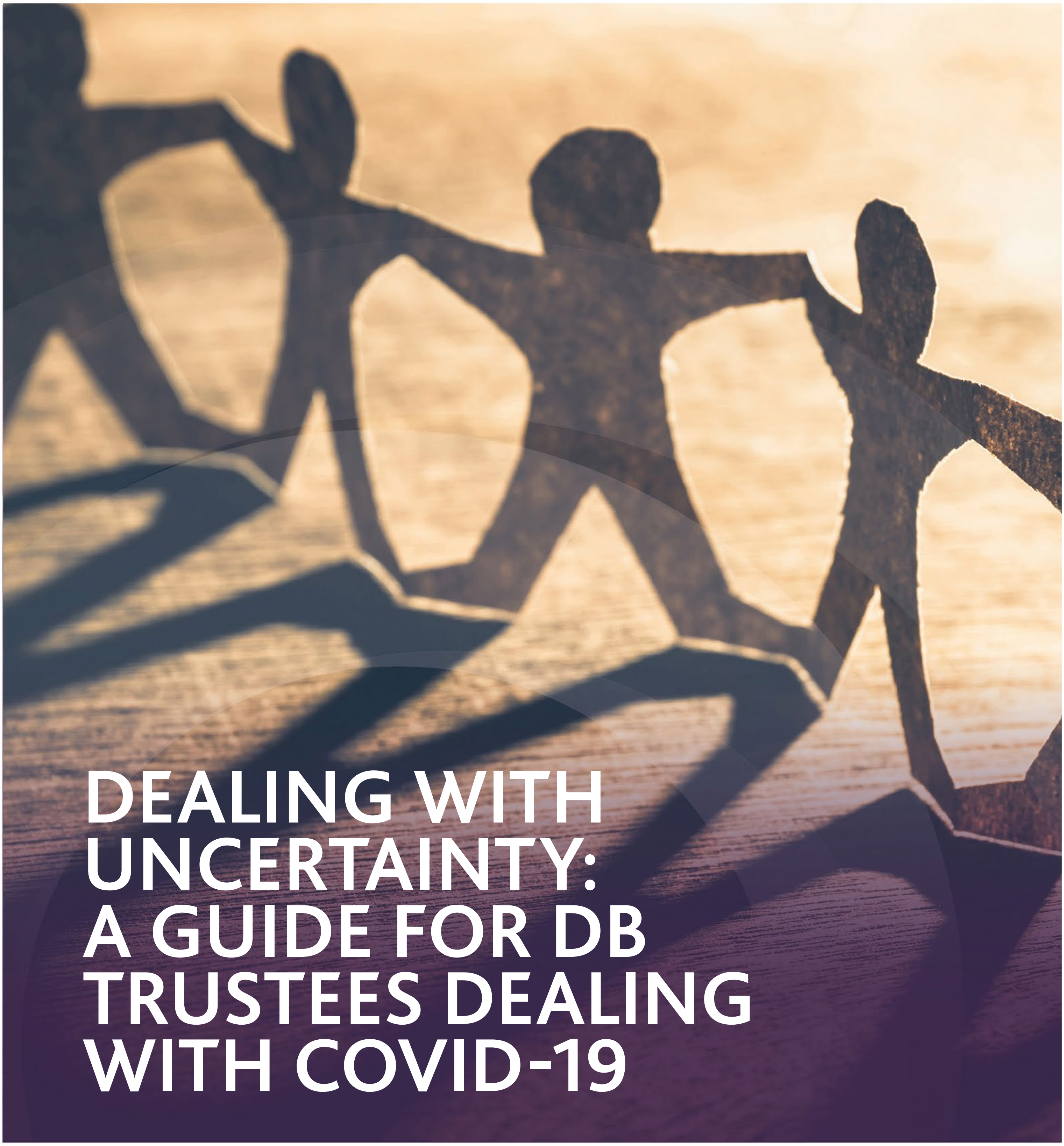

DEALING WITH UNCERTAINTY: A GUIDE FOR DB TRUSTEES DEALING WITH COVID-19

APRIL 2020

GOWLING WLG

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YOUR ESSENTIAL GUIDE TO DEALING WITH COVID-19 CHALLENGES

TRUSTEES AND PENSIONS PROFESSIONALS HAVE NOW RECEIVED DIFFERENT GUIDANCE ON COVID-19 FROM MANY SOURCES. GOWLING WLG'S PENSIONS TEAM HAS BROUGHT THIS TOGETHER TO PROVIDE YOU WITH A ONE-STOP ESSENTIAL GUIDE TO DEALING WITH THE CHALLENGES PRESENTED BY COVID-19.

Since our first Insight on COVID-19 and pensions was issued in the middle of March, there have been material developments. On 23 March 2020, the Prime Minister gave an address to the nation in which he announced a lock-down. Since then, the outlook for society and the economy look very different.

In the midst of this challenging and turbulent time, pension scheme trustees are expected to do their best to ensure critical functions are carried out and to work with scheme sponsors as they deal with incredible pressures on their businesses. With so much news, new guidance and scheme-specific developments to contend with, it could seem overwhelming.

Fortunately, many trustees have focused on risk management and business continuity planning and are well placed to face up to the challenges. The Pensions Regulator (TPR), The Pensions Ombudsman (TPO), the Financial Conduct Authority (FCA) and a range of industry bodies are also providing useful guidance for trustees. In addition, trustees can rely on their professional advisers to help them through.

To help trustees put all of this in context, we've put together this Guide for Pension Scheme Trustees Dealing with COVID-19 (the COVID-19 Guide). We expect that it will be updated as the situation develops and, when appropriate, we will issue material updates highlighting the changes.

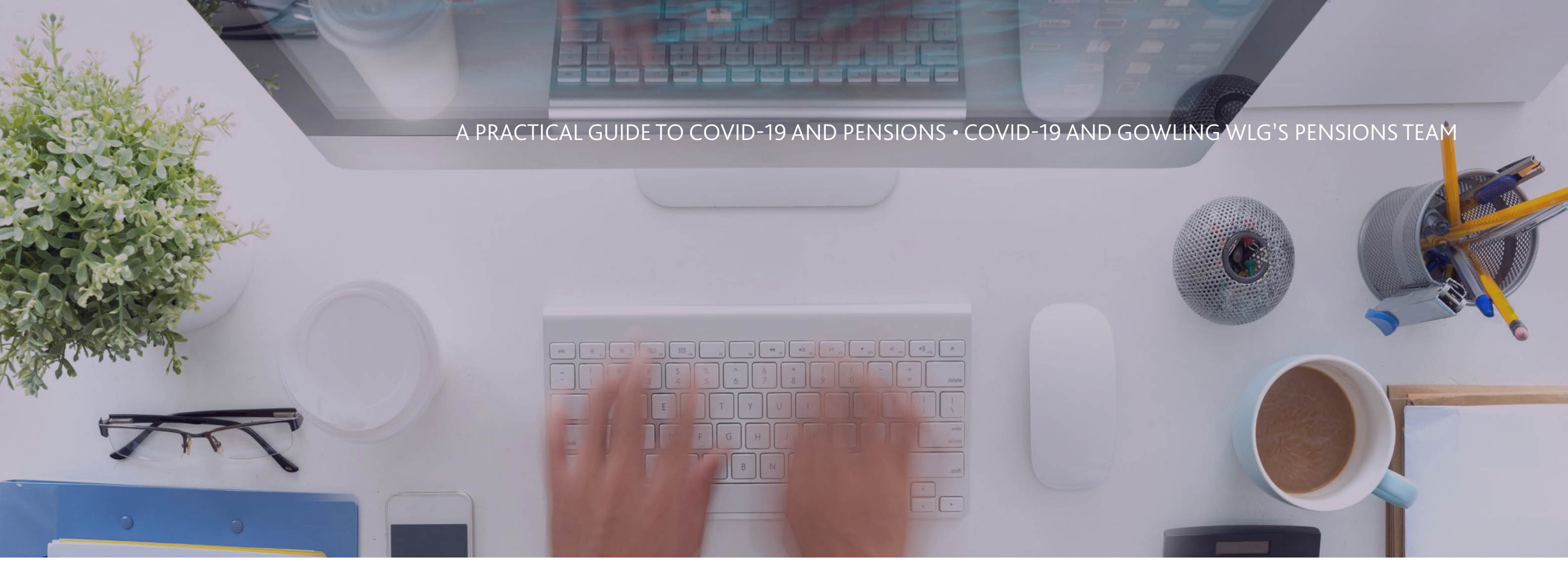
TRUSTEE CHECKLIST

To provide you with an action plan of the key points in this COVID-19 Guide, we've set out a checklist at the beginning. This can act as a summary of the key steps for trustees to consider and, if filled out, can form part of a governance trail demonstrating the actions that the trustees took to deal with COVID-19. The checklist starts on page 3 of this COVID- 19 Guide.

THE KEY AREAS FOR TRUSTEES

The COVID-19 Guide covers the key areas that trustees of defined benefit occupational pension schemes are focusing on right now:

- **pension scheme administration -** trustees need to focus on critical processes and work closely with scheme administrators to ensure pensions are paid and key actions are taken. Flexibility and pragmatism are the key in this area. More on this is set out on page 7.
- **scheme governance and decision making** - in order to remain effective, trustees still need to be able to meet, make decisions and execute documents. Remote working is not necessarily a barrier to any of this, but it does require trustees to stay on top of their scheme rules and, if applicable, trustee company articles. See page 11 for more on this.
- **employer funding and covenant** - COVID-19 is placing significant strains on employers. Some sponsors have already asked trustees for a suspension or reduction in contributions. Trustees also need to consider if the strength of their employer covenant has been materially altered by the crisis. More on this is set out on page 13.
- **scheme investments** - markets for all types of investments in all parts of the world are experiencing some of the most turbulent and volatile trading for decades. In this climate, trustees need to engage with their investment advisers and consider the long term position. More on this is set out on page 17.



COVID-19 AND GOWLING WLG'S PENSIONS TEAM

BUSINESS AS USUAL AND KEY CONTACTS ON COVID-19

Gowling WLG's pensions team is fully operational and carrying out business as usual. Your usual client service team is on hand to help you with any COVID-19 related queries. In addition, you can also contact any of the team's COVID-19 key contacts.

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TRUSTEE COVID-19 KEY ACTIONS CHECKLIST

CATEGORY	ACTION	NOTES	✔
BUSINESS CONTINUITY, SCHEME ADMINISTRATION AND MEMBER COMMS	Ask the scheme's in-house and/or third party service providers to confirm that they have business continuity plans in place and that these have been successfully activated.		
	Ask the scheme's administrators to confirm that they have business continuity plans in place.		
	Agree alternative contacts with key employer/in house pensions team leads.		
	Ensure that administrators are aware of and capable of dealing with scheme critical processes such as paying member benefits, dealing with retirement requests and handling bereavement cases.		
	Confirm a priority order of activities with the scheme administrator in the event of under-resourcing (e.g. due to staff absence).		
	Work flexibly with administrators by identifying and limiting any non-critical demands and queries.		
	Review current projects and any projects previously put on back burner to consider whether right time for deferral or acceleration.		
	Be prepared to respond to employer proposals to furlough employees and to consider the practicalities of any such proposal and the impact it may have on the pension scheme.		
	Be prepared to respond to employer proposals to reduce employer and/ or member contributions to the defined contribution sections or AVCs in occupational pension schemes.		
	PASA has produced guidance for administrators. For in-house admin teams, consider this guidance against current operations. For third-party administrators, check that they are aware of and following the PASA guidance as far as possible.		
	Work with administrators to make sure they deliver any processes to ensure benefits are accurate.		
	Consider agreeing to changes in operating procedures, such as streamlining certain processes, allowing electronic signatures (where appropriate) and moving member queries online if possible.		
	Consider holding higher than usual amounts in the scheme bank accounts to ensure payments can be made even if there is a delay in disinvestment.		

CATEGORY	ACTION	NOTES	✔
	Consider whether it is appropriate to suspend member CETV requests to give more time to review CETV rates and the administrative impact.		
	Be extra vigilant to scammers targeting members looking to transfer their pension in uncertain times.		
	Ensure that members who request a transfer are signposted to ScamSmart and The Money and Pensions Service.		
	If you decide to proceed with transfers, ensure that members who request a transfer are urged to exercise extreme caution.		
	Check that administrators have anti-scam communications ready to issue to members and are aware of the advice available on ScamSmart and The Money and Pensions Service.		
	Consider preparing a statement or frequently asked questions document providing general reassurance about the security of defined benefit savings during periods of short-term volitility and/or the importance of long-term investment for defined contribution savers over short term volatility.		
TRUSTEE DECISION MAKING AND GOVERNANCE	Check whether meetings can be held remotely (i.e. electronically or by telephone/video conference).		
	Consider designating a reserve chair for the main trustee board and any relevant sub-committees.		
	Check what quorum requirements for trustee meetings and ensure that these continue to be met.		
	Ensure that delegated powers are suitable, broad-enough and clear.		
	Consider whether any powers of attorney should be put in place for trustees who are unwell or who may have to self-isolate for extended periods of time.		
	Check that authorised signature lists are up to date and consider including designated alternative signatories.		
	Consider how the trustee will execute and, if necessary, witness documents if they are at home and potentially in self-isolation.		
	Consider whether to pre-agree to the formation of an emergency response committee.		
	Consider whether to line up stand-by trustees ready to fill vacancies (whether on a temporary or permanent basis).		

CATEGORY	ACTION	NOTES	✔
SCHEME FUNDING, VALUATIONS AND SPONSOR COVENANT	Be prepared to consider a request from sponsoring employers to reduce or suspend their deficit repair contributions. Unless the trustee has had time to carry out analysis and take advice and/or the employer has provided sufficient financial information, any suspension or reduction should be limited to the shortest period possible and certainly no more than three moths.		
	Decide who will deal with employer requests for flexibility on the payment of deficit repair contributions.		
	If the employer requests to reduce or suspend their deficit repair contributions, check that dividends and other forms of shareholder return are also suspended.		
	If the scheme is still open to accrual, be prepared to consider a request from sponsoring employers to reduce or suspend employer and/or member contributions.		
	For trustees close to completing valuations, consider revisiting valuation assumptions.		
	Discuss the potential impact on the employer covenant with covenant advisers. This should consider both the immediate, short-term impact and any longer-term impacts.		
	Liaise directly with the sponsor to understand its contingency planning and any business impact assessment and/or mitigating steps it has carried out.		
	Consider whether it is necessary to open discussions with sponsoring employers or review funding documentation.		
SCHEME INVESTMENT	Discuss with the scheme's investment advisers whether the scheme's current investment strategy remains appropriate.		
	If any investment changes are being planned, discuss with the scheme's investment advisers as to whether it is sensible to progress at this point in time.		
	Consider the list of investment and risk management issues that TPR recommends trustees consider (set out in more detail out on page 17 of this guide).		
	Discuss with advisers whether there are any opportunities which might present such as risk transfer opportunities or value enhancing opportunities.		

BUSINESS CONTINUITY, SCHEME ADMINISTRATION AND COMMS

WHO HAS ISSUED GUIDANCE ON COVID-19 AND PENSIONS ADMINISTRATION ?

TPR has issued guidance on scheme administration for trustees in relation to COVID-19 (Scheme administration: COVID-19 guidance for trustees and public service - 2 April 2020 (the Admin Guidance). In addition, the Pensions Administration Standards Association (PASA) has issued Covid-19 Guidance for Administrators - 30 March 2020 (the PASA Guidance).

WHAT DOES TPR EXPECT TRUSTEES TO FOCUS ON IN RELATION TO SCHEME ADMINISTRATION?

In the Admin Guidance, TPR has provided three key guiding principles for trustees considering scheme administration in the context of COVID-19. These are:

- focusing on critical processes;
- working with your administrators; and
- being flexible and pragmatic.

ENSURING BUSINESS CONTINUITY WITH IN-HOUSE AND THIRD PARTY SERVICE PROVIDERS

Trustees are reliant on third parties such as administrators to provide many day to day services to members. Most professional service firms will have well developed and tested business continuity plans in place to ensure an acceptable minimum level of service is provided. If they haven't already volunteered this information, ask your contacts at key third party service providers to confirm that they have plans in place for dealing with:

- spikes in staff absences;
- remote working; and
- holding meetings by telephone or video conference.

FOCUSING ON CRITICAL PROCESSES

TPR wants trustees to work with administrators to make sure that schemes continue to deliver critical processes. These include:

- paying members' benefits;
- processing retirement applications and related communications;
- dealing with death cases; and
- processes required to ensure that benefits are accurate.

In addition, TPR emphasises the importance of investing defined contribution payments promptly and accurately.

WORKING WITH YOUR ADMINISTRATORS

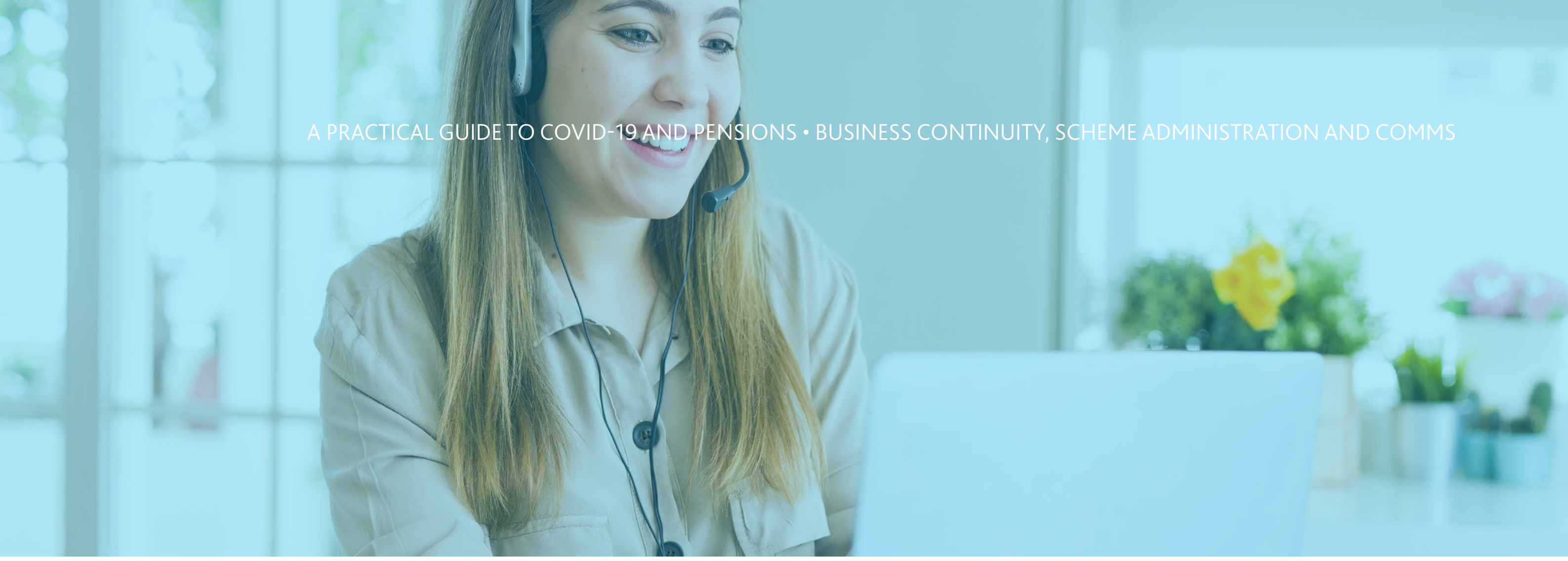
TPR have emphasised the importance of working with scheme administrators - whether in-house or third party. Part of this is ensuring that administrators are coping with the additional demands resulting from COVID-19.

Trustees should work with administrators to confirm a priority order of activities in the event that administrators are under-resourced as a result of staff absence.

BEING FLEXIBLE AND PRAGMATIC

The primary objective for both trustees and administrators is to deliver critical functions. In order to do this, both may need to be flexible and pragmatic. According to TPR, this could include:

- streamlining or changing usual operating procedures;



- looking into electronic signature/sign off and encouraging other third party providers to do the same. Trustees may want to have legal advice on this before agreeing to new signature policies as it may not be appropriate in all cases;
- holding higher than usual amounts in bank accounts to cover any delays in disinvestment processes; and
- limiting the burden on administrators by reducing non-critical demands and queries.

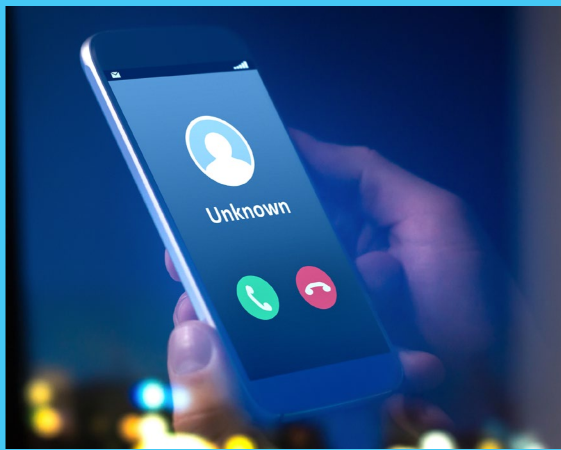
MITIGATING AGAINST DISRUPTION TO TIME-CRITICAL PROJECTS

There are certain projects that need to be completed by hard deadlines or which are business critical to the trustee. Trustees and their advisers should look ahead to the coming quarter and:

- determine if there are any time sensitive or business critical projects;
- consider delaying projects which are not time sensitive or business critical.
- identify if there are any critical milestones or roles and plan for dealing with these being missed or unavailable;
- consider if there are practical mitigations which could avoid challenges in the future; and
- put in place contingency plans to deal with projects that need to meet deadlines or continue through an escalation of the outbreak.

BEING MORE VIGILANT THAN EVER ON PENSION SCAMS

The current climate is, unfortunately, particularly conducive for scammers. People may suddenly find that they need money after losing their jobs or being placed on furlough or may be afraid by the turbulence in the equity markets. Scammers will promise the possibility of immediate access to pension savings. Anyone taking them up on these offers could face devastating financial consequences.



"We urge you not to transfer your pension into another arrangement now and regret the decision later. If you're worried about your pension savings, take the time to understand what options you have available. There is no need to rush."

Charles Counsell, Chief Executive of The Pension Regulator (1 April 2020)

As a result, as well as following the usual necessary steps to help members avoid pension scams (see TPR's Avoid pensions scams page for more on this) trustees and administrators should:

- urge anyone asking to transfer their pensions to exercise extreme caution;
- signpost members to ScamSmart's specific guidance on Covid-19 (click here) and to the Money and Pensions Service's TPAS-branded site on Coronavirus (Coronavirus - how will this affect my pension savings); and

- make use of TPR's library of resources which includes posters, booklets, infographics and social media posts (click here).

THINK ABOUT TRANSFER VALUES

As referred to above, there is an increased chance that the current climate will lead to greater levels of member movement, particularly with members being more susceptible to pensions liberation scams. TPR has confirmed that it will be taking a lenient approach towards trustees who fail to provide cash equivalent transfer value (CETV) quotations and payments within the statutory timescales and it will not take regulatory action against such breaches over the next three months.

Trustees may therefore legitimately decide to suspend member transfers in order to give themselves greater time to review CETV terms or to assess the administrative impact of the current situation on demand for CETV quotes. Trustees should of course ensure that any delay or suspension is genuinely attributable to the current pandemic and is truly in the best interest of members.

Trustees deciding to suspend their DB transfer activity should take legal advice and will have to liaise with their scheme administrator to determine:

- whether the suspension should apply to all or just some transfers (e.g. transfers occurring after a certain date or which have been identified as high risk); and
- whether the suspension should initially apply for a shorter period than three months.

CONSIDER MEMBER COMMUNICATIONS AND RESPONSES FOR MEMBER QUERIES

The PASA Guidance suggests that trustees and administrators should consider:

- communicating with members on the security of defined benefit savings; or
- providing information on long term investing for defined contribution savers.

Trustees may not want to issue a communication out of the usual cycle of member communications in case this does more harm than good in worrying members. It would, however, be sensible to have communications or statements ready if administrators are facing a significant volume of queries as this could impact on their ability to focus on critical priorities. A set of Frequently Asked Questions could also be prepared and posted on a member portal or internet page (if this is available) or sent to members who request information.

ASK ABOUT DATA AND CYBER SECURITY

Many third-party administrators have put into action their business continuity plans. This may involve people working from home. Trustees should consider whether there are any data or cyber security issues with a new or increased use of remote working.

In particular, trustees should check whether the scheme administrators have thought about:

- security protections on equipment at home (whether company or personal devices);
- vulnerability of home WiFi networks to hacking; and
- whether there are any controls on using home printers and scanners.

Find out more from the pensions team at **www.gowlingwlg.com/pensions-uk**

TRUSTEE DECISION MAKING AND GOVERNANCE

CHECK THAT TRUSTEE MEETINGS CAN BE HELD REMOTELY

Trustee meetings do not necessarily have to be held in person. There do, however, have to be provisions in place in relevant governing documents that allow meetings to be held electronically or by telephone/video conference. The relevant powers will usually be set out in:

- the trust company's articles of association (for corporate trustees); or
- the scheme's trust deed and rules (for individual trustees).

ENSURE THAT THE TRUSTEES CAN CONTINUE TO TAKE DECISIONS

A sharp rise in the level of cases raises the prospect of 'key person' risk. In particular, trustees may need to consider whether:

- they should designate a reserve chair for main trustee meetings and sub-committees;
- meetings will be quorate in the event of widespread illness and how this will be handled;
- powers are suitably and clearly delegated to allow the trustees to function without being too reliant on individual trustees;
- powers of attorney should be put in place for certain trustees (e.g. trustees over the age of 70 who are self-isolating) so as to effectively delegate their trustee duties to one or more persons;
- authorised signature lists are up to date and suitably flexible to permit authorisation of instructions;

In addition, trustees might want to pre-agree actions such as the formation of an emergency response committee and having stand-by trustee-candidates ready to fill vacancies (whether on a temporary or permanent basis).

EXECUTING DOCUMENTS

Trustees of pension schemes are required to execute documents in the ordinary course of business. Some of these documents may be deeds, which would typically have to be executed before a witness in the case of an individual trustee. In circumstances where trustees are self-isolating or unwell, it may be difficult to execute documents physically. Virtual execution might be the only viable option.

In terms of witnessing a signature, lawyers ordinarily advise against having a spouse or other relative acting as a witness and using an independent witness. For a self-isolating trustee, it may be that a spouse or other relative is the only witness available, in which case using such a witness may be seen as preferable to having a deed witnessed remotely.

Because of the serious adverse consequences that can flow from a failure to properly execute documents (especially deeds), trustees should seek specific legal advice.

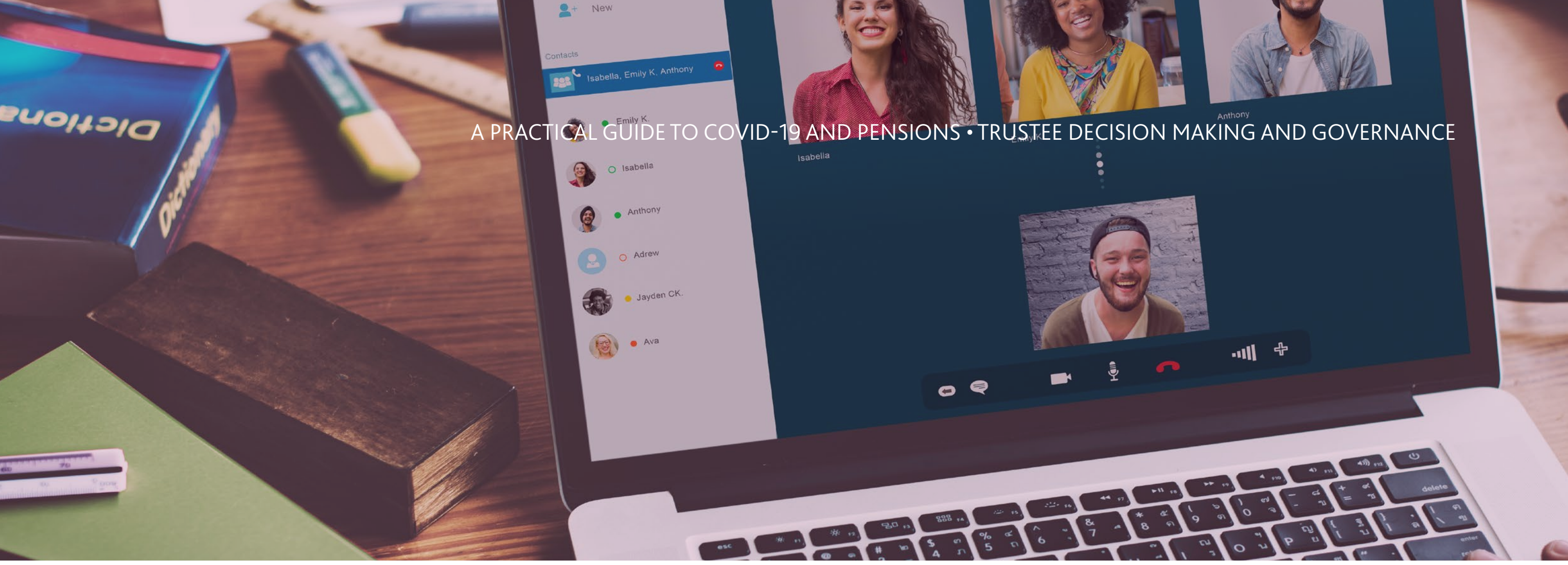
FORCE MAJEURE ISSUES

A 'force majeure clause' applies to a contractual term providing for one (or both) parties to be excused from performance on the happening of a specified event outside the parties' control. The meaning and effect of a force majeure clause depends on its wording.

Note that the term 'force majeure' may not necessarily be used in the contract, e.g. the contract could refer to an 'Exceptional Event'. Moreover, force majeure provisions could be set out in a standalone clause and/or incorporated in clauses dealing with matters such as extensions of time.

If force majeure is established, this could give rise to various entitlements, e.g.:

- an extension of time to comply with the contractual obligations;
- suspension of performance;



- a duty to renegotiate performance of the contract in good faith; and
- termination (this may be after a certain period of time).

Trustees should consider reviewing the agreements they have in place (or asking their lawyers to do so on their behalf) to determine whether they contain a force majeure clause which could be relied on as a result of coronavirus, and if so, what the consequences of relying on that clause would be.

EMPLOYER FUNDING, VALUATIONS AND SPONSOR COVENANT

CONSIDERING EMPLOYER REQUESTS TO SUSPEND OR REDUCE DEFICIT REPAIR CONTRIBUTIONS

Trustees might also need to consider requests from employers for flexibility on the payment of deficit repair contributions (DRCs) and/or to review the scheme's recovery plan and consider alternative forms of security.

In respect of DRCs, trustees should be open to reducing or suspending these payments where requested, but should look to do so for as short a period as possible, especially where limited information is available from the employer.

WHAT SHOULD TRUSTEES CONSIDER BEFORE AGREEING TO AN EMPLOYER PROPOSAL ON DRCS?

In granting any relief from DRCs, trustees should ensure that:

- they understand the employer's actual need for the suspension or reduction of DRCs, particularly by reference to cash flow, and that this information is requested on a regular basis and is actively monitored. Where a request is made for suspension or reduction of DRCs for a period in which a substantial, one-off payment is due (for example where payments are made annually), then the trustees should pay special attention to the underlying reasons for the request;
- payments by the employer to related entities and, in particular, dividend payments to shareholders are being similarly restricted;
- banks and other creditors are continuing to support the employer and where these parties are being granted further security over the employer's assets, the trustees are seeking similar protection for the scheme. Conversely, any decision by the trustees to release security is unlikely to be in the best interest of members; and
- there is sufficient flexibility for DRCs to be reinstated once business returns to a reasonable state of normality and that in any case there is a long-stop date for the employer to resume making DRCs.

As a general rule, agreements to suspend or reduce DRCs should be for no longer than three months, however longer periods may be appropriate where, for example, creditor support for the employer relies on a longer period of relief from the trustees.

WHAT DO TRUSTEES NEED TO DO BEFORE IMPLEMENTING A REDUCTION OR SUSPENSION OF DRCS?

Trustees need to take legal and actuarial advice on the impact of any request to suspend or reduce DRCs and the specific mechanism that is used to achieve this (e.g. an amendment to the scheme's schedule of contributions, deferral of contributions to a later period or an agreement not to pursue employers for non-payment of contributions).

Trustees are also required to comply with their statutory obligations to report non-payment of contributions to TPR. TPR has, however, made clear that it does not intend to use its regulatory powers in respect of either:

- late reporting; or
- failure to make contributions over the next three months.

CONSIDERING EMPLOYER REQUESTS TO SUSPEND OR REDUCE PAYMENTS FOR FUTURE SERVICE

Employers may also request to suspend or reduce employer and/or member contribution payments to schemes that are open to the accrual of future benefits. Trustees should approach any such

requests in a similar way to requests to suspend or reduce DRCs, with the additional two provisos:

- member contribution rates may be explicitly set in the scheme rules, so a rule change may need to be agreed if member contributions are to be reduced or suspended;
- trustees of multi-employer schemes need to be mindful of any unintended consequences such as accidentally triggering wind-up or employer cessation events.

In both cases, trustees should seek legal advice.

HOW SHOULD TRUSTEES DEAL WITH A REQUEST TO RELEASE SECURITY?

Trustees need to be very careful when considering a request to release security over an asset. In TPR's view, it is "very unlikely that security release is in members' best interests". Trustees need to obtain full legal and financial advice in considering any such request.

"It is very unlikely that security release is in members' best interest. Therefore, we expect trustees to carefully consider such a request and obtain full legal and financial advice ..."

The Pensions Regulator, DB scheme funding and investment: COVID-19 guidance for trustees

WHAT SHOULD TRUSTEES DO IF THEY ARE CLOSE TO COMPLETING ACTUARIAL VALUATIONS?

For those trustees close to completing actuarial valuations for their scheme, the economic situation now will be very different to that which was envisaged when valuation assumptions were made. In such circumstances, trustees are not expected to revisit those assumptions, although in some cases it may be in the best interests of members to do so. However, trustees should consider post-valuation experience when agreeing the recovery plan.

With the current economic uncertainty, it may ultimately be best for trustees to take stock and delay submitting their valuation documents until there is greater clarity. TPR has indicated that trustees may wish to delay these submissions by up to three months. Whilst such delay may result in trustees missing the 15 month deadline for submitting their valuations, TPR has confirmed that it does not intend to fine trustees for late submissions. In light of TPR's approach, trustees should consider whether the best approach might be to delay their valuation submissions whilst continuing to actively monitor the situation.

HOW SHOULD TRUSTEES APPROACH SCHEME FUNDING?

The market volatility caused by COVID-19 has led to an increase in the deficits of defined benefit schemes. This has largely been due to a fall in the value of scheme assets.

If trustees have put in place a robust Integrated Risk Management approach, they should be able to identify, manage and monitor the factors that affect the prospects of meeting a scheme's funding objectives. This will help trustees (and their advisers) to consider how best to respond to emerging issues based on their particular circumstances.

WHAT SHOULD TRUSTEES DO ABOUT ANY IMPACT ON THE SPONSORING EMPLOYER'S COVENANT

COVID-19 has already had an impact on many businesses in the UK, with several high street names entering into insolvency. The impact will be particularly pronounced in sectors such as hospitality, leisure, travel and retail. Employers in other sectors may also be affected by the knock on impact and by dealing with the costs of implementing business continuity strategies and dealing with higher employee absences.

Trustees should therefore be prepared to discuss any potential impact on the employer covenant with advisers to understand the corporate health of the employer. It may be that COVID-19 creates such exceptional circumstances that an out-of-cycle review of the employer covenant could be justified.

It may also be that trustees who were previously comfortable undertaking an internal review of the employer covenant may now decide they need to appoint an external covenant adviser.

In any event, TPR understands that forecasting may be difficult in the current climate. TPR also accepts that trustees may decide it is appropriate to obtain targeted real time advice, such as verbal advice backed up by short-form written advice, rather than to commission detailed reports.

Trustees should query their employers about, among other things:

- the impact of COVID-19 on the demand for their products;
- their business continuity plan (including resource availability);
- cashflow;
- the position of lenders/key suppliers/creditors/trade credit insurers and any borrowing restrictions;
- whether there are proposals to make payments to connected companies or shareholders in the next six months;
- the extent to which the employer will benefit from the government's COVID-19 measures for businesses; and
- the impact on scheme funding commitments.

Trustees should consider whether contingent assets may be available to support the scheme, particularly if these are being sought by other creditors or concessions are being sought from the scheme.

WHAT ABOUT IF THERE IS AN INCREASED RISK OF THE SPONSORING EMPLOYER BECOMING INSOLVENT?

Trustees should understand the sort of challenges they will face if there is an increased risk of the sponsoring employer falling into insolvency. Such concerns should form part of the trustee's contingency planning according to the PPF.

The PPF therefore directs trustees to its guidance (Contingency planning for employer insolvency). The PPF recommends that its guidance be read in conjunction with TPR's guidance on managing DB benefits.


26,875
25,245
25,215

SCHEME INVESTMENTS

UNDERSTAND THE SCHEME'S INVESTMENTS AND EXPOSURE TO RISK

Initial muted responses from the market have been replaced by volatility, with a sharp fall in equities across the world and an increase in demand for bonds. Central banks are responding by cutting interest rates and providing additional liquidity. The fall in interest rates will negatively impact on gilt yields and this could have an impact on the discount rate used in valuations.

This combination has seen scheme deficits increase (or, at least, not fall by as much as might previously have been anticipated). Trustees will accordingly wish to consider their scheme's cashflow in light of expected lower levels of investment income and other likely impacts such as increased member movement.

TALK TO YOUR INVESTMENT ADVISERS

Trustees should talk to their investment advisers and discuss whether their current investment strategy and/or risk governance structures remain appropriate. In addition, if any investment changes are being planned, trustees should discuss with the scheme's investment advisers as to whether it sensible to progress at this point in time.

CONSIDER KEY INVESTMENT AND RISK ISSUES

TPR recommends that trustees consider the following:

- their expected scheme cash outflows over the short to medium term and where they expect those cash outflows to be met from;
- how their expected scheme cash outflows and inflows might vary;
- any investment strategy and investment mandate rebalancing requirements they currently have in place;
- the degree of diversification and the extent of any concentrations of risk in specific investments or sectors they currently have through their investment arrangements or investment mandates;
- the appropriateness of the derivative positions and structures they hold, and their collateral management arrangements;
- the extent of their exposures to certain counterparties;
- the timing of any pre-agreed asset transitions, incremental strategy changes or de-risking milestones;
- where trustees have serious concerns about the ability of the employer to trade, they should consider whether any investment and risk management actions are needed to help protect their members' benefits.

Trustees should also be mindful that market dislocations can also present opportunities. They should consider with their advisers how they might evolve their investment strategies or arrangements at an appropriate time. Some of these opportunities may involve:

- value enhancing investment opportunities;
- value preservation activities, for example through proactive management of deteriorating risks; or
- where funding levels permit, risk transfer opportunities through buy-in or buy-out activities.

Find out more from the pensions team at **www.gowlingwlg.com/pensions-uk**

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