# How TPT **delivers risk clarity** to consolidated **Defined Benefit** pensions

# Overview

**TPT Retirement Solutions (TPT), and its subsidiary, fiduciary manager TPT Investment Management (TPTIM),** one of the UK's leading pension specialists with **over GBP 9.6 billion**[1] , wanted to provide its fiduciary management clients — primarily defined benefit (DB) pension schemes — with the benefits of asset consolidation.

- TPT required an integrated and sophisticated view of asset and liability risk. They wanted to retain their DNA as an asset owner, but invest like an asset manager.

- TPT sought a partner who could provide granular and customizable risk analytics. Considering the long-term investment horizon of pension schemes, and TPT's commitment to responsible investing, they also required a partner who also leads on quantifying the impacts of climate and sustainability.

- TPT worked with MSCI to implement BarraOne, a risk management solution that enables TPT and its clients to better understand risks and adapt investment goals to a realistic, detailed outlook for their portfolios.

[1] As of Sep 30, 2023



# Challenge

The UK began driving consolidation of its large and fragmented defined benefit (DB) pension market in 2017. TPT responded to this change by introducing DB Complete, a consolidation service designed to tackle long-standing challenges in the pension industry and leverage the advantages of asset pooling and consolidation.

Traditionally, DB investment services provided strong modelling and views of liabilities. The task was actuarial in nature – a mapping out of projected payouts to employees and the risks associated with meeting those obligations.

But that approach failed to incorporate an equally sophisticated approach to asset management or to contextualize the scheme's liabilities against investment performance and objectives. In essence, TPT needed to unify asset and liability risk into one efficient view and required the capability to scale this risk solution to a sophisticated and highly diversified portfolio.

To accurately model liability risk, TPT needed to assess how inflation would affect future pension payouts and how interest rate movements would determine the present value of those future pension payouts.

The challenge was to integrate the liability model with sophisticated asset risk assessments in TPT's pooled pension portfolio to analyze the deficit at risk and funding ratio. **The asset portfolio includes a combination of public, private and alternative assets, requiring specialized analytics for each asset class.**

Additionally, TPT sought performance that was resilient against climate change risk and that aligned with stakeholder sustainability objectives.

Still growing into the consolidation space, TPT had the opportunity to select only best-in-class systems. They reached out to MSCI.

**"We are trying to bridge that gap of being an asset owner but building out systems that allow us to invest like an asset manager."**

Peter Smith
Investment Director,
TPTIM

> “We sought to ensure that the portfolio management and risk systems were always connected, fast, and integrated.”
>
> Peter Smith
> Investment Director,
> TPTIM

# Action

The MSCI-TPT collaboration integrates advanced asset and liability risk analytics, giving TPT a better view of how they are investing towards client objectives. With climate data integrated throughout, it also underscores a commitment to responsible investing.

TPT implemented several mission-critical capabilities from MSCI's BarraOne solution into their portfolio management system.

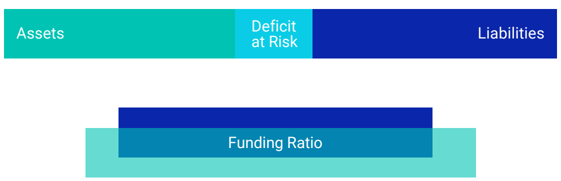
- **Integrated asset-liability risk management:** The ability to put pension obligations in the context of investment objectives.
- **Individual asset assessment:** Unlike the more common aggregated risk approach, this solution allows TPT to evaluate assets individually at the portfolio and portfolio holding levels.
- **Increased risk awareness and measurement:** MSCI helps TPT to quantify a pension’s exposure to specific risk factors and provides insight into how each affects the overall deficit at risk.
- **Climate data utilization:** Climate and sustainability data integration reflects stakeholder values and uncovers hidden risks and rewards.
- **Frequency and efficiency:** Typically, asset-liability risk evaluation is conducted by pension schemes on a quarterly, or less frequent, basis. Now, TPT is able to perform instant analysis, evaluating and executing trades in the moment.

# Integrating Asset and Liability Risk Into One Efficient View

### Previous Analysis of Assets and Liabilities

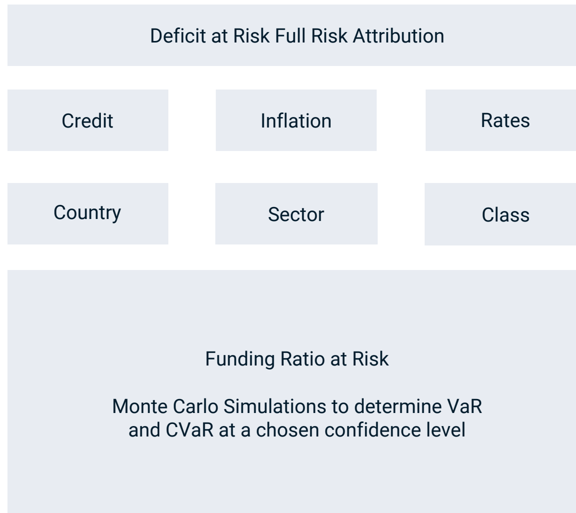

Traditional, DB investment services provide modelling of liabilities that are actuarial in nature. Asset risk is modelled independently and does not capture the correlation between assets and liabilities.

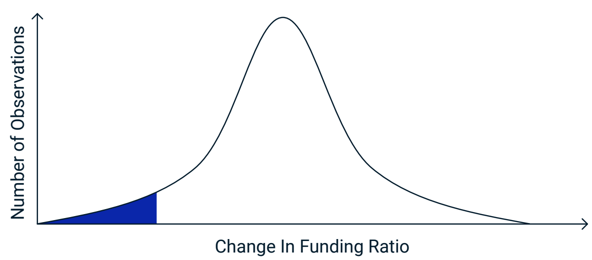
### Portfolio of Combined Assets and Liabilities




Risk modelling of the combined assets and liabilities portfolio using MSCI BarraOne captures the complex interactions between the two, and provides detailed factor decomposition.

### Risk Analysis of Combined Portfolio




**"I have a high level of confidence in the risk analytics from MSCI... you can be more granular in the way you talk to clients about where risk is coming from in their investment portfolio."**

Peter Smith,
Investment Director,
TPTIM

# Impact

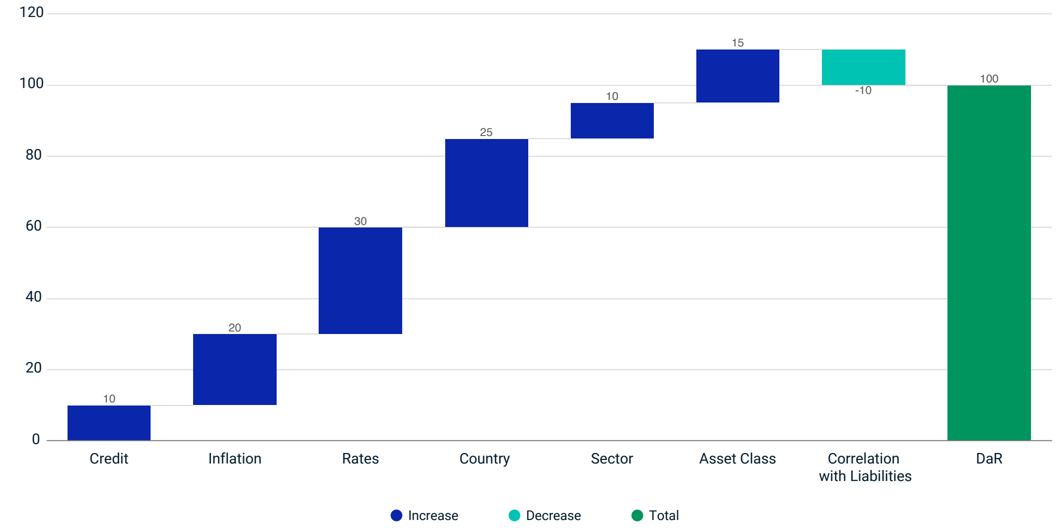
TPT is now able to articulate to clients just how much risk they are taking on, the source of those risks and whether the risk factors are intentional.

Such transparency empowers clients to understand and adjust for their actual risk tolerance, which is difficult to parse with a less than complete picture. Consequently, clients are able to decide what level of covenant support they want to provide.

For example, a sponsor may have to consider improving funded status by either reaching for higher returns or paying more into the scheme. Thanks to insights from the new risk solution, **TPT's clients are better able to match their objectives with their actions.**

Bringing MSCI's background in public, private markets and climate data into the investment process and providing daily insights, TPT can make more timely asset allocation and rebalancing decisions in response to a shifting set of asset and liability risks and opportunities. **This collaboration also gives trustees a total portfolio view, so they can make better informed and more confident decisions.** In that regard, MSCI is helping TPT realize their goal of operating as an asset manager.

## Contributors to Deficit at Risk




Calculating deficit at risk using an analytical method enables full risk attribution and highlights the main drivers of risk facilitating timely asset allocation and rebalancing decisions.

In addition to the analytical method, Monte Carlo simulations applied to the combined portfolio are used to determine funding ratio at risk at a given confidence level.

- Having the DNA of an asset owner shapes our approach differently. We have a long-term time horizon when making investments but within the framework of a traditional asset manager.
- Trustees see a total portfolio view and contributors to change in deficit at risk.

### About Peter Smith, Investment Director, TPTIM

Peter leads the investment activity at TPTIM, having developed specialist knowledge of investment strategy and implementation, risk management and responsible investment integration over 16 years at TPT.

Most recently, he played a key role in the development and launch of TPTIM, to enable more pension schemes to take advantage of TPT's fiduciary management service. This involved the creation of a new investment proposition and the launch of a range of asset class-specific funds.

Peter holds a BA in Economics from the University of Exeter and is a CFA charterholder. He is Chair of the Investment Committee, and a member of TPTIM's Executive Committee.

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For more information about TPT, visit: tpt.org.uk/about-tpt/.

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# About MSCI

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