The Trustee toolkit downloadable

An introduction to investment

Scenario one

In this scenario you meet with Edmund and a new trustee to understand more about investing scheme assets and setting the investment strategy for the scheme.

As you work through this scenario you will be tested on your knowledge at decision points. Here you will have the option to work through a related technical tutorial before returning to the scenario or you can skip the tutorial. You can always work through the tutorial separately later if you would prefer.

This scenario includes two tutorials:

- Investment in a pension scheme
- Setting an investment strategy

Glossary

A detailed glossary of technical terms can be downloaded from the Resources tab when you log in at **www.trusteetoolkit.com**

The Pensions Regulator

The agenda

You've been sent the agenda and papers for the next meeting.

1. Apologies
2. New trustee
3. Conflicts
4. Minutes of last meeting
5. Matters arising
6. Investment strategy
   - Investment training
   - Monitoring performance
7. Scheme risk review
8. Any other business

Item two, the new trustee, is a bit of a surprise to you and, having read the papers related to item six you have a lot of questions about the investment strategy for the scheme. You decide to call Edmund to find out more before the meeting.

Edmund says: "It's nothing to worry about but Paul has left the company. It all happened rather quickly actually while you were on holiday – poached by a competitor.

His deputy, Adrian, has been promoted to his position and he's also agreed to join the board as an employer-nominated trustee. He and I are meeting up to have a chat about the investment strategy before the meeting. Would you like to join us?"

You then meet Edmund and the new trustee. Adrian says: "I know a bit about investments but I don't want to make a fool of myself at the meeting. Being new to the trustee role, I'm not sure I understand the investment strategy or what our role is."

Edmund says: "As trustees we have the power to invest scheme assets. We are responsible for investment governance and are accountable for the investment decisions we make. This includes what asset types to invest in for the DB scheme, to make sure we can pay the right benefits to the right people at the right time, and what investment options to provide to the members in the DC scheme.

We have to act in the best interests of the beneficiaries and we do that by having a strategy for investment and we set that out in a statement of investment principles."

Decision point: Investing scheme assets

You all continue to discuss the scheme assets and you've started to come to some conclusions which are shown below. Which two statements below are correct?

1. Before making any investments or preparing a SIP trustees must obtain and consider advice provided by a person authorised to carry out investment business in the UK (or be exempt from authorisation)
2. If the trustee board has an investment sub-committee, and you're not on it, you do not need to know anything about the investment of scheme assets
3. Once set the SIP doesn't need to be reviewed
4. The trustees can delegate strategic investment decisions to an investment sub-committee but the board retains overall responsibility
5. Trustees must be authorised under financial services legislation to carry out investment business in order to invest scheme assets

Answers at the back

? Need help with this question? Read the **Tutorial 'Investment in a pension scheme'**

The meeting continues

You're comfortable with the trustee's role in investing scheme assets, so the conversation moves on to the investment strategy. Adrian says: "So the SIP sets out the investment strategy, which must mean we, as trustees, need to determine what the strategy is... is that right?"

Edmund says: "Yes, that is right Adrian. For the DB scheme we need to consider how the assets are best invested to help the scheme pay benefits when they are due both in the short and long term. For the DC scheme, it's a little different as we have a default arrangement available to members.

We are responsible for setting the investment strategy for the default arrangement, making sure that it is intended to be invested in the best interests of members. We also offer alternative investment options for members who wish to set their own strategy, so we need to decide what to offer to them too."

Decision point: The investment strategy

The conversation continues about the investment strategy and again you've started to draw some conclusions. Which three statements below are correct?

1. In addition to regular reviews of the strategy, trustees should be mindful of other events which may trigger a review such as changes in membership profile or innovations in the investment market
2. There are a number of statutory restrictions on how trustees may exercise their power of investment
3. The strategy must legally be reviewed every five years
4. Trustees must ensure that scheme assets are invested in the best interests of members and beneficiaries

Answers at the back

Need help with this question? Read the **Tutorial 'Setting an investment strategy'**

Rounding up

You feel more prepared for the next trustee meeting following this session with Edmund and Adrian.

Now that you have completed this scenario we would recommend that you begin to work through the 'Check your scheme' worksheet for this module.

Answers

Decision point: Investing scheme assets

The first and fourth answers are correct.

Trustees must obtain and consider advice before making any investment or preparing the SIP, but they do not need to be authorised themselves provided they delegate day-to-day investment decisions to someone who is, or invest in insurance policies or pooled funds only.

Trustees can delegate strategic investment decisions to a sub-committee, however, even if your trustee board has a sub-committee focused on investment, you still need to know enough about investment of scheme assets to challenge the sub-committee and the whole board will remain responsible for those decisions. Trustees must regularly review the SIP, at least once every three years.

Decision point: The investment strategy

Only the third answer is incorrect.

Trustees must ensure that scheme assets are invested in the best interests of members and beneficiaries. There are statutory restrictions on how they can exercise those powers.

There is no legal requirement to review the strategy every five years but trustees must review it regularly and be mindful of other events which may trigger a review at other times.

However, schemes which are required to prepare a SIP must review this at least every three years and without delay after any significant change in investment policy or in the demographic profile of members.