Sackers

DC hot topic

February 2017

TPR's guide to investment governance

TPR's revised Code of practice on the governance and administration of occupational trust-based schemes providing money purchase benefits came into force on 28 July 2016.

To coincide with this, TPR published the final versions of its "how to" guides. These are intended to help trustees implement the Code.

The six new guides reflect the key areas of the Code, where TPR sets out its expectations in more detail.

This note sets out some headline points in relation to the guide to investment governance.

1 Investment governance role

Trustees should:

- ensure they understand the legal requirements
- be confident that any outsourced or delegated investment functions are carried out by people with the right expertise, with the best interests of beneficiaries in mind
- have clear terms of reference and documented service level agreements with providers.

2 Financial and non-financial factors

Trustees should:

- take into account factors which are financially material to the performance of an investment. This may include environmental, social and governance ("ESG") or ethical factors
- primarily pursue a financial return, but may take other non-financial factors into account if they have good reason to think that scheme members share their view and there is no risk of significant financial detriment to the fund
- bear in mind that most DC investments are long term and are therefore exposed to the longer-term financial risks. For example, climate change, unsustainable business practices, unsound corporate governance etc.

TPR's guide to investment governance cont.

3 Designing investment arrangements (including default arrangements)

Trustees should:

- understand the needs of their membership and how these might change in the future
- devote sufficient time and resources to:
  - understanding the objective of each fund and the basis upon which the total level of costs and charges is calculated and levied on each individual fund
  - completing enough due diligence in selecting platforms and providers
  - ensuring that the number and risk profile of investment funds offered as an alternative to the default(s) reflect the needs of the membership.

4 Strategy and performance monitoring and review

Trustees should:

- regularly review the longer term performance of individual funds against the fund benchmarks
- pay more frequent attention to investment funds that hold a significant proportion of scheme members' assets, including those which underpin the default arrangements.

5 Changing investment funds

Trustees should:

- consider the costs of transitioning and the ways in which they can mitigate and manage them
- seek to understand the available options and take appropriate advice
- generally inform members in good time before any fund transfer so that they can switch to a different fund if they do not want to be moved automatically.

6 Security of assets

Best practice:

- Trustees communicate their conclusion regarding the security of the scheme's assets and any planned actions to members.

Trustees should:

- establish the overall extent of cover the scheme has (both under and outside of the FSCS) and the level of risk to which the scheme potentially remains exposed.

For further information, training and assistance with meeting your legal requirements please speak to your usual contact at Sackers or visit www.sackers.com/dc-schemes.

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