

A changed world needs changed governance. Are you prepared?

Tony Baily and Sonia Gogna of Aon say trustee boards must adjust to the new reality

AS ONE OF THE MOST turbulent years in living memory draws to a close, many trustee boards will be taking stock of their investment governance processes and how well they have met the demands of a changed world.

Reflecting objectively on strengths, areas for development and decision-making capabilities, is a crucial part of ensuring that trustees are prepared for what is likely to be an equally volatile 2021.

New research from Aon, *Covid-19, climate and compliance* shows that trustees have been forced to rethink many of their scheme governance processes as a result of the global pandemic. We asked 20 scheme decision-makers, including professional and member-nominated trustees, third-party evaluators and pensions CEOs, for their views on a range of investment topics.

Our research found that the impact of Covid-19 has ranged from practicalities like replacing all-day trustee meetings with shorter, more focused video conference calls, through to reassessing investment strategies and de-risking decisions.

Although some of our findings were directly related to the pandemic, many also highlighted longer-term governance trends. One of the most significant is the ability to balance compliance and governance, particularly as The Pensions Regulator continues to expect higher standards from trustee boards. "Trustees are spending a lot of time on compliance. Not governance,

compliance," said a professional trustee of a DC scheme, who added, "Trustees have only got so much time available. If they are spending all of it talking about compliance, are they actually looking at the investments properly?"

RUTHLESS REALISM

It is now more important than ever for schemes to be able to prioritise effectively, maintain an appropriate skills base and be ruthlessly realistic about what they can achieve within the governance time they have available.

In our research, a respondent who is responsible for managing both a large defined benefit (DB) and a defined contribution (DC) scheme summarised this as: "Our view is that trustees should focus on high-level strategic decisions. My experience is that a lot of time can be spent on things that are interesting, but don't move the needle."

The style of investment governance is determined by factors such as scheme size, investment complexity and beliefs, board skills, trustees' time and the scheme's long-term objectives. But in whatever way these factors are combined, any board will need to be able to act nimbly when markets are changing rapidly – for example, to take advantage of opportunities for de-risking. They will also need to be able to reflect objectively on longer-term plans and to access an appropriate range of asset classes to implement them. Those factors apply equally to both DB and DC schemes.

When trustee boards reassess

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their investment governance capabilities, many will conclude that their current processes are sufficient to enable them to run their scheme to a high standard without any changes. Others might opt to strengthen skills and expertise by appointing a professional trustee. Fiduciary management – either across the whole portfolio or for specific asset classes – is also an option for trustees who want to retain control of their scheme's investment strategy but do not have the time or capacity to implement and monitor it.

One professional trustee said in our research: "Fiduciary management brings buying power, economies of scale, and it enables you to buy people's best ideas. That doesn't mean the traditional model doesn't work, because it does, but it's just harder for it to work."

We are entering into unparalleled times when it comes to investment outlook, in international markets and across many asset classes. While schemes'

goals won't have changed, the speed with which trustees need to act and the knowledge they need to apply in shifting market conditions to achieve those goals, is likely to be very different.

There are many ways that consultants and investment managers can help boards to address any areas where they find they need help. But trustees have to be brutally honest with themselves – individually and collectively – about the time they have available for their scheme and how best to use it.

Just as other professions have had to readjust and reconfigure to face an uncertain future, trustee boards must ask if the way they currently operate is really suitable in more testing times. Now could be the moment to consider new ways of working or different governance structures that make sure they and their schemes are fully equipped for the challenges that lie ahead.



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