

# Outsourced Oversight Investment Services

Making DB pensions  
investment simple, robust and  
tailored



# The new world for DB Pension Schemes

We think Trustees need **simpler, more robust and better aligned services** for the new world...  
...and PwCs Outsourced Oversight Investment Service is designed around this

We have entered a new paradigm for most UK DB pension schemes, accelerated by the events of 2022.

There are several factors which validate why a new approach to investment advice is required.

- ❖ Many scheme funding levels are well over 100% on a low risk basis.
- ❖ Over 80% of UK private sector DB assets are managed by less than 10 organisations.
- ❖ The regulatory direction of travel for DB pensions has appeared to favour consolidation and de-risking.
- ❖ 1 in 6 asset managers globally are expected to be swallowed up or fall by the wayside by 2027.
- ❖ Mansion House 2023 speech and higher interest rates have added the dimensions of use of surplus and investment in “productive assets” whilst highlighting a desire to maintain gilt market stability and to fund “productive investment”.
- ❖ Pension trusteeship is rapidly professionalising which means advice requirements are changing.

## What do Trustees need from here?



### A new take on the Strategic Investment Adviser

Our depth of unbiased knowledge and independent expertise in the pension and asset management space brings a fresh take.



### Support solving new complex problems

PwC has a deals mindset and a culture of solving problems, being flexible and not perpetuating the status quo.



### Simple robust solutions, targeting end game

Our objectives are aligned with yours, and we have helped schemes of all sizes achieve their goals.

Our **investment beliefs** form the foundation for how we approach investment. Our beliefs are centered around:

#### Strategy and Risk

- Having the right strategy is what drives success, it cannot be set and forget; it is important to spend time to tailor and evolve strategy to align to a schemes journey and stakeholder values.
- The risks faced by a scheme are multi-faceted, investment risks need to be considered holistically and not in isolation to ensure only rewarded risks are taken.

#### Implementation and Governance

- Demonstrating ongoing value for money to scheme members is paramount but this can be eroded by unnecessary complexity; impartial advice and ongoing oversight are required to avoid this.
- A strong working relationship between the Sponsor and the Trustee is critical to ultimately securing member benefits; a robust decision making structure is required for success.



# Our Investment Services

Strategy is fundamentally interlinked with implementation. You need an adviser that is strong in both areas.



## Strategy:

Impartial strategic advice, focused on your specific end goals and risks

- We have a **long track record of providing expert strategic advice** to pension schemes and corporates, in the pensions space and broader.
- Our business is built upon adaptation, and **supporting others through the challenges** a changing landscape poses. This sets us apart from our competitors, and we are ideally placed to help you achieve your end game.
- We **work flexibly** with you, aligned to your budget.
- Our business is not focused on extensive manager research and rotation, where the value is questionable in the new world schemes operate in. We are focused on providing a cost effective solution to clients.
- We are **optimally positioned to provide oversight and strategic challenge** to advice you receive from a fiduciary manager or a strategic overlay to an OCIO relationship.



## Implementation:

Objective provider selection, implementation and monitoring

- Our understanding of the investment market and **experience working with a broad range of schemes** means we can holistically advise on the right governance solution for you and, if required, run a selection exercise to find the best fit to suit your requirements.
- Our **experience with the investment asset managers** that manage the majority of pension scheme assets is borne out of the groundbreaking deals we have advised on and our brand in oversight selection and monitoring services.
- We work **flexibly** with you to give you advice aligned and tailored to your budget. Technology is our friend and we use this to delivery efficiency.
- **We dont believe this is a tick box exercise:** we can bring real value add to your scheme in this space.

For schemes of ALL sizes - We support 50+ schemes, ranging from £10m - £20bn+ in asset size



# Strategy: Impartial strategic advice, focused on your specific end goals & risks



## Expert de-risking partner

The role of an adviser should be to provide strategic advice and ongoing challenge on the management of the assets, with varying degrees of delegation, toward ultimately achieving the Trustees' goals.

Our impartiality and extensive capabilities differentiate us in providing clients with an objective view.

- We are a **market leading expert when it comes to all flavours of delegation** for pension schemes, building robust depth of research, objective understanding and unbiased insights into the key providers;
- We help schemes on a daily basis to advance their investment strategy, in a way that doesn't add complexity, cost or constraints;
- We have a long track record of advising pension schemes, being involved in some of the largest innovations and shifts as well as helping schemes through everyday challenges;
- We currently support over £200bn of UK DB pension scheme assets, across 50+ schemes.

### We are here to ensure you achieve your objectives.

The industry is constantly changing, and we believe Trustees need an adviser who can support through these challenges.



## Evolution, where its needed

The traditional investment consulting model is increasingly broken. A new perspective is needed.

Trustees overseeing relationships with a large number of asset managers is a cumbersome approach and costly, particularly as schemes approach their end game.

For pension schemes with higher return requirements, turbulent markets mean agility is key. This has been a struggle under the traditional model. Innovation is paving the way for schemes of all sizes to access services previously thought out of reach.

Schemes need simple, robust advice aligned to their objectives. Trustees need a skill set which is **broader than traditional investment consulting**.

We predict the traditional model will be largely replaced with a consolidated solution, which sits somewhere on the spectrum from either:

1. A streamlined provider approach through to Outsourced Chief Investment Officer model (OCIO) all the way to;
2. A full fiduciary management model (FM).

The OCIO model separates strategic investment advice from implementation. The FM model combines the two.

Both can also take important factors like ESG into account.





## What's next for investment strategy?

A thought piece by Sam Seadon

### So what is next?

*There is a decision about whether well-funded schemes should “run-off” or buy-in with an insurance company.*

*This decision will be impacted by any incentives that are created by government, or otherwise, to generate surplus by fully funded schemes investing for more growth.*

*In the absence of more such incentives it seems likely that schemes will continue to pay out benefits in a low risk way, until they can outsource operations in full to a third party.*

*Such a process could still take a decade or more and we believe there are a new set of challenges to think about during that time which we can help Trustees with:*

- *How to “lock-down” the risks of further contributions / covenant reliance;*
- *How to get the best out of a consolidated provider of asset management services;*
- *How to adopt a solutions mindset rather than a desire to perpetuate the status quo.*

*Increases in interest rates since 2021 have accelerated trends in DB pensions investment that have been growing over the past 5-10 years:*

- *More spotlight on investment fees and costs;*
- *More focus on improved scheme funding and risk management;*
- *Scheme consolidation, primarily in asset management services;*
- *Greater interest from corporate sponsors in the running of schemes and more professionalisation of scheme operations.*

*A key question also is the attitude of the major investors in UK government bonds (Bank of England, pensions schemes, other institutions and overseas currency reserves).*

*If there is less demand for gilts and higher interest rates and more inflation then the questions for those running pension schemes are very different than those prior to the advent of the trends above.*



### Accelerating trends

The industry has accelerated on its journey toward better funding and less complexity, cost and risk



### Global tailwind to de-risking

Global drivers of interest rates suggest the possibility that better DB funding is here to stay



### A new set of challenges for trustees

The job of a trustee is now about managing the scheme to a conclusion which has come much closer

# Implementation: Objective provider of selection, implementation and monitoring

**Our mission is to break down information barriers in investment markets to improve transparency and increase engagement.**

PwC's purpose is to "build trust in society and solve important problems".

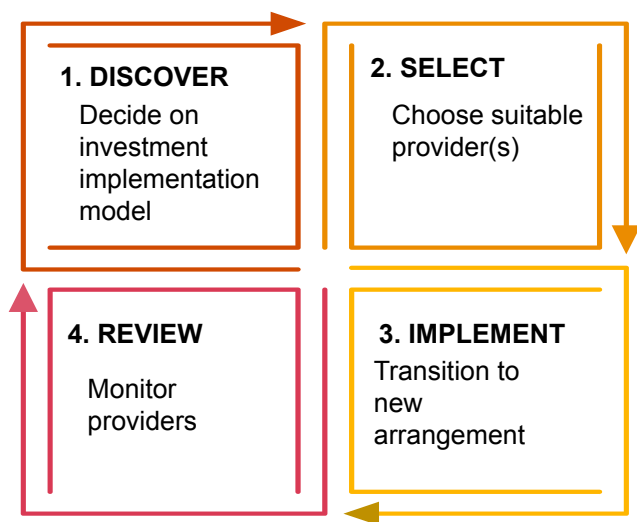
This mission guides how we deliver services to our clients and the pensions community as a whole.

We want to help ease decision making, focus on the critical information and free up capacity.

## Services

Our service can be summarised as four core service offerings. We believe we are market leading in each of these.

Alongside this, we use the full breadth of PwC to bring the best to our clients.



Our **SCORE** research approach underpins the delivery of these services. This has evolved to be technology forward - improving access to real time information.

We are a recognised and award winning market leader and have advised on a number of groundbreaking deals. Our mindset is member focused and can demonstrate a track record in achieving better outcomes for scheme members.

**£20m+**

Annualised fee saving



**200,000+**

Number of lives impacted positively



## Working with providers to structure solutions

We use our scale and strong reputation to influence change across the industry, which then brings value to schemes of all sizes.

One example is the transformation we have been driving amongst large pension schemes to re-think investment models. We were early advocates for an Outsourced Chief Investment Officer ("OCIO") model which allows Trustees to receive the "best of both worlds" i.e. efficiencies from operations and a fully dedicated service. And we have proactively worked with market providers to ensure this model is robust. OCIO is now quickly spreading to other industry players with a number of notable deals.

1

## Improving client decision making

Our research coverage of outsourced investment solutions is broad and spans established providers as well as those with capability but who may not have a ready made "whole of scheme" solution.

Being open minded about the choice of providers in the market increases choice for our clients. It also improves bargaining power. An example of this is the restructuring work we completed on a £5bn+ scheme. We helped the Trustees redefine their investment model and select a provider. Our open minded approach ultimately resulting in our client selecting a provider in the Strong LDI focus category. We also negotiated £10m+ of annual savings. This level of saving would not have been achieved if only traditional providers were considered.

2

## Embedding ESG into our day to day operations

PwC is a recognised market leader in ESG - both as a firm and in the services we provide. We have a 200+ team and we use this knowledge and research to inform our core services. We acknowledge the market is rapidly evolving and as a result we proactively work with providers to include better levels of disclosures in their reporting.

3



## OCIO - the good, the bad and the ugly

A thought piece by Keira-Marie Ramnath

### In my view, there are three models:

1. **Traditional** - investment advice provided by a consultant, implementation is the responsibility of Trustees.
2. **Full Fiduciary** - investment advice and implementation provided by a fiduciary manager.
3. **OCIO** - investment advice provided by a consultant, implementation is delegated to the OCIO.

The OCIO model is considered a “best of both worlds” approach. It offers a greater level of investment control. But it also seeks to extract the benefits of Full Fiduciary.

But does it always work smoothly? Well you probably know the answer given the title of this article. No, it doesn't. But it can.

Firstly, the good. Lower costs through economies of scale are evident. Transparency tends to be better when compared to Full Fiduciary. And the burden of dealing with lots of paperwork is eased. I'm sure a number of Trustees using the Traditional model would appreciate the last point given recent market events.

But it can go bad if roles and responsibilities are not agreed from the outset and regularly reviewed. Confusion about this leads to a breakdown in who should be held accountable for certain investment decisions. And it can also increase costs if there is duplication of work.

Most commonly I have seen this duplication happen with performance reporting where the consultant does a report which merely repeats the report provided by the OCIO.

I have also seen consultants and OCIOs using their internal systems to track funding levels and the two not agreeing. This can be distracting and frustrating for Trustees who just want a single source of truth. This can be easily fixed by agreeing who does what at the start of the arrangement. And putting in place objectives / key performance indicators with each party.

The ugly of OCIO is less evident but recent market events have exposed what can go wrong. Liability hedging is a very relevant example of this. It is obvious the consultant is advising on hedging levels. But it is less obvious who is designing the liability hedge and choosing the funds the OCIO invests in. What's worse is when a loss is suffered.

So the OCIO model, despite its recent press, is not a silver bullet. All investment models have their pros and cons. And the right model today is not necessarily the right one in future. There will be future innovation in the market given the funding level improvement a number of schemes have experienced of late.

So what is important today is having a model which is well understood, properly governed and flexible.

**Choosing a provider**

Russell Investments' appointment followed a rigorous selection exercise which was conducted by the in-house NGUKPS team with support from PwC - a process that took, from genesis to going live, just under 12 months.

The NGUKPS team also used PwC to give it some input in the latter part of this selection process.

Hogg explains: "We recognised the benefit of getting a broader viewpoint and making sure that we hadn't missed anything as we went through the process."

<https://www.professionalphillips.com/>

**PwC comments on British Airways Pensions' investment management outsource to BlackRock**

6/02/21

Commenting on the BA Pensions deal, Keira-Marie Ramnath, pensions asset management outsourcing lead at PwC, said:

"We're delighted to have worked with the British Airways Pensions Executive, the trustees of the two BA schemes, and their other advisers to outsource their investment management and put the schemes on a firm footing for the future."

<https://www.pwc.co.uk/press-room/press-releases/>

"In-house asset management costs have been increasing because of the rise in operational costs, particularly in terms of more regulation," said Keira-Marie Ramnath, pensions asset management outsourcing lead at PwC, which advised on the deal.

<https://www.ft.com/>

# Introducing SCORE digital

The role of investment oversight is now about strategy and getting the best out of a few managers.

SCORE digital has been designed to allow you to easily access objective analysis and research on these managers.

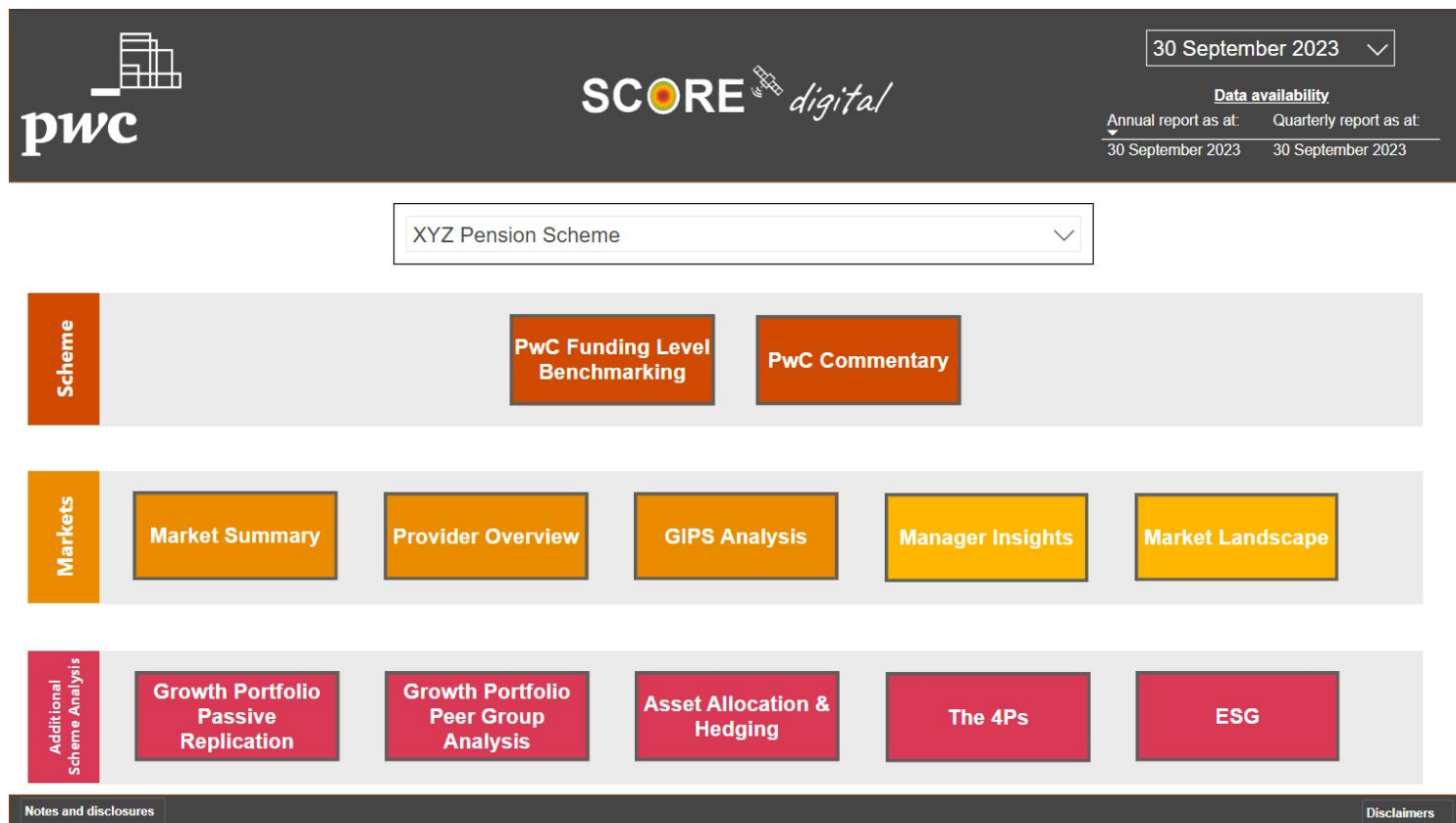
One of our strong beliefs is (and has always been) **ongoing monitoring of your outsourced investment manager is as important as selecting the right manager**. This is a view which is supported by the Pensions Regulator, whose guidance increasingly makes clear it is best practice for trustees to objectively review performance and ongoing suitability of fiduciary managers / outsourced chief investment officers.

Our **SCORE digital platform** is designed to ensure trustees have up to date access to our views on their fiduciary manager / OCIO. We recognise that the approach to ongoing monitoring should be **tailored and proportional** to the requirements of each scheme. As a result, we have **designed the platform to have modules** thereby allowing for this tailoring. and have inte.

Highlights of the platform include:

- ❖ Ability to check if your scheme funding level has been changing as expected
- ❖ Objective benchmarking of performance against market peers and other relevant comparators
- ❖ Real time alerts of key changes with your manager

**SCORE Digital integrates PwC's artificial intelligence (AI) capabilities with investment research thereby allows for cost effective and robust oversight.**



The screenshot shows the SCORE digital platform interface. At the top left is the PwC logo. In the center is the SCORE digital logo. On the top right, there is a date selector set to '30 September 2023' and a 'Data availability' section with two options: 'Annual report as at: 30 September 2023' and 'Quarterly report as at: 30 September 2023'. Below the header is a search bar containing 'XYZ Pension Scheme'. The main content area is divided into three horizontal sections: 'Scheme' with buttons for 'PwC Funding Level Benchmarking' and 'PwC Commentary'; 'Markets' with buttons for 'Market Summary', 'Provider Overview', 'GIPS Analysis', 'Manager Insights', and 'Market Landscape'; and 'Additional Scheme Analysis' with buttons for 'Growth Portfolio Passive Replication', 'Growth Portfolio Peer Group Analysis', 'Asset Allocation & Hedging', 'The 4Ps', and 'ESG'. At the bottom, there are links for 'Notes and disclosures' and 'Disclaimers'.





# Focused on your end goal

## End game options:

### Run-off, settlement or other?

We can support you to determine the appropriate end-game solution for you and then work with you to implement it.

We are seeing two main approaches from our well funded clients:

1. **Settlement soon** - Schemes looking to make their portfolios ready for buyout in the next couple of years, with little requirement for return and a need for liquidity and low risk vs insurance pricing (see opposite page).
2. **Run-off, toward settlement** - Schemes looking to continue to run their investment portfolio for a longer period to reach a buyout level of funding, potentially with a use for the surplus in mind (see below).

## Run-off towards settlement: considerations

### How can you build a portfolio to meet payments rather than generate asset growth?

Requires **integrated consideration** of assets and liabilities and may benefit from “asset-led or dynamic discounting” to provide an objective measure of funding and surplus.

You need an asset manager who is **capable and incentivised to help** you build this portfolio. Different providers have different approaches based on how their business has evolved.

Your **adviser must be flexible** and cognisant of changing priorities for your sponsor eg. less desire for focus on pensions as a non-core service for ex-employees.

Your **adviser must have a problem solving mindset** and an understanding of trustee and corporate objectives, not simply a desire to perpetuate the status quo.

01

02

03

04

## Settlement soon: considerations



### Approach to price tracking and price lock

We have liability, hedging and modelling specialists to support you with decisions including:

- Working with and getting the best from your chosen investment manager in setting up your portfolios;
- How to build a glide path to move toward general insurance market pricing;
- Moving toward a price lock portfolio and eventual transition to insurer.



### Approach to illiquids

In our experience there are many factors to consider here, including but not limited to, the following:

- Open vs closed ended funds;
- Willingness of insurer to purchase assets;
- Secondary market;
- Deferred premium arrangements with insurers;
- Sponsor appetite to buy and hold assets;
- Tax and accounting and legal expertise.

We have worked through all these issues for a range of pension schemes including addressing tax, accounting and legal issues.



### Successfully transacting with an insurer

We are here to provide support throughout all aspects of a transaction including data.

We have deep expertise and experience in running exercises to select a provider and implement settlement transactions.

We regularly work with our in-house risk settlement specialists to review and advise on insurer selections and asset transitions.



# Thank you



Keira-Marie Ramnath  
E: keira-marie.ramnath@pwc.com



Sam Seadon  
E: sam.seadon@pwc.com



Emma Pittaway  
E: emma.pittaway@pwc.com

## February 2024

This publication has been prepared for general guidance on matters of interest only, and does not constitute professional advice. You should not act upon the information contained in this publication without obtaining specific professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication, and, to the extent permitted by law, PricewaterhouseCoopers LLP, its members, employees and agents do not accept or assume any liability, responsibility or duty of care for any consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it.

© 2024 PricewaterhouseCoopers LLP. All rights reserved. 'PwC' refers to the UK member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see [www.pwc.com/structure](http://www.pwc.com/structure) for further details.