Chris Martin: Where next for Independent Trustee Services?

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Chris Martin speaks to James Phillips about Independent Trustee Services' plans since its management buyout and his experience working with stressed and distressed schemes.

It has been nearly a year since Independent Trustee Services (ITS) completed its management buyout (MBO) from the combined Mercer and JLT businesses.

Completed in June last year, the now 29-year-old business said the decision reinforced its ethos of being an "independent, professional trustee firm", with executive chairman Chris Martin and seven directors part of the share purchase.

Since then, Martin says he and the team have focused on "bedding into the structure" of owning the business and thinking about its vision for the future over the next five to ten years.

"We didn't want to rush into changing our previous strategy," he says. "We wanted to spend time reflecting on what we as a group of individuals and as a wider ITS team wanted to deliver - what we thought the industry really needed."

The last four months have been spent on populating the firm's strategic plan, which focuses on diversifying the experience of its staff to provide a wider range of services to schemes of all size and type.

Although, Martin says he would not advise anyone to complete an MBO before a global pandemic "because it's an immediate challenge to whether you can operate". Nevertheless, the necessary transitions have been "seamless".

Whatever circumstances we currently face, Martin is assured that the decision to conduct the MBO was the right move. It has opened up a range of new possibilities for the firm.

"One of the great liberating actions of being independently owned again is that you can make those strategic decisions and you can move fast to make them happen. Being part of a larger organisation always slows you down slightly in terms of implementation.

"We absolutely recognise that the DB marketplace over the next ten to 15 years is going to look very, very different to how it looks today. Particularly, some small- and medium-sized, potentially even larger-end, schemes are going to be starting to move themselves from attached to sponsors to de-risking and risk transferring - that could be consolidators, it could be bulk annuity providers."

"What we're trying to do as a business is to be positioned to support the governance arrangements for all schemes and all sizes, to enable the trustee boards to make better decisions and deliver better outcomes for members."

Supporting governance

Martin says that some trustee boards lack a "wider governance framework" to support their decision-making and effectiveness, and ITS has therefore launched a new offering named Trustee Governance Office (TGO).

"We will now support trustee boards and become their infrastructure in terms of actually setting the capital A agenda, the big picture agenda, helping the chair through preparing to drive the board towards delivering their strategic vision and then making sure all the actions are followed up."

This is particularly the case as fewer companies employ in-house pensions managers, Martin explains, as they begin to see DB schemes as legacy and warranting less expenditure.

"Part of what the TGO is there for is to say, ‘OK, we can replace that for you. You don't have to have the full commitment to having that person in-house, but we can choose the elements that you want and we can support you with those."

He predicts that more firms could follow this route as a result of the Covid-19 crisis and a deemed need to slim down and streamline workforce, cutting what they might see as discretionary spend.

Schemes can choose the services they need from a "complete menu approach" offering professional trustee appointments, chairman appointments, and "providing all the wider governance services"; they can choose all of the services, a mixture of several, or just one.

"There are some schemes that have absolutely efficient and engaged trustee boards with really smart people making good decisions, but perhaps sometimes the gap is getting those delivered after the meeting and that's where the wider TGO service can support them.

"I genuinely believe that you have to have all bases around governance covered if you're going to deliver better outcomes for members. You can sit and think great thoughts, but if you don't do anything with them then it doesn't move the dial for members."

The service has already signed up clients, and to support this wider scheme support, ITS has made it a priority to build a wider cohort of staff with a greater spread of experience. Just this year, it has hired John Lovell as director of governance services, alongside Michael Derrig as trust officer, while Tegs Harding and Akash Rooprai have joined as directors, and Ian Terry has been hired as sales and marketing director.

"You wouldn't necessarily see the picture join up, but these are focused hires we're making; they're going to help deliver for ten years and beyond."

Lovell has been hired for his experience working in house with large DB schemes, Harding for her investment consulting, actuarial and strategist background, and Rooprai for his actuarial and risk transfer expertise.

New and bold

In addition to its corporate strategy, ITS has sought to rebrand itself, unveiling a new logo in the process.

"From my perspective as chair of the company, I wanted to send a message that symbolised the fact that it was a new era for ITS. We've had a very consistent, solid, stable brand which worked really well for its time. But we have moved on; we're a differently owned business now and we're doing different things in different ways.

"We've still got all the really good stuff we did before, but actually we're looking to do even more of it in different ways now. We needed to send the signal to the market that this is a business that is independently minded, independently spirited, and growing in a way that we think is absolutely aligned to the needs of the marketplace.

"There was nothing wrong with where we've been at all - but it was actually just making a really loud message about the fact that this is new and bold."

Aligned to this rebrand is a focus on building the brand, with "the full quota of hires" expected by the end of the year unimpacted by the current crisis. But there is also a desire to cement ITS' position at the top of the market, particularly through the TGO.

"By the end of the year, I would want TGO to be seen as a market-leading offering. It will have its own critical mass and it will have its own staff. Where I'd really like to be on 31 December is saying that all of the plans that we put in place 18 months earlier have given us the platform for growing our client base.

"We have really ambitious plans to grow the number of clients that we service from 2021 onwards, so we are absolutely investing in the people, in the technology, and in the service offerings to see the growth of the business come through over the subsequent five years."

By 2025, ITS wants to double the number of clients, which Martin accepts is an "aggressive target", and to be the "provider of choice" for governance-related services, such as secretarial support, in-house pensions management, chairing trustee boards, and more.

"In aggregate, I want us to be the firm that sponsors and trustee boards can come to and they can find the right solutions for their set of circumstances."

Working with stressed schemes

Such growth will undoubtedly draw on Martin and the wider ITS' teams wider experiences. For his part, Martin served on the trustee boards of the pension schemes of BHS, Carillion and HMV during their most difficult periods.

But while ITS does have some specialism in working with schemes in distressed scenarios, these are a minority of those it serves. Around 150 schemes have appointed the firm, but "probably 20" are in these challenging circumstances.

For the rest, the aim is to get them to a position of security, and this is clearly demonstrated with the firm's appointment to the Co-operative Pension Scheme (Pace), where Martin acts as chairman.

"We talk about helping sponsors and trustee boards to move and improve their funding position and member security over time, and we've actually just started to see that, in a couple of cases, being delivered by one of our very large schemes."

The scheme has this year completed three separate buy-ins, insuring £2.4bn of liabilities, which Martin says is a perfect example "of many years of hard work".

"People notice it when you're doing a buy-in, because there's five years of planning and work to get there. It's maybe a little less exciting at the time, but it's that legwork that got us into the market last year and the beginning of this year."

Some of the buy-ins were completed in the challenging market conditions caused by the Covid-19 pandemic, but Martin highlights that conditions were similarly difficult during the Brexit saga and the 2019 general election.

"We were in the market trying to place a £2bn buy-in, and that's brave, but actually, because we'd done all the legwork over the previous years, we were able to take advantage of those market opportunities.

"So we don't just talk about these strategic initiatives and how people should be focused on them. We're actually seeing that we're delivering them now as well. As a professional trustee, it doesn't set us apart uniquely, but at least we can say we've got the T-shirts and we're doing it."

And ITS' role as a professional trustee has certainly been highlighted in this climate. The coronavirus pandemic has caused all trustee boards to re-evaluate how they operate and Martin is seeing this first-hand. The good news is that most are operating well, if not better - and the transition to working remotely was quick.

"Trustee meetings and action between meetings have all been pretty effectively delivered over video conferences," he says. "It's worked. The real pluses are we've condensed our meetings and we've condensed our agendas, and actually the decision-making is really sharp because you almost have a more constrained timescale. So, you pick out the things that are strategically important and focus on them."

Of course, there is a downside, Martin accepts. Debates are shorter and the quality can be reduced, which is "not so good for blue sky thinking". There may have been some initial "grumpiness" from trustee boards which "have their rhythm", he says, but they adapted quickly and "it's almost getting back to having sort of banter in meetings".

Furthermore, acting as chairman in these circumstances is more difficult. The role of a chairman is to ensure the debate is fluid, and all views are heard, especially from more reserved members of the boards - and sometimes trustees may go off camera.

"There's a real risk that you leave somebody out unless you consciously go around and ask everybody to speak," Martin laments. "So from a chairing perspective, it's a new art form."

Nevertheless, Martin reckons that some of this new culture will remain in place once the lockdown ends. The effectiveness and efficiency of these meetings - particularly aided by advisers "understanding that they can't come along with a 28-page report and expect to read it" - are an upside.

Testing times

While the practical aspects of trustee meetings appear to be holding up - and in some instances improved perhaps - the discussions are becoming more challenging. Martin counts at least 10 cases where trustees have been asked by sponsors to reduce or defer deficit recovery contributions, and he expects this number to continue to rise over the coming months.

This situation raises an "interesting challenge" for trustees. While The Pensions Regulator (TPR) has said trustees should be open to such requests, there is still the question about how to respond. What attitude should trustees take?

"I had an interesting philosophical discussion with a trustee board the other day to say, as trustees, we thought this was a good sponsor four weeks ago, we want this sponsor to be supporting us for the next ten years. Is our mindset that we should be agreeing to the deferral of contributions unless there's a good reason not to do it, or is our mindset that we don't agree to deferrals unless there's an absolutely compelling reason we must do it.

"I think the former is absolutely right. You thought it was a good sponsor before, you think it's a sponsor that you want to be attached to, so your mindset should be, how can we, as a trustee board, work to try to ensure the robustness of that sponsor going forwards, not to make it more challenging.

"But it is almost an inversion of the natural mindset for a trustee board."

The danger of forensically analysing such circumstances risks leaving the request too late and damaging a scheme's future prospects, even if the sponsor does not go bust. Relationship management is key here. By refusing a deferral now, trustees could be opening the door to more difficult triennial valuation discussions later.

As mentioned earlier, Martin has numerous experiences working with schemes in stressed and distressed scenarios. So what is his advice for those schemes that may be facing this exact situation right now?

He imagines a curve, "starting from stressed, and ending up with distressed where the sponsor is teetering on the edge". The key question for trustees is knowing when to step back and consider their options.

"If you're on that curve down, the most obvious thing I would say - and it sounds self-serving - is if you haven't got a professional trustee on the board that has dealt with this sort of difficult situation, appoint one. If you're getting to the position on the curve where it looks like there could be a restructuring or insolvency event, you absolutely need to be engaging with the Pension Protection Fund (PPF) and TPR.

"It's incredible how quick the last part of that curve gets away from you, so bringing in TPR and the PPF at the right point earlier on is really important."

Trustees will need to make myriad decisions and enquiries that can quickly get on top of them if they act too late. The hardest conversations will be about to when to tell members, particularly if many of them continue to be employed by the scheme sponsor.

"It is a really challenging point, but you have to give them as much information as you can to prepare them and allow them to take as much control as they can."

Obviously, Martin says, schemes should not be taking excessive investment risk, but they also need to decide whether it remains appropriate to pay transfer values.

But he adds: "The really big thing I'd like to call out - which again is sometimes lost in the hurly burly of everything that's going on - is to make sure that as a trustee board, whatever happens to the future of the company, all of your operational arrangements can stay in place."

This includes ensuring that bank accounts are entirely independent of the sponsor - the danger is, for example, that schemes may need the company as a co-signatory, meaning payments could be suspended in an insolvency event. It is important that schemes can "deliver that certainty".

But the final thought he offers is what he describes as "the biggest lesson of all" that should not matter even if a scheme has a strong covenant.

"As you go down that curve, it becomes increasingly important to maintain that relationship with the sponsor. It sounds absolutely obvious but having that trust, that clarity of communication, that openness, informality, being able to pick up the phone on a Sunday afternoon and discuss a problem, all that stuff has got to be in place.

"The worst outcomes are delivered where people hide from each other or start stepping apart. That's never going to end well if you're out of the information loop."