LCP INSIGHT CLARITY ADVICE

AUGUST 2016

LCP Fiduciary Management Survey

See survey results

Introduction

Fiduciary management involves trustees outsourcing the majority of decisions about their scheme's investments. Using a fiduciary manager may help some pension schemes make faster decisions, but do schemes have an appropriate governance framework in place to address the conflicts?

Background

In association with Professional Pensions, LCP conducted a research study in 2016 to gauge opinions of fiduciary management usage and sentiment.

Responses were collected from over 100 trustees, pension professionals and finance directors in the UK across a wide spectrum of different sized schemes.

Contents

Key findings from the survey

Fiduciary management is a relatively new approach for pension schemes. We found that 65% of schemes with fiduciary management have been **using the approach for less than 5 years**.

See page 5

The key reason behind considering using a fiduciary manager was to **achieve faster investment decisions**, yet over a third of respondents would not want to fully delegate decision making.

See page 6

Users of fiduciary management are happy with the results, citing **more informed decisions as a benefit**.

See page 7

While 63% of respondents state that they **received advice** from an independent third party on which fiduciary manager to appoint, only **20%** of respondents receive third party advice on monitoring the performance of their scheme's fiduciary manager.

See page 8

79% of schemes with fiduciary managers have some **concerns about how they would change their manager.**

See page 11

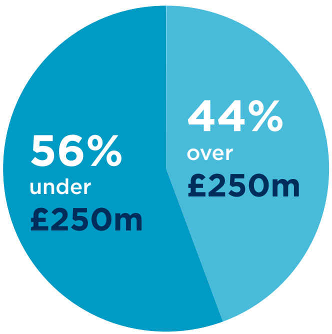
We asked respondents about what they thought the outcome of the Financial Conduct Authority's asset management market study should be; and **57% wanted some action to toughen the regulation** surrounding fiduciary management.

See page 12

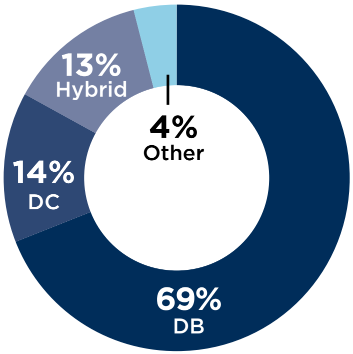
About the respondents

Over 100 trustees, pension professionals and finance directors in the UK across a wide spectrum of different sized schemes took part in the survey. A summary of the respondents is provided below.

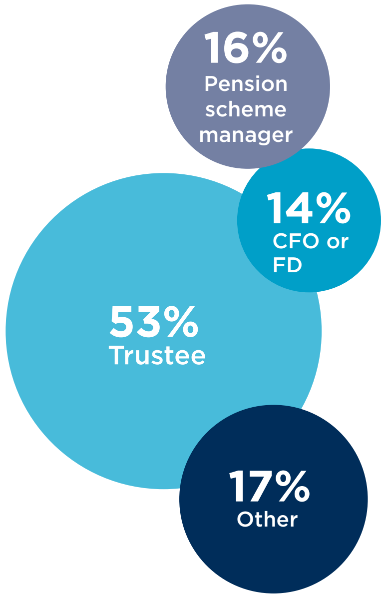
Pension scheme assets



Pension scheme type



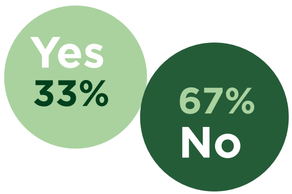
Job title



Whether to use a fiduciary manager

Views were taken from pension schemes who were using a fiduciary manager and those who were not. We asked them about the reasons behind considering a fiduciary manager and where relevant, why they decided not to go ahead with the appointment.

Using a fiduciary manager?



How much is being delegated?

There is a very wide range of assets under management for partial delegation, from 10% to 90%.

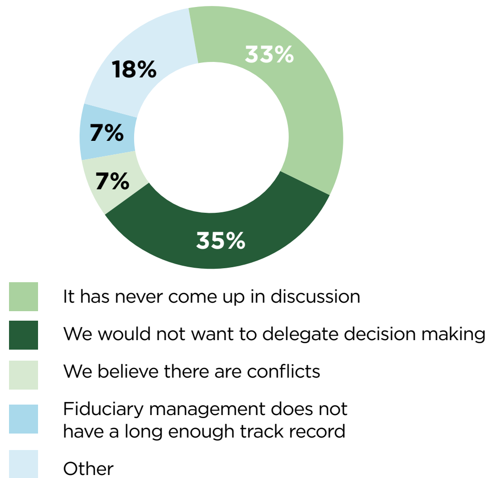
How long in place?

35%
over 5 years

65%
under 5 years

It is clear just how new the fiduciary management approach is with two-thirds of respondents using it for less than 5 years. Interestingly though, for those not using fiduciary management only 7% *cited track record* as a reason why not. Instead their main reason for not appointing a fiduciary manager was because *they would not want to delegate decision making*.

Key reason for not appointing a fiduciary manager?

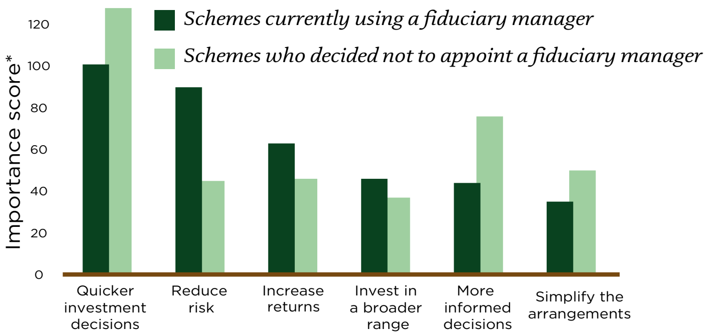


What they said

We believe we can get at least as good a service at lower cost by not using it

Reasons for using a fiduciary manager

What were the key reasons behind you considering a fiduciary manager?



The main driving force behind considering appointing a fiduciary manager was to facilitate quicker investment decisions. Interestingly, our survey found that for 59% of schemes that use fiduciary management, the manager still seeks the Trustees' view before implementing decisions.

*Importance score is a weighted calculation. Items ranked first are valued higher than the following ranks; the score is the sum of all weighted rank counts

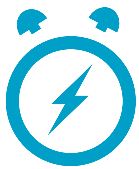
Which of the following best describes your interaction with your fiduciary manager?

35% Fiduciary manager makes decisions and reports the outcomes to Trustees afterwards

21% Fiduciary manager makes decisions but consults Trustees before implementing

38% Fiduciary manager seeks Trustees' view on all significant decisions and implements that view

6% Other



The benefits of fiduciary management

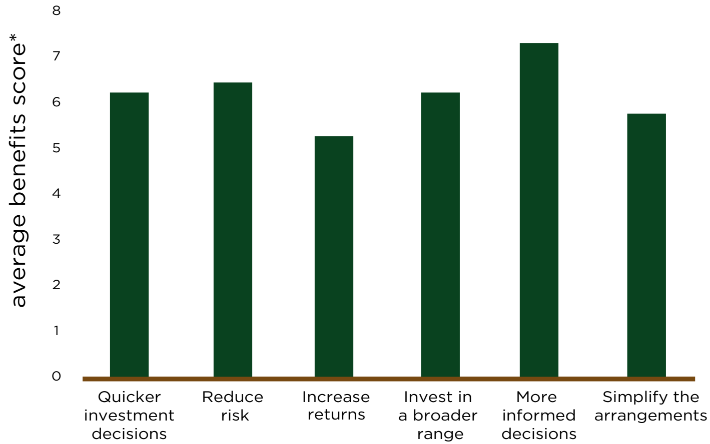
We asked overall if those using a fiduciary manager were happy and what benefits they had seen.

Are you happy with how the fiduciary management approach is working for you?

47% very happy

53% fairly happy

To what extent has your scheme seen these benefits?



Responses to the above question were used to create an average score based on the following weightings:
too early to say: not used **no benefit seen:** 0 **minor benefit seen:** 3.33
moderate benefit seen: 6.66 **major benefit seen:** 10

It is evident that adopters of fiduciary management are pleased with how it is working so far. For these trustees it has delivered the benefits that they were looking for. Interestingly, *More informed decisions* received the highest score, which may be a reflection of the high level of trustee involvement in getting a fiduciary arrangement in place.

What are the benefits?

What they said

Quicker decision making and ability to invest in a more diverse portfolio

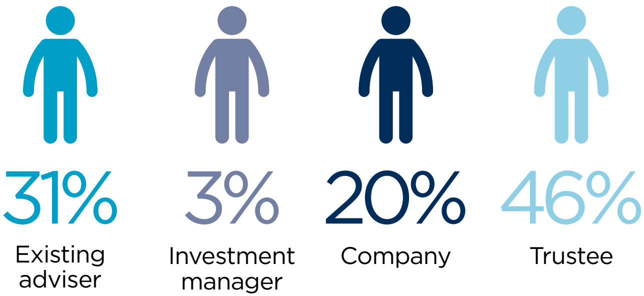
Reacts to situations quicker

One fund manager instead of three

Selecting the fiduciary manager

We asked respondents about the decision to consider appointing a fiduciary manager and the selection process used. We found that the selection process varied depending on who initiated the discussion to use a fiduciary manager.

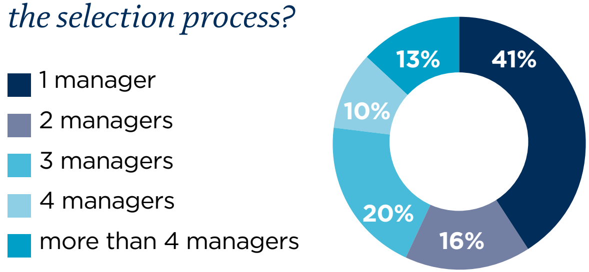
Who suggested appointing a fiduciary manager?



A strong selection process should include assessment of a range of managers, as their offerings are diverse. Although 63% received third party advice, where the current investment consultant proposed it, only 13% ran a selection process.

However, 41% of respondents said they had not considered more than one fiduciary manager, which is remarkable given the importance of the appointment.

How many fiduciary managers participated in the selection process?



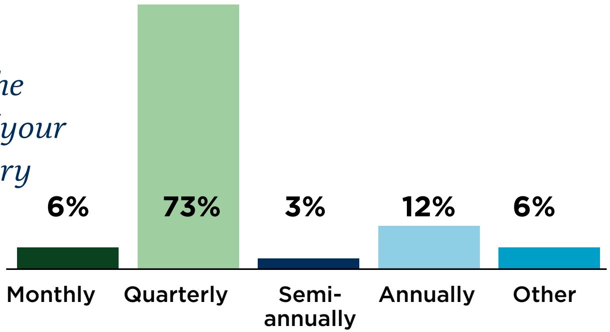
Our viewpoint

Fiduciary managers have a great deal of responsibility. Not only do they take over the management of a scheme's entire asset portfolio, but they also make a lot of decisions previously made by scheme trustees. This means that choosing a fiduciary manager is one of the most important decisions a scheme can make, and so it is crucial that trustees get it right. Furthermore, fiduciary management mandates are often complex to set up and even more complex to unwind. This means that spending time at the start ensuring the trustees pick the manager that is right for them is even more important.

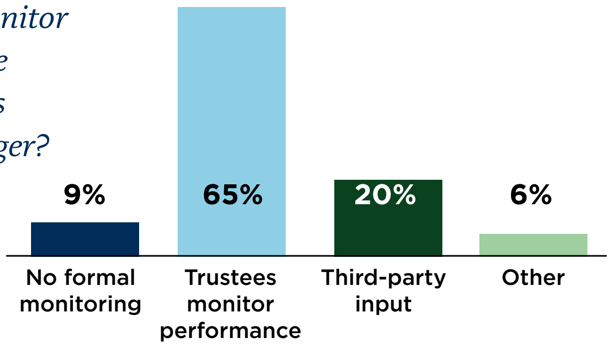
Monitoring the fiduciary manager

Our survey looked at how often performance is reviewed and whether the review is providing objective oversight.

How frequently do you review the performance of your scheme's fiduciary manager?



How do you monitor the performance of your scheme's fiduciary manager?



We were concerned to see that only 20% of respondents are receiving third party input into their review and monitoring process. Given that 63% are using third-party advice for the selection process; it was surprising that this independent advice did not follow through to monitoring.

Our viewpoint

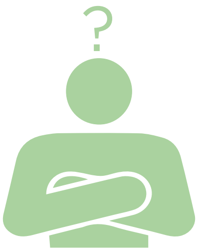
Independent advice is important not only at the point of choosing your manager, but also to continuously provide challenge to and monitor fiduciary managers. It can be very difficult to assess performance objectively and evaluate a fiduciary manager's performance relative to its peers, but this is something that an independent third party can assist with, bringing experience of other mandates.

Costs and fees

Our survey asked respondents to take into consideration all the various costs involved in their investment arrangements, including both advisory and fund management costs.

65%

believed that overall costs are lower under fiduciary management with 85% believing they get better value for money. This reflects the "bulk-buying" power of the fiduciary manager.



15%

of respondents said they did not know, or could not easily find out, how much the underlying fund managers were charging. We are concerned that trustees may not be aware of many hidden costs, including performance-related fees.

Our viewpoint

The responses related to costs and fees raises concerns that trustees may not be aware of many hidden costs, including performance-related fees. It is very difficult for trustees to compare the overall fees charged by a fiduciary manager relative to its peers. A third party advisor can provide a market comparison and may be able to negotiate lower fees on trustees' behalf.

Drawbacks

We asked about any concerns that the respondents had with fiduciary management.

What are the drawbacks with fiduciary management?

What they said

Best in market asset classes may get overlooked

The complex nature of the investments now invested in make it difficult to always see the advantages of making any changes

We don't have the same control if we would do if we did it ourselves

79% of respondents cite the biggest challenge as identifying a replacement if the fiduciary manager does not perform well, or managing the complex transition process to another fiduciary manager.

Those with third party input are less likely to be concerned about finding a replacement and transitioning to an alternative fiduciary manager than schemes where the trustees monitor performance themselves.

Our survey revealed that 57% of schemes with third party input are concerned about finding replacement/ transitioning as opposed to 85% of schemes who do not have third party input.

What do you consider to be your main challenge in changing your fiduciary management should they underperform?

50% Identifying a suitable replacement

29% Managing the complexity of the transition

15% Costs

6% Other

The FCA review

The survey asked all respondents what they thought the outcome of the Financial Conduct Authority's asset management market study should be, in relation to fiduciary management.

There appears to be concern over the regulation associated with fiduciary management. 57% of respondents would like to see some changes as a result of the FCA review. The two main areas where they would like to see change are concerning the selection process and independent advice.

What do you think the outcome of the FCA review should be?

18% would like to see a requirement for independent firms to oversee advice provided by the fiduciary manager

29% would like to see new regulations and disclosure rules around the selection process

FCA Asset Management Study

The emergence of fiduciary management services in the institutional market changes the competitive dynamic between consultant and asset manager, and the potential conflicts of interest arising merit further exploration.

Our viewpoint

Whilst in general we are not fans of more regulation, and would prefer to see a natural shift to open selection processes and independent monitoring, we can envisage the FCA looking long and hard at this area.

Conclusion

Users of fiduciary management appear to be happy with the results, citing faster and more informed decisions as benefits. However, the survey does highlight some shortcomings in many fiduciary manager selection processes. It also brought to light a lack of independent oversight of ongoing appointments.

Fiduciary management is a growing part of the investment landscape for pension schemes and can be an attractive form of investment delegation. But managers and trustees must not overlook the pitfalls. There can be inherent conflicts involved in the process – whether due to fees based on assets and assets under management, or simply a lack of oversight.

An independent third-party, like LCP, can help trustees to manage these conflicts and navigate this new area of investment.

Visit **www.lcp.uk.com/fiduciarymanagementoversigh**t to learn more.

Contact us

If you would like more information please contact your usual LCP adviser or one our fiduciary management oversight specialists below. Alternatively please visit our website: www.lcp.uk.com/fiduciarymanagementoversight

James Trask
Partner
james.trask@lcp.uk.com
+44 (0)20 7432 6641

Katie O'Sullivan
Senior Consultant
katie.o'sullivan@lcp.uk.com
+44 (0)20 7432 6683

Kevin Frisby
Partner
kevin.frisby@lcp.uk.com
+44 (0)1962 873354

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