3.5 Role of Registered Providers

- **The CPA will tender for four commercial investment companies to become 'RPs' for the CPA. Contract periods may be up to 5-7 years.**
- **The role of the RPs will be to provide investment options and act as investment managers for AE contributions.**
- **The RPs will invest contributions for the CPA, on behalf of individual participants, and provide the best possible return on those investments over time.**

- The RPs will offer investment products in compliance with CPA standards which will include specific ethical/ESG (Environmental, Social, and Governance) criteria.[11]

- While the CPA will settle the precise parameters of fund types closer to the launch of the system, RPs will be required to offer four fund types –
  - **Conservative** (e.g. a mix of Government bonds, cash and cash equivalents, blue chip private bonds and stock market index funds)
  - **Moderate risk** (e.g. an investment portfolio involving a mix of Government bonds, blue-chip equities and property)
  - **Higher risk** (e.g. a portfolio comprising of predominately equities, commodities and property)
  - **Default** (e.g. operating on a lifestyle/ lifecycle basis)

- Experience from abroad and OECD analysis shows that a default option is required for people who do not nominate a preferred fund type and is a key element in a successful AE system.

- The default fund in this AE system will follow a lifecycle/lifestyle approach. [12]

- In broad terms, investment would work in the following way:

  - CPA collects all pension contributions;
  - Participants select a fund type through the online portal provided by the CPA;
  - Those who do not select a fund will be automatically allocated to the default fund;
  - The CPA will pool all pension contributions according to fund choice and allocate the pension contributions among the RPs;

[11] ESG is a framework considering environmental, social and governance factors alongside financial factors in the investment decision-making process.

[12] The lifecycle investment approach is commonly used in defined contribution schemes and is often chosen as the default option in such schemes. A lifecycle investment approach is one where contributions for each member are invested more heavily in higher risk growth investments, such as equities and property at younger ages and then gradually switched automatically to lower risk investments, such as bonds and cash as the member nears retirement.

- Financial returns from each of the RPs for each fund type will also be pooled and allocated to accounts of the individual members who comprise that fund type.

- The RPs, acting as investment managers for the CPA, will not have sight of each individual contributor. Instead, they will have only one customer, the CPA.

- Because of the pooling and composite investment design features, each individual contributor is exposed to exactly the same level of risk for their preferred fund choice and in accordance with their level of contribution. Each contributor will therefore achieve the same level of financial return as every other contributor for their preferred fund choice and in accordance with their level of contribution.

- Registered provider contracts will be tendered regularly for up to 5-7 years at a time.

- Pension drawdown by members will be via the existing range of regulated pension products and members will have the right to engage with commercial providers.

- In time the Central Processing Authority may tender for a set of pension drawdown products.