

The new funding and investment strategy regime – an in-depth review of the investment implications

A new funding and investment strategy regime is set to bring about significant changes to the funding and investment plans of defined benefit schemes – all schemes will be required to target a status of low dependency on the sponsor by the time they are ‘significantly mature’.

The Pensions Regulator’s (TPR’s) final draft defined benefit funding Code of practice (the ‘Code’) was laid before Parliament on 29 July 2024. The Code is TPR’s interpretation of how trustees could comply with the legislative requirements set out in the funding and investment strategy (FIS) regulations that will apply to all valuations with effective dates on or after 22 September 2024.

As with all Codes of practice, the Regulator notes that “This Code of practice sets out our interpretation of how to comply with relevant legislative requirements. Trustees may choose to follow an alternative approach to that appearing in this Code of practice, provided they are satisfied that underlying legal requirements are met.”

This report explores what this means for trustees and sponsors and, in particular the investment approach schemes will need to adopt in the long-term.

Key findings

- **Investment considerations will play a crucial part in the new strategy regime.** Trustees and sponsors will need to understand and consider a new concept of a low dependency investment allocation.
- Under the regulations, this new low dependency target allocation is required to be **highly resilient to short-term adverse shocks**. High resilience is a crucial issue in the new regime. Whilst the Regulator has provided an example, trustees, sponsors and advisers will need to decide how they will construct their high resilience test.
- All schemes will need to **properly document a journey plan** setting out how they intend to move to low dependency. Under the regulations, the level of risk taken on this journey should be influenced by covenant strength and maturity. Again, there is some subjectivity regarding how covenant and maturity should impact the journey plan.
- The Regulator’s funding Code sets out a **detailed set of guidelines for how it expects schemes to meet the new requirements** and, in particular, how it expects schemes to change their investment strategy as they become increasingly mature. The framework establishes clearly defined, albeit relatively wide boundaries within which all schemes will be expected to operate.



Investment planning will play a pivotal role in the new regime and trustees and sponsors will have to quickly grapple with new concepts such as a low dependency investment allocation, covenant reliability and high resilience.

Adam Gillespie
Partner

1. What has changed between the initial drafts of the regulations and Code and their final versions?

1. The final regulations removed the broad cashflow matching requirement from the legal definition of a low dependency investment allocation. Whilst this provides more flexibility in theory, in practice the high resilience test means we expect that the majority to still target significant holdings in cashflow matching or credit assets.
2. The final version of the Code is less prescriptive and gives trustees and advisers more discretion to use approaches they consider appropriate for their scheme. For example, the previous 1-in-6 VaR test for high resilience has been relegated to a list of options rather than a strong recommendation with set limits.
3. The final version of the Code acknowledges that after significant maturity any surplus assets measured on the low dependency basis do not need to be invested in line with the low dependency investment allocation. It also goes further and acknowledges that schemes with a material surplus may be able to invest all scheme assets, not just the surplus, in a manner different from a low dependency investment allocation. This could help very well-funded schemes improve risk adjusted returns which could help trustees to meet their long-term objectives.
4. The prescribed maximum risk test, which set an upper limit on the amount of risk in a journey to significant maturity has been removed from the final version of the Code. The amount of risk taken by schemes up to the point of significant maturity will continue to be dominated by the strength of the covenant.
5. It has been confirmed that the new regime does not interfere with trustees' existing power to set strategy and to invest in line with the best interest of members. Whilst this is welcome clarification, as trustees must agree certain elements of the Statement of Strategy, including the low dependency investment allocation with the employer, this could still complicate the investment strategy setting process for some schemes. Please see 'LDIA – Does it matter?' on page 8.

2. High-level requirements of the new strategy regime

Under the new strategy regime, all schemes are required to target a status of low dependency on their sponsor by the time they are significantly mature. This target and journey towards it will all need to be set out in a statement of strategy.

Expanding further, this means that once a scheme's duration reaches significant maturity (10 years based on market conditions as at 31 March 2023):

- the scheme is expected to be fully funded on a low dependency basis.
- further contributions "are not expected to be required to make provision for the scheme's liabilities".
- assets will be assumed to be invested in line with a low dependency investment allocation (LDIA).

There is no transition period for those schemes that have already reached significant maturity and this may create significant funding implications for schemes underfunded on low dependency. This is because Technical Provisions need to be "consistent" with the low dependency approach.

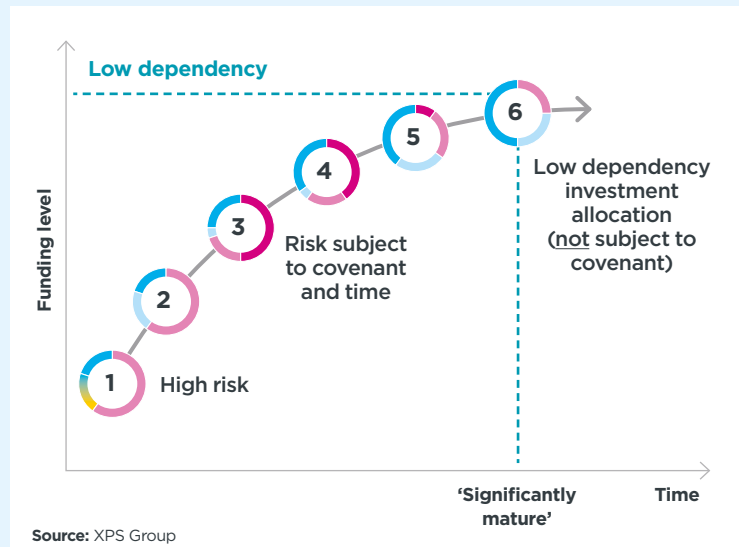
The Regulator has stated that "Where the effective date for the valuation falls after the relevant date, the assumptions used for the Technical Provisions should be the same as or stronger than those in the low dependency funding basis." Since Technical Provisions drive cash contributions, schemes which are underfunded on their low dependency basis post significant maturity may be required to put in place a recovery plan, something they may not have been required to do under the old funding regime.

Where a scheme's covenant longevity (the period for which schemes can be reasonably certain that the employer will be able to continue to support the scheme) is shorter than the period to the relevant date and driven by a specific event or foreseeable limitation making it unlikely the period will be extended into the future, the regulator expects trustees to plan to move to low dependency by no later than the end of the covenant longevity period.

What does this mean for a scheme's asset strategy?

The Pensions Act 2021 already set out the need for trustees and sponsors to set a long-term plan for the assets and to set this out in a new document called the statement of strategy (see breakout box). The regulations have set out more detail regarding two key investment points:

1. **Long-term asset strategy** – The regulations introduce a new concept of a low dependency investment allocation. This is the investment strategy schemes are required to assume they will hold when they are significantly mature.
2. **Risk levels** – The regulations provide principles of how much risk a scheme can take on its journey from today to the point of significant maturity.



4. So what is a low dependency investment allocation?

The regulations introduce a requirement of 'high resilience' which a scheme's low dependency investment allocation must meet. Specifically a scheme's funding (i.e. the combination of a scheme's low dependency investment allocation and its liabilities measured on a low dependency funding basis) must be "highly resilient to short-term adverse changes in market conditions".

resilience

noun

1. the capacity to withstand or to recover quickly from difficulties; toughness.

Highly resilient to short term adverse shocks

The quotation above is from the regulations. These will require interpretation by trustees and sponsors as they are not defined further, prompting a number of questions:

- What does resilient mean?
- What satisfies the requirement of highly resilient?
- Over what period are shocks considered short-term?
- How severe a shock is an 'adverse shock'?
- What risks are included in short-term adverse changes in market conditions? (e.g. should mortality risk be excluded?)

The dictionary definition can provide a useful starting point – '*Resilience means the ability to withstand or to recover from adverse events*'. So being highly resilient is not about avoiding all losses, but having the ability to recover from them. For example, the ability to return to a fully funded position on the low dependency basis without relying on employer contributions.

Given resilience also means the capacity to withstand difficulties it is important to also consider the size of any possible funding drop. So critically we're looking at both the size of the shock and the ability to recover from that shock.

Funding and investment strategies are not an exact science and so there must be some sort of materiality corridor within which the funding level can deviate and also tolerance for how quickly it recovers. The crucial phrase 'highly resilient' ends up in the same category as 'prudence' under scheme funding – left for the advisers and trustees to interpret.



At the point of significant maturity, it is expected that the scheme will be assumed to be invested in line with a low dependency investment allocation; be fully funded on a low dependency basis; and further contributions "would not be expected" to be needed "under reasonably foreseeable circumstances".



The Pensions Regulator's view on high resilience – how it expects trustees to interpret the legislative requirements

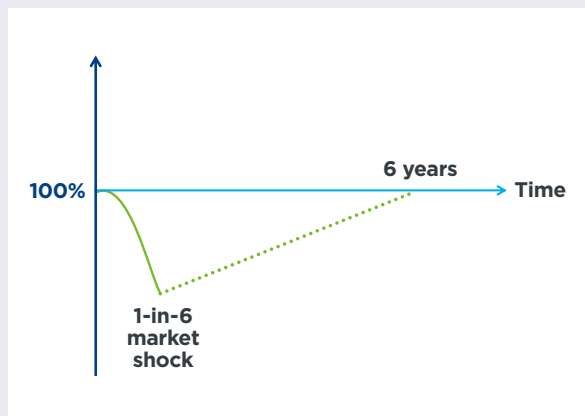
TPR expects all schemes to have a minimum 90% level of interest rate and inflation hedging as well high levels of liquidity. However, the most interesting point in the Code is around testing for high resilience.

In the Code the Regulator has said trustees are expected “to assess the resilience of their low dependency investment allocation to short-term adverse market changes”. Whilst the previous draft was more prescriptive, the Code uses the 1-in-6 test as an example and discusses a 6-year recovery period being appropriate (see graph). There are some important implications of using this ‘bounce-back’ test, which we highlight below.

TPR expects trustees should be “carrying out a suitable level of analysis”. We therefore think a wide range of risk metrics should be considered including conditional VaR; scenario analyses; default rate stressing for matching assets; LDI collateral calls impacts; cashflow sensitivities; curve risk; and liquidity resilience.

The Code also confirms that where a much stronger test is used (i.e. possibly the more standard 1-in-20 VaR) “limited contributions from the employer may be considered”, which does slightly go against the previous position of not allowing for covenant past the point of significant maturity.

The Code discusses how schemes with material surplus may invest differently to a typical LDIA. This is because the existence of material surplus may significantly reduce the risk of additional employer contributions being required to repair a negative shock. Therefore this implies schemes with material surpluses on a low dependency basis can take this into account when testing their LDI for high resilience. However, if a scheme is considering withdrawing surplus before wind up in the future (if a statutory override is implemented) then this must be carefully considered when setting the level at which surplus will be extracted.



XPS's view on the Regulator's 6-year bounce-back example

Those schemes adopting the bounce-back approach set out by the Regulator will need to carefully consider how this test is constructed. Bounce-back periods will be heavily influenced by the outperformance margin between the actuarial discount rate and expected return on the assets. Choice of resilience method will be important as some measures, such as the example set out in the Code (i.e. VaR combined with a bounce-back period) can counterintuitively favour higher risk strategies versus lower risk.

For example, there are modelling scenarios where a low risk / low return low dependency allocation may not be able to recover quickly enough (i.e. there is not sufficient excess return to claw back the funding shock). There are ways round this including ensuring more appropriate risk metrics are used.

One way to help is to ensure that risk metrics and actuarial discount rates adopted are consistent with the underlying assets. As schemes start to use more credit investments then trustees may want to think carefully about incorporating both corporate bond and government bond yields into the calculation of the liabilities (something the Regulator calls dynamic discount rates). This is already a tried and tested approach although not without its practical challenges, could be an effective way to demonstrate high resilience.

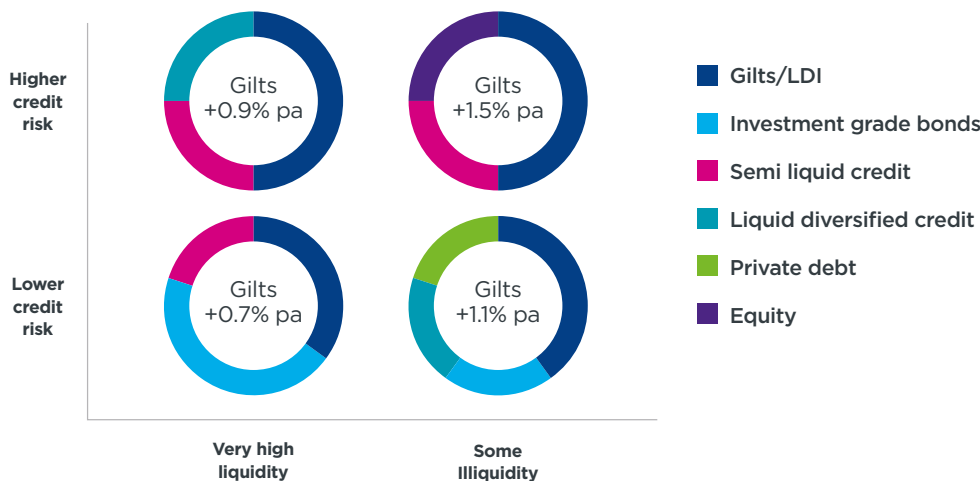
Exploring this further, the VaR metric would only include the corporate bond defaults in a shock scenario (which are typically very low for investment grade credit) rather than the general market volatility from a significant widening of credit spreads (which would be included if the liabilities are measured on just a gilts plus basis). If a scheme is looking to hold bonds for a material amount of time or up until they mature then defaults will be what determines funding stress. Therefore, we believe a credit linked discount rate could be a more appropriate way to measure risk which will lead to more appropriate funding structures being put in place (if required).

5. What asset classes can I use in my low dependency investment allocation?

We believe a low dependency investment allocation typically means having lower allocations to traditional growth assets such as equities and higher allocations to credit-based / contractual income focussed investments; all supported by very high levels of hedging against interest rate and inflation risk. Regardless of the new regime, this has been the direction of travel for many maturing schemes over time and is consistent with how insurance companies invest to manage their significant book of mature pension liabilities.

In terms of actual asset classes, most schemes will need a minimum core holding in leveraged LDI (typically at least 30-40% of assets) but there is a wide range of other contractual income investments that may fill the remaining 60-70%. We don't think this means schemes should just be invested in UK government and UK investment grade corporate bonds, regardless of any potential market capacity issues. Gilts are low returning assets and Sterling corporate bonds are relatively concentrated to a small number of issuers at longer maturities, in particular utilities and housing associations. Therefore, we see considerable benefit in broadening the assets considered to include dollar and euro denominated debt, high yield and emerging market debt along with loans, asset backed securities, private debt and property and infrastructure investments.

Example low dependency investment allocations



Source: XPS Group

An allocation to traditional growth assets such as equities is also permitted. This could be attractive for schemes looking to demonstrate resilience by having sufficient return above the discount rate within the strategy to be able to recover from any adverse market event. Having an allocation to equities could be particularly appealing in the current market environment where credit spreads are lower than historical averages or for schemes looking to run-on for surplus generation. This is expanded further below.

We note that the “highly resilient” requirement represents an upper threshold of risk meaning there is scope for trustees to pursue a lower risk strategy if desired. How trustees and sponsors will set their low dependency investment allocation will therefore depend on two key parameters: risk and liquidity. We have set out four illustrative strategies that schemes might adopt depending on their willingness to take risk and willingness / ability to accept some illiquidity. Whether these meet high resilience for a given scheme depends on the interpretation of the test and how it interacts with other aspects such as the liabilities and chosen discount rate.



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Schemes close to buyout: Trustees looking to buyout in the next five years will not want any long-term illiquidity issues. Whilst secondary markets do exist for private market assets, there is no guarantee that assets can be sold within any reasonable timeframe, let alone at a reasonable price. With the insurance market becoming more saturated with potential buyers, trustees of such schemes need to be able to quickly take advantage of insurance opportunities as they arise. Therefore, these schemes would likely pursue highly liquid strategies.

Schemes with less immediate focus on buyout: For trustees looking to run-on their schemes in the medium term or where buy-out is still way off in the horizon then accepting some illiquidity can be a profitable approach. The trustees of these schemes will be able to lock away some of their money in, say, private markets to generate some higher returns and so maybe leaning towards incorporating some illiquidity.

There are two points of note around what the regulations mean for schemes – relevance of covenant and the role of equity growth assets.

1. Can trustees allow for covenant in the low dependency investment allocation?

It is interesting to note that there is no allowance for covenant when setting a low dependency investment allocation. Whilst under the regulations, schemes with strong sponsors will be permitted to take more risk on their journey to significant maturity, once at significant maturity, all schemes need to meet the same two requirements regardless of their covenant strength.

This may not be a surprise as we are targeting low dependency (although noting its low not no-dependency). In addition, as previously highlighted the regulator does acknowledge that when testing for resilience where a much stronger test than a 1in6 VaR is used such as a 1in20 “limited contributions from the employer may be considered”. We also note that schemes will consider the strength of their covenant when deciding on their ultimate goal (e.g. is the covenant strong enough to support the scheme if it were to run on to generate surplus).

2. Does this mean schemes can't invest in equities or multi-asset funds?

Our view is that the regulations clearly don't stop you from investing an allocation in more traditional assets like equities or multi-asset, provided a scheme can demonstrate that its overall assets and liabilities are highly resilient to short-term adverse shocks. As set out above, we expect a number of trustees will want to make this case. This is consistent with TPR's view in its Code.

The example portfolios above could be modified to include more traditional growth assets. However, as a starting point, it could be argued that most mature schemes don't necessarily need equities. Although current credit spreads are lower than long-term averages, credit-based assets offer the ability to generate meaningful returns with scope for ample diversification and with greater downside protection in adverse scenarios.

Does the LDIA and the intended journey towards it matter?

The LDIA is a notional long-term investment strategy that the trustees and sponsor agree that they intend to target. Trustees retain the power to invest in different ways if they believe it is in the best interest of members. However, despite this the LDIA could have significant real-world implications, therefore it is important it is given due consideration:

- Technical Provisions must be set so they are consistent with the LDIA and the intended journey towards it. As this will therefore determine funding requirements it is important an appropriate LDIA is used.
- As trustees must sign the statement of strategy, legally they could be deemed in breach of their duty if they set out an LDIA and journey plan which they do not intend to follow.



Whilst the Regulator is keen to stress that the new long-term investment strategy schemes need to target is only a national target, it will still have significant real world implications for many trustees and sponsors and so needs careful consideration. However, positively, there may be more options and flexibility with your long-term investment strategy than you previously expected.



6. The journey from a scheme's current asset allocation to its LDIA

The regulations set out two principles about the level of risks schemes should be taking today and once at their significant maturity point:

1. As schemes get closer to significant maturity then they should take less risk.
2. However, schemes can take risk provided this is supported by the covenant.

Whilst some expected that schemes would be forced to de-risk over time as part of the new strategy regime, our interpretation is that the covenant principle is clear. Trustees and sponsors should be able to stay on-risk (if they want to) over their period until significant maturity, provided they can demonstrate the covenant is there to support if something goes wrong on the journey. This view is supported by the Code.

1

Covenant

More risk can be taken when covenant is **stronger**

2

Time

More risk can be taken when scheme is **further away** from significant maturity



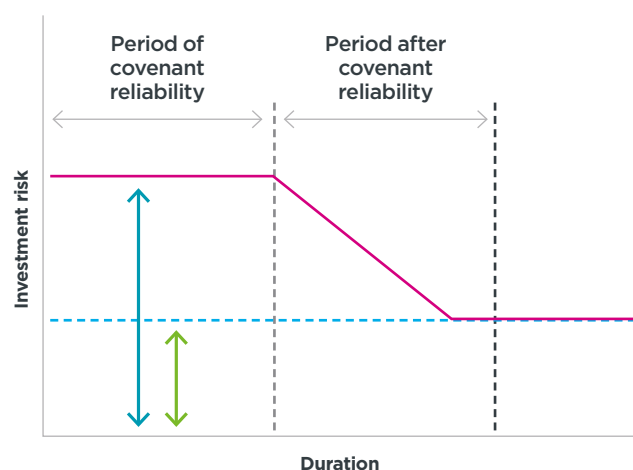
The Pensions Regulator's view on de-risking – how it expects trustees to interpret the legislative requirements

During the period up to significant maturity, the Regulator expects trustees to understand the ability of a scheme's sponsor to support the scheme when assessing the level of risk and therefore the ongoing asset strategies. The Regulator expects trustees to split their journey plans into two key covenant-related periods:

1. **Period of covenant reliability** – when trustees can be reasonably confident about the level of support available. The Regulator has set out principles for assessing the level of supportable risk in the period of covenant reliability.
2. **Period after covenant reliability** – the Regulator expects trustees to consider to what extent de-risking is needed between this point and significant maturity. If a scheme's covenant longevity is shorter than the period to the scheme's relevant date ('and is driven by a specific event or foreseeable limitation') the scheme is expected to be invested in line with its LDIA before the point of significant maturity. The Code acknowledges various de-risking approaches maybe appropriate including linear de-risking, horizon de-risking and stepped de-risking.

Schemes taking on materially less risk relative to their sponsor in the earlier years will be able

(if appropriate) to do less (or potentially even no) de-risking as they approach significant maturity. Schemes may also want to consider the scope for 'rolling-forward' the covenant reliability window at each valuation. Although, ultimately all schemes need a plan to de-risk to their low dependency investment allocation by significant maturity. Overall, covenant is critical leading up to significant maturity and trustees are now legally obliged to provide certain covenant information. Whilst it is not a legal requirement for trustees to get independent covenant advice, the level of covenant information and analysis required as part of the statement of strategy may mean many trustee boards will require the use of a covenant specialist.



- ↔ Risk at low dependency
- ↔ Maximum supportable risk
- Scheme's low dependency investment allocation
- Significant maturity
- Scheme's investment strategy

Source: The Pensions Regulator



The Pensions Regulator's view on open schemes and schemes wanting to run on

Whilst not explicitly addressed in the regulations, the Code provides some guidance for schemes open to accrual and/or those 'running-on'.

Open schemes

Schemes that are open to new entrants and future accrual must plan for how they will provide accrued benefits for existing members over the long term if the status of the scheme were to change (e.g. close) in the future. If a scheme does remain open at subsequent valuations in practice the notional date that a scheme will reach its low dependency target will keep being pushed back.

When considering their journey plans, open schemes can make allowances for future accrual and new entrants. This will increase the time to reach significant maturity and open schemes will therefore be able to take investment risk over a longer time period than an equivalent closed scheme with an equivalent employer.

Run on

The Code confirms that the objective to invest in line with the LDIA at the relevant date does not apply to any surplus on a low dependency funding basis. Therefore if a scheme wishes to run on they can invest any surplus assets in way expected to generate appropriate risk adjusted returns without needing to consider the high resilience test for this sub-set of assets.

However, the Code goes further and acknowledges that where a material surplus exists on a low dependency basis schemes may be able to invest all scheme assets, not just the surplus, in a manner different from a low dependency investment allocation. This is because the existence of material surplus may significantly reduce the risk of additional employer contributions being required if a scheme experiences funding level volatility. This could result in an overall greater allocation to growth assets, which may improve risk adjusted returns which could help trustees to meet their long-term objectives. This is consistent with the approach taken by insurance companies who use reserves to support their investment strategies.

Level of detail required

The Code also sets out some guidance on the level of granularity they expect from schemes when determining their LDIA. Specifically, they expect a greater focus on the investment allocation and the associated risks as schemes approach their relevant date.



Given significant increases in funding within pension schemes over the last two years many are actively considering run on. The industry is currently expecting various changes to regulations such as a statutory override to allow surplus extraction before wind up.

The attractiveness of various alternative options to schemes will be heavily influenced by what changes are implemented. The final version of the code has been updated to give schemes considering run on more flexibility with their investment strategy.





7. Fast Track – The Regulator’s filter

A scheme that meets the Fast Track requirements for its funding and investment strategy is unlikely (but not guaranteed) to be selected for further scrutiny and engagement by the Regulator. The second regulatory route is referred to as Bespoke

Importantly, Fast Track may not be so fast for trustees and sponsors. All trustees and sponsors will need to go through the process to comply with the new regulations. The Regulator has confirmed that Fast Track should not be used as a benchmark. Whilst slightly fewer submission entries are required under Fast Track, this may be offset by additional actuarial certification required under this route. Fast Track should simply be seen as a filter which the Regulator will use for assessing actuarial valuations.

Despite it being absent from the regulations and the Code, details of the Fast Track route (set out in a separate standalone document) provide an important insight into the Regulator’s governance approach. One reason

for its absence from the Code is to provide the Regulator with greater flexibility for future updates.

The three Fast Track parameters are based on maturity and are independent of covenant.
In broad summary:

1

Technical Provisions

A scheme’s technical provisions must converge to Fast Track low dependency liabilities as it matures. The Technical Provisions must be at least 83.5% of the Fast Track low dependency liabilities for a scheme with 20 year duration converging to 100% at 10 year duration. Low dependency liabilities are calculated using a gilts+0.5% discount rate (with guidance given on other assumptions as well).

2

Recovery plans

Scheme deficits to be repaid within 6 years (before significant maturity) or 3 years (after significant maturity). There are also some other restrictions on the recovery plan construction.

3

Funding and investment stress test

A scheme’s funding level must not fall by more than a set percentage under the Regulator’s prescribed stress test, which is currently consistent with the PPF’s tier 1 approach set out in their recent 2023/24 consultation response. The maximum funding level fall is 13.1% for a scheme with 20 year duration or less; 2.2% for a scheme with 10 year duration. As a basic illustration, this test implies a maximum equity holding of 32% (at 10 years), although, noting that the PPF stress test is not without its limitations.

Fast Track funding and investment stress tests (extract of assumptions)

Fast Track by the Regulator’s own admission is not trying to provide a single optimal answer. However, the Regulator’s analysis (from March 2024) suggests that 62% of schemes would be fully compliant with Fast Track, with a further 19% being able to change their approach at no extra cost and meet all the parameters.

Liability value stress	Asset value stress
Interest rates -0.74% pa	Other or private equity -19% Equities -16% Diversified growth -10%
Inflation - 0.11% pa	Sub investment grade bonds -6% Property -4% Investment grade corporate bonds +3%

Statement of strategy

Trustees will need to set out their new funding and investment strategy in a new document called the "Statement of Strategy". This will be done as part of the usual triennial valuation process (and following any other changes to the strategy). The Statement of Strategy will require input from multiple parties including the investment team, scheme actuary, covenant adviser, the trustees and the sponsor.

The graphic sets out the high-level content, noting that part 1 needs to be agreed with the sponsor whilst part 2 only requires consultation.

Statement of strategy	
Part 1 Funding and investment strategy	Part 2 Supplemental matters
<ol style="list-style-type: none"> 1. Long-term objective (e.g. run-off, buy-out, etc.) 2. Details of low dependency investment allocation (LDIA) 3. Relevant date for low dependency target (i.e. when significantly mature or earlier) 	<ol style="list-style-type: none"> 1. Level of risk within the LDIA 2. Intended journey plan to transition to the LDIA 3. Hedging levels within the LDIA 4. Level of liquidity within portfolio
Agree	Consult

The statement is a statement of intent, so future versions will include comments explaining any deviations and any comments from the sponsor. What is interesting is how this interacts with the existing investment requirements. The new strategy regime does not change any of the existing investment rules as set out in the Pension Act 1995 or the 2005 Investment Regulations.

For example, trustees will still need to continue to set a Statement of Investment Principles (SIP) and invest in line with it. Under the SIP, trustees retain their power to set investment strategy in line with their members best interest and they only need to consult with sponsors of changes in strategy. The Code confirms that this remains the case.

However, the Code also says: "we anticipate the actual investment allocation and the notional investment allocation (as set out in the Statement of Strategy) will be the same or similar for many schemes". Given this and the two reasons why the LDIA matter in section five, the introduction of the statement of strategy could complicate the investment strategy setting dynamic for many schemes, despite the assurances from the Regulator.

Significant maturity – 10 years duration explained

Under the new strategy regime, duration will become a very important concept as it will define the point a scheme is significantly mature (i.e. the point in time at which they should be targeting a status of low dependency). The regulations empower the Regulator to set out the precise requirements in its Code (one example of where the Code is effectively a legal statement). This is set as 10 years for a scheme calculation using fixed market conditions as at 31 March 2023.

Duration may be viewed as the time in the future when half the actuarial cashflows will be paid out. The cashflows will be weighted by the discount rates used in the low dependency funding basis.

Most schemes will not yet have a duration of 10 years. A good rule of thumb is that in a normal course of events duration of a scheme's liabilities falls by one year for every three years that passes. A scheme with duration of 13 years today will have around 9 years until they hit significant maturity (all other things being equal). That said duration can change rapidly as a result of changes in yields.

Investment action plan

A new strategy regime is set to bring about significant changes to the funding and investment plans for defined benefit schemes. We propose that schemes should:

- 1 Start now** – given the level of work which will be required we strongly encourage trustees and sponsors to consider this new strategy regime now (even if their valuation date is not in the near future).
- 2 Consider training** – there are a lot of new concepts that trustees and sponsors will need to understand. All advisers should work closely to help everyone understand the new regime and its potential implications.
- 3 Understand your scheme's duration and timescales** – how far is your scheme from being significantly mature? Schemes are probably nearer to this than they think.
- 4 Review your current long-term investment plan** – is it consistent with the requirements of a low dependency investment allocation? How do you think high resilience should be tested? There may be more options and flexibility with the end portfolio than previously expected.
- 5 Consider covenant** – is there sufficient visibility of sponsor strength to determine the level of risk to be taken along the journey?
- 6 Engage with the sponsor** – the new strategy regime means trustees and sponsors will need to work even more closely in the future.

Find out more

To discuss any of the issues covered in this edition, please get in touch with **Adam Gillespie** or **Ben Rogers**. Alternatively, please speak to your usual XPS contact.



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