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Endgame planning: out of limbo, into action

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If you're a trustee or sponsor planning your scheme's long-term future, a whole avenue of endgame opportunities has opened up in recent years. Making a choice can be daunting, especially if there's a lack of consensus and sense of uncertainty among the scheme's decision-makers. But inaction brings its own problems, not least that you could miss out on investment opportunities.

Every choice on the table – from purposeful run-on to buy-out – needs an investment strategy to deliver it. Your investment portfolio is intrinsically linked to your endgame, and you should always be able to trace a clear line between the two. But without that connecting thread, your portfolio is adrift, and it's missing an opportunity to work hard for you.

Most importantly, there's a risk of making costly mistakes that need to be rectified further down the line. If buy-out ends up being the objective, the scheme may be taking more risk than necessary. And if run-on is the ultimate destination, inaction may cause you to miss out on return opportunities. Careful deliberation can easily turn into inertia, sapping value from the scheme.

Alternatives to inertia – what can you be doing now?

For trustees and sponsors weighing up their options, there's a lot you can do to manage the risk that comes with waiting passively. Here are some immediate actions that'll make future decision-making smoother, whichever endgame you opt for.

Understand your scheme's liquidity profile

One of the most practical steps you can take is to build a clear understanding of your scheme's liquidity profile. That means knowing what can be realised within one day, one month, three months or six months, and understanding the payment profile of any illiquid assets. You should understand the value of what you own, to weigh up retaining an asset and realising its full value against selling it now. This step requires specialist due diligence, so having an adviser with the right expertise is a must. The key is understanding what you own, how quickly assets can be converted into cash and how easily the portfolio could adapt to different future scenarios.

Short-term decisions – is buy-out imminent?

Buying out is the one endgame choice that really constrains your investment options, as it can be unhelpful to have growth assets, as it can be unhelpful to have growth assets or illiquidity. So, ruling it in or out as a short-term option is a key early step when navigating the limbo period. Consider if it's possible to come to a short-term consensus. Decisions over run-on, superfunds, surplus sharing and broader timelines can follow.

Tidy up the portfolio

This starts with looking at the asset building blocks of the portfolio and asking if each one still serves a clear purpose. For example, with investment-grade credit spreads looking tight, consideration could be given to alternative assets, such as asset-backed securities or alternative short-duration credit. As part of this work, it's also worth reviewing how diversified the credit portfolio is.

Hedging is another area to revisit. Recent movements in inflation may have affected the existing hedges, so it's worth checking whether your target level of hedging remains appropriate and whether your inflation and interest-rate exposures are still aligned with the scheme's objectives.

As part of this work, it's worth reviewing the scheme's liability-driven investment (LDI) arrangements too. This could involve checking swap exposures, simplifying arrangements where appropriate and ensuring the portfolio is set up to support future flexibility, regardless of whether the scheme ultimately runs on or buys out.

At this stage, it also makes sense to challenge unnecessary complexity. While diversification is always valuable, you should consider whether all portfolio components are earning their place, particularly if they represent a weighty governance burden or reduce flexibility.

A sense-check of the risk exposure

Take stock of the scheme's risk exposure. Ask yourself if the equity exposure remains appropriate and if downside protection could help manage risk during the endgame decision-making period. Even if your endgame destination isn't yet clear, ensuring your risk exposures are intentional and fit for purpose is a sensible, 'no regret' step.

Plan for surplus sharing now

If your scheme has a surplus, or is likely to generate one in the near term, don't leave decisions about its future use until the end of the process. Trustees and sponsors may have different views on how any surplus should be used, whether that's enhancing member benefits, supporting the sponsor or striking a balance between the two. The options available (explored here) will depend on the scheme rules, legal advice and the scheme's circumstances, so beginning those discussions early gives all parties time to understand each other's positions and find common ground.

Different objectives may also require different investment approaches. A surplus held purely to preserve value might remain in cash or in a cash-plus strategy, while a surplus intended to enhance member benefits or provide value back to the sponsor requires a different investment approach. The right answer will vary from scheme to scheme, but the key point is to ensure investment decisions are informed by the ultimate plan for the surplus.

Rethinking where investment sits on your governance agenda

Governance matters become especially relevant in the period before an endgame decision is made. Many trustee boards have historically delegated investment matters to an investment committee, but when trustees are deciding between run-on, buy-out or another route, investment becomes part of a much wider strategic discussion. As a result, it's often more effective if investment is a key topic for the trustee board itself, rather than something that's delegated away. Trustees, sponsors, investment advisers and actuaries all have a role to play in these discussions.

It's also worth reviewing whether the committee structure is designed for the decisions the scheme needs to make in future, rather than the decisions made in the past. We've seen some pension scheme clients reviewing the need for the investment committee in its existing form, while others reshaped committee responsibilities as objectives evolved.

Other considerations: what about scheme size?

Scheme size can have a significant influence on both your endgame options and the investment strategy needed to support them. While all trustees face the same challenge of deciding where the scheme is heading, the practical choices available may look very different for a £30m scheme than for a £1bn scheme.

Size certainly helps schemes to execute run-on (from a pure scale perspective), but a well-funded smaller scheme with a supportive sponsor and proportionate governance shouldn't be overlooked as a run-on candidate.

For smaller schemes in particular, superfunds and other consolidation vehicles may broaden the range of feasible endgame options. That means trustees should think not only about where they want to end up, but also how today's investment decisions might preserve flexibility across multiple routes.

Summing up

Schemes that delay important decisions risk ending up in the middle ground: taking more risk than they need to, or missing opportunities. The most successful endgame journeys are built on deliberate decisions, a clear sense of direction and an investment strategy that evolves as objectives become clearer.

Next steps

If uncertainty over your endgame is delaying investment decisions, now is the time to bring stakeholders together and establish a clear direction. In the meantime, it's worth considering the no-regret actions outlined above while those discussions continue.

We can help you explore your options, agree a way forward and develop an investment strategy aligned to your long-term objectives. We'll be discussing investment strategy in more depth in our next article – stay tuned and don't forget to check out our **Excellence in Endgames hub**.

Delivering Excellence in Endgames

Tailored, unbiased advice to help you see the future picture

Expert help to cut through the noise

Confident, collaborative decision making to shape the right path

Your members' outcomes are what matter most

Check out our insights hub for practical insights to help you shape and deliver your strategy. If you would like to discuss anything covered in this publication further, get in touch.

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