to invest in such assets even if they are currently accessible. Reasons include cost, liquidity and complexity constraints (see next page).

Interestingly, there are asset classes which large schemes can access but choose not to – these include commodities, small cap equities and hedge funds. Access to these asset classes is not valued very highly, as they do not fit the derisking path for DB schemes or the need for simple liquid cost-efficient solutions offering DC schemes a unique value-add.

ACCESS TO ASSET CLASSES FOR DB SCHEMES OVER £1B



ACCESS TO ASSET CLASSES FOR DB SCHEMES UNDER £1B



KEY STATISTICS

75%
of schemes with assets over £1bn invest in infrastructure

83%
of them have an allocation to private credit

83%
of them invest in private equity too

47%
of schemes with assets below £1bn choose not to access private equity

41%
of them avoid infrastructure

38%
of them choose not to invest in private credit

COSTS, VEHICLES AND COMPLEXITY IMPEDE ACCESS TO ALTERNATIVE ASSETS

Illiquidity tolerance varies

12 interview mentions

Illiquidity is difficult for small schemes to cope with - and can become a problem.
- Ian Maybury, Independent Trustee

With DC clients, it tends to be liquid funds with daily dealing and liquidity.
- Samantha Pitt, Law Debenture

True illiquidity risk can only be born by larger schemes who can access alternatives on a wider scale.
- Charles Goddard, PAN Trustees

It introduces an element of doubt - what if something goes wrong? It's generally for large schemes that can have segregated portfolios for illiquid assets.
- Vassos Vassou, Dalriada Trustees

We need a secondary market. Asset managers need to work on that rather than rely on brokers. This will bring a huge amount of liquidity and increased interest.
- Graham Jung, Ross Trustees

Access is mainly via pooled funds and DGFs

9 interview mentions

Smaller schemes are going to have to go via DGFs and pooled arrangements, that's the only way they're going to have access to this type of structure.
- Charles Goddard, PAN Trustees

Equity allocations have collapsed over the last 20 years, in favour of other solutions, be it private markets, LDI, DGFs, or straight fixed income and credit.
- Neil McPherson, Capital Cranfield

A lot of funds will be accessing these assets through DGFs that have an element of private debt and equity. Mostly bigger funds can think about direct investments.
- Alan Baker, Law Debenture

Costs are too high

9 interview mentions

If you are a small DC trust, those vehicles are available but in reality, they will probably not use them because they are too expensive.
- Chalres Goddard, PAN Trustees

It is self-serving of asset managers to try and adjust the charge cap up so they can get their assets in. All they've got to do is adjust their pricing down.
- Neil McPherson, Capital Cranfield

If you're a £100mn scheme and you've got a fixed cost of £30,000 per manager search, investing a couple of million adds to deal costs quite significantly.
- Ian Maybury, Independent Trustee

Scheme objectives define appetite

8 interview mentions

It could be down to the risk in the scheme versus the strength of the employer covenant - for these types of investments there might be a higher risk versus safer gilts and bonds.
- Adrian Campbell, Dalriada Trustees

For most DC schemes, you're paying out cash on retirement. So actually your time horizon is shorter unless you've got a post-retirement solution.
- Ian Maybury, Independent Trustee

Any scheme within five years of buyout is probably not thinking about private or illiquid investments, or overly skill-based assets.
- David Fogarty, Dalriada Trustees

Complexity risk must be rewarded

8 interview mentions

What we invest in must be within our risk appetite. The agreements for some illiquids are so long and complicated, you suddenly find that your liability is equal to the size of the scheme.
- Roger Mattingly, Ross Trustees

These investment types add cost, risk, complexity and governance. You need quite a committed board to spend time on the asset class and the managers to get the confidence.
- David Fogarty, Dalriada Trustees

Private equity still suffers from the perceptions that have bedevilled hedge funds. Too expensive, too illiquid, too opaque and just not worth the risk.
- Neil McPherson, Capital Cranfield

Innovation is needed

6 interview mentions

If you have 80% exposure to equities in the DC growth phase, you can customise a portfolio giving you the beta market return at no cost. You can then have a 15% exposure to illiquids, and keep it within the charge cap.
- Roger Mattingly, Ross Trustees

There are quite interesting diversified liquid alternatives that do a reasonable job of giving you a proxy to fully illiquid stuff.
- Alan Baker, Law Debenture

Regulation can help

5 interview mentions

I think the government could be more directive in asset classes that make a difference and have a good social impact.
- Dinesh Visavadia, Independent Trustee Services

The government's keen to introduce illiquid products into DC funds, so hopefully we overcome the daily dealing restrictions.
- Samantha Pitt, Law Debenture

Platforms are key

4 interview mentions

Most can't cope with it but on Mobius Life, you can access a range of illiquids fairly easily.
- Alan Baker, Law Debenture

You depend on what is made available on the platform.
- Paul Tinslay, Dalriada Trustees

TRUSTEES WANT LOWER FEES, LIQUID PRODUCTS AND REGULATORY CHANGE

Managers should charge more realistic fees even if the charge cap is relaxed

42%

- Reduce the cost of investing
- Make charges more transparent
- Come away from performance related fees
- Insist on removing excessive fee structures
- Provide reasonably priced options
- Consider different charging structures
- Improve pricing
- Put pressure on managers to lower fees
- Make private credit more cost-effective
- Find cost-effective solutions for small schemes
- Remove charge cap restrictions
- Change the charge cap for DC schemes
- Allow trustees to focus on containing costs
- Lessen the focus on charges
- Review charge cap calculations
- Review charges
- Develop cost-effective products
- Charge more realistic fees
- Minimum fees are likely to bar access
- Consider commercial aspect for investors

A more flexible and suitable offering for smaller schemes is vital

18%

- Provide access to appropriate pooled funds
- Respond to demand with minimal complexity
- Be more accomodating to small schemes
- Increase availability to small schemes
- Give everyone the same access to managers
- A sensible choice of funds should be available
- Make pooled funds more flexible
- Improve access without introducing wholesale risk

Introducing liquidity is crucial even if requirements are removed

18%

- Managers need to solve the liquidity issue
- More liquid fund options are needed
- Introduce illiquids but be mindful of the charge cap and liquidity
- Remove daily liquidity requirement in DC pensions
- Stop making it daily dealt - DC pensions don't need it
- Develop more efficient solutions in a more liquid form
- Improve illiquidity
- Pushing all schemes into DC master trusts does not fix the liquidity issue
- Create a mechanism for minimising extension periods
- Develop pooled funds for less liquid assets that have weekly or monthly trading

Platforms and infrastructure also need improvement

14%

- Encourage DC platform providers to amend their systems
- Provide non-insurance platforms
- Platform providers are more important
- Establish a better infrastructure
- A functional secondary market for holdings in illiquid asset funds

Greater awareness and education will help

9%

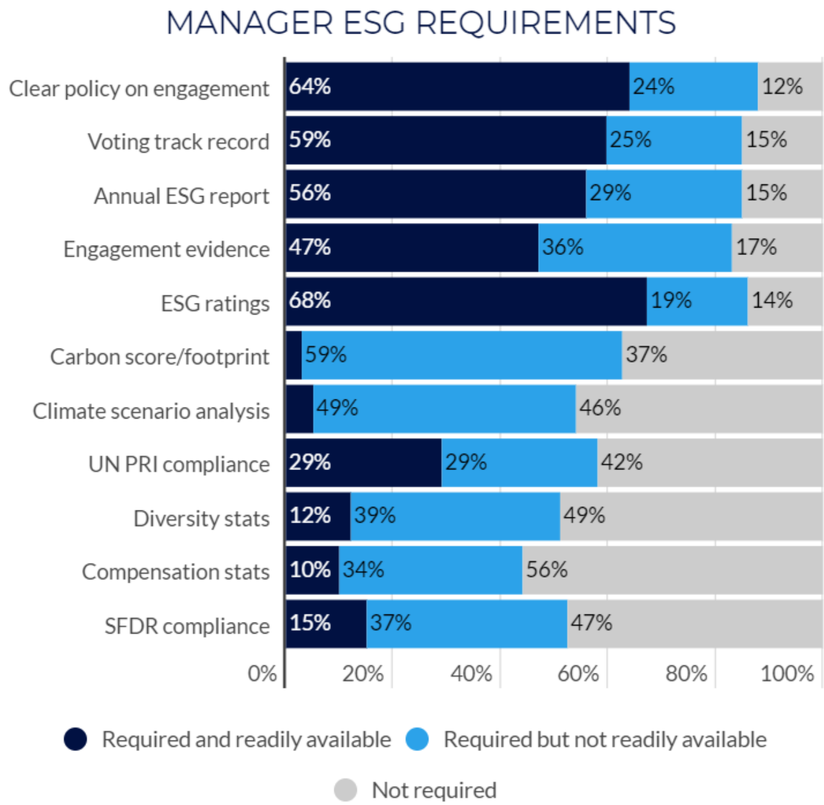
- Set out expectations that more asset classes should be used in default funds
- Improve trustee training, awareness and knowledge of availability and benefits

FEE LEVELS AND ESG ARE NOW CORE MANAGER CRITERIA

Competitive fees are a core requirement for the UK pensions industry – but ESG integration and implementation have officially become one too.

Just under half of independent trustees say competitive fees are one of the top criteria in manager selection – closely followed by other basic requirements like having the right team and process in place, as well as the performance track record. One of the key reasons for the focus on fees is that independent trustees tend to work with DC schemes or smaller DB schemes, who are all dealing with limitations to their bargaining power and the types of solutions they can access (see pages 19-21).

However, it is interesting to see ESG integration and the manager's approach to sustainability now featured as the second most important requirement, officially making it a core manager selection criteria. Despite ESG reporting ranking lower, ESG requirements are increasing – with many schemes now looking for carbon data and climate scenario analysis, which are not yet readily available from managers.



KEY STATISTICS

46%
would select managers based on competitive fees

44%
would focus on ESG integration and the manager's approach to sustainability

42%
want managers to have the right team of experts

40%
would verify the manager has the right process in place

59%
require carbon scores and footprint disclosures from managers, but they are not readily available

49%
have a similar issue with climate scenario analysis

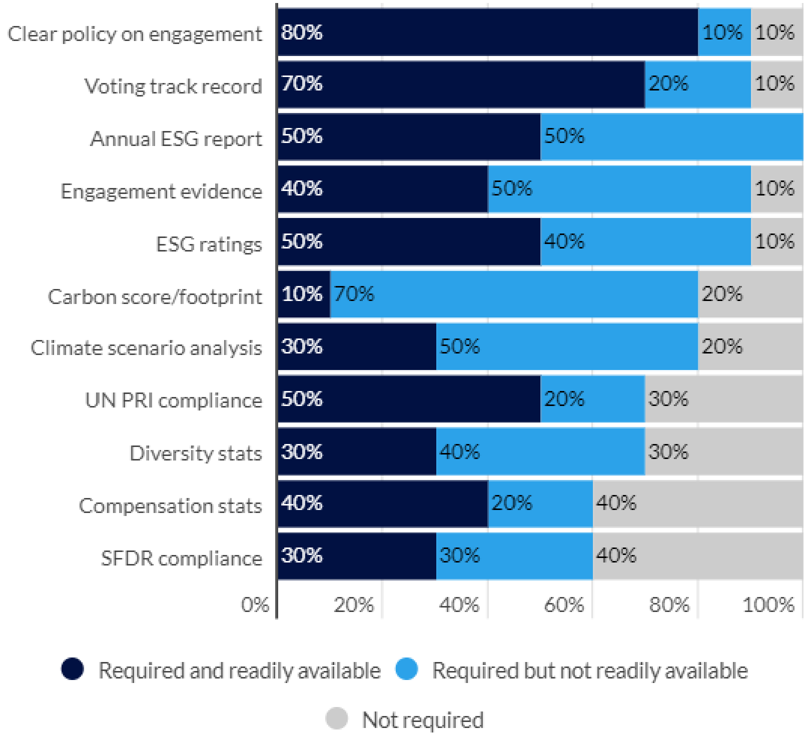
LARGE SCHEMES HAVE MORE DETAILED ESG REQUIREMENTS

Schemes over £1bn have more stringent manager ESG requirements, but many disclosures are not yet readily available.

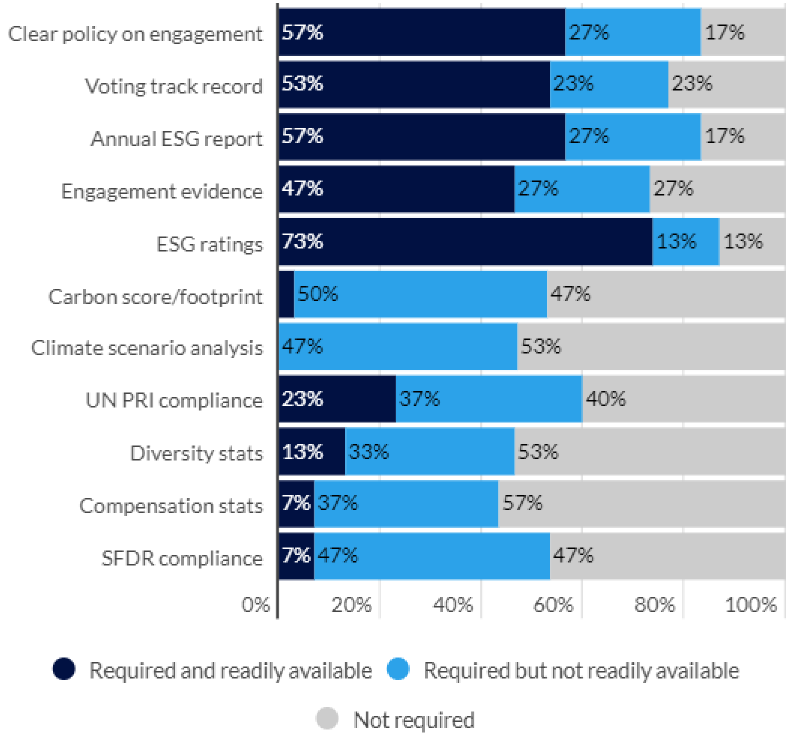
With TCFD reporting deadlines approaching for large schemes and DC master trusts in the UK, independent trustees working with schemes over £1bn have more stringent manager ESG requirements, even when it comes to the basics. A greater proportion of them require a clear policy on engagement, a voting track record, an annual report, and engagement evidence.

However, 70% of large schemes also require carbon footprint data which is not yet readily available – versus just half of small schemes under £1bn. And 30% of large schemes already receive climate scenario analysis, while this is not yet required by smaller schemes. Interest in diversity and compensation stats is also rising. Instead, 73% of smaller schemes require ESG ratings from their asset managers – likely because they invest in pooled funds.

MANAGER ESG REQUIREMENTS AT SCHEMES OVER £1B



MANAGER ESG REQUIREMENTS AT SCHEMES UNDER £1B



KEY STATISTICS

80%
of schemes over £1bn want their managers to have a clear policy on engagement

70%
of them receive a voting track record from managers

100%
of them want to see an annual ESG report but just half say it is readily available

~50%
of schemes under £1bn require and receive such disclosures from their managers

70%
of schemes over £1bn are looking for carbon scores and footprint data but it is not yet available

73%
of schemes under £1bn expect to see ESG ratings from their managers

MANAGERS NEED A NEW, SIMPLER WAY OF COMMUNICATING WITH TRUSTEES

Trustees want clearer, simpler and better communications from managers

48%

- Understand and cater to the different levels of trustees involved
- Be much clearer - less junk communication, more relevance!
- Avoid jargon with lay trustees and answer the 'so what' question
- Help trustees understand issues with short videos and podcasts
- Share more information directly rather than through consultants
- Understand that there is a major learning process going on
- Be more understanding of our objectives
- Be more open - we need greater transparency
- Come talk to us about issues and how to solve them - stop selling stuff!
- Less jargon and more straightforward information for lay trustees
- Make information freely available and easily accessible
- Offer simplified KPIs relevant to the particular scheme
- A more detailed appendix can cover a wider audience
- Understand trustee requirements and build suitable products
- More detail on the risks involved and how they are managed
- Simpler concise language and data can improve transparency
- Ask questions about how to report to a mixed group
- Be jargon-free in describing your approach to ESG integration
- Provide content for an experienced but time-poor audience
- Speak directly to professional trustees, not just via consultants

Additional disclosures also need to improve

12%

- Move away from quarterly reporting to more timely info
- Clear reporting and transparency of costs
- More succinct reports
- Accurate and reliable data
- Relevant data reporting
- Reporting that can be easily aggregated across different managers

ESG reporting is another key area needing clarity and simplification

32%

- Better ESG reporting on the pooled fund level
- Clearer data and reporting on ESG, stewardship and climate change
- Be proactive to the emerging disclosure requirements, especially TCFD
- Be more empathetic to trustee needs and statutory requirements
- ESG information set out in a uniform way to enable easier comparison
- Reduce the number of methodologies to a few for better understanding
- Make your ESG and responsible investing approach clear
- Provide evidence and reporting that backs up your approach
- More consistency and clarity on ESG through better metrics
- Be more honest - stop 'greenwashing'
- Provide harmonised ESG reporting across the industry
- Educate us on TCFD but also emerging areas like biodiversity

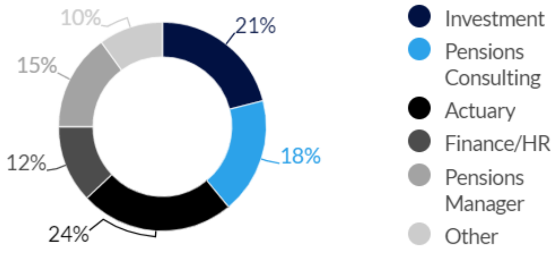
Product offering needs to be fit for purpose

8%

- Deliver good returns and performance
- Provide products that are viable and cost effective for smaller schemes
- Don't just offer a range from market weight to dark green - have own principles!

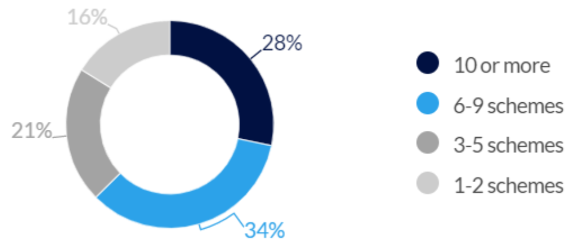
APPENDIX: AUDIENCE BREAKDOWN

BY BACKGROUND



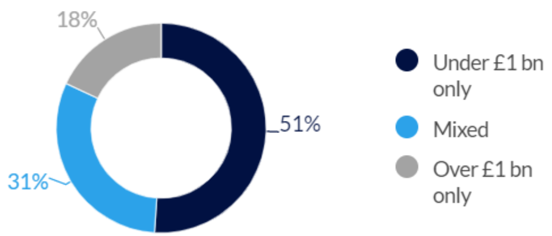
Background	Count
Investment	14
Pensions Consulting	12
Actuary	16
Finance/HR	8
Pensions Manager	10
Other	7

BY NUMBER OF CLIENTS



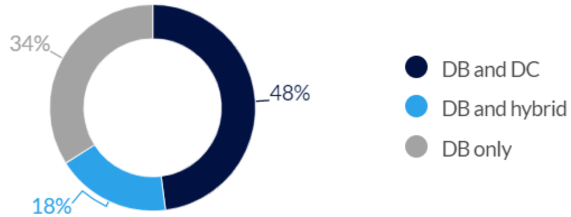
Number of clients	Count
10 or more	19
6-9 schemes	23
3-5 schemes	14
1-2 schemes	11

BY CLIENT SIZE



Client size	Count
Under £1 bn only	34
Mixed	21
Over £1 bn only	12

BY CLIENT TYPES



Client Types	Count
DB and DC	32
DB and hybrid	12
DB only	23

About mallowstreet Insights

mallowstreet Insights is our research division.
It allows trustees to stay one step ahead, extensively equipping them to fulfil their jobs and responsibilities.

Insights also provides pivotal input to asset managers, proactively challenging and improving their understanding of the pension industry. Our research allows them to develop and deliver the solutions that are needed to help create a better retirement for everyone.

Contact us to discuss how our research projects can help you achieve your strategic goals.

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