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Fiduciary Duty – The past, the present, the future

Owen Davies, FIA

7 June 2017



Agenda

- What is fiduciary duty?
 - What does it mean?
 - Why is it needed?
- What has history taught us? (Have we learnt from our mistakes?)
- In the spotlight: Governance
- End game – is it still buy-out?
- Looking to the future



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What is Fiduciary Duty?

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What is fiduciary duty? (What does it mean?)

High level concept:

Fiduciary relationships exist where a person has voluntarily agreed to undertake *legal* powers to affect the *legal* position (rights, duties or powers) of another and has a *discretion* in the way they will exercise those legal powers. Examples:

Trustee and Beneficiary

Agent and Principal



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What is fiduciary duty? (What does it mean?)

tPR describes the main fiduciary duties as follows:

1. Acting in-line with the trust deed and rules
2. Acting in the best interests of the scheme beneficiaries
3. Acting impartially
4. Acting prudently, responsibly and honestly
5. Using and enforcing the trustees' powers



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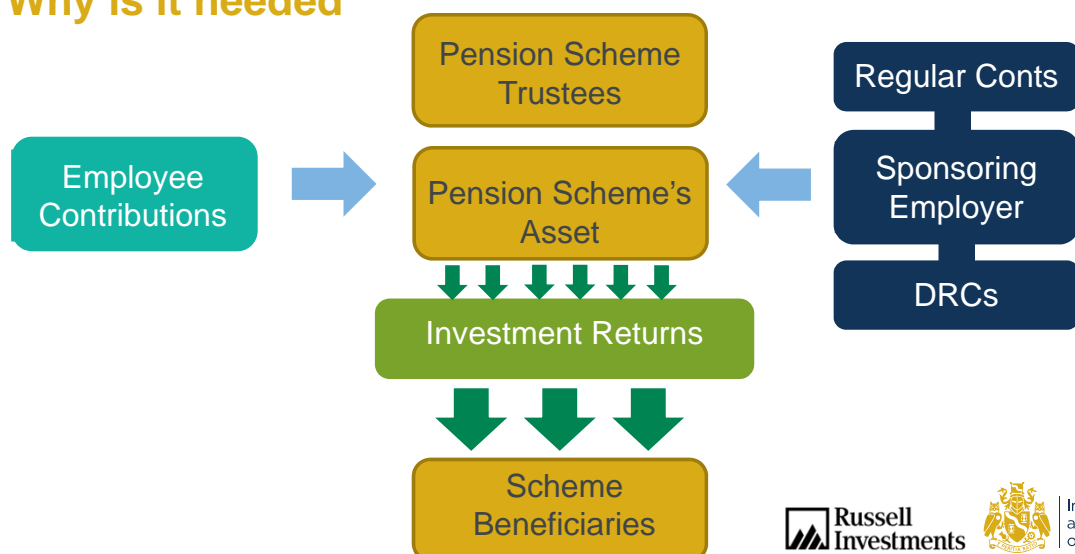


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Why is it needed



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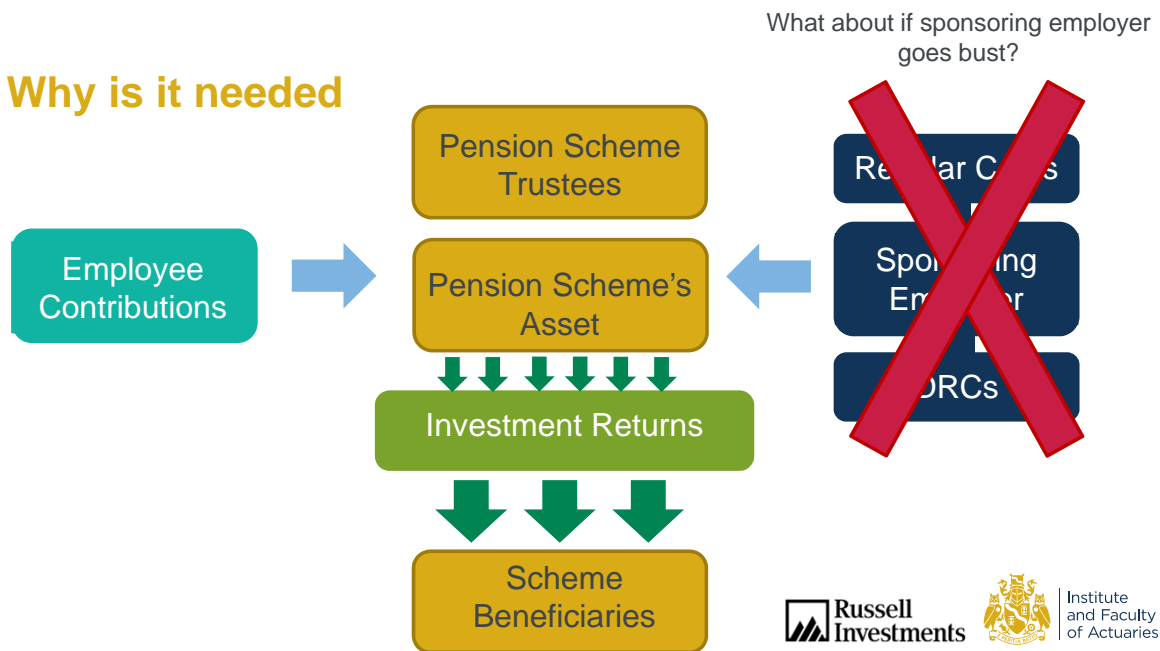


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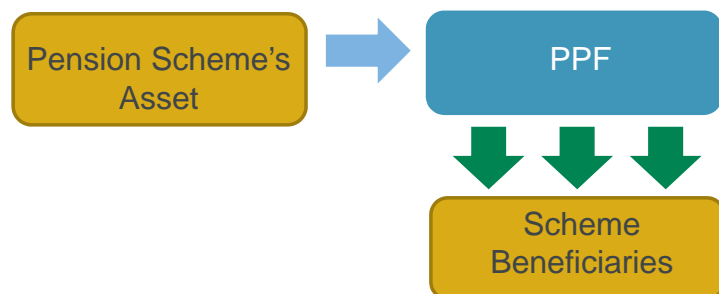
Why is it needed



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Why is it needed



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What is fiduciary duty? (Why is it needed?)

Clear separation between Sponsoring Employer and Members' pensions

Protection of member benefits:

National Bus company – nail in the coffin?

Robert Maxwell – setting a precedent

BHS – in the news recently



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What has history taught us?

Have we learnt from our mistakes?

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What has history taught us? (Have we learnt from our mistakes?)

	20 Year Gilt Yield (%)	FTSE 100	RPI (%)	Average House (£)
31 May 1977	15.0	n/a	17.0	12,689
31 May 1987	8.3	2,203	4.1	42,987
31 May 1997	7.2	4,621	2.6	58,403
31 May 2007	4.7	6,621	4.2	181,810
31 May 2017*	1.8	7,527	3.5	206,665

Source: Bloomberg; FTSE; ONS and Nationwide

* Based on most recently available data



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What has history taught us? (Have we learnt from our mistakes?)

	Early Phase	Middle Phase	Late Phase
			
Typical Arrangement	Balanced	Specialist	Fiduciary Management
Features	One size fits all Limited transparency	Scheme specific Governance heavy	Professionalisation
Effectiveness	Low	Moderate	Strong

THE GREATEST CHALLENGE IS FACED BY THOSE WITH HIGH AMBITIONS BUT LOW RESOURCES



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In the spotlight: Governance

What do Trustees need to know?

How often do (should) Trustees meet?

Who sets the agenda?

What constitutes a successful / productive meeting?

In the spotlight: Governance

What do Trustees need to know?

- The law requires that trustees have knowledge and understanding of (among other things) the law relating to pensions and trusts, as well as the principles relating to the funding of pension schemes and the investment of scheme assets.
- New trustees must acquire the appropriate knowledge and understanding within six months of being appointed (Trustee toolkit)



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In the spotlight: Governance

How often do (should) Trustees meet?

	Number of Scheme Members		
	Small (12-99)	Medium (100 – 999)	Large (1000+)
Monthly	4%	1%	6%
Quarterly	21%	47%	82%
Six Monthly	37%	41%	8%
Annually	25%	8%	0%
Less Often	12%	2%	1%

Source: OMB Research, October 2015, prepared for the pensions regulator



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In the spotlight: Governance

Who sets the agenda?

Gilt yields at 2%,
Surely, have to go up?

Factor review?
We did that 3 years
ago?

FTSE at 7,500? Buy
Or Sell?!

GMP reconciliation?
We're not paying for
that

Covenant review?
Why bother, company is
profitable



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In the spotlight: Governance

What constitutes a successful / productive meeting?

Meeting regulatory requirements?

Keeping sponsor 'on side'?

Investing in a new asset class?

A nice lunch?



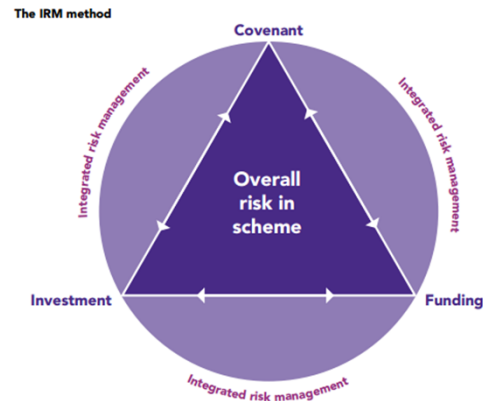
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In the spotlight: Governance

IRM – Integrated Risk Management



Source: The pensions regulator

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In the spotlight: Governance

Summary

Know what you “*need to know*”

Are you meeting enough?

Are you talking about the right things? (IRM, high level decisions)



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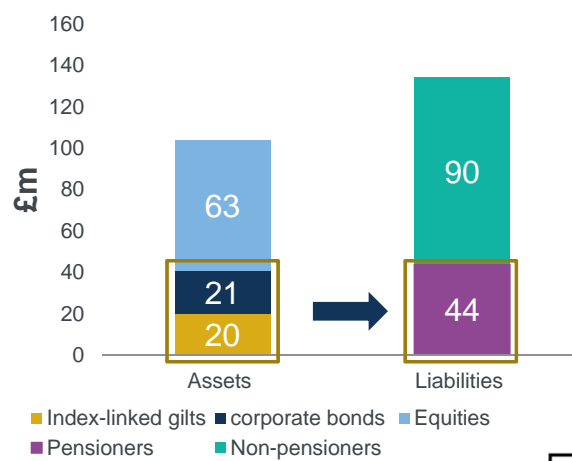
End game

Is it still buy-out?

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End game: Is it still buy-out?

Case study



Source: Russell Investments

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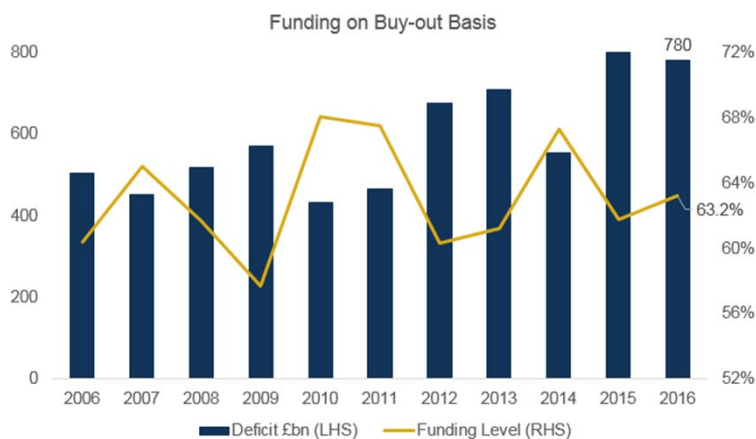


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End game: Is it still buy-out?



Important numbers

1. £68bn
2. £15bn p.a.

Source: PPF Purple Book, 2016 and LCP's Buy-ins, Buy-out and longevity swaps survey, 2016



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End game: Is it still buy-out?

Under the current governance model of DB pension Schemes, for many, Buy-out remains the holy grail

however, it might seem like a long-way off.....

Intermediate staging posts seem sensible



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Expected market developments

Looking to the future

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Expected market developments

Looking to the future

Consolidation of LGPS – paving the way for a new era?

Professional Trustee appointed to all schemes?

Greater focus on smaller schemes?



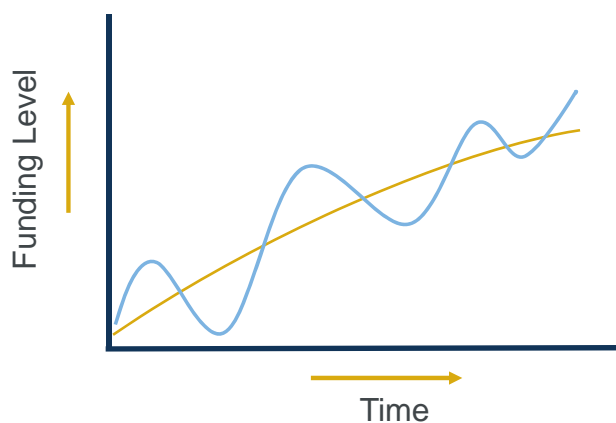
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Expected market developments

Greater focus on smaller schemes



What is the objective?

How will it be achieved?

How is success measured?



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Expected market developments

Greater focus on smaller schemes – Fiduciary Management

Proven governance model

Professionalisation of investment decisions and implementation

Accountability for investment outcome



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Questions



Comments

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