Nicholas Clapp

Peter Smith

New, but with experience

TPT Investment Management's managing director, Nicholas Clapp, and investment director, Peter Smith, talk to *Pensions Age* about how its new fiduciary management offering blends its own experience of managing pension fund money with the opportunity to invest in private markets and focus on climate change, due to its long-term investment horizon

TPT Retirement Solutions is entering the fiduciary management market, as TPT Investment Management (TPTIM). It is doing so with quite a unique background, being owned by an asset owner. What benefits do you feel TPTIM's fiduciary management operating model provides schemes?

Nicholas Clapp: TPTIM is new but it's not new. It's new in so much as we're launching fiduciary management as a standalone service to pension schemes. At the same time, we've been doing fiduciary management for well over a decade, it's just been part of the solution that we provide inside our master trust.

We come with a different slant on what fiduciary management can look like, bearing in mind our ownership structure. We've got a past track record. We've got successful performance and we've got scale.

Peter Smith: What we are doing is providing non-master trust schemes access to our investment strategy, which has been developed over the past 15 years. It's not something we're having to build from scratch and create a track record. Also, our private market allocation has been built up over this period. Therefore, it has a different risk, return and exposure profile from something that is being built from scratch today.

Having an asset owner perspective means we're generally thinking 20 to 30 years ahead. I think it gives us a different time horizon compared to other fiduciary managers, particularly around important topics like climate change, and how we engage with the underlying investee companies that the trustee has a holding in.

Clapp: Because of our ownership structure and the operating model that we deploy, we offer something that is different to the rest of the market. We don't have an asset manager thought process. We don't have a consultant thought process. We have an asset owner thought process. We don't have to worry about other stakeholders in the business that require certain targets for us to hit. We are here solely for that singular focus on what that client's end goal is.

Historically, fiduciary managers have been heavily invested in public markets, due to pension schemes' need for high liquidity and low fees, thereby limiting the scope for alternative assets and alpha generation. How does TPTIM approach asset allocation and to what extent are the private markets a part of that?

Smith: When I started at TPT back in 2008, pension fund strategies were very much equity and corporate bond focused, with a small allocation to property. But because we are historically an asset owner, we started looking at diversification into unlisted assets. We have long-dated liabilities with some of our clients open to new accrual, meaning we have a long-term mindset when it comes to asset allocation. This means we can get exposed to long-dated, more complex, illiquid assets, such as unlisted infrastructure, which we believe can ultimately can provide an uptick in return and an increased level of portfolio diversification.

We are willing to give up liquidity if we think we can get access to a return premium not available in the public markets. It provides diversification to the portfolio, recognising it might not be the lowest cost option. Private markets are generally more expensive than public markets, but as long as the net return is above our return objective we're willing to do that. Ultimately, it's around value for money, rather than just cost.

One such change in pension schemes' investment strategies in recent years has been an increased focus on climate change. How does TPTIM measure climate risk for its clients?

Smith: We explicitly incorporate positive allocations to things that can help solve the climate problem. That generally sits in the private market space. For example, we have a significant allocation to renewable infrastructure, be it energy generation, or storage, or grid.

Every three years we stress the portfolio against a number of climate scenarios, and then seek to understand the potential impact on the portfolio, recognising that climate scenarios are still very nascent. We take this into account when we're looking at future asset allocation, particularly on the solutions side.

When we're working with external managers, we look at how they incorporate climate change into their investment philosophy, portfolio construction and security selection to ensure that it is consistent with our views. With regards to reporting, all our clients will have access to carbon footprinting data. One of the things we're currently doing is exploring how to do that consistently across all of the portfolio given data challenges. At the moment, we're rolling that out to infrastructure and the next challenge with that is private credit.

Clapp: Whatever we do here for our largest client we can apply to our smallest client, as we're able to make sure that these solutions are scalable.

The growth in the fiduciary management market in recent years has compelled many providers to streamline their operations. While having generated some advantages, it can also be argued that some fiduciary managers have, as a result, somewhat pivoted away from clients' specific needs. How does TPTIM balance ownership and alignment?

Clapp: We've taken the opportunity to refresh our capability of how we deliver for clients at scale. That's taken a significant amount of work over the past 12 months in order to set up new fund structures and enhance our systems and reporting. All of which is very operational, but it leads to a better solution strategically for the client. This means that we don't have the problem of a change of business model diverging away from what the client requires.

Probably at the heart of that is the ownership structure, where TPT is ultimately owned by a pension fund. So, we're very close to understanding our clients and the issues they are grappling with. We're very empathetic to that. Our solution is designed explicitly with that in mind.

Smith: We deliver good outcomes for a range of pension schemes. We manage schemes ranging from £10 million up to £2.5 billion. Whilst they all have slightly different requirements in terms of endgame target, return and risk objectives, ultimately what they're trying to do is deliver good member outcomes. We recognise that scalability is key in doing that. We've managed to think about designing that into what we've built in the fiduciary management space.

How do you ensure that TPTIM is positioned to deal with changing scheme requirements?

Clapp: There's the changing regulatory environment and changing funding levels that are generating different trends, in terms of where schemes might actually end up or what they're targeting as an endgame.

Then there is the changing requirements on the responsible investment side of things as well. For all of these changing requirements the tide continues to only move in one direction.

Talking to trustees, their job is vastly different from the job they did even three or four years ago, let alone 10 years ago. They see it as only becoming more complicated in terms of where they spend their time. So, the more that we're able to free their bandwidth up as a fiduciary manager, the more they can focus on the areas that are strategically important to them.

Smith: Ultimately it comes down to making sure you have a good enough understanding of what the trustees' objectives are. I think the key bit that's changed over the past 18 months is what level of illiquidity they require in the scheme, given that flexibility towards the endgame choice.

If a scheme has a very firm view that they want to run on, allocating to long-dated illiquid assets is still an option for them. For those schemes that want to keep their options open, it's making sure that you give them the flexibility to change their investment strategy at relatively short notice. One thing that we have been able to do is, by bringing about pooling and scale, we can create effectively a market where we can allow schemes to benefit from different endgame objectives. We can actually facilitate schemes changing their investment strategy at relatively short notice. By bringing together a large number of schemes within a pooling arrangement we can provide increased flexibility to individual schemes.