



Co-chairs' Annual Report for the year 2016-17

AGM

Monday 24th April 2017 at 13.30pm

10 Carlton House Terrace, London SW1Y 5AH

Overview

This report covers the sixth full year of operation for the Association after its creation on 3 September 2010. We continued our growth in membership during the year. We developed increased levels of activity. We moved into some new initiatives. We have set the scene for consolidation in the years ahead. We are aware that we shall face some external challenges to the role of member nominated trustees. We are prepared in order to meet these challenges.

Membership

AMNT membership continued to expand during the year. We now have just over 700 members. Together, we represent 500 occupational pension schemes, with combined assets under management of just under £700 billion. That is, broadly, one third of the UK occupational pension sector. We cover schemes of all sizes: from over £50 billion at the largest, down to £6 million at the smallest.

Previous annual reports show how numbers of members have grown in recent years: 300 in 2014; 374 in 2015; 565 in 2016; now 704. Founder co-chair Barry Parr said last year.: "The prime immediate target is to extend our membership". The next target is a membership of 1,000 individual members. The committee reaffirmed this aim in January 2017.

In general terms, AMNT members seem to display some main sets of characteristics:

- The Pensions Regulator says that we are at the upper end for training for, and commitment to, the responsible trustee role.
- Two strands of thought tend to emerge when the members are gathered together. Some have a focus primarily on their own particular scheme arrangements. Others wish to take a wider political perspective.
- Annex A, below, sets a general view of how AMNT members often see their role in pension scheme governance.
- Annex B gives a more detailed picture of who our members are, based on their responses to our 2016 annual survey.

Objectives and business model of AMNT

The committee undertook a major review of objectives and business model after its first five years at a two-day strategy session held in Dublin in June 2015. We have taken action during 2016-17 to implement the conclusions from this session:

- The committee set out four core purposes for AMNT: (1) Support for MNTs: meetings, events, training, resources, "one stop shop"; (2) Education: "improving the quality of MNTs' contributions

- to their schemes”; (3) Voice for MNTs; (4) Influence HM Government.
- In terms of management: “AMNT is facing some of the challenges that typically face successful small organisations in a state of growth, with the demand for support (and potentially the type of support needed) starting to outstrip current administrative resources.”
- In terms of pace of activity, following this Awayday analysis, the committee's view was that: “AMNT activity should proceed in line with business planning capacity and budget provision.”

Governance and organisation

A management committee of elected representatives and cooptees manages the affairs of the association. Elected members serve for terms of three years. Committee members during 2016-17, together with their pension schemes and the particular AMNT roles that they undertook, were as follows:

Janice Turner Co-chair/ policy
 David Weeks Co-chair
 Robin Bell Policy/ conferences
 Pdraig Floyd Communications
 Alan Gander Newsletter/ communications/ sponsorship/ conferences/ HR
 John Gaunt Member database/ recruitment
 Andrea Myers HR/ recruitment
 John Paradise Web and media/ sponsorship; training
 Barry Parr Policy/ sponsorship
 Peter Sparkes Training
 Chris Smith Local government
 Bill Trythall Company secretary/ policy
 Andrew Weatherill Hon Treasurer

We thank these committee members for their valuable contributions during the year.. They have, through their hard work, been the main agents by which the success of the association has been maintained.

Andrea Myers, Barry Parr, Janice Turner and David Weeks come to the end of their elected terms. Andrea Myers, Janice Turner and David Weeks have been reelected. Barry Parr retired.

Founding co-chair of AMNT: Barry Parr

The AGM will wish to join with the committee in placing on record appreciation for the enormous debt that AMNT owes to Barry Parr. Quite simply, the association would not exist without his vision, enthusiasm and sustained contribution. He was one of the founding co-chairs in 2010, together with Janice Turner. He continued as co-chair until 2016, guiding and nurturing the association to its current preeminent position as one of the leading representative organisations in the pensions sector.

Staffing, administration and resources

We have increased the number of staff who work for AMNT in order to handle the increased level of work that we undertake:

- Kate Bendy is our longest serving staff member. She is well known both to members and to sponsors. She will now develop the outward facing aspects of our activity.
- Bridget Hiluta joined us in late 2015 to work on administering the Red Line Voting initiative. She now transfers to mainstream AMNT activity.
- Caroline Davies joined us in January 2017 as administrator and project manager..
- Leanne Clements joined us in March 2017 as campaign manager for the Red Line Voting initiative.

We thank also our external suppliers:

- SJW continue to develop and maintain our admired web site, and to enhance our branding and

- corporate identity.
- KBPR have expanded our PR presence.
- Kate Brown BA ACA, chartered accountant, now provides budget and financial control capacity for the committee.

We have improved our administration during the year with the introduction of new systems for forward planning, budgeting and management accounts. Mailing and records management have sharpened through Dotmailer and Dropbox facilities.

Sponsorship

Sponsors provide funds and resources that are essential for us to continue to service our growing membership and to expand our activities. We are grateful to our sponsors. We thank them warmly for their continued support of our activities. They also enable us to develop links between lay trustees, on the one hand, together with fund managers and consultants, on the other. Both sides find these links to be stimulating and of great value. It is the firm policy of the AMNT to foster these links further.

The following organisations are sponsors at the time of the AGM:

- Premier sponsors x7: (1) AXA; (2) BNY Mellon; (3) Columbia Threadneedle Investments; (4) Invesco Perpetual; (5) Pension Insurance Corporation; (6) Vanguard; (7) Willis Towers Watson
- Sponsors x 5: (1) Barnett Waddingham; (2) Hymans Robertson; (3) LCP; (4) Punter Southall; (5) Quantum Advisory
- Friends x 3: (1) Baker & McKenzie; (2) JLT; (3) KAS Bank
- Sponsorship in kind, as the provider of AMNT's registered office: OPDU

Budget

The annual financial statements show how the AMNT's turnover has increased year by year: 2014: £54k; 2015: £107k; 2016: £155k.

Two sources provide the income for this turnover. Sponsoring companies provide funding to maintain the ongoing activities of the association. Joseph Rowntree Charitable Trust has provided grants over three years specifically to run the AMNT's Red Line Voting initiative, which was launched formally in December 2015 at the City of London Corporation's Guildhall. Membership of AMNT is at no cost to individual MNT members. Most (around two thirds) of AMNT members do not receive any remuneration for their work. We do not, in consequence levy any subscription.

Meetings for members

Quarterly conferences were organised during the year. These attracted audiences of around 80-100. They were almost certainly the biggest gatherings of member nominated trustees in the UK. The following were held:

- June 2016: Capita hosted: "Do trustees delegate too much?"
- September 2016: Columbia Threadneedle Investments hosted: "Brexit and beyond: what trustees need to do"
- November 2016: Willis Towers Watson hosted: "Balance of powers? Who actually runs pension schemes?"
- February 2017: Pension Insurance Corporation hosted: "Trustees have your say". Pensions Minister Richard Harrington MP delivered the keynote address

Further details about these conferences are set out at Annex C, below.

Monthly meetings of the committee:

- These took place throughout the year.

- Each was hosted by one of our sponsoring organisations. The forums provided excellent opportunities for exchange of ideas between sponsors and trustees.

Other meetings organised or attended during the year:

- July 2016: Manchester: AMNT held its first seminar outside London: sponsor BNY Mellon hosted: “What trustees should really know”
- November 2016: sponsor Punter Southall hosted an investment seminar: “Demystifying investment”
- March 2017: sponsor Vanguard Asset Management hosted a seminar: “Negotiating effectively; communicating persuasively”: seminar on boardroom dynamics with Ian Pittaway of Sackers LLP; communications workshop with Quietroom
- February 2017: World Pensions Council: Greenwich, London: Sixth annual World Pensions & Investment Forum. David Weeks moderated a panel on “Long term investment and risk management in a low yield context”. He also acted as conference rapporteur. Janice Turner took part as a panellist on: “Sustainability after the Paris COP21 agreement”. Bill Trythall took part as a panellist on “The governance and capital stewardship round table”

Attendance at pension industry conferences

- May 2016: Workplace Pensions Live 2016: Edgbaston, Birmingham: AMNT exhibition stand
- June 2016: Pensions and Benefits UK 2016: AMNT exhibition stand; DW spoke on a panel: “Help for the smaller scheme”
- Responsible Investment: AMNT exhibition stand

Communications and website

We made improvements to our website during the year. Popular pages include: Bulletin board; Red Line Voting initiative; Diary of events; Quarterly newsletter; material about AMNT's sponsoring organisations.

Press and public relations

We restored a proactive press relations programme after a hiatus. Press activity during October 2016- April 2017 included the following:

Secured 8 articles and blogs with: Engaged Investor; Pensions Age; Pension Funds online; Professional Pensions; Responsible Investor

Secured 10 interviews with: Pensions Expert; FT family money; Financial Times; Sunday Times; Pensions Age; Institutional Investor; Portfolio Institutional

Secured 7 commentary articles in: Financial Times; Pensions Age; Professional Pensions; Portfolio Institutional

Issued 5 press releases: transparency in costs and charges; balance of power conference; Pensions Minister Richard Harrington at AMNT; MNT presence on trustee boards is crucial for pension scheme governance

Pensions Insight: “Top 50 people in pensions 2017” list featured both of the two co-chairs of AMNT.

Our members note the new level of activity. AMNT member Alan Herbert wrote recently: “Congratulations on maintaining a high profile for the AMNT in the pensions press on various pension issues.”

Policy and campaigns

The main strands in our policy development work have included the following:

- Being consulted by The Pensions Regulator during development of their new investment guidance for DC trustees and then, most recently, DB trustees. AMNT was mentioned in both guidance documents with regard to our Red Line Voting initiative and with links through to our website.
- Periodic meetings with Department for Work and Pensions and The Pensions Regulator. Both DWP

and TPR have points on which they like to seek the views of member nominated trustees. We, in our turn, have issues that we think are important to press in order to enhance the capacity of MNTs in order to enhance their capacity to undertake their responsibilities.

- House of Commons Work and Pensions Select Committee: Co-chair Janice Turner gave oral evidence for the inquiry into “Defined benefit pension schemes”. The two co-chairs have both signed the round robin to the Select Committee, asking it to conduct an investigation into costs and charges levied on pension schemes.
- Financial Conduct Authority: review of the asset management industry: AMNT submitted evidence.
- Department for Work and Pensions: Green Paper on “Security and sustainability in defined benefit pension schemes”. AMNT will submit detailed evidence by the closing date of 14 May 2017. Co-chair David Weeks has been a participant in all the Ministerial round table meetings held on detailed aspects of the Green Paper
- Pension Schemes Bill [Lords]: The association undertook its first Parliamentary lobbying to secure support for amendments to the Bill. We aim to build on this experience to secure all party support for our position in the future. The three largest parties in the House of Commons (Conservative, Labour and SNP) have all expressed interest in promoting an All Party Parliamentary Group (APPG) on pension scheme members (as distinct from pension scheme providers). This may provide further sponsorship opportunities.
- Transparency of fees and charges: AMNT continued to participate in the Transparency Task Force and intends to collaborate further with others in this space in the coming year.

Red Line Voting initiative

The Red Line Voting initiative is AMNT's flagship policy initiative. The project has received funding support from the Joseph Rowntree Charitable Trust (JRCT). The project aims to enable institutional investors (especially pension schemes) to have a much more powerful influence on companies within the UK stock market, holding these companies, and the fund managers, to greater account, by enabling more pension scheme trustees to direct how their shareholder votes will be cast. The project has become increasingly necessary for trustees who are now subject to new guidance from The Pensions Regulator. TPR expects all pension schemes to decide how relevant environmental, social and corporate governance factors are in order to inform their investment strategy, and if the trustees conclude that these factors are financially material to their investment performance they are required to take them into account.

Achievements to date have included:

- To assert the right of small and medium sized pension schemes to have their own responsible investment (RI) policy
- To establish the UK's first ever easy to understand, freely available and comprehensive RI policy for asset owners; including the first such policy concerning environmental issues, and the first social policy.
- The global proxy voting companies have developed Red Line Voting products so that they can respond to demand from fund managers to vote Red Line.
- Two fund managers have adopted the Red lines for their client investors
- While the free-to-download nature of the Red Lines makes it impossible to establish how many investors are having their assets voted Red Line, we believe that it totals at least **500** asset owners. Some will be having their assets voted as a result of the fund managers’ adoption of the Red Lines, others by adopting them at their boards.

Several problems remain, however. Reluctance of some asset managers to allow their pooled fund clients to direct their own voting policy and failure of some investment consultants to discuss responsible investment and ESG issues at their client board meetings make it more difficult for AMNT members to adopt their own ESG policy.

Therefore during the year AMNT held tripartite discussions with the UK Sustainable Investment and

Finance Association and the United Nations Principles of Responsible Investment and agreed that AMNT would establish a working group, supported by UKSIF and UNPRI, to push ahead on the Red lines. The first act was to engage the top academics Dr Anna Tilba and Dr Iain Clacher to undertake a research study into the issue of split voting in pooled funds. At the time of writing they had only recently begun the study.

Finally, in March Leanne Clements took on the role of Red Line Campaign Manager. Her background working in responsible investment for pension schemes such as the West Midlands LGPS scheme, and for the Pension Protection Fund, made her the ideal candidate.

We deliver our report.

Janice Turner

David Weeks

Co-chairs, AMNT

11 April 2017

ANNEX A

Role of member nominated trustees in pension scheme governance

David Weeks set out a general view in a speech to the Association of Consulting Actuaries on 3 February 2017. The governance of a well run pension scheme can be viewed as a triangle. The three sides of the triangle are represented by: firstly, the sponsoring employer; secondly, the professional advisers and managers; then, most importantly, the pension scheme members themselves. Each of these sides needs to be kept in balance. There has been talk recently of reducing the role of the scheme members, and their nominated representatives on boards. The AMNT view is that this would be a mistake. We should not forget the infamous Maxwell pension scandal. Then an over powerful employer worked with compliant advisers, and missed out the scheme members from the decision making process.

“Members are comforted by having an MNT presence for their scheme. It helps them to feel reassured that their retirement needs are being met and understood. It helps to reassure them that they are not being ripped off in excessive costs and charges. Scheme members must be happy that they are getting good value if they are to make higher levels of contribution needed to fund increasing numbers of years in retirement. The other sides of the triangle both have competing interests. The employers can exploit situations of surplus, and can divert assets. The experts have an interest in generating income for themselves.”

We see areas where MNTs can make particular contributions as including: transparency in costs and charges; integrated risk management; assessment of employer covenants; cyber security arrangements.

ANNEX B

What do we know about our AMNT members? AMNT undertakes a survey each year. Here are the results for 2016.

Four out of five of AMNT's respondents are male; one in every five is female. Two thirds are aged over 55; only one in 20 is below the age of 40. Length of service as a member nominated trustee (MNT) goes up to 32 years. The average is 8 years. One third have retired; the rest are in full time or part time work. Three quarters come from a management background; one in four comes from a shop floor or a trade union background.

Around one third are paid for their MNT duties. There is a fairly even spread of amounts up to around £15k a year. The remaining two thirds are not paid. About 85 per cent receive expenses; up from about 80 per cent a year ago. MNTs who are active members of their scheme have reduced in the last year from just under one in two to just over one in three. MNTs who are pensioners have increased in a corresponding mirror image. Of those who are in work, three quarters say that they are allowed at least 8 days a year for MNT duties. Nearly everyone is content with that.

Our MNTs are keen to receive training. Topics are, in descending order of interest: investment; governance; administration; communicating with members. We gave a new option for training in the 2016 survey: “holding advisers to account”. This shot straight to the top of the list. Respondents read on average three pensions periodicals. Professional Pensions is most read. Then comes Engaged Investor, Pensions Insight and Pensions Age. After that are Financial Times and Financial News.

Trustees of defined benefit (DB) schemes form two thirds of our respondents. One third are from defined contribution (DC) or hybrid schemes. Almost all the DB schemes have now closed to new members. Almost all the DC schemes remain open. Scheme sizes include a big spread: from a high into millions of members down to just 31 members. Overwhelmingly, nine out of ten, schemes are trust based.

“What are the biggest risks facing your scheme?” Top, by far, is “volatility in the investment market”. Next comes “employer covenant”. Then there is a bunch of three: “Inappropriate funding strategy”; “giving members value for money”; and “environmental, social and governance implications”. “What [investment]

developments are you likely to consider. In the next year or so?” Half of respondents mention hedging liabilities. One third mention income generating activities, and one third mention insurance/ buy in/ buy out. “Does your scheme use fiduciary management?” Around half say yes.

“How have pensions freedoms affected actions by scheme members?” About two thirds of respondents report “request for pension valuations”. Next, but much further down, come “DB pension transfers” and “taking cash in lieu of pension benefits”. Around half of schemes report that they have offered “trivial commutation” to members. Only a tiny minority of schemes pay for advice for scheme members, or have views on “robo advice”. Sizeable minorities take action to protect their members from scams. In descending order, their methods include: specific communications with members; taking legal advice; and a more rigid approach to transfers.

“Has your scheme ever had discussion on ESG issues (environmental, social and governance)?” Three out of five say yes. Around half of these have explicit policies on ESG issues. Governance is a more popular option than is environmental or social. “Does your scheme vote on some or all of its share holdings?” Two thirds leave the matter to their asset managers. AMNT launched its Red Line voting initiative in 2015. “Do you know what Red Line voting is?” Two thirds say yes, but only one in 10 does anything about it. Three quarters do not have ethical considerations as a factor in stock selection. “Have your investment consultants raised 'responsible investment'?” About half say yes.

“What would attract new MNTs to such a responsible role?” Responses were few, but payment came top of the list. “How many days a year do you estimate that you spend on MNT activity?” 19 per cent say 25 days or more, 24 per cent say 16-24 days. 42 per cent say 9-15 days. 16 per cent say up to 8 days a year

ANNEX C

Quarterly conferences : details of contents

June 2016: Capita hosted: “Do trustees delegate too much?”: Topics covered

- Background to delegation: Overview of UK pension scheme: Jonathan Stapleton: editor in chief, Professional Pensions.
- Trustee training as the basis for delegation: The Pensions Regulator: Trustee Toolkit: Kerry Coleman: TPR. Can trustees control costs and charges? A practical case history: Paul Trickett, chair, Railpen Investments
- Can trustees control costs and charges? Campaigning for more information: Andy Agathangelou, chair, Transparency Task Force; Chris Seir, professor of practice, Newcastle University Business School; Colin Meech, TUC; UNISON
- Trustees seeking improved governance: Rory Murphy: chair, MNOPF
- Background to delegation: Investment overview: Ewen Cameron Watt:: BlackRock; BBC Radio 4 Today programme pundit
- Capita: Results of survey of AMNT members
- Red Line Voting: momentum gathers
- Breakout groups: Qualifications for MNTs? (Columbia Threadneedle Investments). Role of trustees? Lessons from BHS? (Willis Towers Watson); British Steel: should HM Government change pensions legislation to help the steel industry? (Punter Southall)

September 2016: Columbia Threadneedle Investments hosted: “Brexit and beyond: what trustees need to do”. Topics covered:

- “Why Brexit will be best for the City”: Lord Flight: former Shadow Chief Secretary to the Treasury
- “Local Government Pension Scheme: cutting costs and charges”: Jeff Houston, head of pensions, Local Government Association
- “Cutting costs and charges: how Railpen took the initiative and succeeded”: Victoria Bell: RPMI: director of trustee accounting
- Trustee training: Pensions Management Institute: Pension scheme trusteeship: Terri-Ann

Humphreys, PMI; Lorraine Porter: LCP

- AMNT: annual survey of members
- AMNT: update on web site enhancement
- “Impact and outlook of Brexit”: Toby Nangle: Columbia Threadneedle
- Panel on topical issues
- Breakout groups: Employer covenant (Barnett Waddingham); Scheme investments and liabilities (Columbia Threadneedle: Responsible investment (AMNT)

November 2016: Willis Towers Watson hosted: “Balance of power? Who actually runs pension schemes? Trustees, employers or advisers?”. Topics covered:

- Overview: Jack Jones: editor: Engaged Investor and Pensions Insight
- “Empowering trustees through technology”: Willis Towers Watson
- “Red Line Initiative: how it relates to all pension schemes: interactive session”: AMNT
- “Balance of powers: Don't forget the scheme members!": Michelle Cracknell: chief executive, The Pensions Advisory Service: TPAS
- “Power in capable hands”: increasing diversity on pension scheme boards: Lesley Williams: chair, Pensions and Lifetime Savings Association
- Panel: topical issues in the balance of powers: Barnett Waddingham; Hymans Robertson; Pensions Institute (author of “Milking and dumping: the devices businesses use to exploit surpluses and shed deficits in their pension schemes”
- Breakout groups: (1) Smaller schemes: challenges; (2) DC schemes: current concerns; (3) The Pensions Regulator: Trustee Toolkit: Balance of power module; (4) Trustees and the possibility of default? (5) Pension scheme valuation methods; (6) Empowering trustees through social media

February 2017: Pension Insurance Corporation hosted: “Trustees: have your say”: Topics covered:

- Keynote address: Richard Harrington MP: Minister for Pensions
- DWP Green Paper: “Security and sustainability in defined benefit pension schemes”: facilitated discussion on current consultation exercises: Hannah Lewis: Behave London
- “Derisking: the Grand Tour”: Pension Insurance Corporation
- Red Line Voting: Wherb Investment
- “International perspectives”: Rt Hon Nick Sherry: former Australian Pensions Minister
- Panel on topical issues: Australia, US, PIC CEO Tracy Blackwell
- Breakout groups: extended into two sessions: (1) DB; (2) DC; (3) Governance