

Our Investment Service



The Pensions Trust provides a complete investment service for pension schemes, providing both defined benefit and defined contribution options. Activities undertaken by the Trust include setting investment strategies; appointing and dismissing investment managers; monitoring investment performance and ensuring safekeeping of assets.

At the time of writing, The Pensions Trust has assets under management totalling £4.7 billion. Our size allows us to invest in a wide range of assets and to provide an investment strategy which is specifically tailored to your pension scheme.

Investment Strategy

Setting Investment Strategy

Our aim is to achieve the best overall investment return over the longer-term, consistent with an acceptable degree of risk in relation to the nature and duration of the underlying scheme liabilities.

To achieve this goal the Trust sets investment strategies on a scheme-by-scheme basis, after taking advice from its consultants and consulting the sponsoring employer. This approach is known as the 'scheme specific investment strategy'.

Investment Service

The Pensions Trust's investment service looks to take a holistic view in providing investment solutions for pension schemes. This involves considering a scheme's assets with respect to its liabilities and ensuring that strategies are appropriate in this context. To facilitate this approach we have developed our investment service and introduced a number of initiatives such as:

- interest rate and inflation hedging;
- de-risking strategies linked to future improvement in funding/solvency levels;
- adding diversity to our growth (equity-like) assets; and
- employing managers where we have strong conviction about their expected future performance.

The Trust's Investment Committee has delegated authority to deal with all matters relating to investments. These activities include:

- setting investment strategies;
- structuring investment vehicles in order to meet the requirements of the investment strategies in question;
- monitoring investment managers;
- researching new investment opportunities, and introducing new investment ideas where it is deemed appropriate; and
- recommending a voting and engagement policy for approval by the Board.

To enable the Investment Committee to carry out these duties, the Board has formed three investment sub-committees, each with specific duties. These sub-committees report directly in to the Investment Committee on a quarterly basis. They are the:

- **Investment Manager Review Group (IMRG)**
IMRG is responsible for monitoring the performance of the Trust's investment managers, global custodian and advisors.
- **Investment Strategic Opportunities Group (ISOG)**
ISOG is tasked with recommending new investment opportunities for consideration to the full Investment Committee, carrying out further research and, where appropriate, recommending a suitable manager.
- **Funding and Investment Strategy Review Group (FISRG)**
FISRG recommend to the Trustee, after taking actuarial advice, the general assumptions used in the actuarial valuations and agree deficit recovery plans within delegated guidelines. They are also responsible for reviewing and proposing any changes to the scheme specific investment strategies

In order to effectively deliver scheme specific investment strategies the Investment Committee has structured a number of portfolios across both growth and liability focused assets.

Growth Assets

The Trust structures three growth 'buckets' in order to group assets by liquidity, sources of risk premia and volatility. The buckets are as follows:

- **Quoted Equities**
The funds in this bucket invest entirely in equities that are listed on the global stock market. We employ both passive and active investment strategies.
- **Alternative Liquid**
The funds in this bucket invest in liquid alternatives (investments that can be turned in to cash within six months) where the main source of return is derived from manager skill.
- **Alternative Illiquid**
The funds in this bucket invest in alternative assets where the key driver of return is the premium received from investing in illiquid assets. Pension schemes are in a prime position to take advantage of this given the long-term nature of their liabilities.

Liability Focussed Assets

There are a number funds available that enable the Trust to meet the needs of schemes looking to provide a certain degree of liability matching. These include physical bonds as well as Liability Driven Investment (LDI) Funds.

Socially Responsible Investment

The Trust also offers a Socially Responsible Investment (SRI) Fund. The SRI Fund invests in companies that look to promote and build beneficial relationships with investors and promote human rights whilst also working towards achieving environmental sustainability.

Appointing and Dismissing Investment Managers

We use a 'multi-manager' approach, which means that after consulting our advisers we select and appoint the most appropriate investment managers for each asset class. The main benefits of this approach are as follows:

- We are able to concentrate on finding the best specialist managers for each asset class, allowing for a complementary blend of investment styles and philosophies.

- It allows maximum flexibility for managing the structure of our funds i.e. it is relatively easy to change individual managers and/or mandates to meet new objectives.
- Given our size we can gain access to top quality institutional managers and participate in most kinds of investment opportunities.

Details of the Trust's Advisers and Bankers can be found on our website www.thepensionstrust.org.uk in 'Our Services & Products' area.

Negotiating Fees

The more assets that the Trust has under management, the greater its ability to negotiate lower fund management fees. This means that we get:

- Reduced costs for fund management.
- A wider selection of managers.
- Access to industry experts.

Monitoring Investment Performance and Regular Reporting

We use our Global Custodian to report on the performance of each manager and fund, with the Investment Committee meeting at least quarterly to review performance. The Investment Manager Review Group (IMRG) receives a face-to-face presentation from each investment manager, which means that we see each of them at least once a year. Our in-house team and external consultants meet our managers even more frequently.



Custody and Investment Administration

The Trust's Global Custodian ensures the safekeeping of our investments, an administrative task quite separate from the management of our funds. In doing this our Global Custodian performs several roles for the Trust:

- **Transaction recording**
Making sure that all our investment managers' transactions are properly recorded. As part of this service they ensure that title is obtained for all assets purchased and that monies are collected for all sales made. In this regard, the Custodian acts as banker for all our fund managers.
- **Income collection**
Making sure that all dividends due or tax refunds are received. This will include ensuring that any entitlements obtained under corporate actions, such as rights issues, are recorded.
- **Reconciliation**
Reconciling their own records with those of the investment managers and resolving any differences that may arise.
- **Portfolio valuations**
Providing an independent valuation of the portfolio at each month-end and producing an analysis of the performance of each investment manager and the fund as a whole.
- **Additional sources of income**
Due to our size we benefit from extra sources of income derived from a wide variety of investment management opportunities such as securities lending.

The Flexible Retirement Plan

The Flexible Retirement Plan is a low-cost defined contribution option. It offers four core investment funds:

- Managed Fund
- Pre-Retirement Fund
- Socially Responsible Investment (SRI) Fund
- Diversified Ethical Fund

We also offer Guest Funds that have a range of investment options enabling members to tailor their holdings to suit their individual investment needs.

The Flexible Retirement Plan allows members to decide how involved they become in their investment decision-making.

For members wanting a low level of involvement we offer default funds, with the option of being able to choose a bespoke mixture of funds for those wishing to take a more active role. This can include a combination of both Core Funds and Guest Funds.

We undertake a lot of work in developing our Default Funds, understanding that many members do not feel confident making their own investment choices.

There is also the option of 'Lifestyling'. This provides automatic switching from funds that carry more risk (in the expectation of higher returns), to funds that offer greater stability as members approach their selected retirement age. Our Default Funds can be used for lifestyling purposes. The return for each fund is directly related to the performance of the underlying asset in which it invests.

How much does this cost?

Costs are deducted from the funds under management rather than invoiced to individual employers.

Our investment governance costs are shared between all of our schemes. Scheme specific investment management costs are based on the size of funds and the types of asset class in which funds are invested.

All employers and schemes enjoy the benefits of scale by being part of a large collective scheme.

For our defined contribution Flexible Retirement Plan, investment costs are met from an annual management (reduction in yield) charge.

I'd like to know more

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