ASSOCIATION OF CONSULTING ACTUARIES

PRESS RELEASE:
TRUSTEE SKILLS, CAPABILITY AND CULTURE EVIDENCE CALL

ACA survey on trustee skills and capability says trustees' fiduciary duties are not discouraging investment in alternative assets or standing in the way of best returns being sought.

5 September 2023: Responding to the HMT/DWP evidence call on *Trustee skills, capability and culture,* the Association of Consulting Actuaries (ACA) expresses wholehearted support for ways to improve trustee quality and capability. However, ACA research run alongside the response points to trustees' fiduciary duties not discouraging investment in alternative asset classes or standing in the way of best returns being sought.

ACA Pension Schemes Committee Chair, Steven Taylor, commented:

"We wholeheartedly support the principle of looking for ways to improve the quality and capability of trustees. Having engaged trustees who are able to work with their advisers to critically assess their objectives and weigh up alternate solutions is the foundation of good governance and positive member outcomes."

Other key points in the response:

- We wholeheartedly support the principle of looking for ways to improve the quality and capability of trustees. Having engaged trustees who are able to work with their advisers to critically assess their objectives and weigh up alternate solutions is the foundation of good governance and positive member outcomes.

- The situation is very different between trustees of DB and DC pension schemes.

- In DB schemes, we disagree with the premise that a lack of knowledge or skill is a key barrier to the trustees investing in alternative assets like unlisted equities. The main reason is that the regulatory regime that DB trustees have been operating in for decades has pushed them to look to take less investment risk, to increase the certainty of members receiving their benefits in full.

- If unlisted equities were a useful asset class to achieve these objectives, investment consultants would be advising on that basis and trustees would be getting training and exposure to this asset class.

- For DC schemes, trustees will have to consider what investment options are made available for members to select from. There is a delicate balance to be struck between offering a range of options and simplicity.

- It is usually easier for larger DC schemes to incorporate more illiquid assets as part of their default strategy or in the funds they make available. There is also a clear regulatory push in this direction, with smaller schemes being tasked with improving standards or consolidating. A higher standard for DC trustees, such as mandatory accreditation or requirement to appoint a professional trustee, may be a further stick to drive consolidation at a greater pace.

- Most industry participants can see the value that diversity brings to a trustee board and look for ways to encourage this, particularly in relation to lay trustees who are usually undertaking the role in a voluntary capacity.

- We would be cautious about any proposals that would make becoming a lay trustee too onerous given the challenges in recruiting and retaining them already. Any increased requirements should relate to the capabilities of the trustee board as a whole and not require each individual trustee to have the same skills.

- The clear majority of the 208 respondents to the ACA's survey on trustee skills and capabilities conducted during August were of the view that:

  - Professional trustees should be required to be accredited (71%), but lay trustees should not (79%)
  - Trustees' fiduciary duties do not discourage investment in alternative asset classes (72%)
  - Fiduciary duties do not prevent trustees from seeking best returns for pension savers (83%)
  - Trustees would not find more direction from Regulators on investment decision making helpful (78%).

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About the Association of Consulting Actuaries (ACA)

Members of the ACA provide advice to thousands of pension schemes, including most of the country's largest schemes. Members of the Association are all qualified actuaries and all actuarial advice given is subject to the Actuaries' Code. Advice given to clients is independent and impartial. ACA members include the scheme actuaries to schemes covering the majority of members of private sector defined benefit pension schemes. The ACA is the representative body for UK consulting actuaries, whilst the Institute and Faculty of Actuaries is the professional body.