

Sole Mates or Soul Mates?

September 2023

LCP's third annual survey focussing on growth and changing trends in the Professional Trustee market and the Professional Corporate Sole Trustee market over the year.



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*“You’re leading the way
on understanding the
professional trustee market!”*

Marcus Hurd, ndapt

OUR THEME FOR THIS YEAR'S REVIEW IS 'MORE'!

» What we have seen since our 2022 Sole Mates survey



More growth in Professional Trustee (PT) and Sole Trustee appointments



More consolidation between Professional Trustee firms



More breadth in services and expertise of the Professional Trustee firms



More growth in the Professional Sole Trustee market



More regulatory focus for trustees (as well as more consultations to respond to)



More of a focus on Diversity, Equity and Inclusion (DE&I)

This report is based on responses from our survey of 13 Professional Trustee firms, appointed to 2,432 schemes. Of these schemes, 900 are Sole Trustee appointments. We thank all participants for completing our questionnaire and sharing their insights. We have also based our findings on regular engagement we have with all of those 13 firms.

We have had insights from LCP Partner and former Executive Director of the Pensions Regulator David Fairs, as well as the current Pensions Regulator on their view of the Professional Trustee and Sole Trustee market, including where they see the regulatory landscape for trustees heading.



Nathalie Sims
Partner



Holly McArthur
Partner



David Fairs
Partner



Laura Amin
Partner

Key findings

- + **More Professional Trustee appointments:** 50%* of UK pension schemes now have a Professional Trustee on their board.
- + **More Sole Trustee appointments:** There have been over 150 new Sole Trustee appointments over the past year. This equates to a 20% increase in the number of schemes now with a Sole Trustee (compared to an 8% growth in Co-Trustee appointments over the year). The three key drivers of this trend are: succession planning, efficiencies (cost savings) and navigating the regulatory burden.
- + **More appointments by smaller schemes:** The majority of new Sole Trustee appointments have been at the smaller end of the market, with 90% of these being to schemes with assets under £100m.
- + **More breadth in Professional Trustee delivery models:** Professional Trustee firms are increasingly expanding their remit and services into wider areas, for example hiring directors with backgrounds in a number of different areas such as investment, covenant and insurance de-risking.
- + **More regulation:** Insights from TPR, David Fairs and our respondents point towards a drive for increased regulation around trustee accreditation and risk mitigation of the Professional Trustee offering and associated services.
- + **More DE&I focus:** DE&I continues to be an area of focus for the PT firms, however responses indicate that firms agree that there is some way to go for the pensions industry.

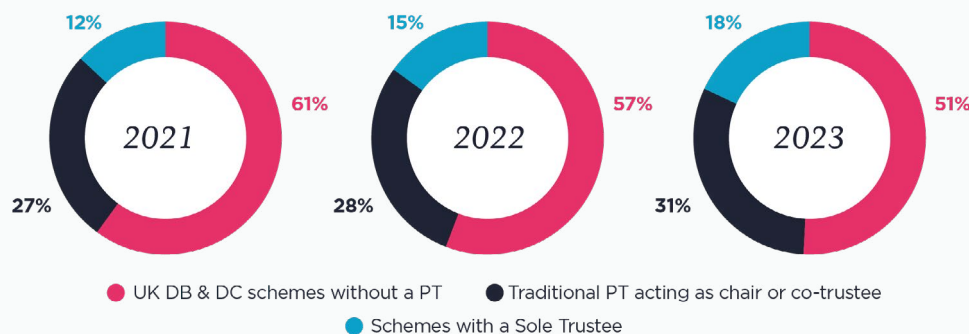
* Note this refers to schemes with assets over £5m as outlined by Pensions Funds Online. Includes DC & PPF schemes

MORE GROWTH IN PROFESSIONAL TRUSTEE APPOINTMENTS

12% growth in Professional Trustee appointments

The Professional Trustee (PT) market has continued to boom. As shown in the pie charts below, in the 12 months to June 2023 we have seen a 12%* growth in UK schemes with a Professional Trustee – either as a Co-Trustee or as a Sole Trustee.

Split of UK pension schemes with a Professional Trustee or Sole Trustee



Source: LCP data and Pensions Funds Online. The data from Pension Funds online covers all UK DB schemes above £5m along with DC trusts and master trusts.

*Note that the actual number of schemes with a PT is even larger as we did not take into account schemes with sole traders. This does include schemes where there is more than one PT involved.

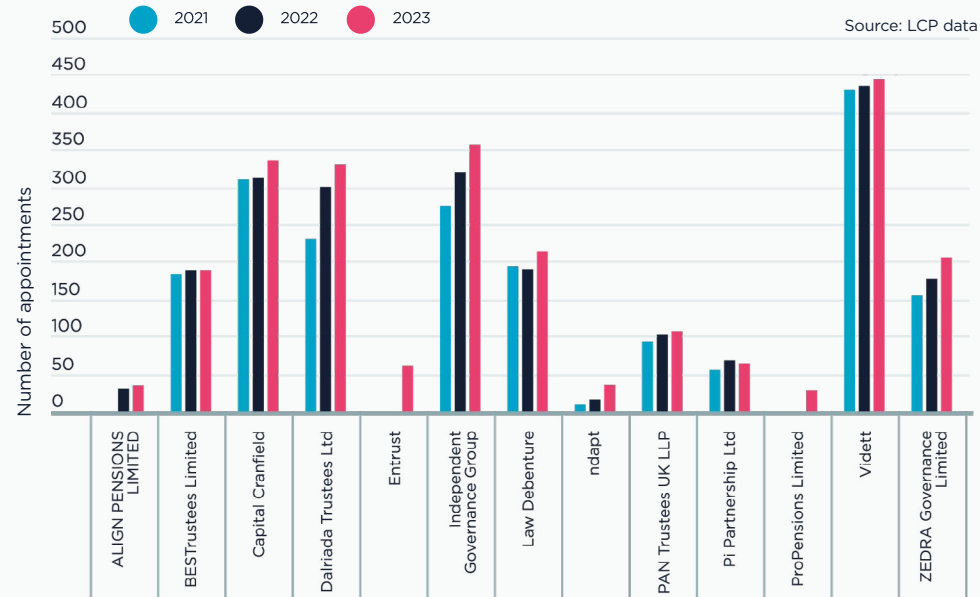
The long-term trend for professionalisation of trusteeship is accelerating. We're still being asked to act as first time professional trustee even for multi billion pound schemes.

Robert Thomas, Law Debenture

As shown in the chart below, the majority of the 13 firms in the Professional Trustee market have seen strong growth in the number of appointments over the last year. Our survey indicated that the drivers for this are the increasing regulatory burden and the drive for enhancing board capabilities by the appointment of trustees with investment and de-risking expertise given the shift in scheme funding levels over the last 12 months.

In addition, the volatility in scheme asset values following the dramatic rise in gilt yields over the last 18 months has resulted in a distorted view of the market when it comes to AUM values compared to previous years. Therefore, we have focussed on the number of appointments (below).

Number of Professional Trustee appointments by firm over the last 3 years



No data is shown for 2021 and 2022 for Entrust and ProPensions, and for 2021 for Align Pensions as they were not included in previous surveys. For IGG, Vidett and ZEDRA the previous year is a combination of the total of the consolidated firms' number of appointments. Refer to p.6 for an overview of recent consolidation activity.

MORE GROWTH IN PROFESSIONAL TRUSTEE APPOINTMENTS CONTINUED

Differing revenue models of the Trustee firms

We surveyed 13 of the most active PT firms in the market, with a wide variety of models and propositions.

The PT firms have started to increasingly fall into two broad revenue models:

1) The model where the income is linked to the PT's own client book - meaning directors take a prescribed percentage of the income that they generate; and

2) The 'salaried model', where trustees are paid an agreed salary with potentially a second element of remuneration which takes account of the volume of new business won.

The revenue sharing model can mean that new hires take a while to build a portfolio of remunerative clients during which the individual might need to support themselves from personal finances. This does mean that entry to a revenue sharing firm might not be open to those who have not yet built up an element of personal wealth. Whilst this might impact the diversity of new hires to those organisations, we have started to see some firms addressing this issue by introducing a level of salaried employees alongside trustee directors. We explore this further on p.14.

The different models can also have an effect on organisational culture. In the revenue sharing models PTs are often more likely to be home based, whereas salaried models encourage in-office attendance and a broader team and in-person approach. We are seeing consolidation across the Professional Trustee firms and this has tended to be between those firms sharing the same revenue models and therefore a similar organisational structure.

Current Professional Trustee landscape – split by business models

Revenue linked to own client book

Mix of salaried and revenue sharing models

Salaried model



MORE CONSOLIDATION: M&A ACTIVITY AND PRIVATE EQUITY INVESTMENTS

This year has seen an unprecedented consolidation amongst some of the largest players in the PT market (as shown in the diagram to the right). This has resulted in a higher concentration of scheme trustee appointments amongst a smaller pool of key players.

As the DB pensions market is declining, together with the government's state of intention to consolidate schemes as indicated in the recent Mansions House speech, the pool of clients for Professional Trustees will be getting smaller.

Despite this, there is still significant room to grow, which is probably why we have noticed a considerable interest of Private Equity (PE) investments in the PT market over recent years. To ensure they make a satisfactory return we are seeing some of the PT firms expand their levels of services they provide to pension schemes as indicated on p. 10.

From conversations with TPR we are aware that this might attract greater regulatory oversight, as indicated by TPR and department of work and pensions (DWP) in the recent [Call for Evidence pension trustee skills, capabilities and culture](#). Summary of LCP's response to the DWP consultation on trustee skills can be found [here](#).

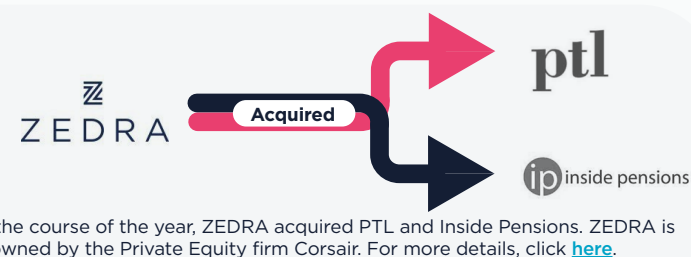
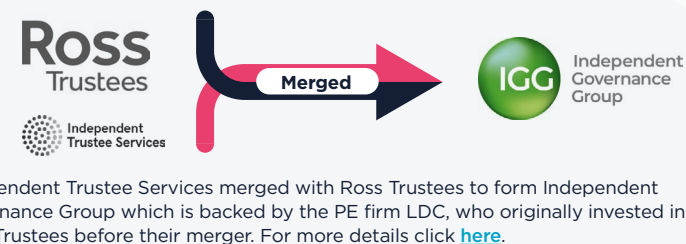
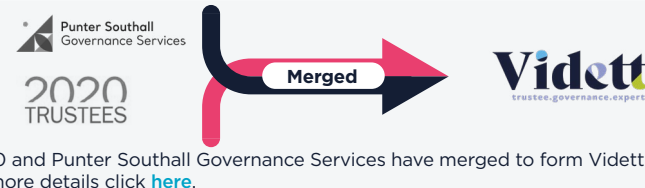
In addition, Sole traders have been joining larger PT firms with their clients - often due to succession planning strategy or increased running costs of their businesses, including professional indemnity insurance - and we expect the next year to continue in that direction.

In addition to the M&A activity on the right, we have seen sole trader businesses such as Clarity Trustees and CBC Pensions being acquired by Ross Trustees (now IGG) and ZEDRA acquiring ClearPen Solutions and AAA Trustees.

2023 will be seen as the year that the consolidation of the professional trustee market truly took off. In order to meet the increasingly complex needs of schemes and their sponsors, scale is essential. Consolidation, underpinned by organic growth, achieves that scale and ensures members' interests are best-served.

Andrew Bradshaw,
CEO Independent Governance Group (IGG)

Movement and investment in the market over the last year:



MORE CONSOLIDATION AND MORE PE INVESTMENTS

CONTINUED

Following the consolidation activity over the last year, it is interesting to step back and look at the key players in the market based on their market share.

Market share by key PT firms

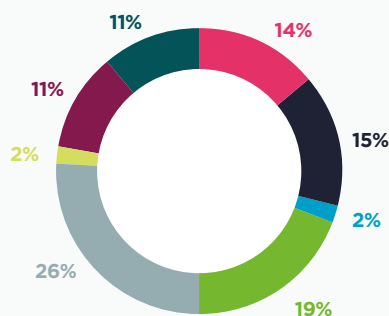
The charts to the right show the Professional Trustee market split by both the number of appointments and the AUM share of the market. Our data shows that different firms are more dominant in the different segments of the market.

For example, LawDeb represent 9% of total appointments by number but have around a quarter of the market share by AUM.

Two other examples are Dalriada and Vidett who have a greater share of appointments to smaller schemes, as shown by the balance of number of appointments and AUM. Both firms also reported a large number of new Sole Trustee appointments over the last year. Vidett added 50 new Sole Trustee schemes to their portfolio last year, whilst Dalriada added 30.

Capital Cranfield has a steady market share of 14% by AUM and by number of schemes, and they have had the largest conversion in the Sole Trustee space with 44 new appointments last year.

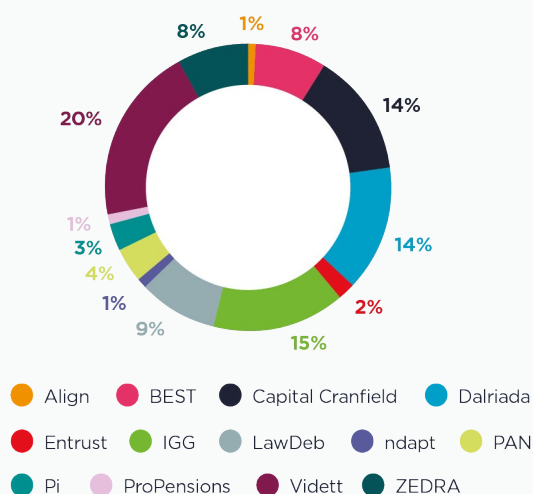
2023 Professional Trustee AUM breakdown



Source: LCP data

Firms with market share rounding to 0% aren't shown in charts

2023 Professional Trustee number of appointments



Source: LCP data

It will be interesting to see whether consolidation of Professional Trustee firms provokes a regulatory response, as a relatively small number of firms will potentially have significant influence over governance and operational standards of a significant number of retirement pots, as well as responsibility for investment strategy.

David Fairs,
LCP Partner and former Executive Director at
The Pensions Regulator



MORE BREADTH IN SERVICES AND EXPERTISE

Over the last year, more of the PT firms have recruited individuals with a broader mix of skills and expertise. The increased diversity of backgrounds has been in response to market demands for a broader level of experience and skills as complexity around projects and the current pensions landscape increases.

Key recruitment areas have been within investment, covenant and insurance de-risking.

Over the last year:

- + nearly all of our respondents have hired at least one **investment** specialist to their firms;
- + 62% of our respondents have hired trustees with **insurance de-risking** expertise reflecting the shift in funding levels over the year and the increasing pace of schemes moving to insurance solutions;
- + a few firms, such as Dalriada and Vidett, have set up dedicated teams who primarily focus on **insurer transactions**; and
- + over half of our respondents have **in-house covenant expertise** and will actively contribute to covenant reviews and discussions.

Investment specialism

Events of last September/October highlighted the benefit of having trustees on the board with investment expertise, and we have seen an increase in sponsors seeking trustees with this skillset. This is likely to be an increasing focus for trustees with the DWP's recent Call for Evidence on pension trustee skills, capabilities and culture asking questions focussing on trustees' understanding of their fiduciary duties and the advisory support they seek in making investment decisions.

More areas of service expansion

We expect to see further expansion of services across the PT landscape - specifically in the areas of cyber security, communications, digital transformation and climate/sustainability. This may be through organic means or by acquisition.

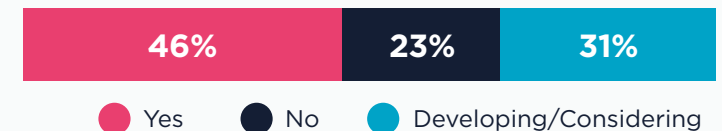
For example, we have seen IGG expand their services further into the communications world through the acquisition of LikeMinds and announce the launch of their sustainability charter to action change within the areas of ESG.

But not for everyone

In stark contrast were the responses by three of the PT firms (PAN, Capital Cranfield and Entrust) which indicated that they do not intend to expand into other areas and will be focussing on pure PT roles going forward having seen business growth and success without additional services.

More technology and more digitisation

We asked: Do you use proprietary technology to monitor or support work with Sole Trustee clients?



Responses to the survey indicate that technology will play an increasing role in facilitating trustee decision-making, and providing an audit trail of decisions made which may also support improved risk management.

It will be interesting to see whether TPR's focus on governance within PT firms will lead to a greater adoption of technology by these firms to assist in recording audit trails of decision-making, and to potentially identify trends/biases in board decision-making. It could also potentially help reporting to TPR - TPRs current review of trusteeship and Professional Trustees is likely to increase the level of reporting that Professional Trustee firms are required to do. This year's survey issued by TPR on the diversity of trustee boards is a potential first step in that direction.

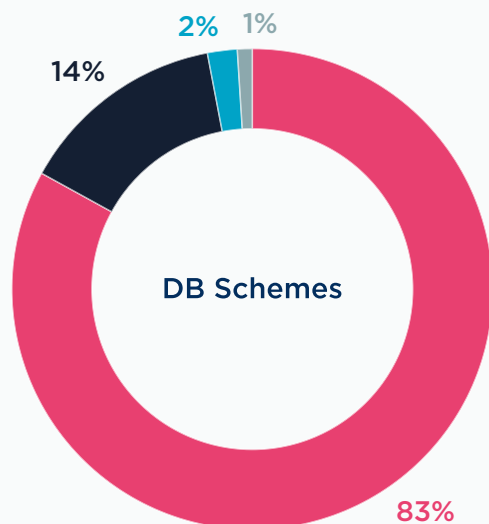
One of the largest PT firms is looking at improving its knowledge and insight as to how their scheme's assets are invested by developing their own proprietary technology, helping it to both identify risks and insights and deal with situations such as that which followed the gilt crisis in 2022. Inevitably, there will be a role for Artificial intelligence (AI) and Professional Trustee firms will be considering how AI enabled technology might support better decision making and improved member outcomes.

MORE GROWTH IN SOLE TRUSTEE APPOINTMENTS

There has been growth of 20% for the second year in a row in the number of Sole Trustee appointments which is over double the growth rate of Co-Trustee appointments. Although we are seeing some large schemes appointing a Sole Trustee, the majority of schemes moving to this governance model are still below £100m of assets. We have also seen a shift in the reasons being cited for the move to Sole Trustee.

20% growth in Sole Trustee appointments

Breakdown for UK DB schemes with a Sole Trustee appointment



Source: LCP data

- 83% of Sole Trustee appointments have assets of £0m - £100m
- 14% of Sole Trustee appointments have assets of £100m - £500m
- 2% of Sole Trustee appointments have assets of £500m - £1bn
- 1% of Sole Trustee appointments have assets of £1bn+

Why the move to Sole Trustee?

This year's survey shows the **need for increased efficiencies** quoted by PTs as the most common reason for a move to Sole Trustee, followed by **succession planning**. This reflects a shift from last year when the increasing regulatory burden was the key driving force for the move to Sole Trusteeship.

2022

1. Regulatory burden & specialist knowledge
2. Succession planning
3. Cost/increased efficiencies

2023

1. Cost/increased efficiencies
2. Succession planning
3. Regulatory burden & specialist knowledge

7 of the 13 firms surveyed now have a Sole Trustee appointment to a scheme over £1bn of assets.



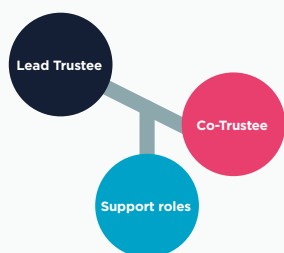
FOCUS ON SOLE TRUSTEE DELIVERY MODELS

The APPT* code of conduct for Sole Trusteeship suggests at least two accredited trustees should be involved in the governance model for each Sole Trustee appointment. Firms have however interpreted this guidance in a number of different ways which leads to different Sole Trustee service models across the firms. From the responses we received we have been able to group these Sole Trustee models into three operating models (see below) alongside the model which is adopted by each of the PT firms for their Sole Trustee appointments. It is worth noting, some of the firms adopt a flexible approach to the operating model and can sit in all three of the models depending on the needs of the client and the issues face by the pension scheme.

Key points of differentiation across the models are:

- Who is making decisions
- How much challenge there is in the decision-making process
- How much support is on-hand to operate in an efficient manner

Model 1



One Lead Trustee acting as main point of contact. All 'material' decisions require agreement of a Co-Trustee. Additional trustees can be brought in in specific circumstances.

Dalriada. A better way

ALIGN PENSIONS

LawDeb

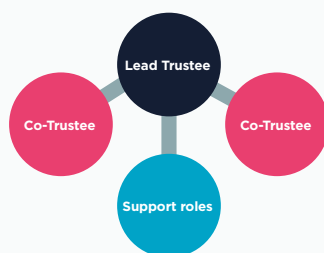
IGG Independent Governance Group

ENTRUST

BESTRUSTEES

ndapt

Model 2



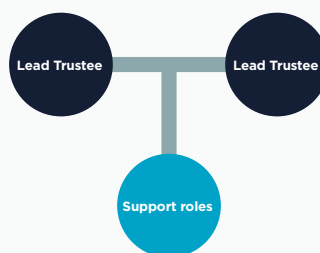
One Lead Trustee acting as main point of contact. Lead Trustee supported by two Co-Trustees acting as a simplified Trustee Board. All 'material' decisions will be discussed by the mini board of three trustees.

Vidett

Capital Cranfield

Pi Partnership

Model 3



Two Lead Trustees acting as main point of contact with equal responsibility for appointment. Lead Trustees operate as a simplified Trustee Board. Decisions are more generally taken between the two Lead Trustees on an ongoing basis.

PAN TRUSTEES

ZEDRA

ProPensions

The way that trustee appointments are structured is in no doubt influenced by their revenue model but also APPT guidance and each organisation's perception of how to drive a quality service and operational efficiency. The work being undertaken currently at TPR will look into how these different models compare and how they influence effective governance of schemes. From our conversations with TPR we understand that they may well look through the structures to understand who is making decisions that influence member outcomes. An obvious question to ask is, if the two Lead Trustees, or lead and Co-Trustee(s) disagree, who makes the ultimate decision?

Where there are two leads who have different views, there is a general drive to reach consensus with some firms having more formal procedures in place. This could include referral to another senior trustee or referral to a formal committee for resolution. One firm highlighted that it would record such disagreements and how resolution was achieved.

Governance oversight across Professional Trustee firms for Sole Trustee appointments varies considerably although a number of firms now have a Head of Sole Trustee. Capital Cranfield is the first PT firm with a dedicated Sole Trustee team, consisting of three people so far. TPR is likely to pay increasing interest in these appointments. All firms are keen to flag that decisions are always made by two Lead Trustees or with the Lead Trustee being required to consult and get agreement from a support Trustee.

* APPT refers to the Association of Professional Pension Trustees: <https://appt.org.uk/>

MORE REGULATION AND MORE CONSULTATIONS

As shown in the earlier sections of our report, the influence of Professional Trustee firms is growing.

The Regulator is expected to set out its expectations of trustees on governance, operational and risk management practices in the new General Code. It would be surprising if those expectations of trustees did not ultimately extend to the governance, operational and risk management practices of Professional Trustee firms themselves. We believe that the Regulator will very likely consider whether authorisation should be mandatory for all PT firms and individuals acting as PTs*.

More consolidation driving more regulatory oversight?

We expect that the temptation for TPR, as pension schemes consolidate into a small number of larger schemes (and as PT firms themselves consolidate) is to move away from ensuring compliance with detailed regulatory requirements and to move to oversight of the Professional Trustee firms themselves as well as the decision-making process within those firms.

From our discussions with the PT firms, we noted that a lot of them would welcome that, enabling those already embracing stronger governance to demonstrate their market leading credentials. Stronger governance and regulation of Professional Trustee firms might further accelerate consolidation in the trustee market.

*<https://www.professionalpensions.com/news/4061626/tpr-%E2%80%98strong-case-professional-trustee-authorisation>

In July the Government launched a Call for Evidence on pension trustee skills, capability and culture in a bid to remove barriers to making effective investment decisions. There is a suggestion of mandatory accreditation and a register of trustees which would support more of an oversight role for the Regulator to the decisions made by trustees.

While confirming that there will be no requirement for trustee boards to have a Professional Trustee (primarily due to demand outstripping supply for the foreseeable future), the Government's long-term vision is to have a smaller number of schemes, each with a Professional Trustee. A further definition of 'Professional Trustee' along with the standards to meet the definition may be on the way.

The consultation document reveals the Government is "particularly interested in whether trustees have the right knowledge and skills to consider investment in the full breadth of investment opportunities".

The Pensions Minister, Laura Trott issued a call for evidence around trustee skills, capability and culture alongside a raft of other consultations and calls for evidence on 11 July 2023. There is a suggestion of mandatory accreditation, a register of trustees as well as a more open call for views on trustee capabilities and how to improve them.

Any substantial regulation of PTs may drive up costs and make it difficult for schemes (who may need us) to afford us.

Harus Rai, MD of Capital Cranfield Trustees



MORE REGULATION AND MORE CONSULTATIONS

CONTINUED

More potential for conflicts?

There might be an inherent conflict when a Sole Trustee is required to robustly engage with a sponsor on actuarial valuations and investment strategy but where the Sole Trustee is appointed, and removed by that sponsor.

Conflicts in the pensions sector are not new. TPR provides specific guidance on identifying, monitoring and managing conflicts of interest. And for some time the Regulator has stated that it has been monitoring the Sole Trustee appointments and will give actuarial valuations submitted by a Sole Trustee a higher risk rating when considering whether to ask for more information or consider intervention.

It would be reasonable to think that TPR might tighten up on the appointment process and require a similar process to the appointment of a Fiduciary Manager for Sole Trustee appointments at some stage. A key consideration of TPR is who is making decisions, governance over those decisions and evidence of an audit trail.

We believe it is critical to have as strong as possible a relationship between trustee and sponsor and this requires maximising collaboration and minimising conflict. Maximising collaboration requires time, openness, clear and direct communication, proper resourcing, effective advisers and a focus on the true priorities. Conflicts management is very important, but conflict aversion can get in the way of healthy sponsor/trustee collaboration.

Nicholas Chadha, PAN Trustees UK LLP

Use of governance committees

The majority of the larger trustee firms have governance committees in place but their remit tends to vary. These range from providing oversight to individual appointments, to act as a resource for more complex or challenging situations, to monitor and randomly sample decisions to ensure quality, and/or to resolve situations where allocated trustees are not agreed on the way forward. The committees can be involved in ensuring compliance with the APPT guidance as well as a focus for new business and as a means of driving efficiency.

Usefully, TPR might provide guidance on what the remit of such committees should be, the type of situations they should become actively involved in and the decisions for which individual trustees might be expected to refer cases to the governance committee. Active engagement with those committees would provide the Regulator with useful insights into the market.



MORE OF A FOCUS ON DE&I

The last year has seen a strong focus on Diversity Equity & Inclusion (DE&I) within pensions and especially within PT firms.

TPR concluded its recent EDI* initiative by launching a number of [guides](#) for employers and governing bodies, including useful tools on how to improve diversity amongst trustee boards, especially chairs. The launch of TPR's recent survey on EDI was designed to help understand the current picture of trustees' diversity, measure progress in promoting high standards of diversity, equity and inclusion going forward and will shine another light onto trustee boards, including Sole Trustee arrangements.

The Professional Trustee industry continues to place a lot of emphasis on broadening their pool of Trustee directors, in order to harness the benefits of greater diversity.

Gender

Whilst we see an increased demand for diversity on trustee boards, there is some way to go to achieve a gender balance at the lead trustee level across the 13 firms - with a 62%/38% male/female split across our respondents - see chart below.

However some firms are leading the way with closer to a 50-50 split, including ndapt and Capital Cranfield (as shown in the first chart).

Despite PT firms having expressed a focus on working towards an equal gender split amongst Trustee Directors, it is unfortunate that this is still some way off based on last year's hiring practices where only 7 of the 13 firms hired female lead directors (see chart on the bottom right).

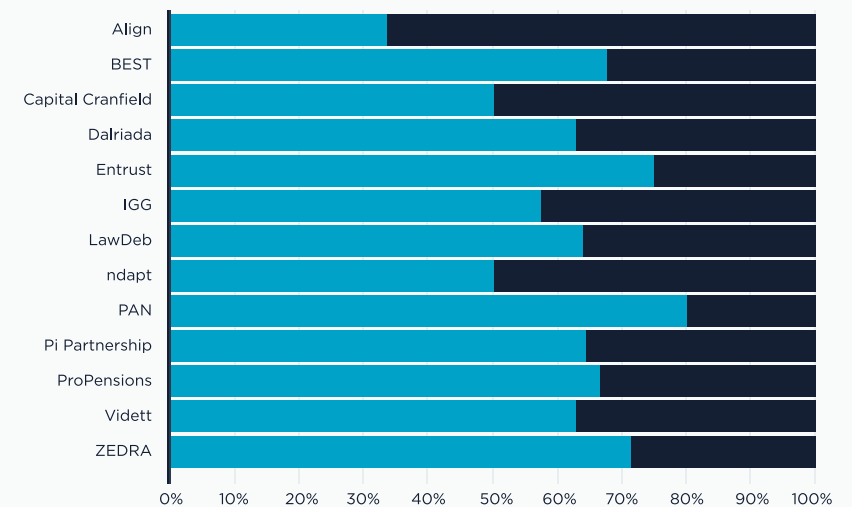
Gender split across Lead Trustees amongst the 13 PT firms



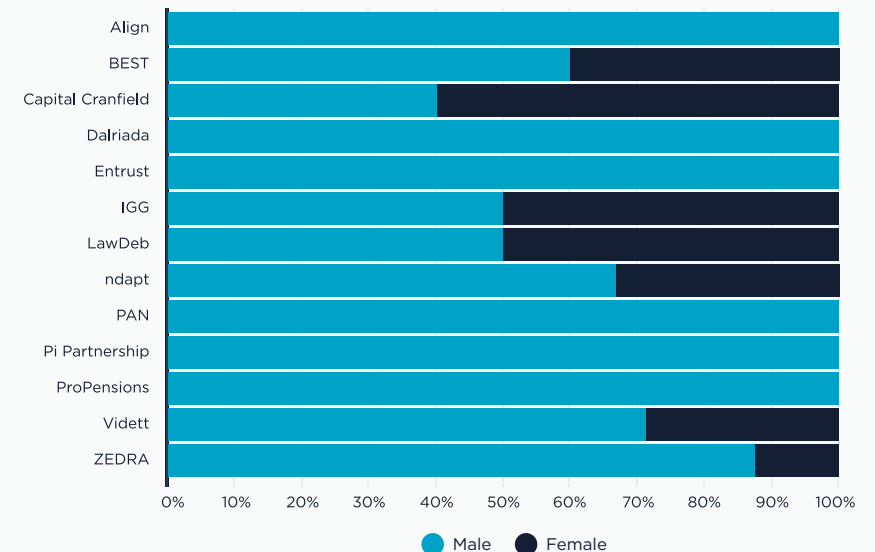
● Male ● Female

* In this report LCP refers to DE&I although TPR refers to EDI.

Male vs Female Lead Trustees across the 13 firms



Male vs Female Lead Trustees who joined last 12 months



MORE OF A FOCUS ON DE&I

TPR's EDI survey:

On 5 July 2023 TPR published its first EDI survey which comes after TPR research into defined contribution pension schemes showed most did not formally capture diversity data in relation to their trustees. This was usually because it was not felt relevant due to the small size of the trustee board or scheme.

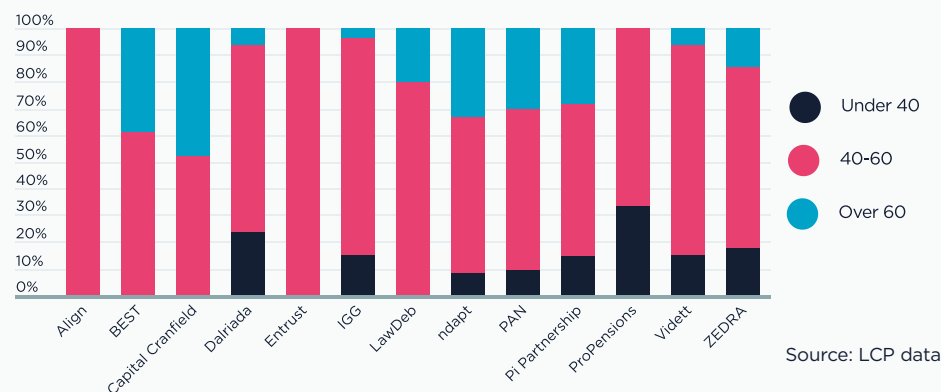
Fewer than one in five schemes (17%) formally obtained and recorded any diversity data in relation to their trustees, a similar figure to 2021 (14%). The data was most likely to be recorded was sex and age followed by ethnicity, disability and education. Very few schemes recorded data on religion/belief, gender identity or sexual orientation.

While it is encouraging to see the launch of the survey for DC scheme trustees, we would like to see this extended to DB scheme trustees – given the size of the assets under management of this group. We have also welcomed the launch of TPR's [EDI guidance](#), specifically aimed for chairs of trustees and trustee recruitment with helpful guidance on how to improve EDI on trustee boards.

Diversity and inclusion is important to good governance and decision-making, and therefore in achieving good saver outcomes.

Louise Davey, TPR's Director of Regulatory Policy, Analysis and Advice

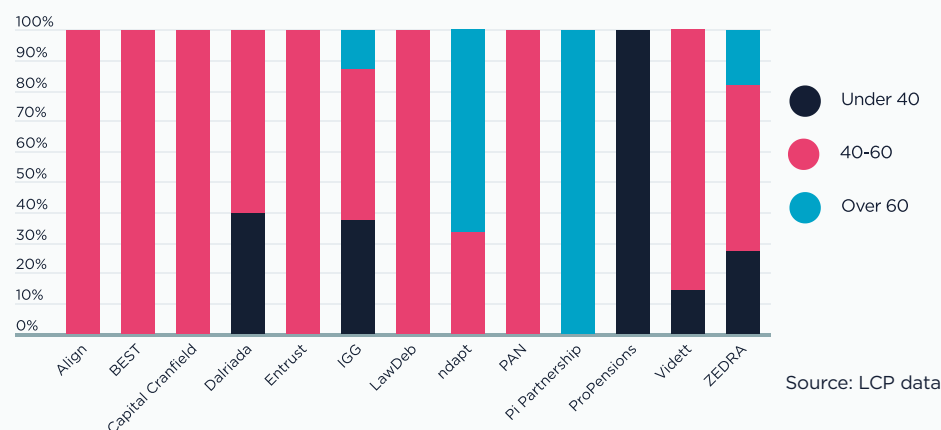
Age profile for Trustee Directors



With a greater divergence in the revenue models of the PT firms (the salaried model vs the partnership model), we have noticed a corresponding divergence in the age profiles of the trustees. With those firms adopting the salaried models in general having a lower average age of trustee directors.

As a result we would expect the partnership firms to be more focused on succession planning over the coming years.

Age profile for Trustee Directors joined since March 2022



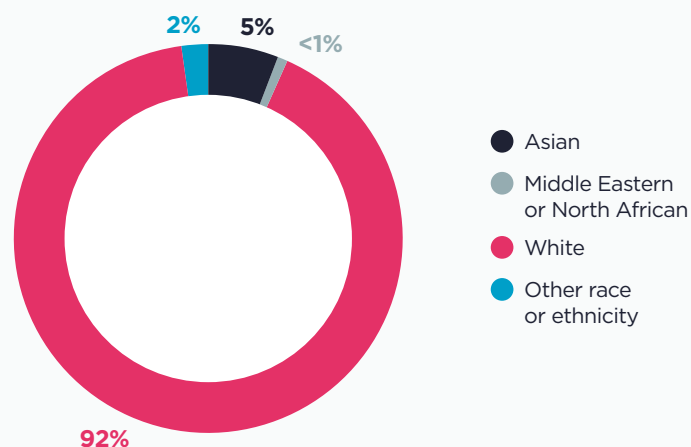
MORE OF A FOCUS ON DE&I

Ethnicity

With 92% of Trustee Directors declaring themselves white in our survey, this is a higher proportion than indicated by the 2021 Census population of England and Wales that shows that 81% of the population is white. Concerningly none of the Trustee firms surveyed reported to have black trustee directors.

Arguably it is easier for traditional trustee boards to achieve a balance that reflects the workforce from which they are drawn – which includes the ethnic make up of the board. But that often means that a trustee board drawn from a workforce which is in itself not diverse will also not be diverse. Is that a problem? The Regulator's belief that a diverse trustee board makes better decisions which in turn means better governance would suggest that it is. Professional Trustees and/or advisers could have a role to play in providing that diversity where it is not otherwise prevalent. In order to fulfil this role it is important that Professional Trustees themselves are attracting and recruiting diverse candidates.

Trustee Directors and declared ethnicity based on 13 firms who responded



A diverse trustee board is important for two reasons – firstly my belief, and that of TPR, is that diverse trustee boards make better decisions which leads to better governance.

In this sense diversity extends beyond the protected characteristics set out in the Equality Act 2010 to other areas of diversity such as neurodivergence.


Secondly, diversity is important for trustees to understand the context for decisions they are making. Different ethnic groups or religious groups might have different decision making frameworks on whether to save for later life and how much. Such understanding is important in decision making but also what and how to communicate to members. In this context, it is disappointing that more is not being done to attract a broader ethnic mix of candidates or invest in creating a pipeline of talent from those communities.


David Fairs, LCP Partner and former Executive Director, The Pensions Regulator


MORE OF A FOCUS ON DE&I


HEADING IN THE RIGHT DIRECTION


We asked the Professional Trustee firms how they incorporate DE&I into their Sole Trustee roles and here are some of the responses:


- 


“Having two trustee directors with a diverse set of skills and experience on each Sole Trustee appointment.”
- 


“Periodically consider (at Board level) client allocations and whether a change in the trustee team is required to ensure diversity and fresh thinking.”
- 

“We attempt to match the DE&I backgrounds of the trustee to the needs of the company and the scheme.”
- 

“Worked with an external DE&I specialist on a tailored programme to train a group of colleagues on issues of equality, diversity and inclusion, and to help them identify and deal with unconscious bias.”
- 

“We deliberately do not have house views to ensure that decisions taken are appropriate for each specific scheme circumstance.”
- 

“We see networks as a key part in enhancing a culture of inclusivity and ensuring people feel able to bring their whole selves to work.”
- 

“For every Sole Trustee appointment, the two Principals selected to lead on the appointment are chosen to ensure they will have an equal voice and given an open forum for their views to be heard and considered and are remunerated fairly and will have a work environment that suits their needs.”
- 

“As just one example of how we collaborate with each other, our Client Directors and Managers attend monthly forums in which anonymised individual scheme matters are discussed, to enable experience to be shared and diversity of thought to be fostered.”



LOOKING TO THE FUTURE

PT's views on threats and opportunities for the industry

Events over the last 12 months have led to an acceleration of schemes approaching their endgames as well as placing a renewed focus on governance with the launch in July 2023 of the DWP consultation on Trustee skills, capability and culture.

We asked the Trustee firms we surveyed what they perceive the biggest threats and opportunities to be for PT firms against this backdrop. Somewhat unsurprisingly 'buyout' and 'endgame' featured high in the ranking of opportunities for PT firms – reflecting the shift in funding levels over the year and the increasing pace of schemes moving to insurance solutions. The hiring patterns of the PT firms have reflected this view – with some 62% of respondents to our survey hiring individuals with insurance capabilities (as covered on p.8).

Succession planning was also cited as an opportunity for growth by the PT firms – presumably with the expectation that employers will struggle to find employees who are willing and able to meet the increasing demands of trusteeship.

On the flip side, cost was identified as the key threat – with increased cost of professional indemnity insurance cover alongside increasing expectations of trustees driving cost pressures across the PT delivery models. This pressure was noted as particularly acute in the Sole Trustee space and for smaller schemes.

Interestingly regulation and consolidation were both cited as both an opportunity and as a threat – with a greater weighting to 'threat' in both cases.

On the one hand the PT firms noted that increased regulatory requirements through the General Code, the Funding Code, ESG considerations, DE&I considerations will almost certainly increase demand, as lay trustee boards find the heavier regulatory burden increasingly difficult to manage. But on the other hand, PT firms consider that escalating regulation will increase the minimum service level requirements and so the costs of providing this level of service may make it unattractive for some schemes, particularly towards the smaller end where there is arguably the greatest drive for consolidation (in terms of schemes yet to appoint a PT).

The views on the opportunity or threat posed by consolidation appear to be mixed, with some firms indicating that consolidation in the PT market driven by Private Equity backing could increase fees leading to increased revenues and profits.

However other firms cited the risk that increased corporatisation of PT firms leads to trustees becoming focussed on doing what is best for the financial interests of their firms rather than acting in members' best interests as well as the greater potential for conflicts of interests where Private Equity-backed PT firms then chose to take on more work which might traditionally be done by an employee benefit consultancy.

We asked: What do you see as the opportunities for PT firms?



Source: LCP data

We asked: What do you see as the threats for PT firms?



Source: LCP data

CONCLUSIONS

Our respondents indicated that they expect more growth in the professional trustee market – with the consensus being that growth of over 10% is expected again next year. We expect the Sole Trustee market to continue to expand with double digit annual growth, at a rate that outstrips the appointment of PTs to schemes more generally.

Increased demand for expertise offered by Professional Trustees

Improvements in funding levels and enhanced insurer pricing have led to record-breaking numbers of transactions. We are also seeing a shift in schemes considering alternatives to insurance and/or delaying their approach to the insurance market to potentially share upside along the route with scheme members and with the sponsor, particularly against a high inflation backdrop.

This suggests that the PT market will remain buoyant for a number of years to come as typically these more innovative approaches to endgame planning require a greater level of expertise and experience which may be provided by Professional Trustee firms.

We expect that over the next year PT firms will look further at the potential for technology and digital solutions to streamline routine governance tasks to enable trustees to improve governance, recording of decisions and to focus their time on the strategic issues. Some of these developments may harness the potential of Artificial Intelligence.

The expansion of PT firms into related service areas, increased demand for PT services as well as further consolidation in the market overall will mean that sponsors, advisers, TPR, DWP and PT firms themselves will have to continuously evolve in their response to changes in the market.

The DWP hints at making PTs mandatory for schemes over a certain size – whether this is feasible is questionable without scheme consolidation, given how many schemes are still without a PT. We endorse the value-add a PT can bring to a scheme, especially when they bring a particular skillset that has been lacking.

Whilst Sole Trustee isn't right for every scheme, we have witnessed a number of success stories where succession planning or efficiencies needed to be addressed.

Responding to increased Regulation

Over the coming months we will see the publication of the outcome of the Call for Evidence on pension trustee skills, capability and culture which may include mandatory accreditation and a register of trustees, giving the Regulator more of an oversight role.

A definition of 'Professional Trustee' along with the standards to meet the definition may be on the way, albeit we would doubt that this will result in any noticeable change in approach by any of the PT firms we surveyed.

We hope to continue to see the PT firms broadening their pool of Trustee directors, in order to harness the benefits of greater diversity of thought. At the time of writing, TPR has recently launched its DE&I survey for DC scheme trustees and we would like to see this extended to DB scheme trustees over the coming year – given the size of the assets under the management of this group.



WITH THANKS TO ALL OUR RESPONDENTS

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