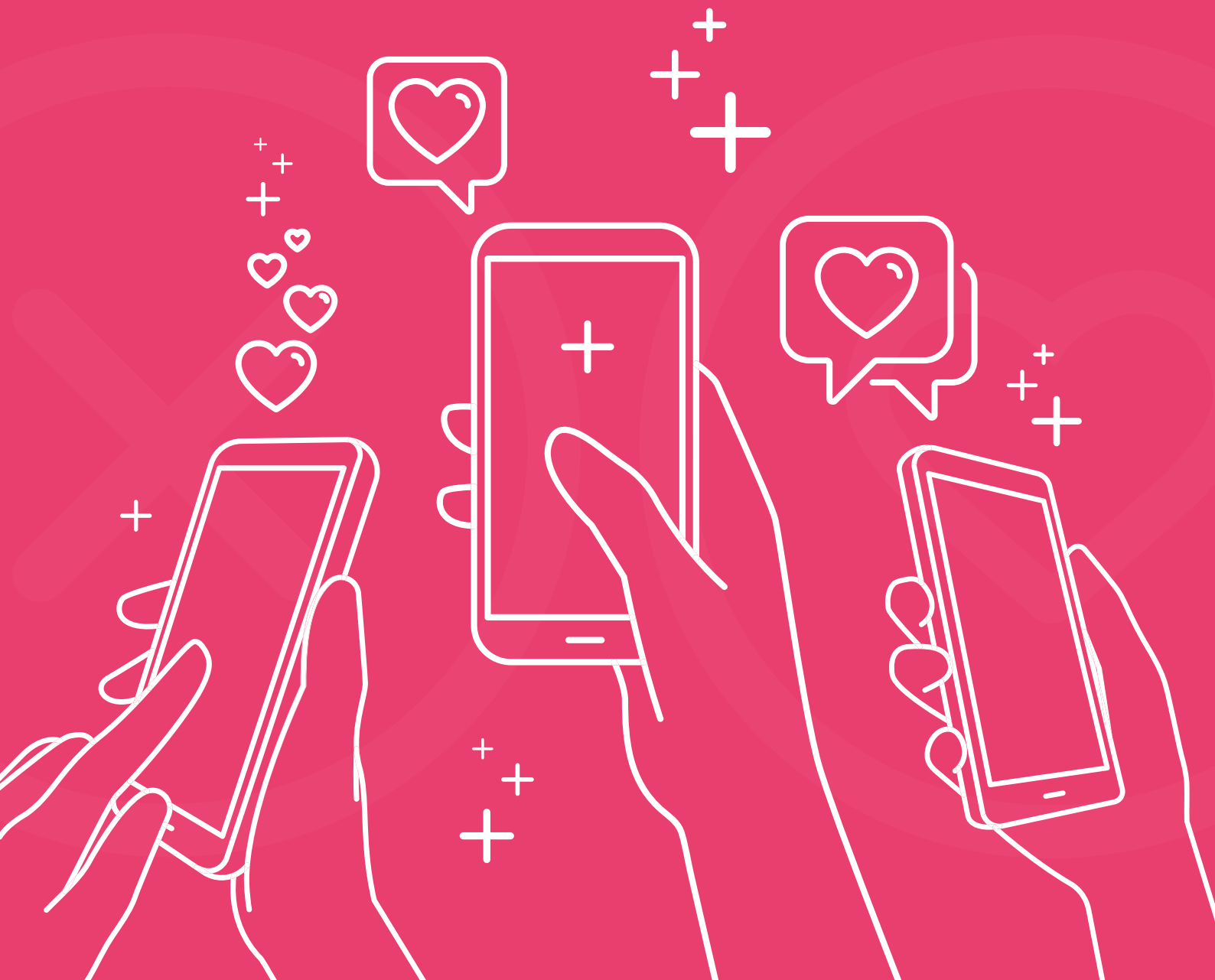


「Sole mates or soul mates?

LCP's second annual survey looking at the growth of the Professional Corporate Sole Trustee market and changes between 2021 and 2022
October 2022



The hunt for a Solemate

The Professional Trustee market has seen huge activity over the last few years. In our survey last year, we analysed how the Professional Trustee (PT) and especially how the Professional Corporate Sole Trustee (Sole Trustee) landscape has changed and the key drivers for increased PT appointments.

The continued growth over the last year has brought quite a few changes with it and, whilst we continue to explore the PT and Sole Trustee landscape in general, we have placed more emphasis in this report on the evolution of Sole Trustee models, the growth of Sole Trustee appointments across the board and how Diversity, Equity and Inclusion (DE&I) is achieved within these teams.

A Sole Trustee appointment is where entire Trustee boards are replaced with a Professional Trustee firm, typically consisting of 2-4 named individuals from the firm.

This survey is based on responses from 13 firms, appointed to 2,174 schemes with over £1,200bn of assets. Of these schemes, 745 are Sole Trustee appointments. We thank all participants for completing our questionnaire and sharing their insights. The report is also based on regular engagement we have with all of those 13 firms.

Key findings

2022 has seen a 10% increase in PT appointments in one year alone. Overall 43% of pension schemes now have a PT with one third of those being a Sole Trustee arrangement.

The Sole Trustee Model was originally adopted by smaller schemes (typically with assets of £100m and below) and has grown in popularity in this sector. However, our survey analysis has demonstrated that this is now a valid option for a number of larger schemes:

- Our survey shows an increasing trend of larger schemes and those with overseas parents opting for a Sole Trustee arrangement, often driven by the need for simpler governance, cost savings and endgame planning.
- Sole Trustees tend to focus on streamlining services through their advisers. A quarter of all schemes with a Sole Trustee group key services with one firm for efficiencies – a trend we see continuing.
- PT firms are taking the Sole Trustee model seriously: all of them have developed a system of governance to help ensure appropriate decision making and efficient delivery of their services. Many have a newly appointed Head of Sole Trustee.
- DE&I has become a huge focus for PT firms with Trustees increasingly drawn from a wider range of backgrounds, together with a shift towards younger Trustees and a close to 60/40% split of male vs female Trustees.

How to read the report

The findings of this Sole Trustee survey are split into three sections:

1. The growth of the PT and Sole Trustee industry
2. A deep dive into Sole Trustee models, fees, and independence from the sponsor
3. DE&I amongst the firms reflecting the strong recruitment drive



As the Professional Corporate Sole Trustee market grows in size it's important to gain insight into the opportunities and challenges facing this part of the pensions industry.

Sarah Smart – Chair, The Pensions Regulator

A valuable and high quality piece of work.

Robert Thomas, Professional Trustee, Law Debenture



Section 1: What's new in the market?

The Professional Trustee market, one year on

The Professional Trustee market continues to grow at a fast pace. In just one year (12 months to July 2022) we have seen a 10% growth in UK schemes appointing Professional Trustees.

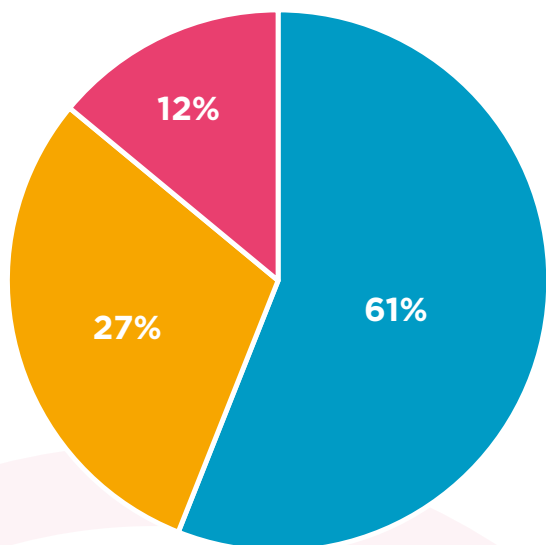
There have been 120 new Sole Trustee appointments either through the change of an existing appointment or through an outright Sole Trustee appointment. Not only has this growth of the market in just one year been remarkable, what is striking is the increase in the size of schemes that have appointed a Sole Trustee or are currently contemplating doing so.

43% of schemes now have a PT with a third of those appointing a Sole Trustee. In just one year we have seen a 10% increase in PT appointments and a 20% increase in Sole Trustee appointments.

Whilst historically the Sole Trustee solution was often considered for pension schemes with assets of £100m and below, we are now seeing schemes in the £1bn+ range looking to a Sole Trustee arrangement.

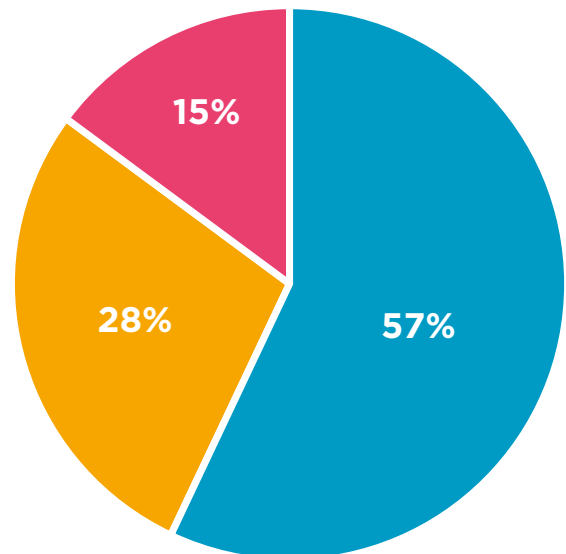
Schemes with a Professional Trustee are on the rise

2021: Split of UK pension schemes with a PT or Sole Trustee



● UK DB & DC schemes without a PT
● Schemes with a PT, not Sole Trustee ● Schemes with a Sole Trustee
Source: LCP survey summer 2021

2022: Split of UK pension schemes with a PT or Sole Trustee



● UK DB & DC schemes without a PT
● Schemes with a PT, not Sole Trustee ● Schemes with a Sole Trustee
Source: LCP survey summer 2022

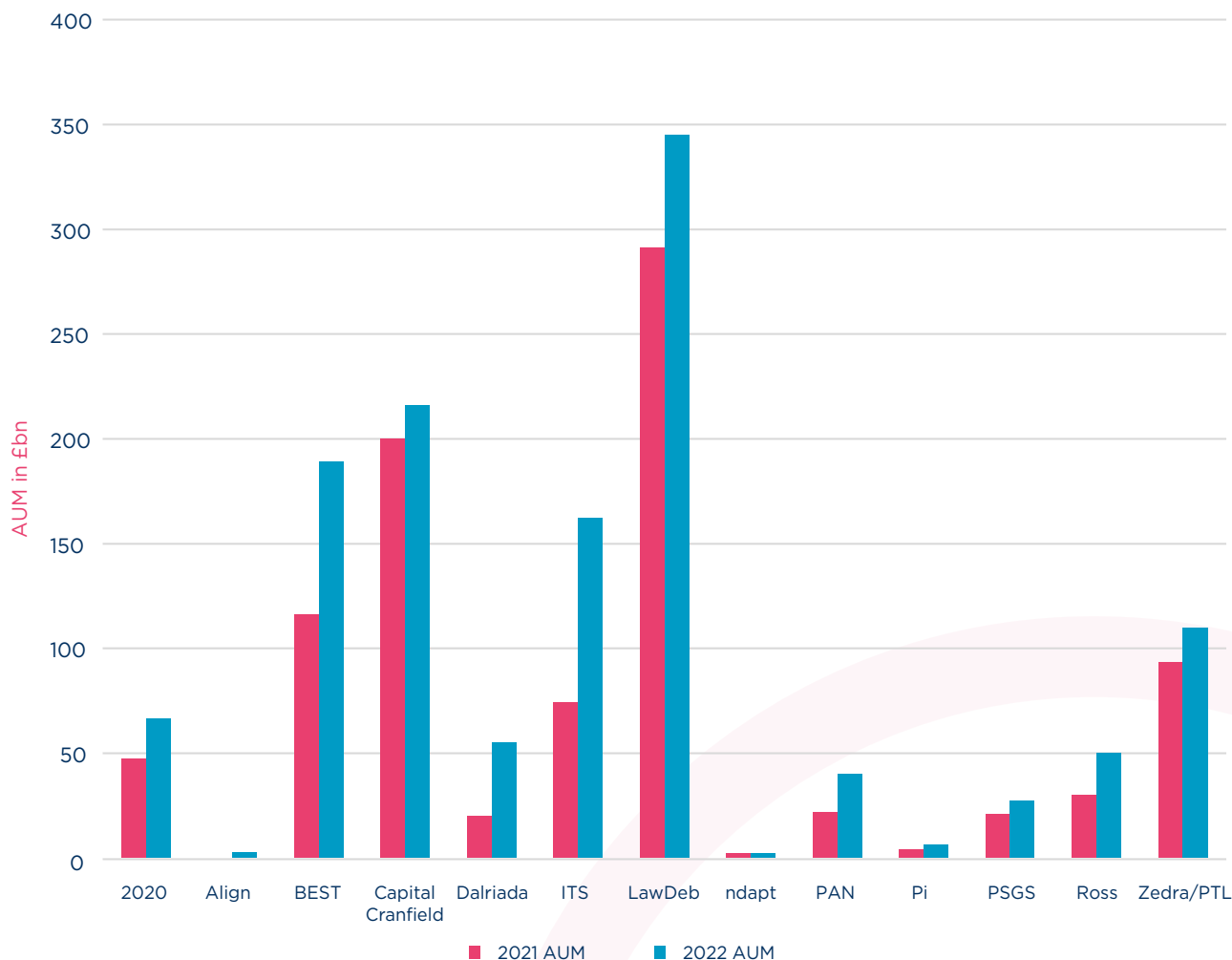
Source: Data from Pension Funds Online as at June 2022 cited 5,059 UK DB and DC pension schemes. LCP survey information showed 2,174 schemes have a Professional Trustee in 2022 of which 745 are a sole Trustee appointment.

Sole Trusteeship is only going to increase in popularity, that much is clear, and especially but not exclusively with large schemes.

Harus Rai, MD - Capital Cranfield

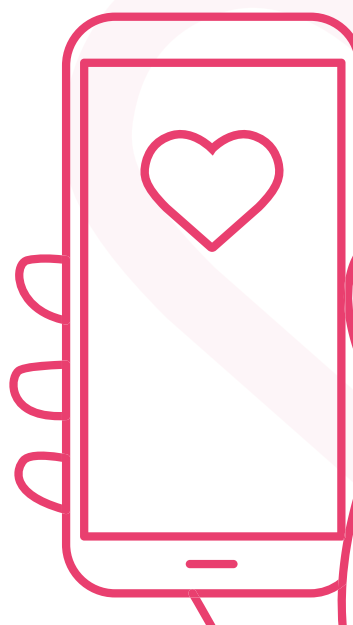
All of the 13 firms we surveyed are now responsible for significantly more assets than last year as the chart below indicates:

Assets Under Management (AUM) year-on-year growth of Professional Trustee Firms



The incessant march of greater governance and bewildering complexity faced by trustee boards and the distant, legacy nature of these historic DB arrangements shapes our view that the sole trustee market will continue to grow and flourish at a similar rate to recent experience. Our market is now calling for higher standards covering key areas such as process, conflict management and diversity. With such higher standards, that future growth will go hand-in-hand with better member outcomes.

Vassos Vassou, Professional Trustee - Dalriada



Key drivers for appointing Professional Trustees and Sole Trustees:

Appointing a Professional Trustee to a pension scheme can assist with:



Speed of decision making



Staying abreast of upcoming regulation



The relationship with the sponsor and trustees



Benchmarking advisers, especially on fees and service



Completion of specialist projects

Appointing a Sole Trustee outright or moving to a Sole Trustee arrangement once a PT has been appointed could result in:



Better succession planning



Fee savings: either by benchmarking trustee adviser fees or switching to full service offerings



Quicker decision making and fewer meetings through more efficient workstreams



A reduced need for trustee training



Support with scheme governance

Potential drawbacks of a Sole Trustee:



Lack of diversity of thought by the entire trustee board, especially MNTs who may bring a different perspective



High concentration risk as an increased number of pension schemes are being looked after by a small pool of Sole Trustees



Potential loss of scheme knowledge if a Sole Trustee is brought in without an orderly transition period



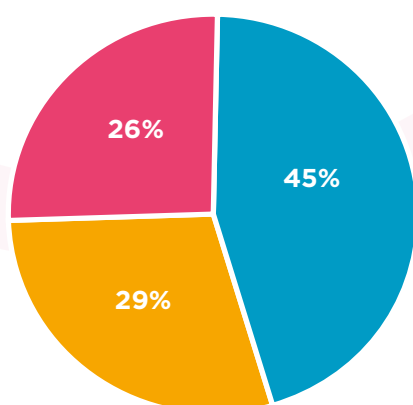
Not every scheme has the budget to pay a Sole Trustee

Sole Trusteeships are destined to grow in popularity, particularly for smaller schemes where there aren't the members willing to volunteer for the role or corporates able to release their staff. In many cases, these switches from time constrained lay boards to highly skilled professional Sole Trustees is bringing about significant improvements in scheme governance and better member outcomes.

Nicholas Chadha, COO and Partner, PAN Trustees

We have also seen a strong drive for Sole Trustee appointments if a particular project needs expertise eg. to manage a buy-out, member options exercises or benchmarking of existing advisers. Currently 10% of all schemes with a Sole Trustee appointment are undergoing buy-out with a significantly higher number on the journey to buy-out.

Most quoted reason for move to Sole Trustee



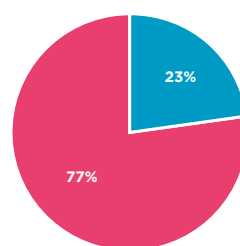
● Cost ● Regulation ● Succession planning

Significant scheme projects that were previously on the far horizon are now much closer because of improved funding levels. CFOs and HR managers are telling us they don't have the bandwidth or expertise to juggle these alongside their day jobs and they're worried planned corporate activity could create conflicts!

Louise Webb - Client Director at PSGS

Our analysis also shows that nearly a quarter of schemes with a Sole Trustee have an overseas parent. Our research shows that this ratio is higher than UK pension schemes with an overseas parent overall.

Sole Trustee schemes with overseas parents



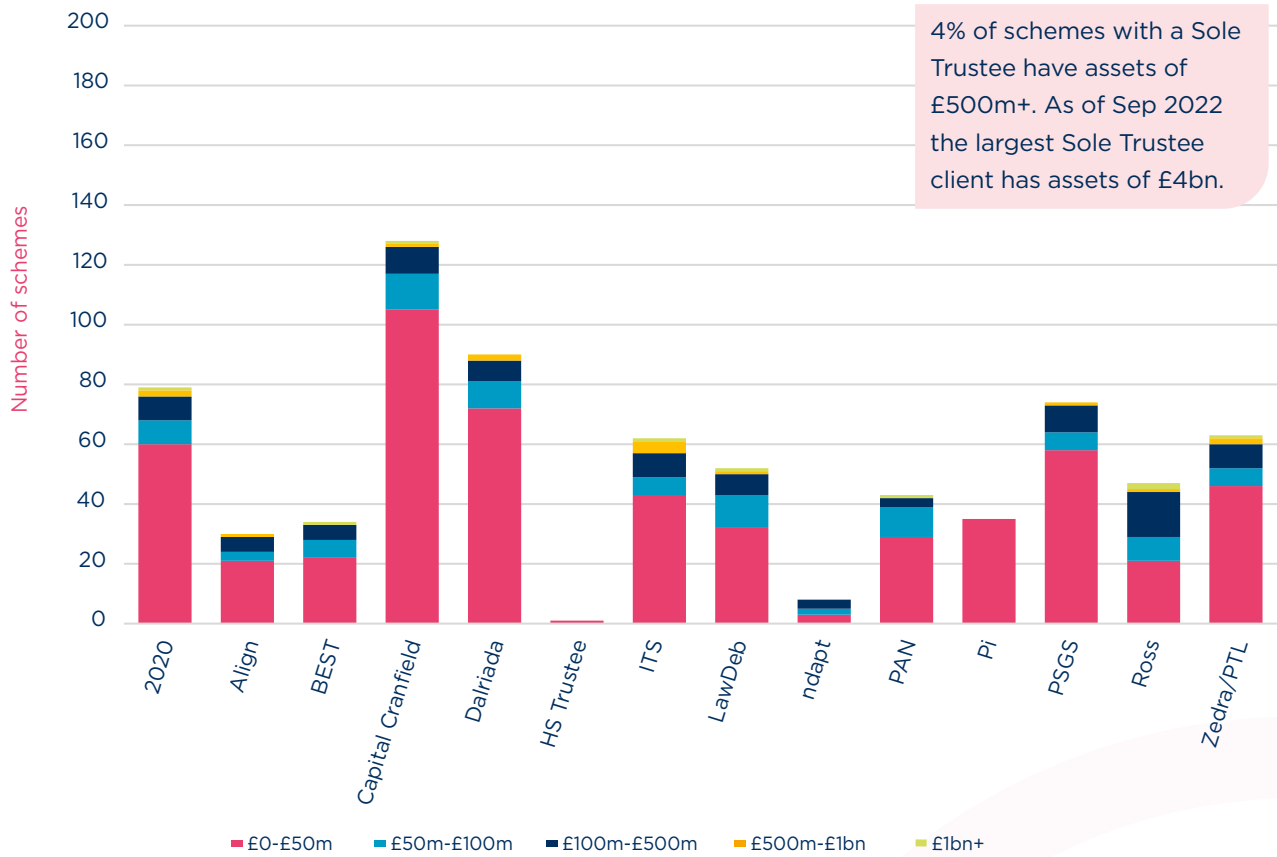
● Number of Sole Trustee schemes with overseas parents
● Number of Sole Trustee schemes with UK parent

Sole Trustee: no longer just a small scheme proposition

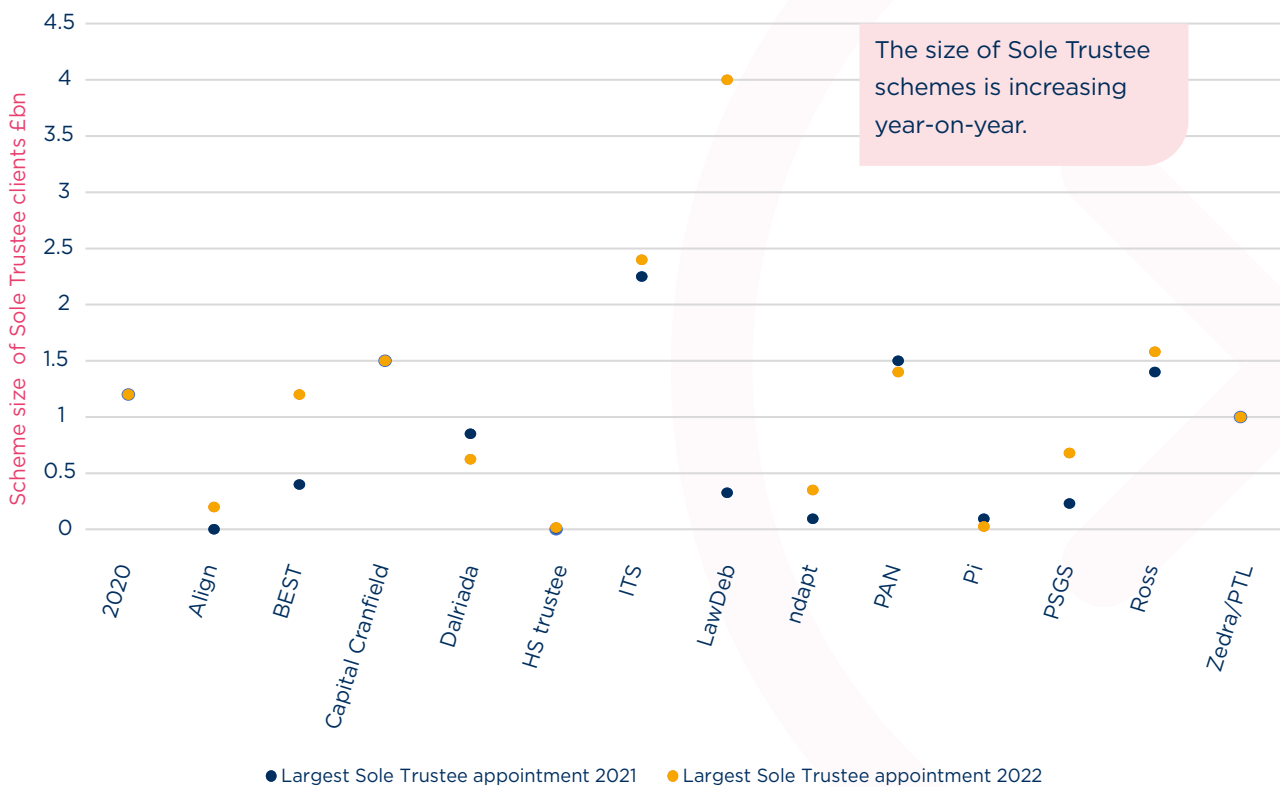
The strong and fast paced growth of Sole Trustee isn't just reflected in the number of schemes but the asset sizes of the underlying schemes. In our report last year we noticed a concentration in schemes with assets below £100m. Only 2% of schemes with a Sole Trustee had assets over £500m. This figure has nearly doubled in just a year to 4% of schemes with assets over £500m. In absolute numbers, 24 schemes with a Sole Trustee now have assets which are above £500m.

In 2021 the largest Sole Trustee clients were £2.2bn (ITS) and £1.5bn (PANTrustees). 2022 has seen a fair amount of activity in the £1bn+ bracket. 8 of the 13 firms now have a ST appointment with assets greater than £1bn. The largest Sole Trustee client is now £4bn (Lawdeb) followed by £2.4bn (ITS).

Size of Sole Trustee schemes split by firm



2021 vs 2022 Largest Sole Trustee scheme size comparison



The dots indicate each firm's largest Sole Trustee client as of June 2022 (yellow) and how this compares to their largest client in 2021 (blue).

Sources: LCP 2021 and 2022 surveys

Section 2: How to be different?

With increased demand for Sole Trustee offerings from sponsors it has become essential for Professional Trustee firms to establish an effective system of governance that can stand scrutiny from stakeholders, including TPR and the sponsor. Articulating this governance system is becoming essential for Sole Trustee providers in demonstrating their USPs as a means of attracting new clients and reassuring existing clients.

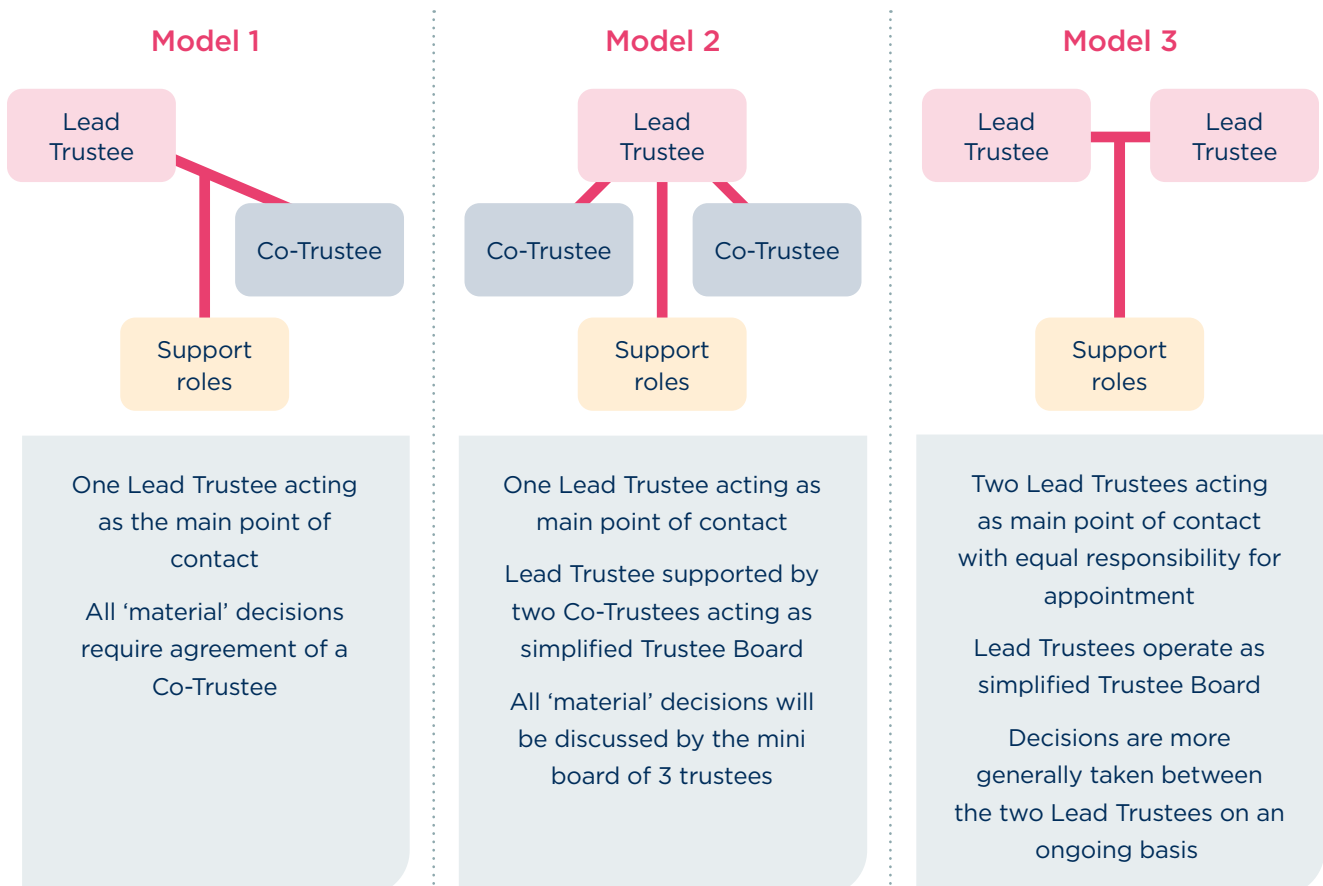
Models

Most firms surveyed felt that having a balance of PT and Sole Trustee appointments makes Trustee directors better placed to fulfil their role. Only a quarter of respondents have a ringfenced Sole Trustee team. A small group of survey respondents also have in place specialist functions headed by subject matter experts to supplement the core Sole Trustee team as required. These specialist functions may be used to provide expert input and guidance on particularly complex or unusual issues or act as a sounding board to the lead Trustee.

Some PT firms have created the role of a dedicated Sole Trustee support staff and in some cases an appointed **Head of Sole Trustee** or equivalent **governance committees** to oversee their Sole Trustee appointments. This ensures consistency of service and acts as point of escalation for any particularly material or contentious matters.

Particularly interesting is the structure of the Sole Trustee models proposed by the different firms. In most cases a **mini board** is created to replace the existing board, consisting of 2-4 Trustee directors and at least one support role. However, within that overriding structure, there is a broad range of approaches. It is often the sponsor who appoints the Sole Trustee. In deciding which firm to choose, the main criterion often is over having clarity on who makes decisions.

We have grouped the different Sole Trustee structures into three common models, although each firm has their own nuances:



The Association of Professional Pension Trustees (APPT) requires that at least two accredited Professional Trustees be involved in the Professional Corporate Sole Trustee decision-making process.

a | p | p | t

Fees

The fee models differ between the firms reflecting different service models and remuneration structures.

About half of our respondents have established different (often lower) fee models for Sole Trustee compared to the traditional PT role. Cost efficiency through delegation and streamlined governance processes using more junior colleagues as well as supporting advice received from external advisers with internal expertise and pre-existing templates and processes, results in firms being able to pass on those efficiencies to their clients.

Typical fee models are on an annual fixed fee basis and as a rough guide, fees for a Sole Trustee appointment for a scheme with £200m of assets with business as usual tasks would be in the range of £25k-£40k pa depending on resources required, complexity of scheme and ongoing work. The reason the range is so wide is down to the large discrepancies in hourly charge out rates between the firms, ranging from £300p/h to £500p/h and the model of the support structure. Note that this fee does not include pensions secretariat and other tasks.

How and when are Sole Trustee decisions made?

Replacing a Trustee Board with a Sole Trustee often results in the 'formulaic' quarterly meeting cycle being replaced with ad-hoc meetings with advisers and sponsors without a formal structure. The upside is that work is continuously managed and the Sole Trustee does not need to wait for the next quarterly meeting to update the sponsors on actions taken. Understanding the governance process for making decisions is important for sponsors and advisers as decisions aren't always taken with sponsors and/or advisers in the room.

Additional services

To further improve governance a number of Trustee firms have concluded that offering a Trustee secretariat service alongside Sole Trustee is most efficient. They have therefore started to expand their teams to provide these ancillary services. 11 out of the 13 firms we surveyed offer secretariat services alongside Sole Trusteeship, either as an add-on service through a separate company or with in-house secretaries.

Whilst secretariat is the most common service to be offered alongside Sole Trustee, we have noticed a range of wider services offered either through the lead Trustee or one of their specialists colleague getting involved on a project basis, such as covenant, investment and governance (ESOG/ ORA) support.

How independent are Sole Trustees' decisions really?

Like most PTs, Sole Trustees are usually appointed and removed by the sponsor. Our survey analysis shows that all firms surveyed work in an interactive way with the sponsor, ensuring communication between the Sole Trustee and the sponsoring employer results in sharing objectives and being fully transparent. In practice this might mean that the lead Trustee will provide full visibility of business plans and workstreams and reporting is shared frequently with the sponsor.

When asked how the PTs handle the relationships with the sponsor we received the following answers:



However, conflicts between the Sponsor and the Sole Trustee need to be managed carefully, especially if a Sole Trustee has been brought in to remedy a previously fraught relationship between sponsor and trustee. Ensuring there remains a **healthy level of independence and challenge** is particularly important during valuation or strategic negotiations.

Our respondents quoted that the most common reason for a re-tender of the Sole Trustee services is when views didn't align with the sponsor.

A lot of respondents invite the sponsor to join the official meetings or form a joint working group.

Below is a list of the most relevant answers from our respondents on how they handle the relationship with the sponsor:

- 'We operate in a **joint working group** approach to support alignment with common goals and decisive action, in particular about setting the scheme's strategy'.
- 'Our approach to working with sponsors is built on being **interactive, engaged and transparent**.'
- 'We look to **agree a journey plan on inception** and manage towards this. We ensure **appropriate challenge where necessary** but the Trustee and Company should have a **mutual ultimate aim of securing member benefits**.'
- 'We often propose that we establish a **Joint Working Group with Scheme Sponsors** – the purpose of which is to **work together** to set scheme strategy and objectives, monitor progress and agree any required adjustments as the strategy evolves. This JWG would formally meet twice a year once the strategy is set.'
- 'We always aim to work collaboratively with the sponsor and the way **we engage is flexible and responsive to the particular client wishes**.'
- 'The key for a strong relationship between trustee and sponsor requires **maximising collaboration** and **minimising conflict**. Our approach to our relationship with corporates is an open and direct dialogue, **not through advisers**.'

The independence of Sole Trustees from the sponsor is the key challenge for the Sole Trustee industry. For the Sole Trustee model to work, TPR and other parties need to recognise the Sole Trustee as being fully independent from the employer and making key decisions in the interests of the members.

Appointment of advisers

Our respondents claim to have **complete discretion** on the choice of advisers, however many would **involve the sponsor** in the review and selection process.

When it comes to re-tendering advisers regularly, whilst the APPT Code of Practice encourages a re-tender every three years, only 50% of respondents have a clear process in place.

Review of Advisers and Service Providers: PCST firms should have procedures in place to ensure that performance reviews of advisers and service providers are undertaken at least once every three years, with the process, outcome and actions documented.

The appt code of practice for PCST **a|p|p|t**

We see one of the biggest challenges facing the sole Trustee market is ensuring that providers of Sole Trustee services operate in line with the highest of standards and take the time as an industry to maintain those standards. The development of technology will help facilitate continuous scheme management and improve standards of scheme governance.

Ross Trustees

Section 3: How to get diversity of thought with a Sole Trustee?

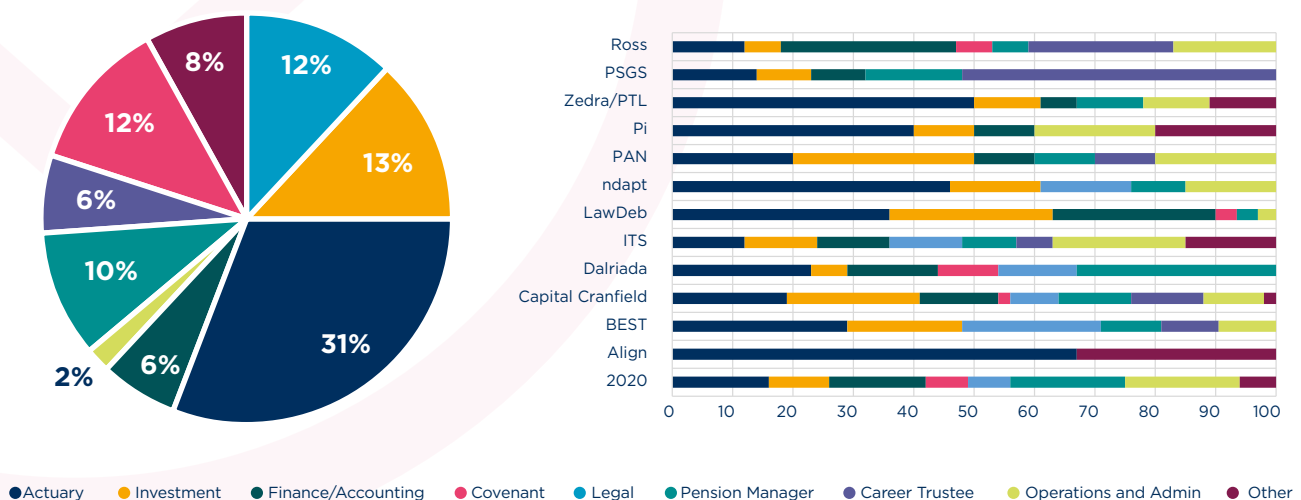
Diversity, Equity, and Inclusion (DE&I) has been a huge area of focus for Professional Trustee firms. This is even more important in a Sole Trustee environment, as an entire board is being replaced by a small group of people within one firm. TPR has emphasised how important DE&I is within pensions and formed four working groups to improve DE&I on trustee boards. The APPT also mentions diversity and inclusion in its Sole Trustee code, stating that firms will be expected to develop written policies on Diversity and Inclusion and 'give due and continuing consideration to diversity and inclusion in their decision-making processes'. To get more diversity of thought in decision making in the Sole Trustee model, professional trustee firms are focusing on diversifying their workforce more generally.

One of the structural opportunities within a Sole Trusteeship model is to ensure diverse input into decision making. At ITS we have consciously built a very diverse group of client-facing staff across all the key measures – such as gender, ethnicity, educational background and previous industry roles. Of course, one of the key factors of having diverse input into decisions is cognitive diversity and so all stakeholders including sponsor and advisers are treated as part of 'the team' and we think this collaborative ethos leads to better decisions and better outcomes for members.

Akash Rooprai – Head of Sole Trustee, ITS

The professional trustee industry has come a long way as they strive to create a diverse workforce. Recently we've seen a large number of new directors from diverse backgrounds. We have noticed a shift away from PT directors with actuarial backgrounds towards a wider pool of backgrounds. This can satisfy the need to chair specialist boards or committees, such as investment and risk committees of the larger boards. Similarly, those with pensions manager and finance backgrounds demonstrate an understanding of the sponsor / trustee relationship and covenant backgrounds to help with high level assessments of the covenant in addition to the existing covenant adviser.

Background of Trustee Directors

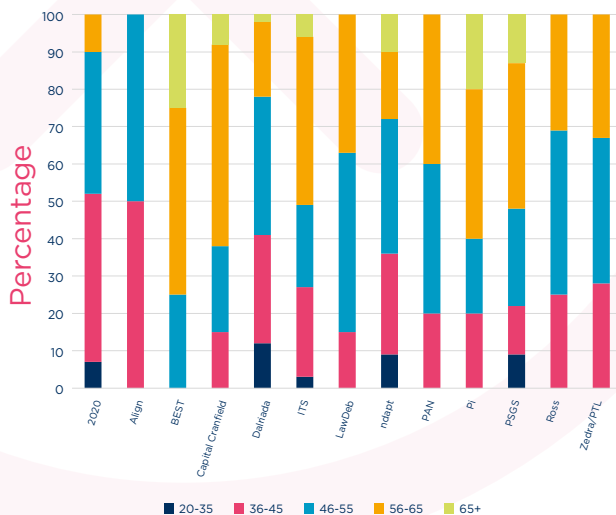


Over the past couple of years we have seen a shift in trustee director backgrounds from a predominantly actuarial to more recruitment from legal, investment, finance and covenant professions.

The challenge for a PT firm acting in a Sole Trustee capacity is how to bring the diversity of directors to appointments. This might seem easier in firms where a number of trustee directors work with their clients interchangeably and more challenging within firms where a team approach is less common.

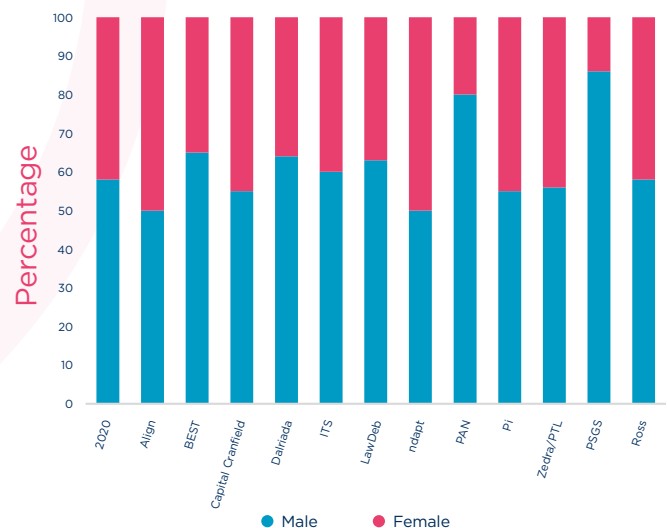
Diversity of thought can also be achieved by increasing the range of ages within a PT firm. Firms pro-actively hiring graduates and career trustees, has resulted in ages of PTs coming down significantly. Dalriada for example, recently announced that their youngest accredited professional Trustee is only 23 years old. The remuneration structure of the different firms can have a significant impact on the age profiles they attract. For example, in a firm where each trustee is self employed, it might be more difficult to attract younger trustees who require a salary from day one, rather than slowly build up their portfolio of clients. This model is however changing and all firms are now re-addressing how they can expand on their age profiles.

Age profile of Trustee Directors



PT firms have started to recruit at a more junior level, bringing the average age to 50. We are still seeing a huge disparity amongst the firms, often related to their underlying business models.

Male vs Female



The current average M/F split is 60/40. The desire to increase diversity of trustee directors is seen across all of the firms. The male to female ratio continues to vary between each firm, however there is a trend towards a 50/50 split.

Looking to the future

Having experienced such a rapid growth and shift of the Professional Trustee industry in just one year, our respondents tell us that this is just the beginning.

Improvements in funding levels and enhanced insurer pricing have led to a multitude of pension schemes looking to start or complete insurance de-risking transactions where expertise on journey planning and the transaction itself is a helpful addition a Professional Trustee can bring.

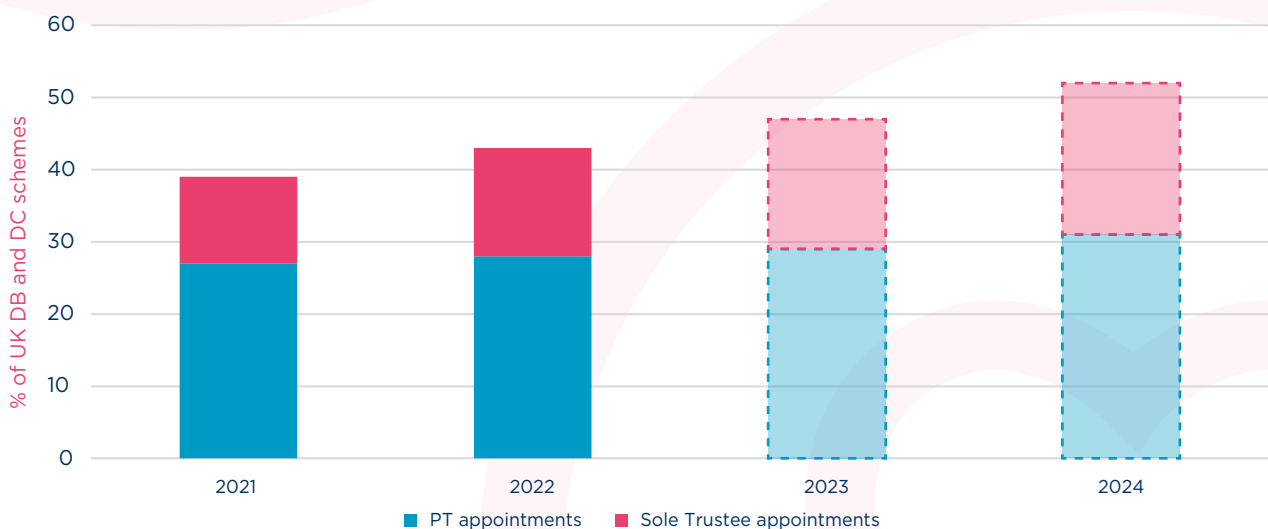
Increased Regulatory pressure has resulted in specialist support to be high in demand, helping to navigate through the uncertainties and provide comfort that the schemes are well prepared for years to come.

Professional Trustee Firms are continuing to hire trustee directors from a multitude of backgrounds to satisfy increasing demand of sponsors looking to fill trustee roles with expert and independent experience. Additional capital to hire and expand those PT businesses is often acquired through private equity investments or careful planning of their in-house resources and trustee composition.

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.

The continued growth in the Professional Trustee and Sole Trustee market might result in 2024 being the year when over half of UK pension schemes will be using Professional Trustee services.

Looking to the future...



We expect the Sole Trustee approach to continue to grow over time and have seen sponsors of very substantial schemes get comfortable with it. We think there will be a drive towards PCST becoming commoditised over time, both in the professional Trustee service offering and the adviser approach and therefore choosing the right firms with the right infrastructure will become imperative. This will further drive competition in the marketplace which should lead to efficiencies and improve member outcomes.

Nigel Modlinsky – Head of Corporate Sole Trustee, Law Debenture



Respondents

	Firm	Website	Contact
	20-20 Trustees	www.2020Trustees.co.uk	Angela Connally
	Align Pensions	www.alignpensions.com	Bhavna Kumar
	BESTrustees	www.besTrustees.co.uk	Zahir Fazal
	Capital Cranfield	www.capitalcranfield.com	Richard Wiscombe
	Dalriada	www.dalriadaTrustees.co.uk	Vassos Vassou
	HS Trustees	www.hsTrustees.com	Steve Goddard
	ITS	www.itslimited.co.uk	Ian Terry
	Law Debenture	www.lawdebenture.com	Nigel Modlinsky
	Ndapt	www.ndapt.com	Marcus Hurd
	PAN Trustees	www.panTrustees.co.uk	Nicholas Chadha
	Pi Pensions	www.pipartnershipgroup.co.uk	Amanda Burden
	Punter Southall Governance Services (PSGS)	www.psgovernance.com	Kevin Clark
	Ross Trustees	www.rosstrustees.com	Mark Wileman
	Zedra/PTL	www.zedra.com	Matthew Binnington

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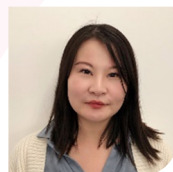
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