

Chair's Statement



Sarah Smart
The Chair

Sarah Smart has been Chair of The Pensions Trust since April 2010. After qualifying as a Chartered Accountant with Coopers & Lybrand, Sarah moved to Standard Life Investments, where she remained until 2008. Sarah currently runs her own management consultancy business and has acted as a trustee for a number of other pension schemes, both in the public and private sectors.

I am pleased to present my first Annual Report as Chair of The Pensions Trust (the Trust) and the first from an Independent Chair, co-opted by the elected members of the Board. I am delighted to have been appointed as the Chair of the Trust's Trustee Board. The current environment of economic uncertainty and increasing regulatory changes presents a huge challenge for all pension schemes and I welcome the opportunity to work with the Trust to ensure we continue to offer relevant, worthwhile pension schemes to our members.

The theme of this year's Annual Report is 'Customer Intimacy'. The images throughout this Report are of individuals from a number of our employer organisations who make a difference to so many lives. Without their contribution and commitment, the good works undertaken by their organisations would not be possible.

Investment

Investment performance is a critical element of the long-term health of any pension scheme. Over the past year we have made some major changes to our approach to investment, including some changes to how we report on the performance of our investment strategy. The overall objective of our strategy, over the long-term, is for the investment portfolio to make a significant positive contribution towards the cost of providing pensions to our members, whilst remaining within an acceptable

level of risk. The emphasis in reporting on performance has therefore moved towards the contribution of the investment portfolio to the funding level of our schemes and the level of risk within them, with less emphasis on the performance of individual managers or asset classes against their specific benchmarks.

The investment landscape for pension schemes becomes ever more complex as new techniques are developed and asset classes become available to institutional investors. To enable the Trustee to take maximum advantage of the opportunities presented by these developments, we appointed our first Chief Investment Officer, David Adkins during the year. David is a qualified Actuary who joins the Trust with over 20 years' experience in investment and actuarial consulting. We are confident that David's appointment will strengthen the investment service that we provide.

As part of our new investment service the Board has set up an Investment Strategic Opportunities Group which is tasked with researching new investment ideas. This was done in recognition that greater flexibility was needed to exploit short-term investment opportunities. Alongside this initiative we are developing the way in which we consult with employers with the aim of getting these new ideas into our investment portfolios in a more timely fashion.

The Trustee has also agreed a set of ten Investment Beliefs that the Investment Committee must use as a framework when making decisions and agreeing investment strategy. The agreed Investment Beliefs will be reviewed annually and are published in the Trustee Investment Report section of this Annual Report.

The Trustee has also recently agreed to adopt the United Nations Principles for Responsible Investment (UNPRI). The UNPRI act as a structure to assist investors in incorporating Environmental, Social and Corporate Governance (ESG) issues into their decision making process. We believe that, over time, our activity in this area will contribute to the long-term performance of our investments.

During a year of considerable change in the area of investments, it is also pleasing to report that the return on most elements of our main investment portfolio has exceeded the short-term target set by the Investment Committee. A detailed commentary on our investment performance can also be found in the Trustee Investment Report.

Governance

My predecessor, Lynda Howe, reported last year on the governance review that was underway. That review resulted in my appointment as an Independent Chair and an extension of the delegations in place. A year on we are starting to see the benefits of that review. Increased delegation to sub-committees, supported by increased reporting to the main Board, has resulted in a quicker decision making process and freed up more time at Board meetings to focus on strategic issues. The opportunity to take stock, reflect on past decisions and debate how we will deal with future challenges is vital if we are to develop a service that is aligned with our customers' needs and achieves our mission of 'making membership worthwhile'.

It was originally proposed to reduce the number of elected Directors to ten. However, having concluded the governance review, the Board has decided to revise this proposal as it was felt that the new structure required a larger pool of Directors from which members of the sub-committees could be drawn. Therefore, from 1 March 2011 there will continue to be twelve elected Directors, six elected by and from the members and six elected by the employers. The elected Directors may be supported by up to two co-opted Directors.

The Pensions Trust is proud to be a values driven organisation. Our Values are Committed, Cost Effective, Customer Focused, Inclusive, Innovative and Integrity. These Values are how we do things at the Trust and are an integral part of everything we do internally.

Our workforce is highly committed to the Values and we are currently extending the Values for use externally with our customers and business partners, to give greater reassurance of our determination to work in a way that 'makes membership worthwhile'.

Pensions Future

A change in Government has resulted in some major changes to pensions policy, including the increase in State Pension age, the reduction in the Annual Allowance and Lifetime Allowance and the removal of the requirement to purchase an annuity by the age of 75. However, the plans to phase in auto-enrolment over a three year period starting in 2012 remain in place, albeit subject to some amendments from the original proposals. Whilst we remain concerned that auto-enrolment will result in a 'levelling down' of pension provision, anything that results in people saving more for retirement must ultimately be a good thing and should be supported.

We are aware that many employers, especially smaller ones, are daunted by the task ahead of them in complying with the new auto-enrolment requirements. Over the next few years we will be dedicating substantial resources to providing support and guidance to employers as they tackle their new obligations.

The general consensus is that auto-enrolment will further accelerate the shift from defined benefit (DB) to defined contribution (DC). It is understandable that employers are concerned about the volatility and risk associated with continued DB pension provision and the vast majority are either unwilling or unable to support auto-enrolment into DB arrangements. However, auto-enrolment into DC schemes means that all the risk and uncertainty is transferred to the members. In order to enable members to manage these risks effectively they must first understand them. Good quality communication material that explains the risk and reward in a simple and straightforward way is a priority.

However, no matter how much time and effort is invested in explaining the features of pension schemes, people still struggle to engage with what is for many a complex and, dare I say it, boring subject. People want to join a pension scheme safe in the knowledge that it will be secure and provide a decent pension relative to the contributions paid in. They also want some level of certainty over the income they will receive in retirement. It is the role of pension scheme trustees to look after the interests of members and do everything within their power to achieve these objectives. Unfortunately, the shift to contract based DC pension provision means that more and more people now have to fend for themselves.

One of the Trust's goals is to improve pension provision in the charitable and voluntary sector. We believe that implementing alternatives to DC schemes that share risk between members and employers is a way of achieving this. Collective DC arrangements where contributions and investments are pooled and pensions paid directly from the fund rather than via the purchase of an annuity from an insurance company is one possible alternative. So too are conditionally indexed schemes which provide defined benefit but do not guarantee any increases. Currently, neither of these arrangements could be used for auto-enrolment despite the fact that they offer an attractive and sustainable alternative to both DB, where all risks are assumed by the employers and DC, where all risks fall on the member. We are actively lobbying for changes in legislation that will mean that employers have the option of offering a pension arrangement that is more suited to their employees' needs but at the same time does not result in the employer taking on an unacceptable level of risk.

Corporate Social Responsibility

The Trust and its employees have always been keen to give something back to the local community and the sector that we serve. We are formalising this via the launch of our Corporate Social Responsibility (CSR) initiative which will give all of our employees the chance to help the communities and environment around us as well as fostering a pride in working at the Trust.

The Trust's employees have always taken an active interest in raising money for good causes. Notable examples this year include: David Adkins completing the four day New Ways Tour de Normandie bike ride in aid of New Ways charity; Russell Gardham completing five marathons in five days in aid of Project 65 – The Veterans and Roseline Umenjoh travelling to India for two weeks to participate in the building of a community centre.

People Matters

I would like to thank all members of the Board, especially Keith Nunn, Chair of the Investment Committee and Joe Robertson, Chair of the Audit and Compliance Committee, for their work during the year. I would like to extend a special thank you to my predecessor as Chair, Lynda Howe, who for the past year has held the post of Deputy Chair and Chair of the Business Performance, Remuneration and Appointments Committee. Her experience and guidance have been invaluable in helping me settle into my new role. Lynda will be standing down as an Employer Nominated Director at the end of February 2011 after seven years service. She will be sorely missed and on behalf of the Board, I wish her well for the future.



Oladipo Sokoya, Deborah Adams and Gareth Allen work for the British Association for Adoption and Fostering (BAAF), an organisation which works with everyone involved with adoption and fostering across the UK. Ola is a Finance Manager, Deborah is a Receptionist and Gareth is an IT Assistant.

Bryan Clark has also decided to retire after four years' service as a Member Nominated Director. On behalf of the Board, I would like to thank Bryan for his valuable contribution to the Trust.

For the 2011 elections, Joe Robertson will be standing down in the Member Nominated Category and will be standing for re-election.

Finally, on behalf of the Board I would like to thank and congratulate all the staff of the Trust for their hard work and enthusiasm in making the last year a successful one.

A handwritten signature in black ink, appearing to read 'Sarah Smart', with a stylized flourish at the end.

Sarah Smart

Chair, Verity Trustees Limited

18 January 2011