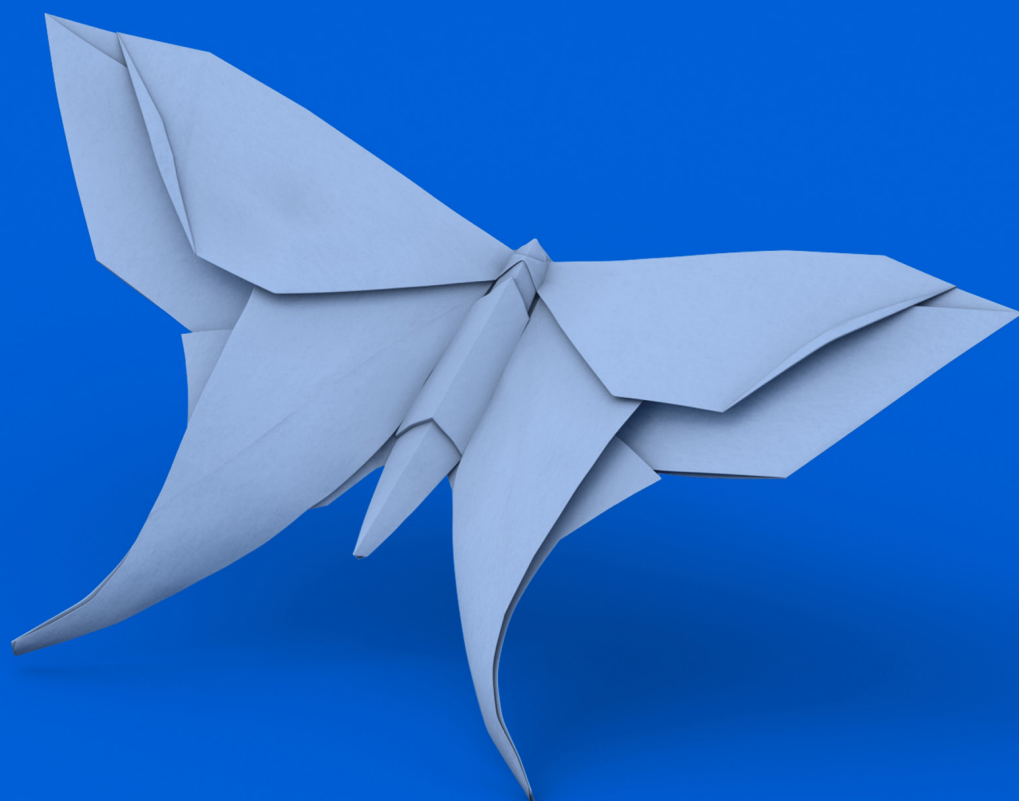


Your Quarterly Pensions Update

Dalriada Trustees – Industry Changes

Quarter Two 2025



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Introduction

The purpose of this report is to provide an update for pension scheme sponsors and trustees on recent industry changes in the quarter.

For your convenience, we have summarised the key developments and highlighted the necessary actions sponsors and trustees may need to take.

We also include links to further relevant information and any deadlines you should be aware of.

We trust you will find the update useful and informative. If you require further information about how any of the topics covered might impact on your scheme specifically, please get in touch with Adrian Kennett, adrian_kennett@dalriadatrustees.co.uk or your usual Dalriada contact.

NOTES

This document is aimed at providing you with generic information about recent developments in the pensions industry.

You should not take any action as a result of information included in this document without seeking specific advice in relation to the impact these matters might have on your scheme or company.

Dalriada Trustees Limited accepts no liability for actions taken or not taken as a result of this document.

1 Investment Update

Market Commentary

The second quarter of 2025 saw heightened volatility across markets as investors tried to balance the impact of uncertainty of US tariff policy and war in the Middle East. In both cases, investors' worst fears were unfounded and most major asset classes recovered as trade talks progressed throughout the quarter and economic data remained resilient and whilst the war between Iran and Israel caused significant geopolitical volatility, overall its impact on markets was muted.

GROWTH ASSETS

Global equities bounced back from a poor previous quarter, generating a strong return of 5.3%. Gains were seen across all regions with European equities leading the way at 6.5%, supported by the European Central Bank cutting rates. Emerging Market equities also performed well, returning 5.4%, with gains driven primarily by Taiwan as investor optimism around artificial intelligence increased. The strong gains were also due to a weakening in the US dollar.

UK equities returned 4.1%, boosted by strength in large-cap Industrials, Real Estate and Utilities. US equities rose 4.9% as Technology and Communication sectors continued to deliver strong earnings and investor appetite for some of the "Magnificent 7" stocks reignited. While US stocks recovered from April's volatility, the US dollar saw continued weakness, this boosted the returns of hedged investors as the value of returns generated in other currencies increased over the quarter. Japanese equities gained 4.8%, helped by positive developments in US trade negotiations and ongoing corporate governance reforms.

UK Property performed well over the quarter, driven by resilient capital values and high income returns in commercial properties. In contrast, Infrastructure declined -0.9%, impacted by higher real yields and weaker performance in listed renewable energy firms.

Bonds

Global bond returns were relatively positive in Q2, supported by declining inflation and tightening credit spreads. UK Gilts returned 1.4%, while UK corporate bonds gained 1.9%, as resilient earnings and reduced fears of recession led to narrowing spreads. However, global high yield bonds saw a 0.9% decline, reflecting a lack of investor confidence in lower quality credit amid geopolitical tensions.

Real yields increased by 0.10% over the quarter. All else being equal, the move will have acted to decrease the value placed on inflation-sensitive pension scheme liabilities. Whilst nominal yields fluctuated quite a lot over the quarter, they finished broadly where they started at 31 March at 5.15%. All else being equal, the move will have not affected the value placed on pension schemes' liabilities. Credit spreads tightened 0.13% over the quarter.

Long-term inflation dropped 0.10% to 3.02% over the quarter.

All returns shown are shown in GBP terms unless stated otherwise, sourced: FTSE, Markit iBoxx, Morningstar

*Local currency, except for EM and global indices, which are in US dollar, sourced: JPM and MSCI. Past performance is not a reliable indicator of current and future results.

Data as of 30 June 2025.

2 Pensions Dashboard

It has been a busy few months in the world of Pensions Dashboards. Pensions administrators have been working hard to prepare their systems for connection to the Pensions Dashboard ecosystem. So far, around eight industry participants have successfully connected. However, we are aware of a small number of Administrators for whom testing has been completed, but capacity constraints at the onboarding stage have restricted their ability to connect thus far. As a result, some of the largest schemes have not met their “connect by” date and an element of catch up is required for those Administrators.

With the final deadline for connection being 31 October 2026, and spare months built into the timeline of “connect by” dates, there is still time for these larger schemes to complete their connections. Of course, it will be important for all trustees to carefully monitor the progress being made by their Scheme Administrator and ensure that any slippage at these early stages does not have a material knock-on effect on those with later connection dates.

Perhaps the most pressing area of concern for trustees and administrators alike is the provision of AVC information to the Dashboard ecosystem. In our experience, it can be difficult to obtain information from AVC providers in a timely manner, and keeping track of a Scheme’s AVCs can be challenging for many trustees. Our preferred approach is to adopt the “single source” approach for Dashboard connection, whereby the AVC provider shares the relevant member and value data with the Scheme Administrators for them to publish on the Dashboard alongside the main scheme benefit information. This removes an element of risk by ensuring one source of information is being used in respect of all benefits within a Scheme. However, some AVC providers are reluctant to adopt this approach, seeking additional fees for doing so or insisting on using a “multiple source” approach and connecting the AVC information to the Dashboard in isolation. We recommend speaking with your Scheme Administrators to discuss the approach being taken to include AVC information on the Pensions Dashboard and consider whether the single source approach can be used.

3 Pension Schemes Bill 2025

Value for Money (VfM)

The Bill places particular duties on trustees to make and publish assessments of the performance of “relevant pension schemes” within a specified time period, including notifying TPR of any publication of such an assessment, assigning a VfM rating (“fully delivering”, “not delivering” or “an intermediate rating”) and to notify TPR of the rating. Provision is made to mandate the public disclosure of VfM data metrics and allows regulations to set out the information that trustees and managers will be required to publish or share, including provision for regulations to require the development, issuing and reporting of member satisfaction surveys and the inclusion of these as part of the VfM data metrics.

For the purposes of VfM, “relevant pension scheme” means a money purchase scheme that is an occupational pension scheme, which provides money purchase benefits in conjunction with other benefits, e.g. an AVC linked to a DB Scheme.

DC ‘MEGAFUNDS’

Provision is made to aid consolidation of the master trust and group personal pension market into ‘megafunds’. The scale required is at least £25 billion by 2030, or 2035 where transition pathway relief has been granted.

UNILATERAL CONTRACTUAL OVERRIDE

For contract-based schemes (group personal pensions), provision is made to allow providers to change investments and make unilateral amendments to terms or transfer members where a “best interests” test is met, as certified and an independent person.

PRIVATE MARKET INVESTMENTS

The Bill provides the power effectively to force master trust and GPP ‘megafunds’ to invest a proportion of their assets in particular asset classes (the new “asset allocation requirement”), including in the UK. Employers’ private schemes are not in scope.

SMALL POT CONSOLIDATION

Targeted to be effective from 2030, the Bill provides the power to make regulations “for the purpose of securing that small dormant pension pots held by auto-enrolment schemes are ... held by consolidator schemes ...” or by “consolidator arrangements”. TPR may authorise Master Trusts to act as a small pots consolidator and the FCA may authorise contract-based schemes. Small pots are defined as up to £1,000 where no contributions have been paid for a prescribed 12-month period and the member has not selected the investment.

IN OTHER DC NEWS: THE PENSIONS INVESTMENT REVIEW

The review provides reforms to the DC workplace pensions market and Local Government Pension Schemes in England and Wales, to deliver major consolidation and enable more investment in productive assets. The Final Report is accompanied by the publication of responses to the two consultations published alongside the Interim Report:

- ‘Unlocking the UK pensions market for growth’
- ‘Local Government Pension Scheme in England and Wales: Fit for the future’

Action: In respect of the VfM assessment, DB Trustees will need to review their AVC arrangements and, together with DC Trustees, fully understand the final VfM requirements once the Bill receives Royal Assent.

4 Scheme Surplus

June 2025 saw the release of the Pension Schemes Bill 2025, introduced to reform workplace pensions. One hotly anticipated area of the Bill was the introduction of new rules for surplus extraction from Defined Benefit schemes. It is definitely an exciting time for pensions actuaries and trustees alike, many of whom will not have seen a scheme surplus extraction in many years, if at all!

So what has changed? The Bill is designed to make surplus extraction easier, enabling scheme sponsors to be more confident that any contributions will not become “trapped” and therefore non-recoverable. In particular, the Bill proposes giving trustees a statutory power to amend scheme rules to allow surplus payments to the sponsor or members, even if the current rules do not allow this.

Of course, it would be obtuse of trustees to make a payment of surplus to the sponsor without first considering the underlying security of members’ benefits in the scheme. After all, trustees must still act in the members’ best interests. A threshold for surplus release will still be in place, albeit this has been reduced from full funding on a solvency (or buy-out) basis to full funding on a “low-dependency” basis. More schemes will, in theory, be able to pay a surplus to the sponsor under the revised threshold. The Bill requires a scheme to remain fully funded on the low-dependency basis after extraction of any surplus and there must be no realistic risk of employer insolvency.

The importance of member security will weigh heavily on trustees’ minds. Simpler extraction of surplus brings with it increased areas of potential conflict – sponsors wanting access to the surplus, members who may want to see the surplus used to enhance their benefits, and trustees, in the middle, trying to balance the interests of all parties. Adding a professional trustee to your trustee board, or adopting a sole trusteeship approach, can help manage such conflicts.

Whilst final Regulations are not expected until 2027, it is never too early to start discussions with the scheme sponsor to establish a strategy for future surplus extraction.

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