HYMANS # ROBERTSON

The future of sole trusteeship

Our insights into the market evolution of professional corporate sole trusteeship

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Executive Summary

Welcome to our 2022 report on the sole trustee market, which provides our insights into how professional trustee firms are evolving their services in light of the growing demand for 'professional corporate sole trustees' - that is firms who are solely performing the role of a corporate trustee to a pension scheme.

At a glance...

c10%+ growth **p.a.** in sole trusteeship in 5 years to 31 March 2021

Greater than 10% growth over year to 31 March 2022

Technology is the biggest challenge facing sole trustees in the next **3 to 5 years**

Scheme governance and resourcing **'real time'** delivery are also high on sole trustee agendas

c5% of schemes greater than £500m have adopted sole trusteeship

c25% of sole trustee schemes expected to buyout in the next 5 years

The growth of professional corporate sole trustee appointments is driving changes in processes with professional trustee firms and in turn how pension services are delivered. The flexibility that sole trusteeship offers opens the door for better collaboration and peer challenge between trustees, companies and their respective advisers.

What we've heard from the market in preparing our 2022 report all endorses the strategic investment we are making in these relationships. It aligns with how we are approaching working with our portfolio of sole trustees and internal developments within our firm more broadly.

Our 2021 report focussed on the coming of age of sole trusteeship, explaining and exploring the governance model and the current market landscape. This year, we look forward to the future, taking into account current challenges driving the evolution of the model, mapping out what the market might look like in 3 to 5 years' time and reflecting on the benefits and possible shortcomings that this might bring. Two clear themes that have come from our research are technology and governance.

Theme 1: Technology

8 out of 13 of our survey responses identified technology as a challenge for sole trustees, making this the highest voted challenge in our survey. Creating genuine shared platforms for interactive governance and decision making between stakeholders of pension schemes will take time to co-create.

The sole trustee governance model can act as an accelerator for more effective use of technology already available today as well as shared platforms for interactive governance and decision making. Some firms are on this journey but we wait to see the impact this has and the benefits it might bring.

Theme 2: Governance

5 out of 13 of our survey responses identified governance as a challenge for sole trustees. For some of these firms the challenge might be how to ensure standards of governance are consistent across all their schemes. A further number of responses mentioned that they are looking at how technology can help achieve that consistency, as well as transparency.

Schemes transitioning to a sole trustee governance model should do so because it provides a more effective governance solution than the existing board. It's therefore imperative that all sole trustees actively ensure the required governance structure and internal controls are in place. The upcoming single code of practice provides a prompt to put into place mechanisms to ensure best practice governance across all schemes and we would encourage sole trustees to seek an independent perspective on this from their governance advisors.

I hope you find our exploration of the potential future of the market interesting. I would be happy to discuss any aspects with you so please do get in touch.

Shani McKenzie

Head of Sole Trustee Services

0207 082 6251

shani.mckenzie@hymans.co.uk

The market landscape

Our market survey shows the industry has continued to see growth in the number of sole trustee schemes over the last year. Of the 13 firms that we surveyed, they have collectively seen over 10% growth in sole trustee schemes between 31 March 2021 and 31 March 2022.

"We believe that the trend to sole trusteeship will continue over the next 3-5 years. In fact, we see that move increasing at pace"

Capital Cranfield

"The market in a few years' time will be massively expanded, particularly on smaller schemes (under £100 million)"

PAN TRUSTEES

This is a trend that many firms expect to see for a number of years with the pace of change potentially expected to accelerate. This seems plausible as we start to see the conversion of pipeline cases in addition to new sole trustee appointments with immediate effect. These pipeline cases often arise where a new professional trustee is appointed to be a co-trustee initially, with a view to convert to a sole trustee once relationships have been established and historic information has been transferred.

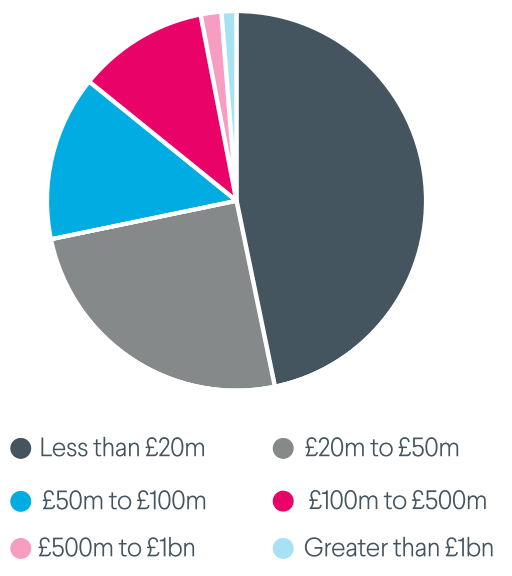
As well as an increase in the overall number of sole trustee schemes, we expect to see an increase in larger schemes moving to a sole trustee governance model too. A number of these are likely already in the pipeline for conversion and some new appointments in excess of £1bn have been made in 2022. It's the increase in conversion of the larger schemes as well as continued growth of smaller schemes that we expect will drive the sole trustee growth.

"There will be a significant move to Sole Trusteeship for larger defined benefit schemes. We are already involved in planning for this move for a number of schemes above £200m of assets and we see this trend continuing"

Pi Pension Trustees

We surveyed 13 professional trustee firms to understand the distribution of schemes currently adopting a sole trustee approach. Of those firms with 20 or more sole trustee appointments (including PPF panel and TPR appointments), around 50% of these appointments are schemes with assets of less than £20m, which broadly mirrors the distribution of the overall DB universe. Beyond that, the similarities in the size distribution fall away, with the majority of sole trustee schemes having assets of £100m or less and only 3% of sole trustee schemes having assets greater than £500m.

Segmentation of sole trustee schemes

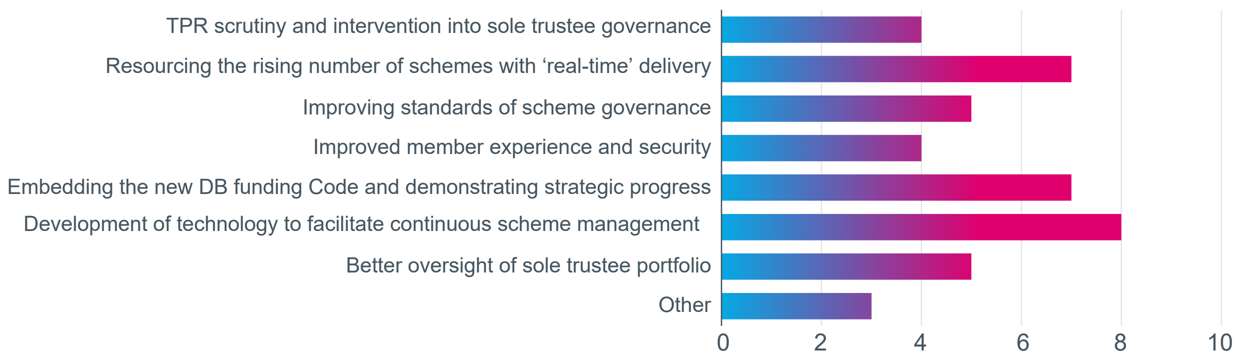


What are the biggest challenges facing sole trustees?

Our survey results show that the biggest challenge facing sole trustees over the medium term is the development of technology to facilitate the continuous scheme management style that can be highly suited to the sole trustee governance approach.

On digging deeper into why professional trustees viewed this as their biggest challenge, a theme that ran through those discussions was a drive for better governance, with some using technology to support more efficient, transparent and ultimately more robust governance processes. Within discussions, there was also a theme of thriving for the highest of standards and managing reputational risk of both the sole trustee approach and the firm itself, particularly with the increasing demand for sole trustee services.

What do you see as the biggest challenges facing sole trustees in the next 3 to 5 years?



Whilst clearly improving standards of governance, member experience and security will be priorities for trustees and a factor in their fiduciary duties, it's interesting to see that less than half of respondents articulated these as challenges over the medium-term. Of those who articulated improving standards of scheme governance as a challenge, this likely reflects that a number of these firms are working through the evolution of their governance approaches.

> *"We expect there to be a greater proportion of large schemes using the sole trustee model, while regulatory interest is also expected to increase"*
>
> BESTRUSTEES

Perhaps, one surprise from these results is that just under a third of respondents saw TPR scrutiny and invention as a medium-term challenge. The results reflect a mix of views. Firstly, a view that any scrutiny and intervention is less likely to apply to professional corporate sole trustees adhering to the Association of Professional Pension Trustee's (APPT's) Code of Practice and more likely focussed on sole traders operating without the resource to manage the risk and responsibilities involved in the role. Secondly, a view that should TPR scrutinise the current firms carrying out sole trusteeship, little intervention would be required. However, any further scrutiny from TPR is of course unknown and leaves some uncertainty.

Our survey says … top 3 challenges

Development of technology

With the backdrop of an evolving digital world, the biggest challenge facing sole trustees is development of technology. There were ranging views on whether this needs to be in-house technology, partnering with technology providers or drawing on technology of service providers. And whilst this clearly sits on the wish-list of professional trustees, there are some perceived or real barriers to be able to create a one size fits all solution. Around half the professional trustee firms are on or actively thinking about their digital journey, bringing technology and more efficient, digitally-led processes into their in-house operating models. How, if at all, that technology is then shared and utilised with other key stakeholders creates a challenge. Ultimately, the key drivers for many are better governance, transparency of operations for employers and other stakeholders as well as real-time access to data.

Resourcing real time working models

Whilst formal trustee meeting cycles may still exist within a sole trustee governance approach, there is flexibility to work in a more nimble, real-time fashion. This approach means sole trustees can embrace advisor's technology to help accelerate as well as broaden discussions. There is evidence that this can create opportunities to capture market opportunities sooner and we wait to see if this ultimately leads to the acceleration of scheme's journey plans to a low dependency position. With the continued growth of the sole trustee approach and real time working models, a number of respondents identified resourcing the model as a potential future challenge.

Over the last few years, we've seen huge increases in the number of professional trustees in the industry, with at least 30 firms now providing sole trustee services. Many firms are growing organically, creating 'career trustees' such that training of support teams is a key component of future resourcing strategies. The sole trustee model helps this with 'trustees in training' being able to build experience and expertise as the number two on a sole trustee scheme or as part of the sole trustee board of trustees.

Where organic growth is not being adopted by firms, this relies on the continuation of a deep talent pool of 'experienced hires'. Sole trustees still need to demonstrate that they have the balance of skills and experience to govern the scheme. As a result, continuing to recruit a broad range of skillsets to build diverse teams is certainly a focus for many firms with scheme and project management expertise increasingly being recognised as necessary skillsets for the future.

Demonstrating strategic progress

Last year, we surveyed professional trustees on the number of schemes with long term funding objectives in place. This broadly ranged from 50% to 80%, but with some of these schemes only having a rough idea of where they wanted to go. So, it seems fitting that sole trustees may see the new DB funding code as a challenge, perhaps particularly so for the large number of small schemes that they look after. Our 2021 report looked at the drivers for employers appointing a sole trustee and whilst strategic progress was identified as a factor, it wasn't a dominant one. As a result, one of the challenges feasibly facing sole trustees is aligning the employer with the increasing regulatory backdrop to have clear funding plans, investment strategies with supportable levels of risks and a greater focus on covenant visibility of the sponsors future prospects.

What's on sole trustee agendas?

One of the benefits of a professional trustee is the experience they can bring from having been through projects before, equipping them to rise to the increasing regulations placed on running schemes. We explored two topical areas with our survey participants with the results set out below.

1 Buyout: over what timescales are sole trustee schemes broadly expected to buyout:

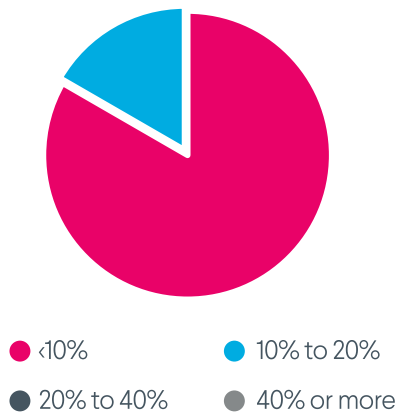
Timescales	Proportion of sole trustee schemes
Less than 5 years	25%
6 to 10 years	38%
11 years or more	38%

Maybe this is unsurprising when factoring in that firstly, around 50% of DB schemes are smaller than £20m (which is broadly mirrored within sole trustee schemes) and we know from the 2021 Purple Book that buyout funding levels fall by scheme size (as measured by membership numbers), except for the smallest of schemes.

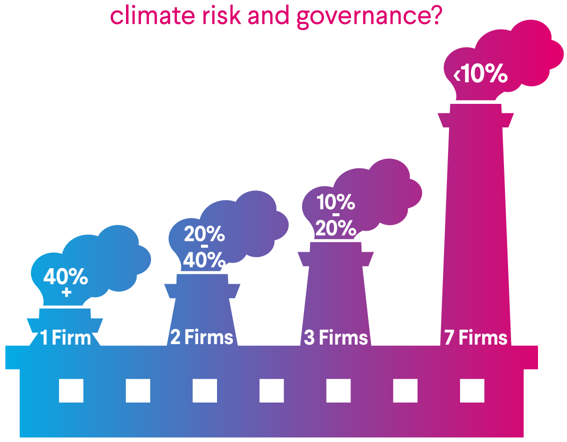
Further, the proportion of schemes not expected to buyout for another 11 years includes some schemes that are never expected to buyout, with responses indicating that up to 25% of their portfolios might never target buyout.

2 Climate risk and reporting

Broadly what proportion of your sole trustee schemes have analysed the scheme's carbon footprint?



Broadly what proportion of your sole trustee schemes not subject to TCFD requirements have gone beyond statutory requirements to address climate risk and governance?



Only two firms noted that 10% or more of their schemes have analysed their carbon footprint. One of these firms noted it's something they're actively trying to achieve within their portfolio. It was otherwise noted that it still remains difficult for trustees to get data in this area.

With respect to wider disclosure and reporting on climate risk and governance, there was far higher activity, with one firm responding to say they expected 40% or more of their schemes to have started to look at climate risk and governance. To put this into context, by 1 October 2022, schemes with relevant assets of £1bn or more will need to comply with TCFD reporting requirements, which only affects around 1% of sole trustee schemes surveyed.

What does the future sole trustee market look like?

Based on the survey results today, there isn't clear visibility of what the sole trustee offering might look like in 3 to 5 years. However, many firms are on the cusp of a journey to putting in place structures and technology to facilitate better outcomes for members in the future as well as more transparent governance for employers and the wider industry.

Feedback from our discussions has been wide ranging. We expect the growth of sole trusteeship is driving some change in behaviours but how this will manifest itself will be wider ranging. Most firms are naturally focussing on governance with the need for an Effective System of Governance and completion of an Own Risk Assessment on the horizon. Alongside this we expect to see greater use of both strategic and operational internal oversight; and investment in technology for both efficiencies and innovation.

Governance

The sole trustee governance model has been subject to scrutiny for some time. A large degree of this focuses on sole traders whereas here we look only at firms operating as a professional corporate sole trustee.

There certainly seems to be a rise in some professional trustee firms more visibly wanting to demonstrate ownership of and accountability for scheme governance, even where governance advice and support is provided by another third party. For some firms the activity is around creating more consistent governance, albeit still tailored to scheme circumstances, that can more easily be managed and updated across their sole trustee portfolios. For others, it's having effective systems in place to monitor governance on an ongoing basis.

"There will be greater focus on standardisation, harmonisation, and efficiencies by embracing technology to deliver sole trustee services"

ndapt

Improved visibility and transparency can only be a positive direction of travel for both better scheme governance but also removing (or reducing) some of the scepticism around the sole trustee model. Firms that are focussing on taking governance back in-house and no longer delegating support on this, should be mindful that this should therefore also be balanced with visibility to the wider industry.

> *"The evolution of our sole trustee offering will provide increased comfort to members and sponsors on governance of schemes"*
>
> ALIGN PENSIONS

It's not clear that efforts to put in place more rigorous governance and improve transparency for sponsors, members and the wider industry is consistent across all firms. Many firms actively seek flexibility for trustee directors across schemes they manage, which in our view leaves scope for governance gaps. We'd support all firms using the upcoming changes in the Effective System of Governance and completion of an Own Risk Assessment as a prompt to set and monitor minimum governance standards across all their sole trustee portfolio.

Finally, there were reassuring messages across the different firms we spoke to around focussing on improving diversity and inclusion in sole trusteeship and demonstrating trustee effectiveness, although again not consistently across the landscape. Transparency in these areas will help to manage the reputational risks around the potential lack of diversity and potential lack of independence from the employer, which can sometimes be connected to the sole trustee model.

Sole trustee oversight

Fewer than expected respondents noted better portfolio oversight as a challenge, although a number of professional trustee firms have some form of oversight in place. The APPT's Code of Practice sets out that each firm's "Decision Process" should include guidelines for escalating matters to a senior forum, however some firms have gone further than this. There is a wide range of views on the need for "oversight" of sole trustee portfolios, with those views not necessarily segregated by whether there is an employee or franchise model in place.

A range of firms have externally identifiable Heads of Sole Trusteeship while others have internal leads or committees with a role to have some oversight over the firm's sole trustee offering. However, the focus and role of each of these and their closeness to individual schemes differs across the market. In the main, these appointed roles have a clear responsibility to oversee that the professional trustee firm is meeting the principles of the code of practice set by the APPT to have appropriate governance and risk controls in place. Some firms, typically those close to having 100 schemes in their portfolio are further using these roles to add their own internal principles and best practice to governance and scheme outcomes.

Technology of the future

Stargazing to the next 3 to 5 years, technology will largely feature in:

Enhanced sole trustee governance solutions (think better use of online document repositories and meeting management tools); and

More common use of existing advisor tools and technology to facilitate decision making for other scheme services.

We are starting to see this in professional trustee firms leveraging technology to embed the governance improvements noted earlier. Technology is being used to improve a range of factors:

Feature	Benefit
Single repository	Central storage of all relevant documents required for decision making.
Electronic business plan	Automated alerts to ensure that policies are regularly reviewed.
Shared platform	Increasing transparency across all parties involved in the scheme, with a full suite of governance and internal controls in place.

Whilst a good number of firms have considered how technology can drive business plans and agendas, providing a greater focus on strategic decisions and real-time information, only a small number are on an active journey to achieving this, with the remainder seeing this as a longer-term need.

"Investment into technology will help us to manage a portfolio of appointments more efficiently which will help control costs for sponsors and still deliver strong governance and a quality service for members."

Pi Pension Trustees

It continues to be on professional trustees wish-lists to take pension schemes into the 21st century when it comes to using technology for more efficient and effective scheme management. For example, access to more timely information on delegated activities to enable real-time decision making; more digital based solutions to transferring assets; as well as more effective use of video-conferencing to support more flexible meetings.

"There will be more real-time decision making, for example investment strategy changes."

Independent Trustee Services

The nimbleness of the sole trustee model also enables more effective use of the range of tools that service providers currently offer. Therefore, in the short term future, we envisage technology being used more to drive a conversation, enabling real-time scenario analysis and discussion to support real-time decision making.

"Some areas of adaption will lead to more competitive operational service offering from [service] providers, which will lead to pension schemes being managed on reduced budgets benefitting sponsors and protecting members security."

LawDebenture

Will the growth of sole trusteeship be positive for the wider industry?

Strength in numbers

Market growth definitely provides the platform for sole trusteeship being able to improve member outcomes but we did question if this growth is sustainable?

Our market survey has again shown another year of growth of sole trustee schemes of more than 10%. Net growth is the real metric to monitor with the PPF Purple Book noting c2% reduction in the DB universe year-on-year and our market survey responses on buyout timescales providing little indication that the growth of sole trusteeship will materially accelerate that decline.

With notable levels of portfolio growth over the next few years, it was perhaps expected that this was identified as one of the biggest challenges facing sole trustees. Those growing their sole trustee portfolios the most strongly are experiencing large growth in recruitment and there are varied views amongst firms around fuelling future trustees from career trustees versus those with wider industry experience.

We continue to believe our previous estimates that more than 1-in-4 of all DB schemes will be governed by sole trustees in 2025, from around 800 schemes today to over 1,000 schemes in 2025, ignoring schemes using consolidator vehicles. Professional trustees have told us that there is still a strong pipeline of future trustees to support this, drawing from a broad talent pool.

Whilst the professional trustee market is made up of around 30 to 35 firms that will offer professional corporate sole trusteeship, we suspect the majority of sole trustee schemes will be governed by around 10 to 15 firms. The size of assets under management that these firms will have (particularly as sole trusteeship grows amongst larger schemes) means these corporate trustees can use that to have significant positive impact for example in environmental and social areas. Our market survey results on carbon footprint analysis suggests there are still data challenges to overcome before meaningful progress can be made in this area.

Member outcomes

Clearly a good measure of the market impact of sole trusteeship will be progress made by schemes on their strategic business plans. A strong governance structure has to also be there to drive forward effective operation of the trustee and decision-making.

The sole trustee model facilitates more flexible and nimble decision making. The drive from employers for their pension schemes to be run in an efficient and professional way, should enable more engagement in strategic pension decisions. We see instances of collaboration and peer challenge between trustees, companies and their respective advisers on strategic matters creating faster, more interactive decision making, particularly on more complex matters such as corporate restructuring. Our earlier statistics on schemes with clear long term objectives in place does question whether this translates scheme funding and journey planning to a low dependency position and higher degree of security for members.

It's also important that sole trustees don't take the flexibility of the model too far. Clearly agreeing with the sponsor when pension scheme matters will be discussed should align with the company's own corporate governance needs as well as having robust governance and internal controls in place to manage scheme risks. A lack of structure can lead to a laissez-faire approach, which can increase the risk of things going wrong. Nevertheless, TPR's expectations are clear from the draft single code of practice that governing bodies should set the frequency of their meetings and in most cases they would expect these meetings to occur quarterly.

Appendix 1

Thank you to the following firms for completing our market survey. The following data was collected as part of our market survey.

	Firm	Number of schemes	Number of sole trustee schemes	Number of schemes smaller than £20m
2020 TRUSTEES	20-20 Trustees	200-250	50-100	62%
ALIGN PENSIONS	Align Pensions	<50	<50	60%
BESTRUSTEES	BESTrustees	150-200	<50	42%
Capital Cranfield	Capital Cranfield	>300	>100	72%
Dalriada. A better way	Dalriada	250-300	>100	36%
Independent Trustee Services	ITS	150-200	50-100	27%
LawDebenture	Law Debenture	150-200	50-100	34%
ndapt	ndapt	<50	<50	12%
PAN TRUSTEES	PAN Trustees	100-150	<50	40%
Pi Pension Trustees	Pi	50-100	<50	83%
Punter Southall Governance Services	PSGS	150-200	50-100	65%
ZEDRA	Zedra *Formerly PTL*	150-200	50-100	32%
Ross Trustees	Ross Trustees	100-150	50-100	35%