# Why the war in Ukraine affects every pension scheme, however small

## Implications for UK pension scheme trustees

The current situation in Ukraine is unsettling and concerning on many different levels. We hope it will de-escalate as soon as possible.

Our clients typically have no or very limited direct investment exposure to Russia and Ukraine. Where there is exposure, it is a small percentage of a pooled fund and intricacies such as Russian sanctions will be dealt with by the investment manager rather than the trustees.

However, there are some wider strategic points that pension trustees should be aware of and be ready to potentially act upon:

- Big events often accelerate existing trends or turning points. COVID/lockdowns accelerated the use of certain technologies and the simplification of supply chains. Russia-Ukraine seems to be highlighting the importance of energy security and financial counterparty risks. How adaptable is your strategy?
- It will be rare for the employer covenant to be directly impacted by the Ukraine situation, but are there second or third order impacts?
- We've seen lots of volatility in both equity and gilt markets, leading to de-risking and re-risking opportunities. This can only happen effectively within an agreed strategic framework.
- Despite the volatility, the impact on equity markets has been relatively limited so far. So there remains the opportunity to reassess risk appetite and the capital preservation options.
- Bond markets are now indicating that central banks won't be raising interest rates as much as believed only a week ago. Maybe a global recession is the only option left to reduce high inflation - will governments and central banks have to choose between the two?
- The importance of diversification across and within asset classes/risks/funds, whilst understanding what you're invested in and not overcomplicating the investment strategy. Time horizon and illiquidity risk could become even more important to understand and manage.
- Rising credit spreads are coming through in what is already very competitive bulk annuity pricing. With equity markets and therefore funding levels lower, pensioner buy-ins may be more attractive over coming months. There are a limited number of transactions that can happen though due to capacity constraints, so act now to get in the queue and be as attractive as possible.
- ESG objectives become more challenging as energy and national security appears to be difficult to achieve without a resilient supply of fossil fuels and defence contractors. How will this impact net zero targets?

As ever, those trustees that are engaged with their funding and investment strategy, and ready to act quickly, will come out of this in a stronger position than others.

## If you would like to discuss any of these matters further, please get in touch with your usual contact at Cartwright.

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