



BUSINESS & MONEY



TRACY BLACKWELL
QUEEN OF PENSIONS

Why we need to talk about pensions

Tracy Blackwell wants to use cash in company schemes to invest in the economy, reports *Oliver Shah*

INTERVIEW

BHS, BT, Halcrow, Hoover, Tata Steel: the past year's headlines have sometimes sounded like a requiem for final salary pensions. For Tracy Blackwell, the attention is not entirely unwelcome. "You go to a drinks party and people are finally talking about it," says the chief executive of Pension Insurance Corporation (PIC), a privately owned institution that allows schemes to offload some, or all, their responsibilities.

"Pensions have been the elephant in the room, but it's a £2 trillion industry. This has awakened people to the fact there's an issue."

Most coverage of the slow-motion crisis in defined benefit or final salary pensions, which promise to pay members an income based on their career earnings, has focused on the sharp drop in interest rates since the financial crisis. Near-zero rates have suppressed the yield on gilts, pension funds' favourite investment. About 4,390 of Britain's 5,800 final salary schemes are in deficit.

Blackwell takes a slightly different view. "The bigger problem is the health of the sponsoring company," she says. "In the natural life-cycle of things, companies aren't there for ever, are they? When the pension system was set up in the 1950s, nobody realised just how long they'd have these liabilities, but also how industries would change."

Blackwell, 49, sees herself as part of the solution. At PIC, the former Goldman Sachs banker specialises in "buyouts", where a company pays (usually handsomely) for its whole pension fund – assets, liabilities and members – to be taken over. PIC also offers "buy-ins", where a company keeps the fund but its trustees purchase protection to cover certain liabilities, such as the risk of higher life expectancy. Competitors include Rothesay Life, part-owned by Goldman Sachs, and Legal & General.

PIC runs the entire defined benefit scheme of the record label EMI, after a £1.5bn buyout of the 20,000 members in 2013, and a chunk of the scheme of electronics giant Philips, which bought out its 26,000 members for £2.4bn in 2015. Buy-in clients include Cadbury, which insured half of its 20,000 members in 2009, and the London Stock Exchange, which hedged against inflation, investment and mortality risks in 2011. In total, PIC is responsible for the pensions of 134,900 people – "a big commitment".

There is a thread of intergenerational tension running through many of the past year's stories. Halcrow, an engineering consultancy, Hoover, the once great appliance retailer, and Tata Steel, the Indian-owned manufacturer, all complained that generous retirement promises made to staff in years gone by were endangering the jobs of workers today. (The Halcrow case was complicated by a campaign group's claim that its US owner was exaggerating its woes.)

The three companies persuaded the Pensions Regulator that they needed to

cut members' benefits, arguing that the only alternative was insolvency. Hoover is set to offload its £500m retirement scheme directly into the Pension Protection Fund (PPF) lifeboat.

Blackwell reckons PIC has the beginnings of an answer to the charge of intergenerational unfairness. "One way to alleviate that [unfairness] is to use the assets that are tied up in pension funds to invest in the economy as a whole. We've got the scale and mass to do that."

The company's £22.6bn portfolio includes investments in long-term infrastructure assets such as social housing, student accommodation and the Thames Tideway super-sewer, "which are going to benefit the next generation".

PIC was founded in 2006 by Danny Truell, chief investment officer at the Wellcome Trust, and his brother Edi, who set up the private equity firm Duke Street Capital and advised Boris Johnson when he was mayor of London.

Blackwell joined at the outset and took the top job in 2015. She seems to have won the respect of her rivals. Mark Wood, founder of pension buyout firm Pateroster, which was absorbed by Rothesay, says: "She strikes me as thoroughly competent and professional. Her background is asset management, which is the core of these pension run-off businesses."

However, the PIC boardroom has not always been a harmonious place. Edi Truell stood down as chief executive in 2009 after some aggressive early deals caused controversy (he continued as an executive director until 2012).

There is said to be no love lost between Truell, a free-wheeling character, and Blackwell, who comes across as prim and proper. When his name crops up, Blackwell says: "Edi is brilliant at coming up with ideas, but the people who come up with the idea are not necessarily always the people to then take it forward."

She grew up in America, but after almost 25 years on this side of the pond her accent is edged with cut-glass English. Blackwell was born in Rockford, Illinois ("It was very rust belt"), to an 18-year-old single mother. She went to state high school then worked in the costume department of a magic shop to put herself through university.

After graduating in "the depths of recession" in 1989, she moved to Malaysia for 2½ years on an internship programme, working for a technology company and an oil explorer.

Next stop was Holland, where Blackwell studied for an MBA. She came top of her class and gave a speech about women in business at the graduation ceremony. The vice-chairman of Philips was in the audience. Impressed, he asked her what she wanted to do. "I said I wanted to work in investment banking. I was 24 and I found markets fascinating. I'd done my thesis on derivatives. And he said, 'Well, I'll get you some interviews.'"

One of those meetings landed her a job with Goldman Sachs on Fleet Street. It was 1994, and the investment bank now nicknamed the Vampire Squid was still run like a "family" that "really believed if you looked after your clients for 125 years, your clients would look after you".

Blackwell stayed for nearly nine years, holding a variety of senior roles including



TOM STOCKILL

Tracy Blackwell at PIC's offices by Mansion House in the heart of the City

head of risk for Goldman's European asset management business. But by 2002, she had "just kind of had enough". "It wasn't the company I joined," she says. "I'd seen a culture that was really all about clients change. I happen to believe that women probably are slightly more driven by how they feel about themselves. When I left Goldman I didn't see the point of it."

Blackwell returned to that philosophical point this spring when PIC and two academics put out a report on the purpose of finance. She says there was a shocking dearth of research on the topic and finds it "extraordinary that 10 years after the financial crisis, a lot of these questions haven't even been asked".

"Making money on its own, to me, is not a purpose," Blackwell says. "After the launch event, a young guy came up to me and said, 'I feel like I can't tell people that I work in financial services when I go to a dinner party.' Her response was: 'What! This is the lifeblood of the economy.'"

In Goldman's case, Blackwell blames its float in 1999 for the change, wondering aloud whether the partnership model involves "looking people in the eye" rather than answering to "faceless shareholders". That may explain her lukewarm attitude to a listing of PIC, whose shareholders include Reinet, a fund spun out of luxury goods group Richemont (43%), private equity firm CVC (13%) and China's Legend Holdings (5%).

CVC's acquisition of a stake in February valued PIC at close to £2bn. Blackwell insists the board "continuously" reviews the possibility of a float but says there would be "a lot of minuses" as well as

“When the pension system was set up, nobody realised how industries would change”

pluses. "You have the ability in a private company to be much longer term in your thinking," she says, adding that PIC's "lumpy" income from big pension deals might be difficult for the stock market to understand. A source also questions whether Blackwell "wants to go public and have the teenage City scribbles commenting on every move".

After leaving Goldman, Blackwell spent several years at home in Norfolk. Then Danny Truell, who had also been at Goldman, called and presented PIC as a different kind of venture – one that would allow her to work three days a week ("What a sucker I was").

The idea was to take over struggling companies for the pension funds. In 2007, PIC paid £400m for Telnet, the rump of the Marconi telecoms group, whose £2.5bn retirement scheme had £500m in an escrow account to cover potential shortfalls. The trustees said they had been kept in the dark about the account and called in the Pensions Regulator, which blocked PIC from appointing its own trustees. Truell was unrepentant, but a pensions expert says the incident was an "absolute disaster" for PIC.

Blackwell is keen to emphasise there are no legacy issues – "zero" – and says PIC has "an incredibly good reputation with trustees now because of the way we look after our policyholders".

Brexit is unlikely to trouble the company because "we're all UK pensions". If anything, Blackwell says, being freed from the EU's onerous Solvency II insurance regulations will give it more leeway to invest in higher-returning assets.

Perhaps the biggest problem is the cost of buyouts, both for companies and insurers. Whereas in 2007, there were "probably 15 to 20" insurers bidding on deals, today there is a handful. PIC made a slender £177m operating profit before tax on £2.6bn of premiums last year.

For insurers, some of this problem has been driven by increasing life expectancy and tighter regulation. For companies, much of it is down to the low level of interest rates and gilt yields. Do not expect the latter to change any time soon, Blackwell warns: "The last time we were here, which was in the 1920s and 1930s, interest rates stayed this low for 25 years. It just goes on for a very long time."

THE LIFE OF TRACY BLACKWELL



Favourite film: *Gone with the Wind*

VITAL STATISTICS
Born: December 29, 1967
Status: married, with one child
School: Guilford High School in Rockford, Illinois
University: Illinois Urbana-Champaign
First job: Baskin-Robbins ice-cream server
Pay: undisclosed (highest-paid director received £1m last year)
Homes: Norfolk and London
Car: Audi A4 Avant
Favourite book: Irresistible, by Adam Alter
Film: *Gone with the Wind*. "It always has been, since I was a teenager"
Music: "Everything from the Eagles to opera"
Gadget: bicycle

Charity: Royal Voluntary Service
Last holiday: skiing in Courchevel
WORKING DAY
The boss of Pension Insurance Corporation (PIC) wakes at 6.30am in west London. Tracy Blackwell sips a cup of tea and checks emails before making her way to PIC's office in the City. She tries to cycle there at least twice a week. Blackwell, 49, likes to spend time with PIC's transaction team. Having previously been the chief investment officer, she also takes a close interest in its portfolio, which includes a stake in the Thames Tideway

super-sewer. She goes to two or three evening events a week, often with benefits consultants and trustees. On other evenings she gets home at about 8pm.
DOWNTIME
"I'm a working mother with a 10-year-old son, so there isn't an enormous amount of downtime," says Blackwell. She spends weekends in Norfolk with her family and their dogs – Doodle, a labradoodle, and Poppy, a springer doodle. She and her husband, James, watch their son play sport. "We did a lot of sailing before we had a child and now we're hopefully getting back into that," she adds.