cardano

Discover
AI powered Covenant

Streamline Governance | Enhance Transparency | Improve Member Outcomes

2024

What is Discover?

Complexity and cost can pose challenges for traditional covenant assessments when scaling for **sectionalised schemes or portfolios of schemes,** or when supporting **smaller schemes.** To address this, we have developed **Discover – the AI powered solution for proportionate and effective covenant analysis.**
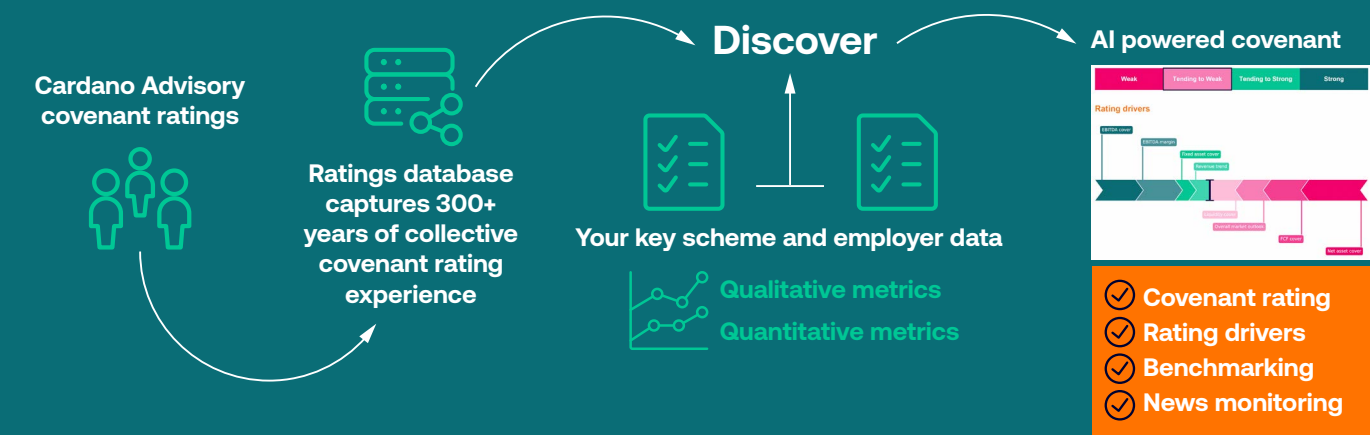
Discover:
- Streamlines governance,
- Enhances transparency, and
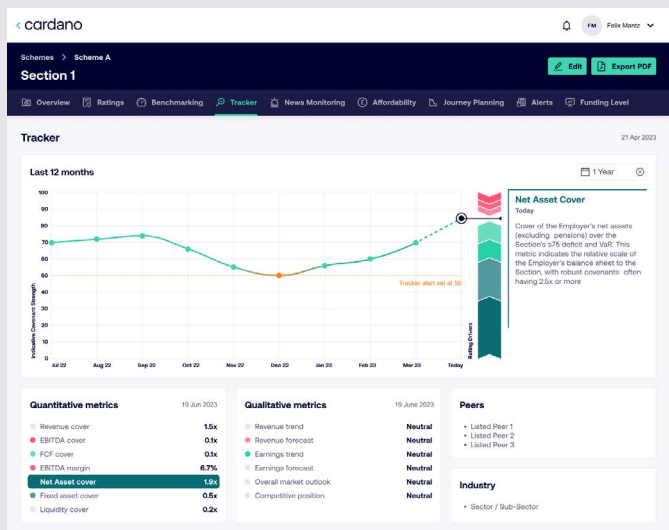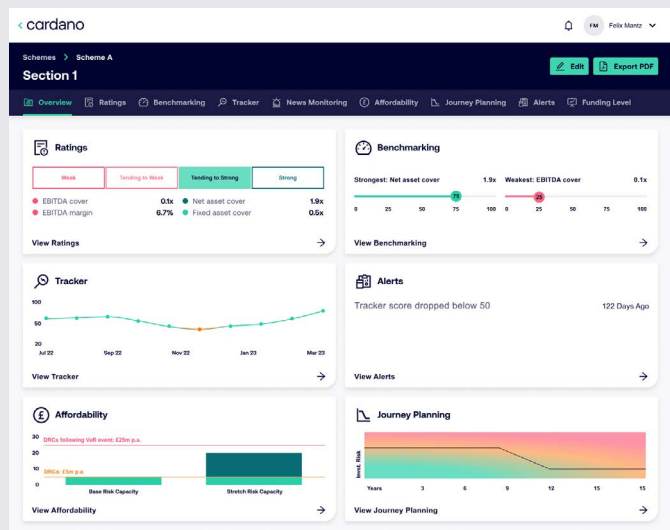- Ultimately helps to improve member outcomes.

The core of Discover AI is based on our extensive covenant experience, collected in our ratings database, and captured using cutting edge technology. It has been developed with a human centric approach – freeing up time by streamlining core analysis, while still allowing for additional value add overlays.

Award winning innovation

Pensions Age Innovation Award – for making covenant assessments more accessible using machine learning

Pensions Expert Advisor Innovation Award – for automating covenant news flow monitoring using generative AI

Cardano Advisory covenant ratings

Ratings database captures 300+ years of collective covenant rating experience

Discover

Your key scheme and employer data

Qualitative metrics
Quantitative metrics

AI powered covenant

- Covenant rating
- Rating drivers
- Benchmarking
- News monitoring

Discover can be accessed anytime through an easy-to-use online portal, working around your needs and meeting cycles.

How Discover supports your covenant journey

Sponsor and scheme information is entered into Discover as and when available (this can be done by yourselves, us, or even employers directly)

Discover produces objective covenant ratings, allowing you to interrogate rating drivers and benchmark key factors

Explore the impact of what-if scenarios on the covenant, such as corporate transactions or funding level changes

For complex situations, we can undertake supplemental analysis and reflect our findings and other qualitative elements in Discover

Discover monitors news flow about the sponsor and performance of listed peers, and alerts you if these lead to a change in covenant strength

Discover and the new Regulations / Funding Code

The 2023 Funding and Investment Strategy Regulations and the related new Funding Code, applying for valuations from 22 September 2024, continue to emphasise covenant as a core consideration for trustees, and set out additional concepts to consider in its analysis. Discover already supports trustees with many of these requirements by providing a holistic covenant view with its ratings and by allowing trustees to proportionately monitor developments in covenant strength. Further features to explicitly capture some of the additional concepts being introduced will follow in the near future.

Discover for covenant portfolios

Managing many covenants in parallel can be challenging, be it for professional trustee portfolios, industry schemes, master trusts, or Local Government Pension Schemes. Discover helps to lighten the load, acting as a single source of truth for your covenant portfolio whenever you need it.
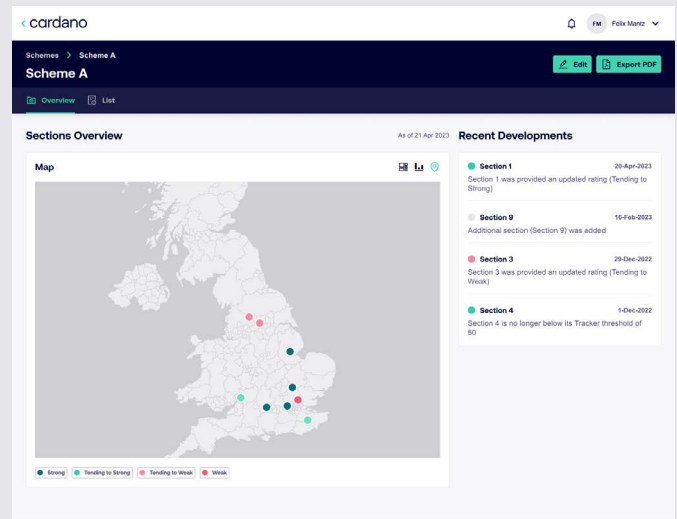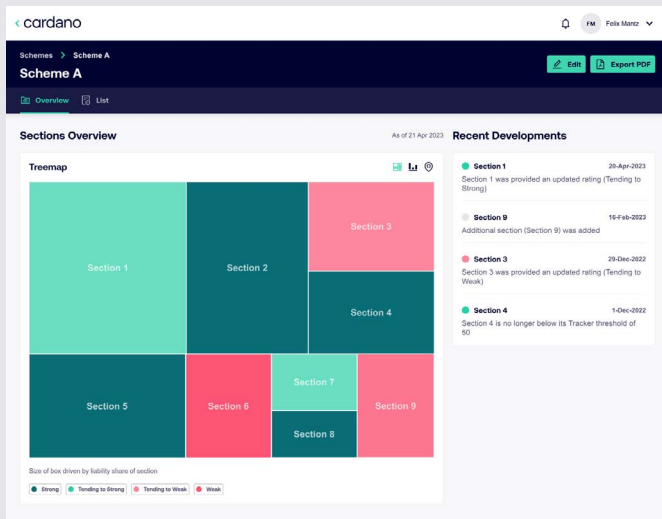
For covenant portfolios, Discover can:

- ✓ Provide an overview of all employers (across sections or schemes), with the ability to drill down and interrogate each
- ✓ Give employer covenant ratings complete with rating drivers
- ✓ Monitor news flow and public peers in between financial information
- ✓ Automatically alert you of covenant developments
- ✓ Benchmark covenant metrics
- ✓ Explore what-if scenarios for funding and corporate activities
- ✓ Streamline information collection, going directly to employers

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Cardano has been supporting the Trustee of the Citrus Pension Plan using its Discover AI since 2023. As a DB master trust with over 30 Sections ranging significantly in size, the covenant profile of the sponsors to these sections varies considerably.

Using Discover's online portal, we are able to monitor and rate these covenants in real-time and with reduced admin burden. Ultimately, Discover provides the Trustee with comfort that our covenant governance is transparent and robust, at a price point that is proportionate to our needs – helping us to deliver effective outcomes for our members.

Sarah Leslie, Professional Trustee of the Citrus Pension Plan

Modernising monitoring

Discover allows covenant risk to be managed cost-effectively in real-time across a diverse range of employers by automatically monitoring employer news and peers - tracking covenant developments as they emerge and notifying you when your attention is needed (saving your inbox from clogging up!). This is achieved by Discover monitoring public news flow, classifying the significance of news stories in relation to a range of covenant factors, and using these to calculate an estimated covenant tracker score.
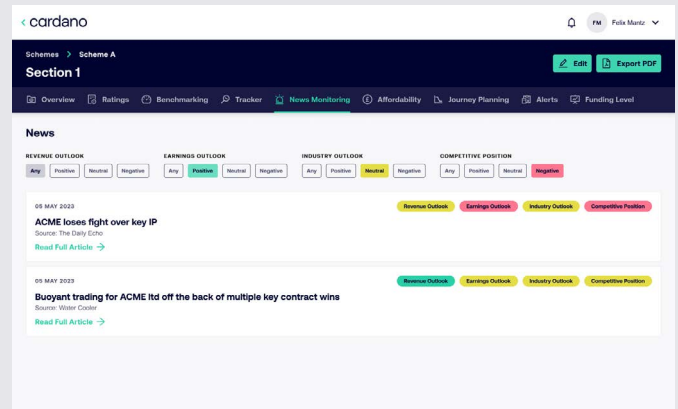
Discover AI monitoring can bring greater consistency and transparency than a traditional monitoring approach. Married with our team's capabilities, a combined approach can also be employed for the best of both worlds.

Our approach using technology

Discussion with Trustees → Newsflow captured and collated automatically → AI reviews news and analysis impact on key covenant aspects → Real-time online covenant tracking for Trustees

| AI applies a consistent and automated approach | AI captures incremental impact of small news flow | AI utilises our unique Discover model to gauge the impact of news on the covenant | **AI enabled monitoring:** An efficient process with human overlay that can be shared with the Trustee in real-time | AI alerts Cardano (and Trustee, if desired) of material items |

Integrated with Knowa

Discover covenant tracking, and AI news monitoring, can now be accessed directly through Knowa (the trustee governance portal).

This close integration helps put crucial covenant information right at your fingertips, showing your covenant's evolution over time and allows you to utilise Knowa Q to effortlessly query and summarise these.

Find out more about Discover on Knowa here.

Discover for individual schemes

Discover is ideal for individual schemes where proportionate, high-level covenant input may be appropriate (e.g. well funded or small low-risk schemes). Here, Discover can give crucial comfort to trustees that their employer covenant views have been externally validated.

Discover also provides (and helps evidence) effective covenant governance, ideal for schemes needing to ensure they operate an Effective System of Governance.

Supplemented by our team's capabilities, Discover can also act as efficient monitoring and rating foundation for larger or more complex schemes.

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By law Trustees are required to operate an Effective System of Governance (ESoG), proportionate to the size, scale, nature and complexity of the activities of the scheme, and which the assessment of the employer covenant is a critical part of.

We used Cardano's Discover service to rate the covenant of a small c.£10m Scheme, as it provided appropriate guidance, proportionate to the size, scale, nature and complexity of the activities of the Scheme, at an acceptable cost.

Professional Trustee
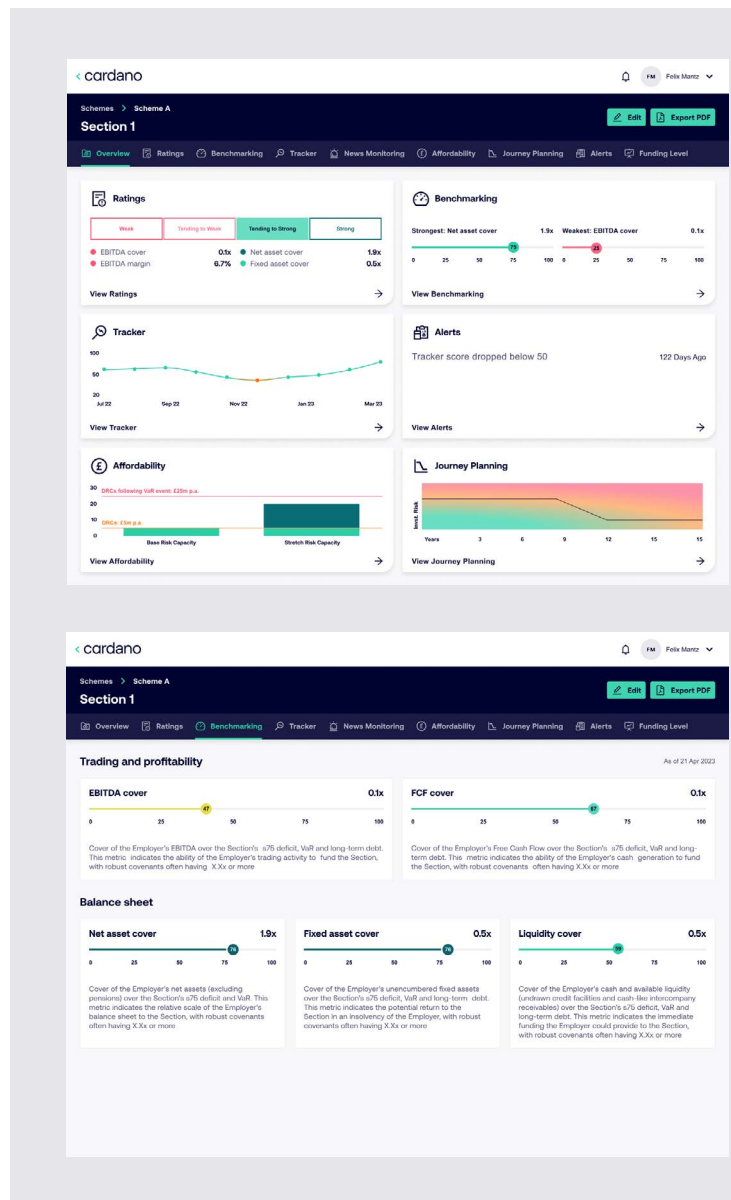
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