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investment managers, so there is greater clarity about what stewardship can realistically deliver in support of client objectives.

A stronger focus on financially material issues, and on how stewardship insights inform investment decisions around risk, valuation and long-term cash flow resilience, can help improve investment outcomes for savers over time.

➤ The IA has also highlighted the need for better retirement income solutions in the UK. What changes to the pension system could improve retirement outcomes for future retirees?

As the pension system evolves, many savers face complex and high stakes decisions at retirement. For those willing

informed decisions at retirement.

Alongside supporting customers to make retirement decisions, a key priority is ensuring wider access to high-quality retirement income solutions that are flexible, offer value for money and are designed around the income needs of DC investors. Such solutions will place an emphasis on income stability, inflation protection and long-term value, and regulation should support this.

We are taking forward work with our members that calls for changes to UK investment fund rules to allow them to make distributions from capital. This will enable managers to build funds that target stable income as their investment objective.

While value for money (VFM) discussions are for now focused on DC accumulation, in our view, it is inevitable that in future the VFM debate will be extended to the retirement income market. At that point, it will be crucial for the assessment of value, as measured by net performance and risk metrics, to be aligned with retirement income objectives. This will be important in supporting better outcomes for future retirees.

➤ Pension funds remain the largest institutional client segment for members of the IA. As the shift from DB to DC schemes continues, how might that change the way pension assets are invested?

While pension assets continue to represent the largest institutional client segment for the UK investment management industry, the shift from DB to DC schemes has changed how pension assets are invested.

In DB schemes, investment strategies have for some time been focused on de-risking, with assets being invested in liability-matching strategies that focus on bonds and derivatives. More mature schemes that are paying out pensions may also supplement liability-matching portfolios with cashflow-driven investing

The future of pension investment

➤ The Investment Association senior policy adviser, pensions & institutional market, Imran Razvi, talks with Paige Perrin to discuss the future of pension investment, the need for better retirement income solutions and the potential of the Pensions Commission

The Investment Association (IA) has called for a realignment of stewardship across the investment chain.

In practice, how could stronger stewardship lead to better outcomes for pension savers?

Stewardship is most effective when it is treated as a core input into the investment process and, when utilised to its full extent, aligns with pension savers' goals of long-term value creation.

To achieve this, stewardship must be embedded in mandates and relationships between pension scheme fiduciaries and

and able to seek regulated financial advice, this is the gold standard for support in retirement decision making.

However, many people will not seek advice, and policymakers and the pensions industry must ensure that non-advised customers also have access to support when making choices about their retirement.

The new targeted support framework, which will allow authorised firms to provide ready-made suggestions for groups of consumers with common characteristics, will fill this gap and help future retirees make more confident and

strategies that aim to deliver income to meet pension payments as they fall due. With many schemes seeking to achieve partial or full buyout, there is also a focus on liquidity in scheme portfolios.

By contrast, the rise of DC places greater emphasis on long-term growth, diversification and delivering value for savers over extended time horizons, since the DC system is less mature in comparison to DB.

The priorities of policymakers and regulators in the early years of auto-enrolment were very much focused on employer compliance and the desire to minimise product charges. The effect of this on the DC investment market was to cement the dominance of low-cost, globally diversified index products as the primary way for schemes to gain investment exposure.

In recent years, investment has returned to the heart of the debate on DC, and as assets consolidate into larger schemes and asset pools, we expect increased allocations to a broader array of asset classes, including less-liquid assets on private markets.

Geopolitical imperatives may also drive greater domestic allocations, a feature we expect to see not just in the UK but also in other global pension systems. Using a broader investment tool kit will be to the benefit of DC members, where allocations lead to more diversified portfolios that can help improve risk-adjusted returns over time.

➤ What are the key factors pension funds consider when choosing investment managers today?

Fees are clearly an important consideration, but they are rarely decisive on their own. In practice, schemes look across a broad range of factors to assess whether an investment manager can be a long-term partner.

The stability of the manager as a business in its own right matters, particularly for pension funds with long investment horizons, as does the

consistency and quality of the investment process. Strong in-house research capabilities and appropriate access to portfolio managers are also key, enabling trustees and advisers to understand how decisions are made and how risks are being managed.

Alignment is another critical factor. Pension funds increasingly focus on whether a manager's remuneration structures genuinely align the interests of investment teams with those of their clients.

The breadth of strategies on offer, and the ability of managers to evolve alongside their clients' changing needs over time, is also important.

Finally, organisational culture, values and ethics, alongside robust internal controls and risk management frameworks, play a central role in giving pension funds confidence that assets are being managed responsibly and sustainably over the long term.

➤ As pension schemes mature and more savers transition to retirement, what role do you think long-term assets such as infrastructure and private markets should play in helping pension funds meet their objectives?

Given that most savers are paying into their pension to receive an income in retirement, investing across a broad range of assets can help support this objective.

Assets that generate predictable income can be especially valuable in retirement. Certain debt instruments are well suited in this regard, as they can provide steady cashflows, sometimes with inflation-linked features.

Long-term, less-liquid assets, including those trading on private markets, can play an important role here when they have the right characteristics, and can align well with the long-term nature of pension liabilities.

Equity income also has a role to play, and assets can of course be sold to provide income on a total return basis.

However, this approach is generally

less suited to less liquid assets, where the ability to sell assets to fund income may be more constrained.

Overall, a diversified mix of assets can be appropriate, including some that are long term and less liquid, provided they offer the income characteristics pension schemes need to meet their objectives over time.

➤ Looking ahead, what is the most important policy change needed to improve retirement outcomes for UK pension savers?

Work already underway to improve pension scheme governance and to enhance investment performance through greater diversification is clearly welcome and will help improve outcomes over time. Stronger governance and better-run schemes are an essential foundation for delivering value for savers.

However, even with these improvements, many people will still fall short of the assets they need to achieve the standard of living they expect in retirement unless more money goes into pension saving overall. Contribution adequacy, therefore, remains the central challenge.

In that context, the government's Pensions Commission will be critical. Its role in identifying which groups of the population are undersaving, and exploring practical ways to support them has the potential to make a meaningful difference to retirement outcomes.

That could include examining whether minimum auto-enrolment contribution rates remain appropriate, as well as considering different approaches to encouraging voluntary saving among those able to do more.

Ultimately, improving retirement outcomes will require sustained focus not just on how pension savings are invested, but on ensuring that people can build up sufficient savings in the first place.

➤ Written by Paige Perrin