



The Pensions Trust

# Update

Our Employers' Magazine

Issue 6

This Spring/Summer 2007 issue includes:

- Trust News
- Age Discrimination
- Fund Manager Profile
- Investment Basics



Pension Scheme  
Administrator of the Year



# From the Chief Executive

Welcome to this latest edition of Update and my first edition as Chief Executive.

I am pleased to be able to inform you that I started my duties as Chief Executive on 1 May 2007. My predecessor Richard Stroud left at the end of April 2007 after more than 28 years at the helm, and everyone at the Trust wishes him well for the future.

Richard leaves the Trust well placed to face the many challenges ahead.

Our main investment portfolio outperformed its benchmark recording investment returns of 15.6% per annum over the period 1 October 2004 to 28 February 2007. Total funds under investment are now standing at around £3.7 billion.

Whilst the performance has been better than benchmark, it has not met our own targets and therefore we have continued to review and refine our investment strategy. Currently, a major restructuring exercise is underway, which involves increasing the number of fund managers from 8 to 11, and the number of mandates from 12 to 16. The aim is to improve performance without adding significantly to risk. Full details will be issued later in the year once the restructure is complete.

Our occupational pension schemes continue to attract new employers and employees alike, with strong demand for our new defined contribution scheme the Flexible Retirement Plan. At the end of April 2007 over 50 employers have signed up to the Flexible Retirement Plan. Membership continues to grow right across the Trust and total membership (employers and members) should exceed 130,000 in June 2007.

After months of intensive hard work our new pension administration system went live on 1 April 2007 for our largest scheme Social Housing Pension Scheme (SHPS) to coincide with the Scheme's new benefit structure. It is hoped that the new system will be the catalyst for a step change in both customer service and cost efficiency.

This will be achieved by transferring work around the organisation as the new efficiencies arise. The resulting savings will then be used to help reduce our unit costs and help fund future improvements to customer service.

The new system is already showing its potential which has resulted in us taking our first step in realising the savings. After careful consideration of the various options and discussions with both the Board and the Committees of our Scottish based multi-employer schemes, we have entered into a consultation process with our Edinburgh based staff regarding the potential closure of the present Edinburgh office and the transfer of most of its work to Leeds.

As an organisation we are focused on delivering the best service possible alongside value for money. Our membership continues to grow and our new administration system gives us the capability and the capacity we need going forward.

We will update you with our full plans following the completion of the consultation process.

You should have now received our Annual Report for the year to 30 September 2006. Should you require any further copies, please contact us. The summarised and audio versions are available on our website, [www.thepensiontrust.org.uk](http://www.thepensiontrust.org.uk) in Document Library > General > Annual Reports.

Stephen Nichols  
Chief Executive



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# News

## Changes to Board of Directors

The Pensions Trust is pleased to announce the re-election of Clive Unitt as an Employer Nominated Director and as Deputy Chair for a second year. Plus the election of four new Directors.

- Douglas Keir (Employer Nominated)
- Peter Weiner (Member Nominated)
- Bryan Clark (Member Nominated)
- Paul Cotterill (Member Nominated)

These appointments follow the retirement of Alison Massie, David Prince and Dennis Jones and the resignation of Bruce Nelson.

We would like to take this opportunity to welcome our new Directors. They bring a wealth of experience to the team.

John Alleston was re-elected as Chair of the Board for the third successive year.

Turn to page 14 to find out more about Valerie Ching a Member Nominated Director.



Douglas Keir



Peter Weiner



Bryan Clark



Paul Cotterill

## The Trust's Response to the White Paper

A Government White Paper "Personal Accounts: a new way to save" was published in December 2006. Details of the proposals are featured later in this edition. The Pensions Trust responded to consultation on the White Paper, see [www.thepensionstrust.org.uk](http://www.thepensionstrust.org.uk) News Room > Comments On.

Our key concerns which are shared by other pension schemes and industry bodies are:

### **Auto-enrolment**

Employees meeting the proposed age and earnings criteria will have to be auto-enrolled into a Personal

Account. Employers offering comparable or better schemes can be exempted from the Personal Accounts requirements if they will auto-enrol employees into these schemes. If they cannot afford to do this they will have to run Personal Accounts alongside their existing schemes. As the proposals stand, Personal Accounts will compete with existing schemes and auto-enrolment could reduce the number of members in better schemes.

### **Levelling down**

Employers will contribute 3% of employees' earnings between £5,000

and £33,500 to their Personal Accounts. We fear that 3% will become a benchmark for employer contributions. Our concerns are borne out of experience: when Stakeholder pensions were introduced in 2001 some employers closed their existing schemes and offered employees a stakeholder with reduced (or no) employer contributions.

If Personal Accounts are to 'complement, and not replace' existing occupational schemes we hope these concerns will be addressed.

## Deaf Callers can Trust the Pension Experts

Employees at The Pensions Trust have undergone additional training on RNID (Royal National Institute for the Deaf) Typetalk, in order to further improve services to customers who are deaf or hard of hearing. The Typetalk service, provided by the RNID, enables people with communication difficulties to use the telephone effectively.

Amy Clayton, Human Resources Officer at The Pensions Trust, welcomed the opportunity to improve accessibility for callers with hearing difficulties. She said: "Over the past few years, we've received a number of calls through Typetalk and many of our employees felt that they would like further training on Typetalk."

The Trust takes its responsibilities to all of our customers very seriously and we strive to find ways to make our services accessible and easy to use. The 25 Trust employees who underwent training left the sessions feeling positive and a lot more confident in handling calls from people with hearing difficulties."

Katharine Jackson, Typetalk Outreach Co-ordinator for Scotland, ran two awareness training sessions to outline the issues affecting deaf people and also explained how customer-facing staff could make and receive calls through the service.

## Audio Annual Review

The Pensions Trust has again produced an audio version of its Annual Review 2006. This is available free of charge to any blind or partially sighted members on request.

If you, or anyone you know, would like a copy of the CD, please contact:

[Update@thepensionstrust.org.uk](mailto:Update@thepensionstrust.org.uk)



## The Trust confirms reappointments of Northern Trust as global custodian

The Pensions Trust has reappointed Northern Trust as its global custodian and asset servicing provider. This followed a comprehensive external review of services delivered to members since 1999.

As well as global custody, the mandate covers investment accounting, unitisation, performance measurement, compliance analysis and securities lending.

## The Pensions Trust in Top 100 Pension Schemes 2007

The Pensions Trust is at number 44 in the *Professional Pensions Magazine* Top 100 Pension Schemes 2007, published on the 22 February 2007.

With assets of £3.6 billion, over 125,000 members and 4,100 employers, the Trust continues to grow.

## Investor in People - Trust Success

The Pensions Trust has been successfully recognised against the Effective Leadership and Management model. It is now one of just 181 organisations in the UK to have achieved this recognition.

The formal assessment followed a people strategy model, based on the good practices of successful organisations, being used as a benchmark to assess the Trust's Leadership and Management strategy, and also provide a development framework for continuous improvement of the management function.



# Spotlight on: Age Disc

The Employment Equality (Age) Regulations 2006 were visited upon the pensions industry last year. In July 2005 the Government had promised that 'regulations will effectively exempt most age-related rules.....The aim is to ensure that age discrimination legislation does not undermine the provision of occupational pensions, or interfere unduly with their normal operation.' The reality proved to be very different.

The regulations have their origins in European law and apply to employees' pay and terms and conditions. They prohibit discrimination on the grounds of age in employment and vocational training, although employers may (subject to following a statutory procedure) still 'dismiss' employees who have reached the age of 65. The regulations also apply to occupational pension schemes in relation to pension rights accrued on or after 1 December 2006, if they discriminate, directly or indirectly, based on age.

Workers and pensioners can present a complaint to an Employment Tribunal if they believe they have been discriminated against on the grounds of age. The legislative timetable has been at best challenging and at worst little short of a nightmare.

The regulations were published in April 2006 and were to take effect from 1 October 2006, giving employers and trustees only six months to prepare for them. The

regulations sparked significant debate; they differed significantly from the draft regulations issued in 2005, and many of the concepts introduced allowed considerable scope for interpretation.

The resulting furore in the pensions world was such that on 8 September 2006, the implementation of the pensions aspects of the regulations was delayed until 1 December 2006. This two month extension was granted to allow time for consultation and amendment of the regulations and guidance.

Draft amending regulations were published on 11 October 2006. Consultation ran from 11 to 20 October 2006, leaving schemes and their advisers very little time to consider the revised proposals. Final amending regulations were released on 10 November 2006, less than three weeks before the implementation date.

## What is 'discrimination'?

Discrimination can take two forms – 'direct' or 'indirect' discrimination.

'Direct discrimination' means treating a member less fairly than others would be treated on the grounds of his or her age.

'Indirect discrimination' means applying a practice that puts people of a certain age group, including the member at a particular disadvantage when compared to other people.

## Dealing with discrimination

From 1 December 2006, a non-discrimination requirement has applied to all pension schemes. Any provision of the scheme which gives rise to apparent indirect or direct discrimination breaches this non-discrimination requirement, unless the provision is covered by one of the formal exemptions in the legislation, or can be objectively justified.

If schemes have retained age discriminatory requirement beyond 1 December 2006, the non-discrimination requirement applies and automatically gives disadvantaged members the same treatment as the advantaged members - 'levelling up'. Trustees and employers can still amend the scheme rules after 1 December 2006 to remove age discrimination but, if they wish to apply the less generous treatment to all members ('levelling down'), rather than levelling up the benefits of the disadvantaged members, they can do so only for future service from the date of the change.

For each rule or scheme provision which might be discriminatory, employers and trustees had to consider the following general principles:

- Does the discrimination fall within any of the exemptions in the regulations?
- If not, can the discrimination be objectively justified as a

# Discrimination

proportionate means of achieving a legitimate aim?

- If there is no objective justification, how should the discrimination be tackled and when? The options were to 'level up' or 'level down' the benefits payable in respect of that particular rule.

## Exemptions

The regulations contain many formal exemptions relating to pension schemes. These include:

- Minimum or maximum ages for admission to a scheme.
- Minimum age for entitlement to receive benefits.
- The use of early and late retirement ages for the scheme; these can differ between different groups or categories of members.
- The use of age criteria in actuarial calculations, such as applying actuarial adjustments for early/late retirees.
- Closure of schemes to new members (even though this could be detrimental to younger workers).
- Death-in-service pensions which allow for the prospective service the member could have completed to normal retirement date.
- 'Young spouse reductions' - the pension payable to a survivor can be reduced where they are more than a specified number of years younger than the member; there is a statutory sliding scale for this.

- Granting enhancements to pensionable service for those who retire on the grounds of ill-health.
- Five year guarantee payment when a pensioner dies within five years of retiring.
- Augmentation payments (where an employer funds additional pension for an employee) are permitted on redundancy.
- Salary related contribution rates or benefits (even though older workers tend to earn more).
- In a money purchase scheme, equal rates of member/employer contributions, irrespective of age, although this will produce unequal benefits between members of different ages.
- Age related contributions where the aim is to meet the costs of the defined benefits provided (as long as the pension accrual rate is the

same for all members), or in the case of money purchase schemes, to provide more equal benefits than would result from equal contributions for all ages.

## Objective justification

Where there is no exemption, a discriminatory provision might be objectively justified. Objective justification is a vague concept; it has to be applied on a case-by-case basis and as yet there is no case law. 'Grey areas' may not be resolved until a tribunal case is brought, which may take years.

A discriminatory provision could be objectively justified if it 'constitutes a proportionate means of achieving a legitimate aim'. Department of Trade and Industry (DTI) guidance suggests that legitimate aims might include business needs and efficiency, and to be proportionate there must be a balance between the discriminatory effect of a measure and the importance of the aims being pursued. The guidance doesn't give specific examples of this, but legal advice suggests that the cost of changing a scheme provision is unlikely to be sufficient justification.

An employment tribunal would be unlikely to consider a provision 'proportionate' unless the means of achieving the aim were appropriate and necessary. The 'aims' of pension scheme design might include: providing for need, especially for survivors; replacing benefits that might be lost as a result of loss of earning capacity; meeting business needs such as rewarding loyalty and



reducing staff turnover; and perhaps confining unfavourable changes to future joiners, whilst preserving the rights of existing members (known as 'red circling').

Relying on objective justification has its risks; justification is only a defence and there is no guarantee that the trustee or an employer would be successful if a claim under age discrimination legislation goes to an employment tribunal.

The impact of a successful claim would depend on the benefit or provision concerned, and the time lapse between 1 December 2006 and the date of the tribunal decision. The impact could be significant if a decision affecting one member of a scheme were to apply to all members for whom the same discriminatory provision applies. The ruling in 1995 on part-timers denied access to pension schemes is a good example – access could be backdated to 1976.

## Amend the scheme rules

Where there is no formal exemption or objective justification for an apparently discriminatory rule or provision, trustees should have amended scheme rules to remove the discrimination. If they did not, the non-discrimination rule would apply to 'level up' benefits for disadvantaged members.

## What difference will members see?

A major change arising from the regulations is members who continue in employment after Normal Pension Age (NPA) must be allowed to continue their scheme membership if they wish. Normal contributions are payable. There is no specific exemption to cover this situation, and our legal advice indicated it would be very difficult to objectively justify preventing further pension accrual after NPA. Employers must accept this as a cost of continuing to employ older workers.

Some employers have had to amend the provisions of their schemes to avoid falling foul of the regulations. Where this involved 'levelling down' some members will argue they would have been better off without the regulations.

## How has The Pensions Trust implemented the regulations?

The age regulations kept the Trust very busy over the summer and autumn months, much to the delight of our legal advisers. We conducted detailed scheme audits to identify potentially discriminatory provisions and contacted employers or Pensions Committees to discuss and implement solutions.

Provision of life cover and other insured non-pension benefits like health insurance after NPA has proved problematic for some employers. It seems some insurance companies are yet to embrace the age regulations and meanwhile securing insured benefits for older workers can be bureaucratic and expensive, or downright impossible. Our colleagues at the National Association of Pension Funds (NAPF) have brought this to the attention of the Department of Work and Pensions (DWP).

Once solutions were agreed, The Pensions Trust sent all employers a factsheet about the age discrimination regulations and how they apply to the scheme(s) they sponsor. We estimate we spent more than 20 man-days implementing these regulations; this figure is still rising as we amend member booklets and other scheme documents. Further expense is being incurred as scheme documents and literature are revised. Again, our colleagues at the NAPF have passed this information on to the DWP.

It is frustrating to note that several of our European counterparts exempted occupational pensions completely from the scope of the regulations. After all, pensions by their very nature discriminate on grounds of age. Our Government's legal advisers felt this was going too far – only time will tell.

# Fund Manager Profile

## Legal & General

Legal & General is one of the UK's leading investors with £233 billion under management. This article describes its development of ethical and environmental funds.

### L&G Ethical UK Equity Index Fund

The Fund was launched in December 2002 to meet the demand of pension schemes wishing to take account of ethical, environmental or social principles. The Fund invests in UK securities, which form part of FTSE4Good UK Equity Index.

### The Index

In July 2001, FTSE International launched the FTSE4Good Index series for socially responsible investment. The series was designed with the help of UNICEF and uses data provided by EIRIS, the Ethical Investment Research Service.

The FTSE4Good Index series includes companies that fulfil three criteria:

1. respect and promote universally accepted human rights wherever they do business;
2. foster strong and mutually beneficial relationships with stakeholders; and
3. work progressively towards the achievement of environmental sustainability.

The FTSE4Good UK Equity Index excludes companies that are

significantly involved in tobacco production, the manufacture of whole weapons systems or strategic parts or services for nuclear weapon and those who operate nuclear power stations or mine/process uranium. In addition, FTSE4Good classifies companies based on their impact on the environment, excluding those which have a negative impact on the environment. The current distribution comprises:

#### UK FTSE4Good Index

Sector Breakdown	%
Financials	32.5
Oil & Gas	17.5
Consumer Services	12.7
Health Care	9.0
Consumer Goods	7.5
Telecommunications	7.1
Utilities	5.6
Industrials	4.3
Basic Materials	2.8
Technology	1.0
Total	100.0

The same criteria is applied on a global basis and Legal & General launched a fund for this in April 2003. The companies that meet the requirements are distributed as follows:

#### Global FTSE4Good Index

Regional Breakdown	%
North America	40.5
Europe (excl-UK)	27.8
UK	17.6
Japan	11.3
Asia Pacific (excl-Japan)	2.8
Total	100.0

## Development of Criteria – Policy Committee

New criteria are developed using an extensive market consultation process and are approved by a Policy Committee, of which Legal & General is a member. Biannual meetings are held to consider changes to the constituents of the indices as well as the criteria employed.

A broad range of stakeholders help shape the criteria, including NGOs, governmental bodies, consultants, academics, the investment community and the corporate sector.

Since launch this review process has included tougher environmental and human rights criteria as well as new supply chain labour standards and countering bribery requirements. FTSE also engages with companies to ensure the requirements are understood, deleting from the indices those who fail to meet its standards.

## Climate Change

The impact of climate change creates risks and opportunities for businesses. Following an 18 month consultation period, eligibility for inclusion in the FTSE4Good series will be expanded to include climate change.

See [www.ftse4good.com](http://www.ftse4good.com) for full details of the new criteria.

# Spotlight on: Personal

## Personal Accounts White Paper

Survey after survey tells the same story: millions of us are not saving enough for our retirement. Many of us are not saving at all. Government has been worried about this since it came to power in 1997 and in 2003 it set the wheels in motion to do something about it.

An independent Pensions Commission was set up to look at pension savings. Its brief was to look at private pension saving, but the Commission realised early on that the state pension system also had to be examined and overhauled. It proposed a simple, large scale, very low cost National Pensions Savings Scheme (NPSS) to combat under-saving, and some changes to state pensions.

In the White Paper, *Security in retirement: towards a new pensions system* published in May last year Government flagged changes to state pensions and the introduction of Personal Accounts. We outlined these proposals in the last edition of Update.

Since then, a Pensions Bill has been published, followed very closely in December 2006 by another White Paper, *Personal Accounts: a new way to save*.

The Pensions Bill is expected to become law later this year. It covers the changes to state pensions and will put in place the framework within which Personal Accounts will be designed and delivered.

The White Paper goes into a lot more detail on Personal Accounts.

### What is a Personal Account?

Personal Accounts will be introduced in 2012 and are aimed at workers who don't have access to a workplace pension. They are intended to 'complement, not replace,' existing workplace provision.

Employees aged 22 and earning at least £5,000 will be 'auto-enrolled' into a Personal Account by their employer, but will be able to opt-out by giving notice in writing. Personal Accounts contributions will be 8% of the employee's 'band earnings' (£5,000 to £33,500 in today's terms) made up of 4% from the employee, 3% from the employer and 1% from Government representing tax relief.

Employee and employer contributions will be phased in over a three year period.

## Delivering Personal Accounts

Government consulted widely following the publication of its White Paper in May last year and decided to introduce Personal Accounts on the model as originally put forward by the Pensions Commission.

A single organisation will provide Personal Accounts, though day-to-day operations and

management will be outsourced to private sector providers.

A Personal Accounts delivery authority, independent of Government, will be charged with designing and building the Personal Accounts scheme for a million employers and up to ten million employees.

This delivery authority will also source the providers of clearing house facilities for collecting contributions, administration services, investment managers and annuity providers. The delivery authority will then hand over to a Personal Accounts Board which will oversee the running of the scheme from its launch in 2012. The Board will be responsible for:

- setting the strategic direction of the Personal Accounts scheme and ensuring Government objectives are met;
- the overall management of the scheme (including service delivery and provision of information to members); and
- investment strategy, (including the investment choice available to members and appointing fund managers).

Both the delivery authority and the Board will make extensive use of private sector expertise in the provision of financial services.

# Accounts

## Charges

It is critical to the success of Personal Accounts that charges are as low as possible. The Pensions Commission's claims that the NPSS could be delivered for an annual charge of 0.3% of fund value were met with disbelief. It may be possible to achieve this in the longer term, but now Government seems to accept that in the short to medium term this is too optimistic.

## Investment

Members will have a choice of funds, including social, ethical and environmental options, if they want them. However, the majority of members will not feel equipped to make a choice so a 'default fund' will be available. This default fund will be 'lifestyled' so that members' funds will automatically be switched from higher-earning but higher-risk investments such as shares into 'safer', less volatile investments as they approach retirement.

## Accessing savings

Savers will be able to draw their benefits from age 55, and will have to secure their pension by age 75. Up to 25% of the fund can be taken as a tax-free lump sum, and the remainder must be used to buy an annuity. The delivery authority will develop the processes for buying annuities.

## What it means for employers

If employers do not offer a pension scheme then they will be expected to auto-enrol employees into a Personal Account in 2012. Where employers offer a pension scheme they may apply for their scheme to exempt them from the requirement to offer Personal Accounts. Exemptions are covered below. Government estimates that employers will see an increase of 0.7% in their labour costs with the introduction of Personal Accounts.

## Waiting periods

There are no proposals for a waiting period to apply; as soon as employees meeting the age and earnings criteria start work they should be enrolled in a Personal Account within a month. If they already have a Personal Account contributions may have to be 'fast tracked' into this by the new employer.

Where the employer already has an 'exempt' scheme, though, a maximum waiting period will apply. Government is consulting on appropriate waiting periods for exempt workplace pension schemes.

## Exemptions

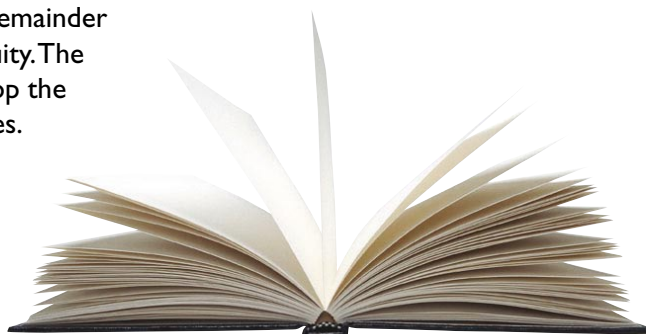
Where employers already offer a pension scheme, a relatively straightforward set of criteria will be used to decide whether the scheme is good enough to exempt the employer from the Personal Accounts system.

The employer must undertake to auto-enrol employees into their scheme, and the scheme itself must meet quality criteria.

The criteria for defined contribution schemes are very simple: the contributions paid into the scheme must be at least equal to what would be paid into a Personal Account. In some cases individual checks will be needed to make sure contributions to the employer's scheme meet this requirement.

Defined benefit schemes that are contracted-out of the State Second Pension are exempt. Those that are not contracted out must offer an accrual rate of 1/120 of pensionable earnings.

The main obstacle for employers is likely to be the requirement to auto-enrol employees into a scheme which requires higher employer contributions than a Personal Account. Some employers will be unable to afford higher pension costs and will use Personal Accounts alongside their existing scheme, or even instead of it.



It is therefore likely that Personal Accounts will replace existing provision in some cases.

### Automatic re-enrolment - if at first you don't succeed...

Employees will be able to opt-out of a Personal Account. However, this will not be the end of the story. Employers will have to re-enrol employees from time to time, in the hope that eventually an employee will join a Personal Account. Government is consulting on appropriate intervals for re-enrolment, and three years has been proposed.

### Compliance regime

How will the Personal Accounts Board ensure that every corner shop, café, local take-away and hairdressing



salon is auto-enrolling its employees? A 'light touch' compliance regime is proposed, including education campaigns, telephone helplines for employees and employers, and checks to try to identify employers who are not participating in the Personal Accounts scheme.

### Transfer policy

Transfers from other types of pension scheme into Personal Accounts (and vice versa) may not be allowed until at least 2020, when Personal Accounts will be reviewed to check whether they are meeting their policy objectives of extending pension saving.

### Limits on contributions

Government is consulting on limiting annual contributions to Personal Accounts. Figures of £3,000 and £5,000 have been mooted. Some industry commentators believe that setting the limit too high means Personal Accounts risk replacing rather than complementing existing pension provision. On the other hand, if the limit is too low, higher earners in the target group will not be able to save enough to provide a reasonable pension when they retire.

The White Paper floats the idea of allowing higher contributions - maybe £10,000 - to be paid in the first year (2012) only. This would encourage people to save in the years leading up to the introduction of Personal Accounts, and allow them to invest these savings in their new Personal Account. However, one has to wonder whether it is a little

ambitious to take on extra work in the first year, when a huge new - and unproven - system is bedding in.

### Next steps and consultation

If everything goes to plan, Personal Accounts will be 'live' in five years time, and Government needs to manage a huge amount of work. Government has already started work on a commercial strategy, and this will be handed over to the delivery authority when it is in place.

Government will also conduct further research and analysis to support the design and delivery of Personal Accounts.

### Supporting existing pension provision

Government says that it intends that Personal Accounts should not compete with existing workplace pension provision. Exemptions and waiting periods are two of the measures proposed to achieve this; transfers and contribution limits are further initiatives intended to protect existing arrangements.

Consultation on the Personal Accounts White Paper closed in March, and a response will be published before the end of June.

The Pensions Trust will keep you up-to-date with developments in future issues of Update.

# Investment Basics

## Equity Research

Many pension schemes use equities as the dominant driver for producing investment returns. Equities (shares) makes up part of a company's capital, i.e. companies usually finance themselves by some combination of issuing shares, raising loans or using existing profits.

As at 31 December 2006, The Pensions Trust had five managers running equity portfolios: Legal & General Investment Management, Capital International, Barclays Global Investors (BGI), Fidelity International and F&C Asset Management. This article gives a brief outline of the investment styles used by fund managers.

### Active versus Passive

An active manager and a passive manager are essentially at opposite ends of the investment style spectrum.

Passive managers operate on the basis that markets are efficient and no manager can accurately predict which shares will outperform the market. The most common form of passive management is index-tracking. Here, the manager creates a portfolio of stocks that replicates a particular market index for example the FT Actuaries All Share (for UK equities) or the S&P 500 (for US equities).

Active managers on the other hand believe that markets are inefficient and that they have the skills to exploit this state of affairs. Active managers therefore research

companies and invest in those stocks they believe will have a good chance of doing well in the future. Given the company research required, active management fees tend to be higher than passive management fees and performance can vary much more from one manager to another.

### Quantitative versus Qualitative

Quantitative managers such as BGI employs mathematical models and theories, then apply these to 'real world' situations in order to assess if a stock is worth investing in. This form of management is active as the manager is required to make judgements based on the information provided and to revise the model on a regular basis. This form of management does not require analysts or managers to meet the companies they research.

Qualitative management, on the other hand, looks at the company that issues the shares. It takes into account the company's management, analyses its interim and final accounts, visits the company and gets a 'feel' for its future prospects. This form of management requires specialists who understand the companies in a particular industry or sector.

### Top-down versus Bottom-up

Top-down analysis is the view fund managers take on economies, then industries (or sectors) before buying a stock. Top-down fund managers are those who make their minds up

about where the economy is going and then choose individual companies to fit in with that view. Bottom-up managers on the other hand look at individual companies and are prepared to invest in them because they think these companies have better prospects than others. These managers are often referred to as 'stock pickers'.

Many managers claim to exploit both a top down and a bottom up approach to investing.

### Value bias versus Growth bias

Broadly speaking, shares can be described as either 'growth' or 'value'. Managers generally believe that a value stock may not give extraordinary returns but will give steady returns year-on-year. They are usually businesses that have been around for a long time such as banks, supermarkets and insurance companies. Usually these stocks have a good track record as far as earnings and dividends are concerned.

A growth stock, on the other hand, is one which the manager thinks will increase in price in the relative term. may outperform in the relative near term (i.e. three to five years) relative to other stocks. These stocks may not have the sort of track record you would expect from a value stock and may pay little in way of dividend but they should show potential for capital growth.

In reality most active fund managers aim to have a good mixture of value and growth stocks in their portfolios.

# Our People

## Introducing Valerie Ching Member Nominated Director



Valerie has been a Director of the Trust since 2002.

Valerie is currently an Administrator at Medina Valley Centre.

Since May 2003, Valerie has also been a trustee (Honorary, Treasurer) of the Hardman Trust Charity.

### What first made you decide to stand as a Director?

Membership of The Pensions Trust schemes encompasses a broad range of people. With considerable career experience of staff and trustees, I hoped to be able to complement the skills, knowledge and experience of other Board Directors in decisions.

### How often do the Directors meet and how much of your time does it take up?

The Trust has four Board meetings a year. Prior to meetings, there are usually trustee training and preparatory discussion sessions. Directors also attend training courses on different aspects of pensions administration, investment and legislation. There is also a considerable amount of reading of formal papers and background material required to keep informed of current pensions issues and to increase technical knowledge.

Excluding any committee attendance, I estimate that my minimum time commitment is 14 days a year with actual attendance at Board Meetings, including travel, accounting for nine working days.

### How easy is it to fit in being a Director with your work?

I am an Administrator at Medina Valley Outdoor Education Centre on the Isle of Wight and also a village correspondent for the local

newspaper. Meeting dates for The Pensions Trust are set well in advance so it is simple to arrange leave as necessary. A laptop, email and mobile phone give the flexibility needed to work remotely.

### What are the most important aspects of your role?

The overriding purpose as a Director is to act impartially and in the best interests of the Trust as a whole. Directors need a thorough knowledge of The Pensions Trust scheme and are there to make decisions, set business strategy and to monitor overall progress and performance.

### Would you encourage others to stand as Directors?

Yes, definitely. A wide variety of skills, expertise and experience among individual Directors helps to ensure that the Board as a whole functions most effectively and works with the officers and staff to take the Trust forward in a fast moving market for the benefit of existing and future members.

## Introducing Paul Milton Account Manager



Next in the series of profiles of key staff at the Trust we quiz Paul Milton, Account Manager.

Paul has worked at the Trust for ten months.

We find out how he arrived at his current position and what his job involves.

### Where did you work before you joined the Trust and what was your role?

Prior to working at the Trust, I worked for various companies, some providing in-house pensions administration and others administering schemes on a third party (outsourced) basis. I joined the Trust in July 2006 from Capita Hartshead, where I managed the administration of a Local Government pension scheme and acted as Client Relationship Manager to three other company pension schemes.

### How did you first get involved with pensions?

I left school in 1973 and entered employment as a trainee tailoring manager but I soon realised that I wasn't suited to the job. I was then offered the choice of a position in computing for a local engineering company or a pensions administration role with British Railways, which I accepted.

### What attracted you to working at the Trust?

I can honestly say that I was attracted to the Trust by its mutual status and its mission statement 'to be the lowest cost provider of a comprehensive pension service to our customers', which is particularly important when providing a service to charitable and other

not-for-profit organisations, which need to maximise the funds available to continue their good work.

### What would you say are the most important aspects of your job?

My role within the Trust is primarily to maintain a strong working relationship with our clients, ensuring that the comprehensive service provided meets the clients needs and that clients are informed in a timely manner on any issues that may impact on scheme funding.

### If there is such a thing, describe a typical day?

Each day presents a different challenge. This could involve visiting employers or back at the office preparing presentation material, dealing with enquiries from employers regarding scheme funding or debt implications in the event of organisational restructuring.

### If you were not working for the Trust what would you like to be doing?

If I was not working for the Trust, I would like to work in some kind of animal welfare role or perhaps providing voluntary support to charitable organisations.

# Noticeboard

## Employer Testimonials

As part of our ongoing communication with existing and new employers, The Pensions Trust is creating a new testimonial section within our website. The aim of the section is to include comments about the Trust, from our existing employers.

This is so that any new employers can get first hand views and opinions about the Trust. There could also potentially be a free link through to your own website.

If you would like your say about The Pensions Trust, please contact Joy Scully via email: [joy.scully@thepensionstrust.org.uk](mailto:joy.scully@thepensionstrust.org.uk) or telephone 0113 394 2685.

## PMI Award

Congratulations to Martin Hoskins, Head of Customer Services who was recently awarded The Pensions Management Institute (PMI) Award.

He also received the Pensions Research Accountants Group PMI prize for the best examination paper dealing with the management module. Well Done!

## Exhibition Dates to Remember

**June 19 - 21**  
CIH 2007,  
Harrogate International Centre,  
Kings Road, Harrogate, North  
Yorkshire HG1 5LA

**September 19 - 21**  
NHF Social Housing  
Exhibition 2007,  
ICC Birmingham, Broad Street,  
Birmingham B1 2EA

## New Literature Announcements

The following literature has been updated and is available on our website:

### SHPS

Updated March 2007  
- A Guide for Members

Updated February 2007  
- Employer Administration Guide  
- AVC Application Form

Updated January 2007  
- Employer Information Guide  
- Employer Application Form  
- Internal Transfer Between Employers  
- Reasons to Join  
- Employee Application Form  
- Transfer Form  
- Withdrawal Form

## Unitised Ethical Plan

Updated March 2007  
- Employer Information Guide  
- Employer Administration Guide  
- A Guide for Members

Updated January 2007  
- Reasons to Join

Updated December 2006  
- Employee Application Form

Updated November 2006  
- Employer Application Form

## Growth Plan

Updated March 2007  
- Employer Administration Guide  
- A Guide for Members

Updated January 2007  
- Reasons to Join

Updated December 2006  
- Employee Application Form  
Leonard Cheshire

Updated November 2006  
- A Guide for Members

## Final Salary

Updated January 2007  
- Withdrawal Form

## CARE

Updated March 2007  
- Employee Application Form

Updated November 2006  
- Employer Application Form

## The Pensions Trust

Updated November 2006  
- Employer Application Form

## SFHA

Updated March 2007  
- Reasons to Join  
- Employee Application Form  
- A Guide for Members

The latest versions of forms and booklets can be located on our website [www.thepensionstrust.org.uk](http://www.thepensionstrust.org.uk)

Membership Statistics	Dec 2006	April 2007
Actives	54,797	55,215
Deferred	47,193	49,013
Pensioners	19,850	20,991
Total Members	121,840	125,219

# Fund Performance

Over the 12-month period ending 31 December 2006, the performance of the four main funds used by most of our pension schemes was as follows:

Name	Fund Performance %	Benchmark Performance %	Relative Performance %
Global Equity Fund	14.5	14.9	-0.4
Fixed Interest Fund	1.2	0.7	+0.5
Index-Linked Fund	2.9	2.9	0.0
Property	14.0	9.6	+4.4

Two of the four funds have outperformed their benchmarks, with the Index-Linked Fund tracking its benchmark and the Global Equity Fund underperforming.

## Equity Markets

Over the 12-months to 31 December 2006, equity markets continued to perform with positive returns received from all markets with the exception of Japan. European markets (which returned 20.1%) and Pacific region excluding Japan (which returned 19.2%) were the best performing regions.

Stock markets around the globe rose steadily before a correction over May/June time. Since then the trend has seen stock markets across the globe increase. This trend has continued for the first two months of 2007.

## Bond Markets

Bonds did not perform as well as equities over the 12-months in question with fixed interest government bonds (the FTSE UK Gilts All-Stock Index) returning 0.7% and corporate bonds (the iBoxx Sterling Non Government All-Stock Index) also returning 0.7%.

The Index-Linked gilt market as represented by the FTSE UK Gilts Index-Linked Index returned 2.9% over the year to 31 December 2006.

## Property Markets

Property has maintained its position as one of the more stable investment vehicles returning 18.1% over the 12-month period to 31 December 2006 as represented by the performance of the Investment Property Databank Monthly Index. It is worth noting that this index reflects the returns achieved by

investors who are prepared to take on more risk than is appropriate for The Pensions Trust. The Trust's benchmark is therefore designed to be consistent with the investment strategy devised by its advisers.

## Money Market Fund

The Money Market Fund returned 4.7% for the year to 31 December 2006 which was slightly behind its benchmark (seven day London Inter BID) which returned 4.8%. The Money Market Fund invests in high quality short-term debt securities and money market instruments, and is managed by Morley Fund Management.

# Your Letters

## Dear The Pensions Trust

We are looking at joining the Flexible Retirement Plan, could you give me some further details on how we would make payments and if any training will be given?

## Response

The person responsible for the submission of contributions (payroll or equivalent person) is required, to audit any existing data initially and they are required to submit contribution schedules electronically each month thereafter.

There are online tutorial demonstrations on The Pensions Trust website which guide you through the different aspects of the online pensions management system, [www.thepensionstrust.org.uk](http://www.thepensionstrust.org.uk)

See Document Library > Scheme > Flexible Retirement Plan > Employer Literature.

There is also a helpline number for problems regarding the submission of data, 0845 123 6200.

## Dear The Pensions Trust

I was really interested to read the article on 'compostable poly wrap'. As an organisation that sends out loads of tenant newsletters this is really interesting. Can you give me the name of the company that you have ordered this from.

## Response

Many thanks for your letter. Our 'compostable poly wrap' was sourced through our mailing house, Prospect Mailing Services, based in Bradford.

## Apology - Voting Forms

The Pensions Trust would like to apologise for the error over the location of the boxes on the Election ballot forms and any inconvenience caused. This error did not affect the validity of the ballot papers.

After an investigation it was discovered that the new information had been merged with an old document. This has now been deleted and going forward, there will be only one master document. In addition, procedures for checking these documents have been improved to prevent a repeat of this in the future.



We have included a selection of letters received from employers which we felt might be of interest to readers.

We would be delighted to hear your views on this magazine, our services or any specific issues you are facing that you would like to share with fellow employers.

Please write to:

Suzy Brear  
Marketing Team  
The Pensions Trust  
Verity House  
6 Canal Wharf  
Leeds  
LS11 5BQ

Or email:  
[Update@thepensionstrust.org.uk](mailto:Update@thepensionstrust.org.uk)

# Directory

## Board of Directors

### John Alleston (Chair)

Retired, Administration Director,  
The Guinness Trust

### Valerie Ching

Administrator, Medina Valley Centre

### Bryan Clark

Semi-Retired College/School Bursar,  
Company Secretary/Clerk to Governors

### Paul Cotterill

Development Officer, Light of Life

### Stephen Duckworth

Retired, Finance Policy Director

### Philip Edwards

Retired, Pensions Manager

### Allan Herring

Retired, Manager, New Milton Quaker  
Housing Association Ltd

### Lynda Howe

Finance & IT Director,  
York Housing Association

### Douglas Keir

Retired Actuary

### Richard Marshall

Retired, Finance Director

### Keith Nunn

Consultant Geophysicist

### Joe Robertson

Retired, Pensions Regulator

### Barry Smith

Finance Director,  
Safe Haven Yorkshire

### Clare Smith

Director of Human Resources,  
Leonard Cheshire

### Clive Unitt (Deputy Chair)

Finance Director,  
Sadeh Lok Housing Group Ltd

### Peter Weiner

Former Pensions Manager

## Board Secretary

### Frances Klejnow

If you would like to contact any of the  
Board please do so via Frances Klejnow  
at the following e-mail address:  
frances.klejnow@thepensiontrust.org.uk

## Heads of Department

### Logan Anderson

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### Phil Bradish

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### Martin Hoskins

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#### Paul Milton

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#### Billy Wheeler

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### Edinburgh

#### Pam Jenkinson

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## Business Growth Team

### Leeds

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#### Graham Hughes

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#### Ruth Yates

New Business Co-ordinator  
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### Edinburgh

#### Roddy Hoffmann

New Business Consultant  
0131 341 1272  
roddy.hoffmann@thepensiontrust.org.uk



The Pensions Trust



“Once you’ve changed the sheets and cleaned the bath you’ll have a lovely room.”

You wouldn’t put up with it in any other walk of life. So why is it that when you pay someone to administer your occupational pension, you often end up doing a lot of the work yourself?

The Pensions Trust is a unique, ‘one stop’ comprehensive pension service designed to serve not-for-profit, social, educational and voluntary organisations.

As a not-for-profit organisation ourselves, we understand your requirements and offer a **cost-effective service that takes care of everything, no matter what your business size.**

More than 4,000 organisations are already enjoying peace of mind with our **award-winning service and easy to understand pensions.** Why not join them? Just speak to one of our expert pensions advisors to find out about our comprehensive service package. Then the only job you’ll have to do is your own.



Pension Scheme Administrator of the Year

To find out more about us, call our  
new business team on **0845 123 6660**  
or email [contact@thepensiontrust.org.uk](mailto:contact@thepensiontrust.org.uk)  
[www.thepensiontrust.org.uk](http://www.thepensiontrust.org.uk)