

Market Musings 9/25

For Professional Investors only



What Tolstoy can teach us about pension governance

“All happy families are alike; each unhappy family is unhappy in its own way.”¹

Reflections on what makes pension governance work

Many will recognise this as one of literature's most quoted opening lines. It's from Anna Karenina, a novel Tolstoy famously grew to dislike while he was writing it. Yet the line endures, and it offers a surprisingly apt analogy for pension scheme governance. The happiest schemes tend to share a few traits. The unhappiest ones? Each has its own story.

From independence to interdependence

At the start of my career, pension governance was relatively straightforward. Trustees made investment decisions, guided by investment consultants and to an extent, actuaries. Companies were consulted, but rarely involved in a meaningful way. Trustees would act independently, and in the worst examples, companies would simply budget for the risks.

That model has evolved. A series of financial crises and the increased sophistication we've seen introduced into pension scheme investment strategies, have pushed schemes towards more structured, collaborative governance. Today, there is far more advice, more scrutiny and multiple stakeholders involved in securing member outcomes.

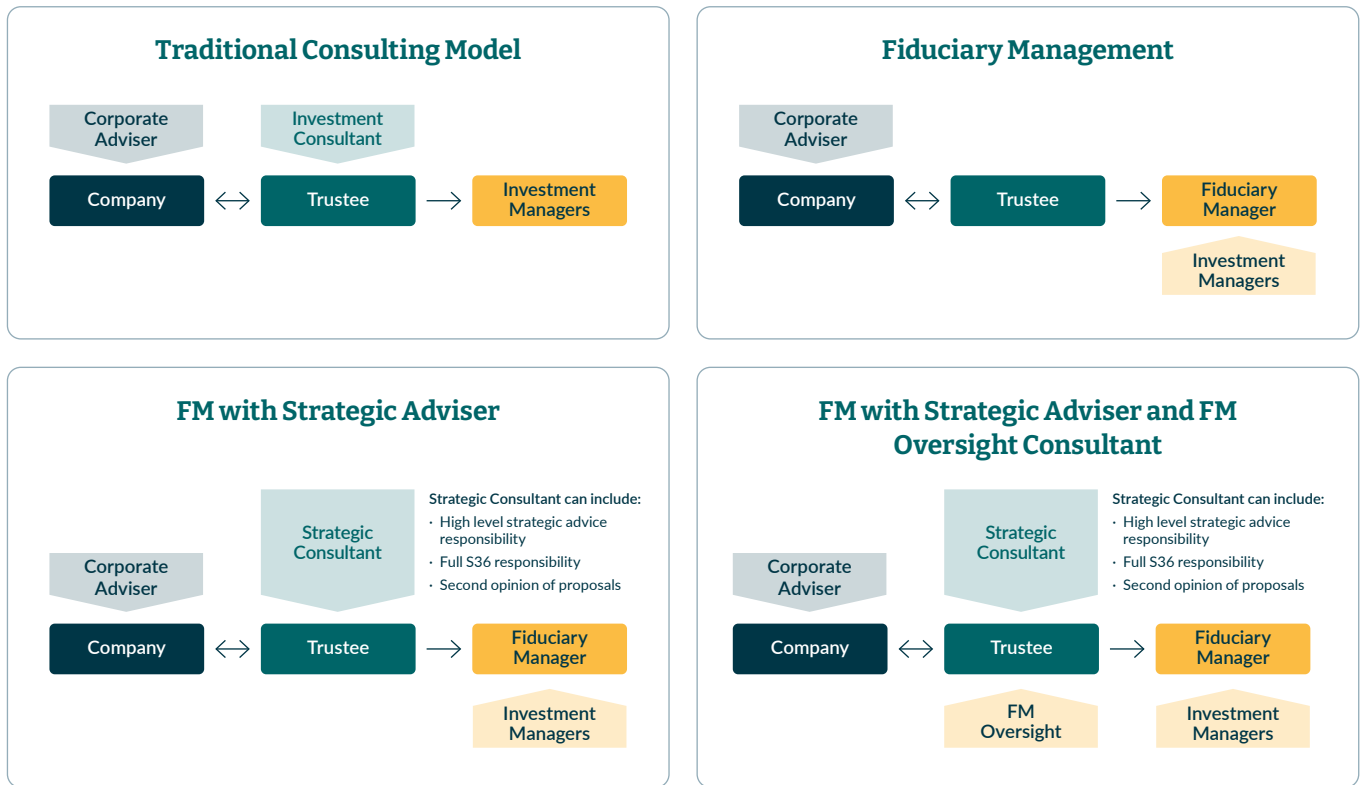


Today, there is far more advice, more scrutiny and multiple stakeholders involved in securing member outcomes.

¹ Anna Karenina, Tolstoy

Diagram 1: Governance models in UK pension schemes

Examples of current governance structures, showing the shift from traditional consulting-led models to more collaborative frameworks involving fiduciary managers, specialist consultants, and sponsors.



Source: Van Lanschot Kempen

The importance of selectivity

The evolution of pension scheme governance has been a natural process. Many Trustees have moved beyond simply seeking advice, they now embed the implementation of that advice through fiduciary managers. This shift reflects a broader trend towards professionalisation and delegation.

The role of investment consultants has also evolved. While many continue to offer sound advice across the spectrum, the strategic consulting function has become increasingly important. Consultants are now expected to advise on investment strategy, provide second opinions and, in some cases, help trustees find a fiduciary manager. That selection process is no small task, given the typically long tenure of fiduciary managers, the large responsibilities placed on them and the selection process rules set out by the CMA in 2019.

Companies, too, have taken a more active role. It is entirely right that they are in the discussion of how the benefit promises they make are delivered. Corporate pension advisers are now expected to engage with the trustees' investment advisory and management teams. A dynamic that brings both challenge and opportunity.

Consultants are now expected to advise on investment strategy, provide second opinions and, in some cases, help trustees find a fiduciary manager.

Where collaboration breaks down

So we are not short of expertise in pension scheme management. The challenge lies in how well these groups work together. The quality of collaboration determines whether the combined efforts are at least equal to the sum of the parts.

This is where Tolstoy's observation about unhappy families resonates. In governance, dysfunction rarely follows a template. Each breakdown is unique.

Common issues include:

- Trustees and sponsors locked in conflict rather than looking for common ground.
- Delays caused by diversions, U-turns and tactical stalling.
- Advisory pride and an unwillingness to accept that a position may be wrong.

- Advisers defending unsustainable positions, rather than guiding their clients towards resolution.
- Service providers expanding their roles at the expense of others around the table.

I've sat through many funding and investment processes where contribution rates and the associated portfolio risk bounce between competing analysis, often over months. The final agreement is usually a predictable compromise, and more importantly, almost always proven to be wrong with hindsight, once markets move and external factors shift.

What's gained in terms of financial rigour is lost in terms of trust. Respect between stakeholders erodes, and valuable time is wasted navigating internal politics rather than addressing real world risks.

What happy schemes get right

*"If you look for perfection, you'll never be content."*²

There is no perfect formula for pension governance, but the schemes that operate more smoothly – the happier families so to speak – tend to follow **three guiding principles**:

1. Everyone is focused on improving the pension scheme's overall position.
2. The right mix of skills and expertise is brought to the table.
3. Trust is treated as essential not optional.

The best examples I've seen involve a dynamic investment committee sitting below the trustee board, with clearly

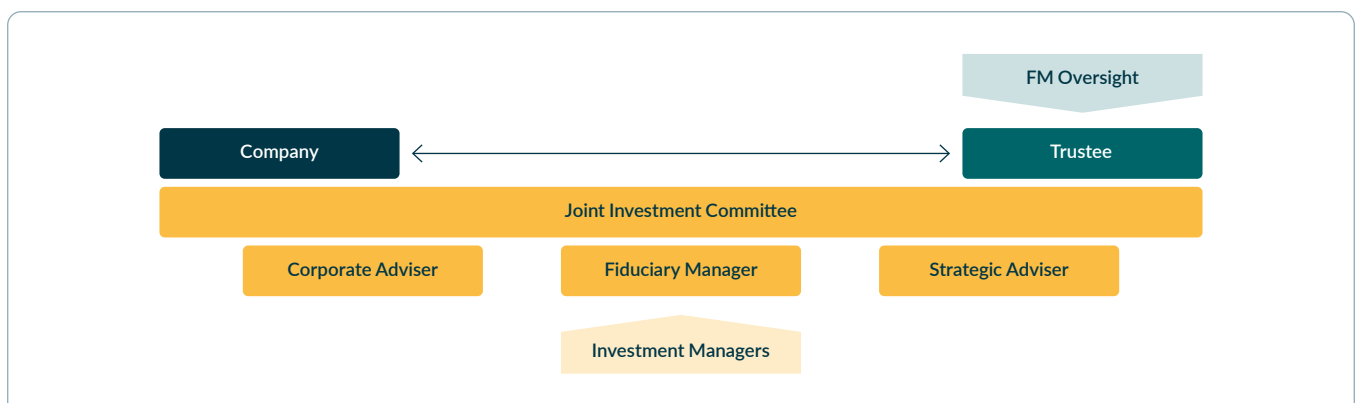
defined delegated powers. Key trustees and the company representatives would be on this committee, alongside all relevant advisers and the fiduciary manager.

Pre-meetings play a vital role in this structure. The chair, advisers and fiduciary manager meet in advance to air differing views and work through points of disagreement. This allows the formal committee meeting to focus on decisions, not debate.

Just like in any well-functioning family, the goal is to resolve issues on the day, rather than adjourning to argue next time. The emphasis is on progress, not positioning.

Diagram 2: Collaborative committee structure

A model for effective decision-making: a dynamic investment committee with delegated powers, supported by pre-meetings to resolve disagreements and streamline formal discussions.



² Anna Karenina, Tolstoy

Why it matters in a crisis

Many investment committees have voting rules, but in practice, these are rarely used. Even the more contentious decisions tend to be resolved without anyone feeling the need to register an opposite position. That in itself is a sign of a well-functioning group.

“There is no greatness where there is not simplicity, goodness, and truth.”³

I’ve seen these collaborative structures add real value not just in the quality of the decisions made on a monthly or quarterly basis, but also when the group needs to come together to deal with a specific crisis.

Final thoughts: what makes schemes succeed

In the end, the success of pension scheme investment does not hinge on the complexity of its structures or the financial wizardry of its advisers. It depends on the quality of collaboration and trust built between stakeholders.

Tolstoy’s unhappy families each suffer in their own way, and pension schemes are no different. When egos collide, incentives misalign, or communication breaks down, the collective purpose falters.

The happiest outcomes arise when everyone commits to shared goals, embraces open dialogue, and fosters a culture where disagreement is resolved constructively. Ideally before anyone leaves the room frustrated or goes to bed angry.

The 2022 gilts crisis was a great example of that. Schemes with experienced and action-focused committees were able to move more quickly. These groups, used to debating complex topics and acting decisively, agreed and implemented key decisions on collateral top-ups and LDI adjustments with minimal friction.

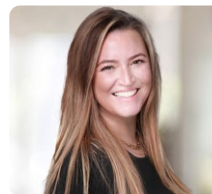
By contrast, schemes with less familiarity among stakeholders, and potentially less in-built trust, struggled to respond in time.

Market Musings authors



Patrick Race
Managing Director, Fiduciary
Management & Institutional Solutions

 [Follow Patrick on LinkedIn](#)



Vicky Casebourne
Head of Institutional Relations

 [Follow Vicky on LinkedIn](#)

³ The Path of Life, Tolstoy

Disclaimer

This document is issued by Van Lanschot Kempfen Investment Management (UK) Ltd. (“VLK Investment Management (UK)”) for information purposes only. The information contained in this document is of a general nature. No part of this document may be reproduced or copied without prior written consent from VLK Investment Management (UK). This document is subject to revision at any time and VLK Investment Management (UK) is not obliged to inform you of any changes made to this document. VLK Investment Management (UK) is registered in England & Wales with registration number 02833264. Registered office at 20 Gracechurch Street, London EC3V 0BG Tel: 0203 636 9400. VLK Investment Management (UK) is authorised and regulated by the Financial Conduct Authority (Firm Reference No. 166063). VLK Investment Management (UK) does not accept any responsibility or liability caused by any action or omission taken in reliance upon information herein.

This document should not be considered as the giving of investment advice by of VLK Investment Management (UK) or any of its members, directors, officers, agents, employees or advisers. In particular, this document does not constitute an offer, solicitation or invitation to enter into a transaction, including with respect to the purchase or sale of any security interest or other in any jurisdiction. Neither this document nor anything contained in this document shall form the basis of any contract or commitment whatsoever. This document is not intended to provide and should not be relied on for accounting, legal or tax advice, or investment recommendations. No responsibility can be accepted for errors of fact obtained from third parties, and this data may change with market conditions.

Capital at Risk. Past performance is not indicative of future results.



20 Gracechurch Street,
London EC3V 0BG

 [vanlanschotkempfen.com/
investment-management](https://www.vanlanschotkempfen.com/investment-management)

 [Follow us on LinkedIn](#)