HYMANS ROBERTSON
The Spirit of Independence

Fiduciary management: pros and cons

The Actuarial Profession: Pensions Conference 2013

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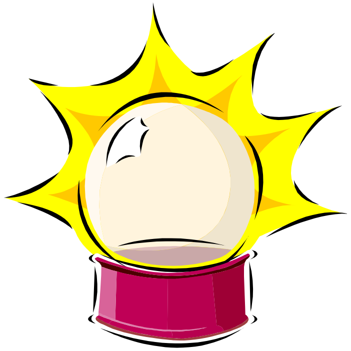
Agenda

- Here to stay?
- Pros and cons
- How far should you delegate?
- Independent advice

Here to stay?

- Expect fiduciary management services to grow
- Will be influenced by:
- Extent to which it meets client expectations:
  - performance success over next few years
  - service delivery
- Market capacity
- Transparency and effective management of conflicts of interest
- How the service is positioned
- Client comfort with a single provider



Fiduciary management – Pros and Cons

Pros

- Full delegation forces clients to consider the key strategic issues (as mandate cannot be set up otherwise)
- Quicker implementation of some decisions
- Improves clarity over responsibility for decisions
- Greater diversification than typically practical with advisory model
- Depth of trustee knowledge required on certain investment issues reduced

Cons

- Potential for increased complexity
- Dangers of over diversification
- Breadth of knowledge required on certain investment issues increased
- Increased conflicts of interest that need to be managed effectively
- Manager straying into unfamiliar territory
- Level of up front transaction costs

Points to note

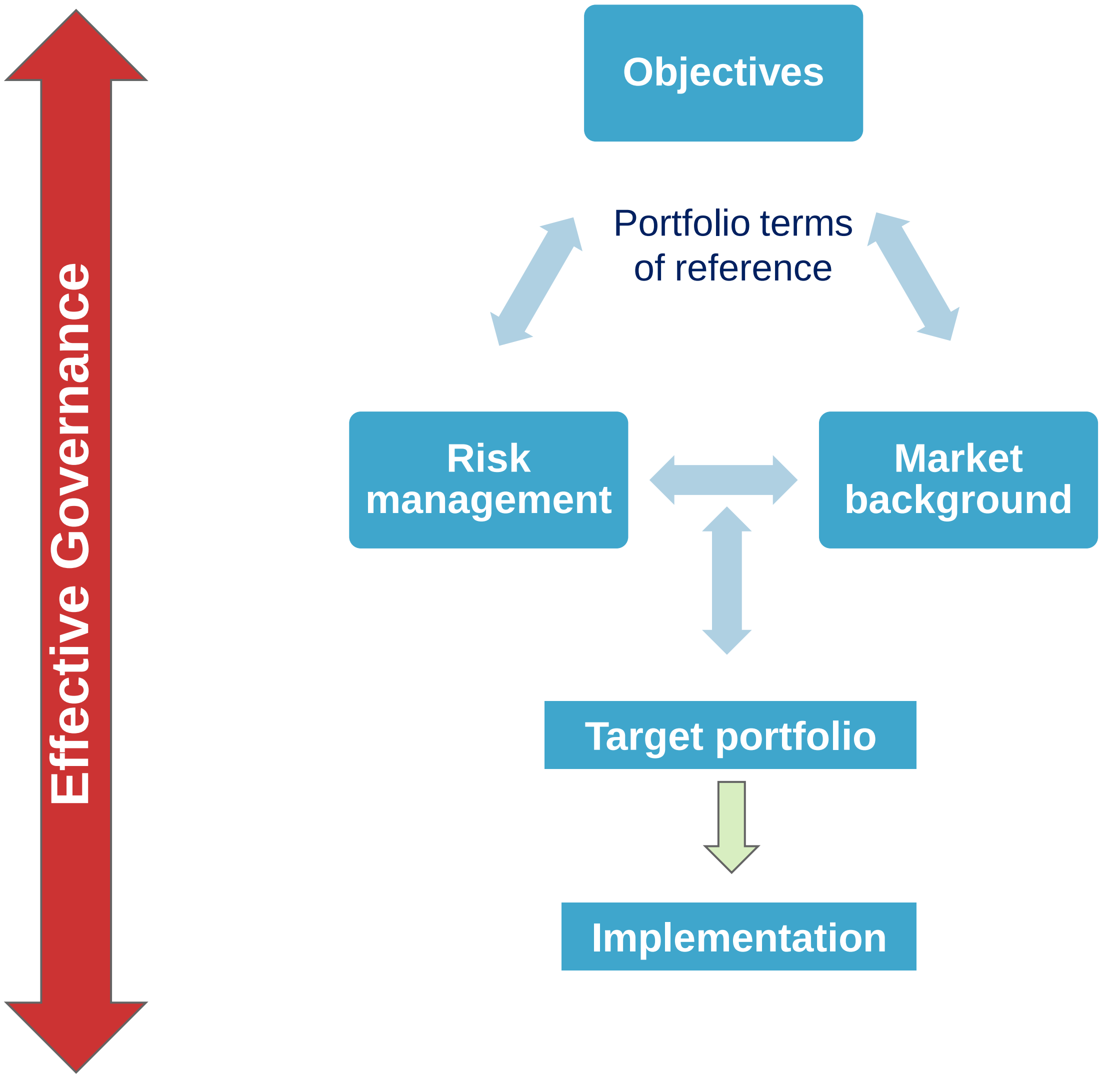
- Broadens choice of governance options
- Unclear which will be the cheapest route net of all costs
- Trustee will have fewer investment decisions to make but is likely to have a lot more to monitor
- Often argued that fiduciary management should free up time for trustees – initial indications are that this is not so

Primarily a governance decision

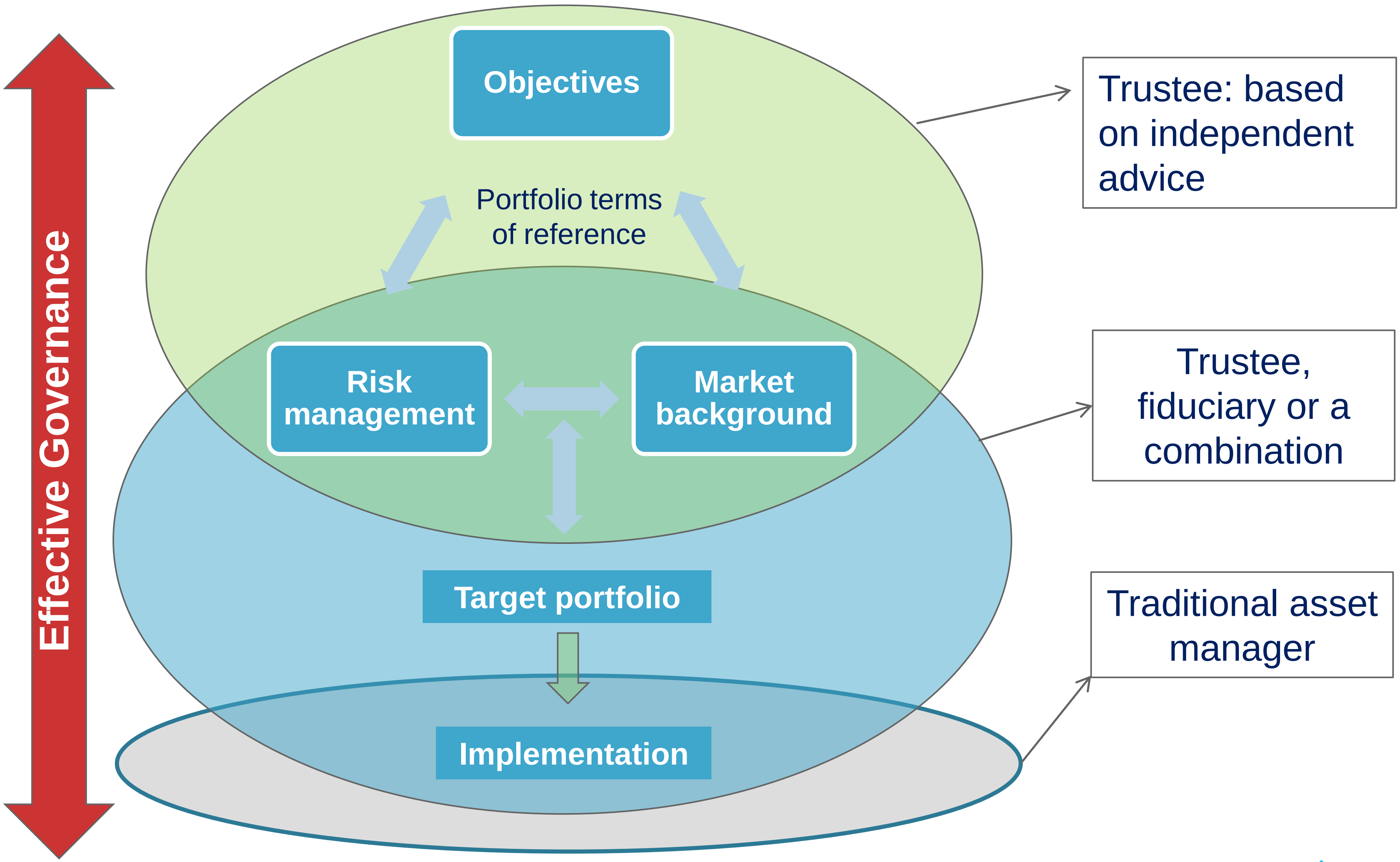
Investment objectives

- Need to distinguish between a scheme’s overall objectives and those of the fiduciary manager
- Fiduciary manager’s objectives will depend on how much the trustee is prepared to delegate

Achieving your objectives



How far should you delegate?



How far should you delegate?

- What have been the key drivers behind the decision to move to a fiduciary manager?
- Which decisions is the Trustee comfortable delegating?
- How confident is the Trustee in the skills of the fiduciary in the areas concerned?
- Where does the Trustee believe the fiduciary can add most value?
- How is the Trustee going to effectively monitor the items delegated?
- What does this mean for the scheme's governance arrangements?

Full delegation – issues to consider

- Fiduciary given a defined investment objective and associated risk parameters along with the time period over which the objectives are to be achieved.
- Consider “basis risk” between systems used by the Trustees’ advisers and managers
- Trustees need a sense of what to expect i.e. what the portfolio would typically look like and how it could change
- Permitted or prohibited list of asset classes to be specified?
- Does mandate cover all the Scheme’s assets or should any investments be retained outside the fiduciary mandate?
- Delegating what we would term as both the primary and second order investment decisions.
- Need to consider how the investment objective is specified:
  - Targeted absolute return
  - Return relative to liability benchmark
  - Improvement in funding level
  - Reduction in size of deficit

Within your comfort zone or a step too far?

Need for independent advice

- Independent, unbiased, advice on decisions that remain with the Trustee
- Expert opinion on the monitoring and management of the fiduciary mandate
- Create a framework for assessing the continuing suitability of the fiduciary
- Unbiased asset class education
- Ensure the Trustee's governance arrangements are structured to maximise the benefits of the fiduciary appointment

Ensure the overall investment arrangements remain fit for purpose

Decisions required to appoint a Fiduciary Manager

Level of delegation?

- Delegate manager selection only, all decisions, or something in between?

Appoint a Fiduciary Manager?

- Does the Trustee see appointing a Fiduciary Manager as the best way of managing the Scheme's risks and achieving its objectives?

Choice of manager?

- Range of providers to choose from – recommend a market review given differences in service offerings.

Set objectives / define operational structure

- Work with advisors and the chosen manager to clearly define the objectives, implementation and monitoring processes.

Independent oversight

- Obtain independent advice and oversight of the Fiduciary Manager's continuing suitability and help further develop objectives and strategy over time.

Summary

- Primarily a governance decision not an investment one
- Don't expect investment agenda's to lighten up
- A good consultant or asset manager will not necessarily make a good fiduciary manager
- Test the market before progressing

Thank you

Any questions?

Notices

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