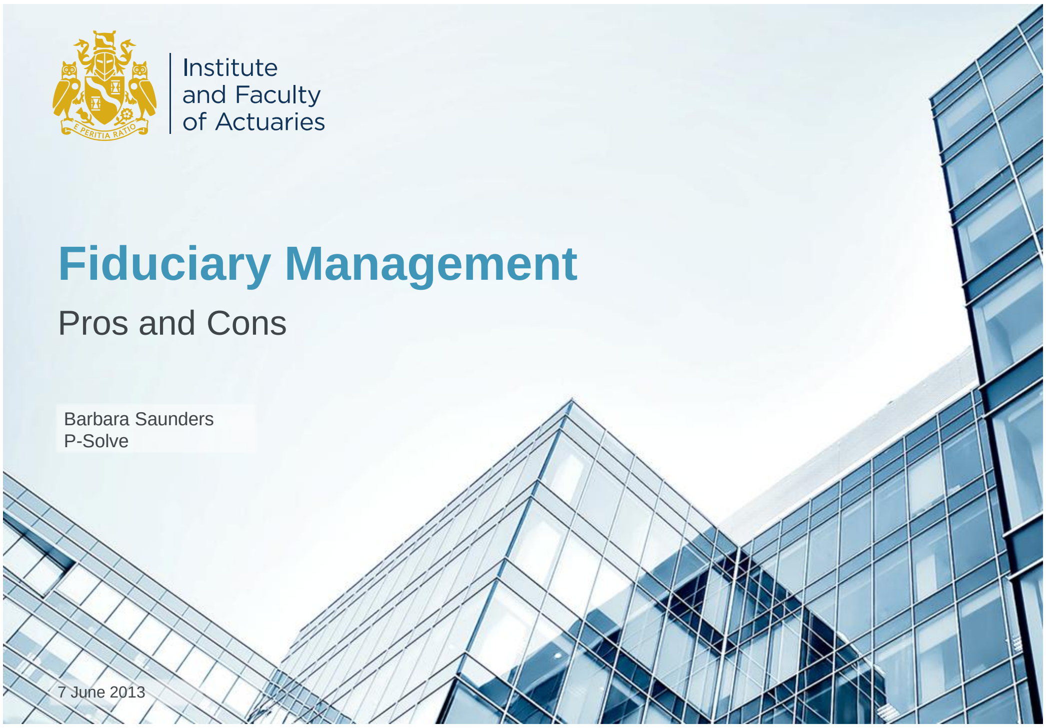

Fiduciary Management

Pros and Cons

Barbara Saunders
P-Solve

7 June 2013

Introduction

- A governance decision
- Not right for everyone
- We’ll discuss reasons for and against….
- …rather than pros and cons

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Appointing a Fiduciary Manager

For	Against
Time	Loss of control
Expertise	Cost
Managing complexity	Concentration risk?
Reduce decision delay	Conflict of interest?
Economies of scale	

For – Manage time constraints

- Trustees typically meet quarterly
- Responsibilities are mounting
- Agenda time is constrained
- Investment decisions require proper consideration
  - Training on concept
  - Consideration of market conditions
  - Review of possible managers
  - Discussion and decision
- Do Trustees have proper time to dedicate?

For – Expertise

- Trustees are experts in many things
- But often not in investment
- It takes time to build this knowledge
- Even with training they rely on advisers
- Myners principles best practice
  - *"…decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively…"*

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For – Manage increasing complexity

- Volatility, risk, leverage, derivatives, LDI, hedge funds, insurance linked investments, distressed debt, infrastructure…

- Economies are more volatile
- Growth is low
- Equities are riskier
- Pension schemes *need* return
- Investment solutions are becoming more complex

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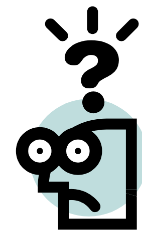
For – Reduce decision delay

- Time constraints, lack of expertise and increased complexity make it more difficult for Trustees to make decisions
- This causes decision delay…
- …and missed opportunities
- It may lead to more risk



- Choosing to do nothing is still a decision

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For – Economies of scale

- Discount for bulk
- Minimum investment size
- Negotiating terms
  - Investment managers
  - Custodians
  - Counterparties
- Small schemes get access to same opportunities

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Against – Loss of control

- Ultimate responsibility still lies with the Trustees
- Culture of Trustees may not suit delegation
- May not be needed
  - if Trustees have expertise…
  - …and governance structure

- Delegation requires trust and belief
- Need to govern the Fiduciary Manager

Against - Cost

- Fiduciary management is more expensive…
- …for a more comprehensive service?

- An extra layer of fees…
- …or an alternative to traditional consulting?

- Consider value for money

Against – Concentration?

- Rely on one provider for success of whole strategy
  - But many use external specialist managers
  - Same as traditional advisory relationship?

- What if it goes wrong?
  - Understand exit terms before you enter
  - Consider practicalities of moving
  - Pooled fund or segregated approach?

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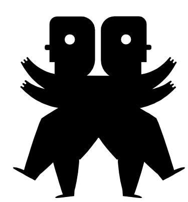
Against – Conflict of interest?



- Conflicts do exist
  - Unlikely to say its done a bad job
  - Delegated services may generate higher fees
  - Can’t give independent advice on Fiduciary Manager selection
- Conflicts also exist in traditional consultancy
  - Unlikely to say its done a bad job
  - New ideas generate project fees
  - Hard to sell a manager that has been recommended
  - Conflict between clients for capacity constrained ideas
  - Need to move quickly - which client do you call first?

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Appointing a Fiduciary Manager

For	Against
Time	Loss of control
Expertise	Cost
Manage complexity	Concentration risk?
Speed of decision making	Conflict of interest?
Economies of scale	

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Questions Comments

Expressions of individual views by members of the Institute and Faculty of Actuaries and its staff are encouraged.

The views expressed in this presentation are those of the presenter.

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