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Fiduciary management

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Donny Hay, MN





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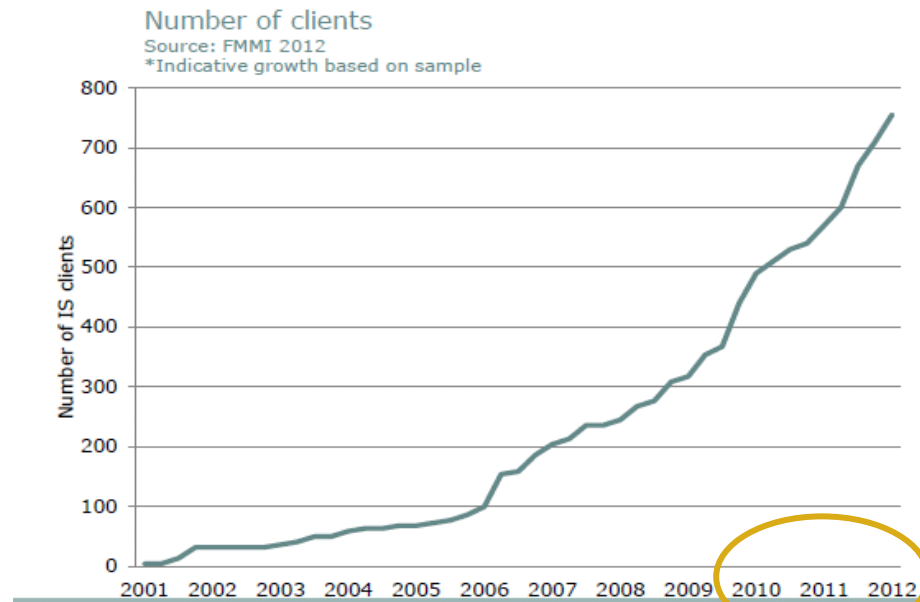
Agenda

Introduction to fiduciary management
Suitability for pension schemes
Issues to consider

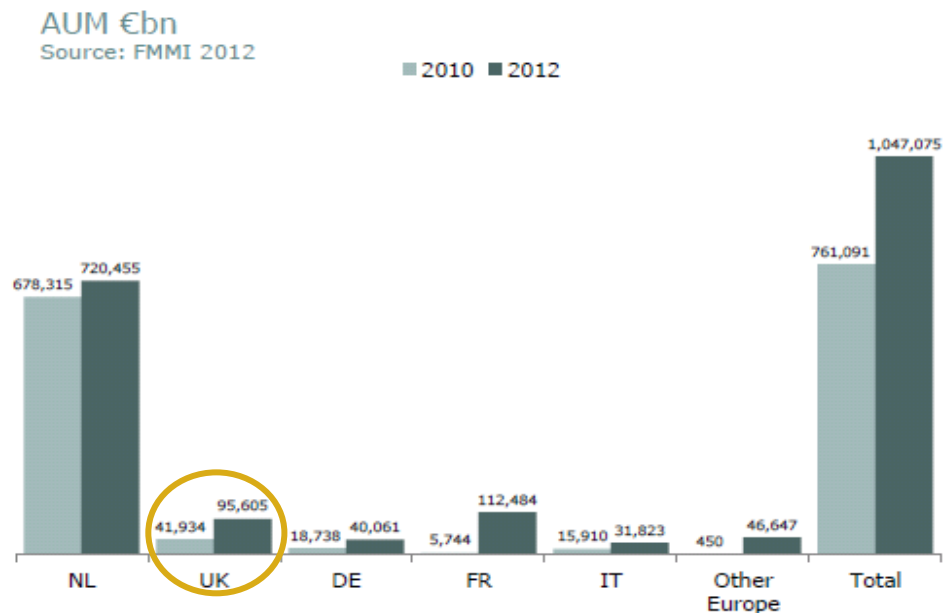
ertise
ponsorship
Thought leadership
Progress
Community
Sessional Meetings
Education
Working parties
Volunteering
Research
Shaping the future
Networking
Professional support
Enterprise and risk
Learned society
Opportunity
International profile
Journals
Support

Growth of fiduciary management

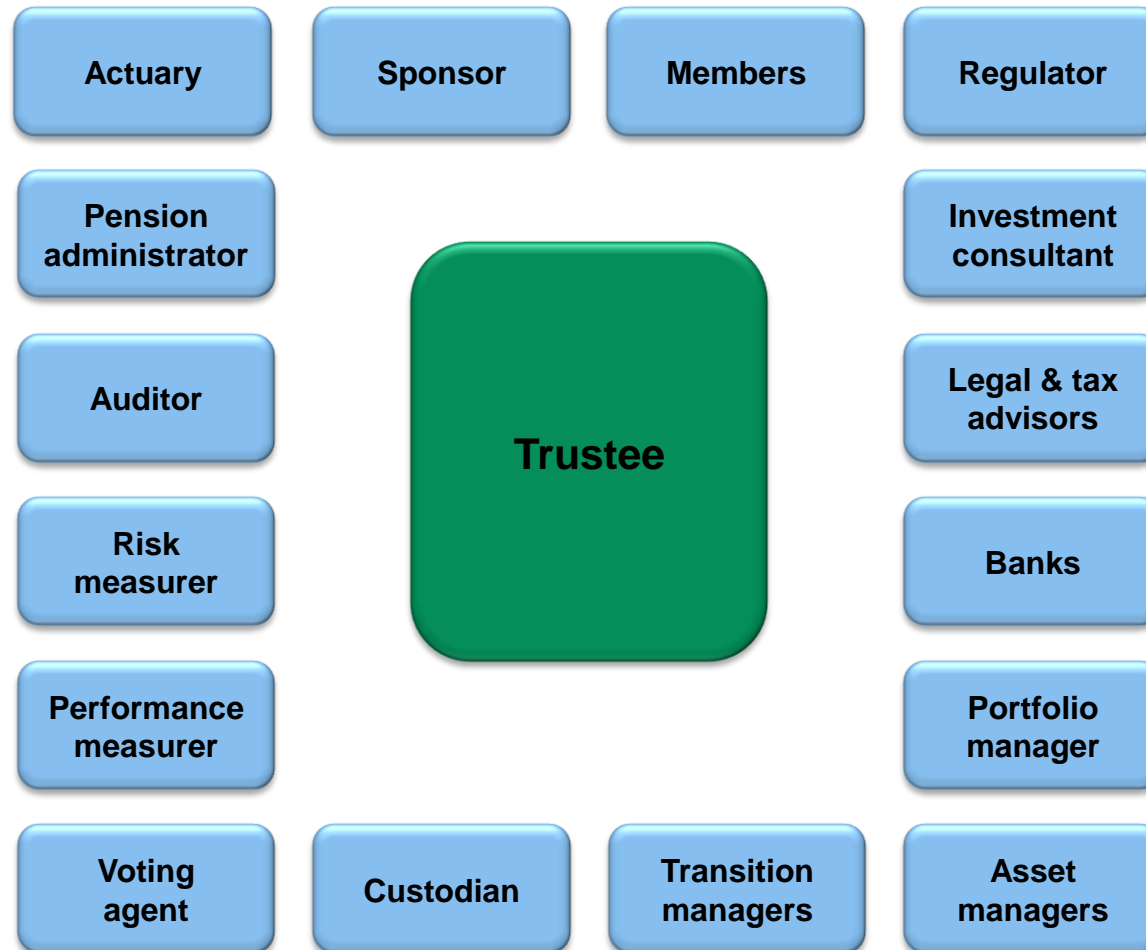
- There is a clear trend of adoption of fiduciary management among European pension funds
 - Dutch pension funds led the way
 - Since 2009, adoption has spread to rest of Europe and especially the UK



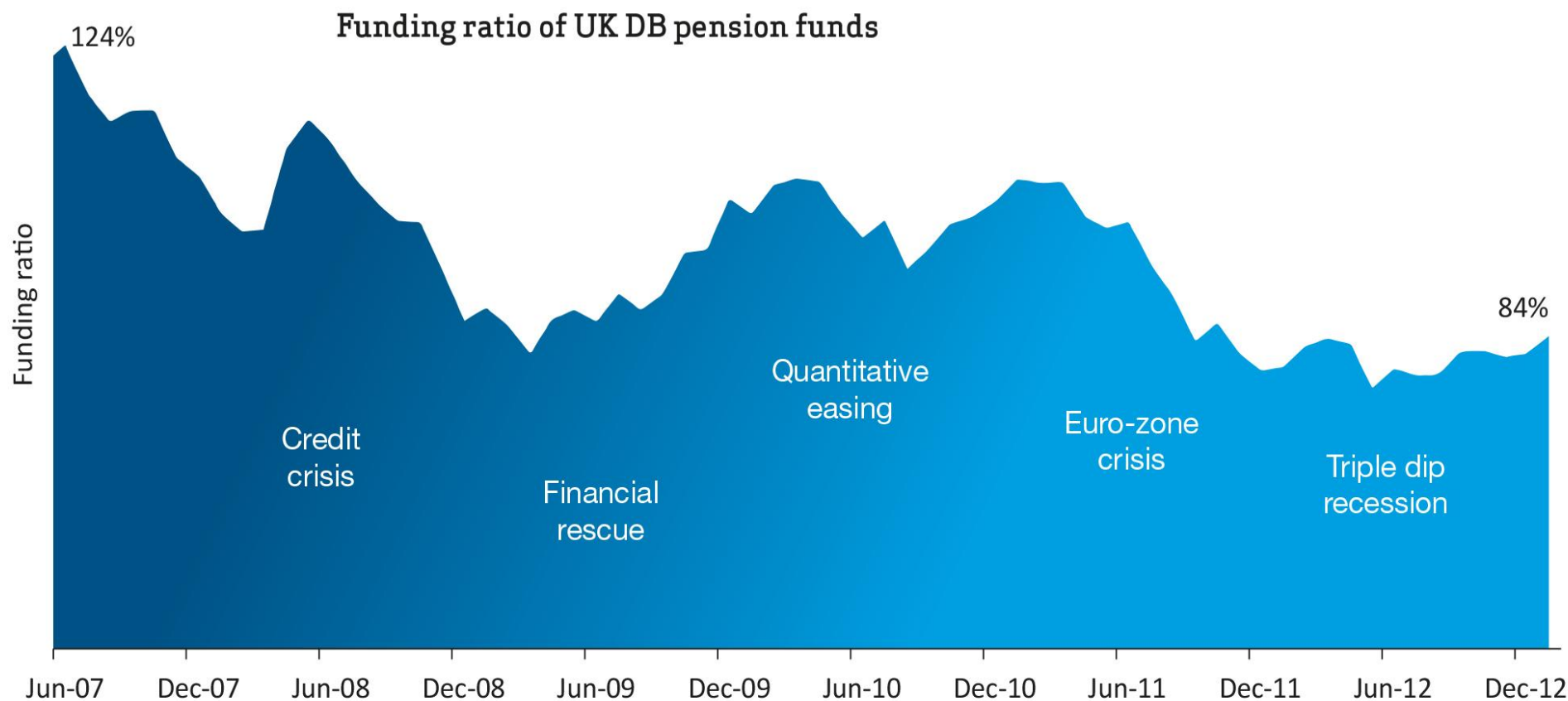
Source: Spence Johnson Ltd., 2012



A governance challenge



The funding context



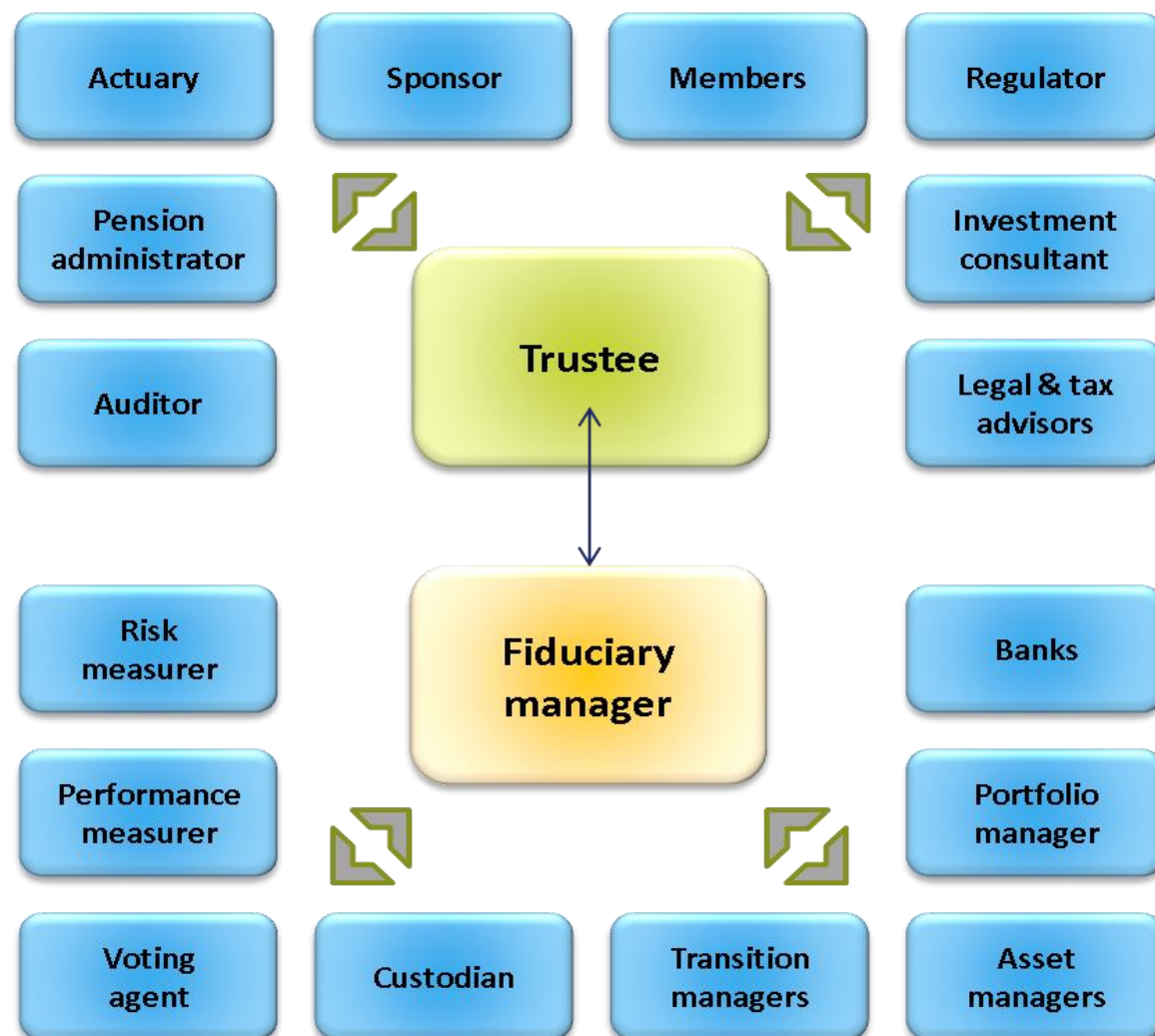
Source: PPF

Why delegate?

- More sophisticated strategy
- Spend the 'governance budget' more wisely
- Expertise / experience / independent thinking
- Cost



Addressing the governance challenge



Trustee responsibilities

- In the interests of beneficiaries
- Trust deed and rules
- Impartially
- Prudently, responsibly and honestly



Statutory overlay

- Criteria for who trustees may delegate to
- Appropriate procedures to review
 - performance
 - fees and charges

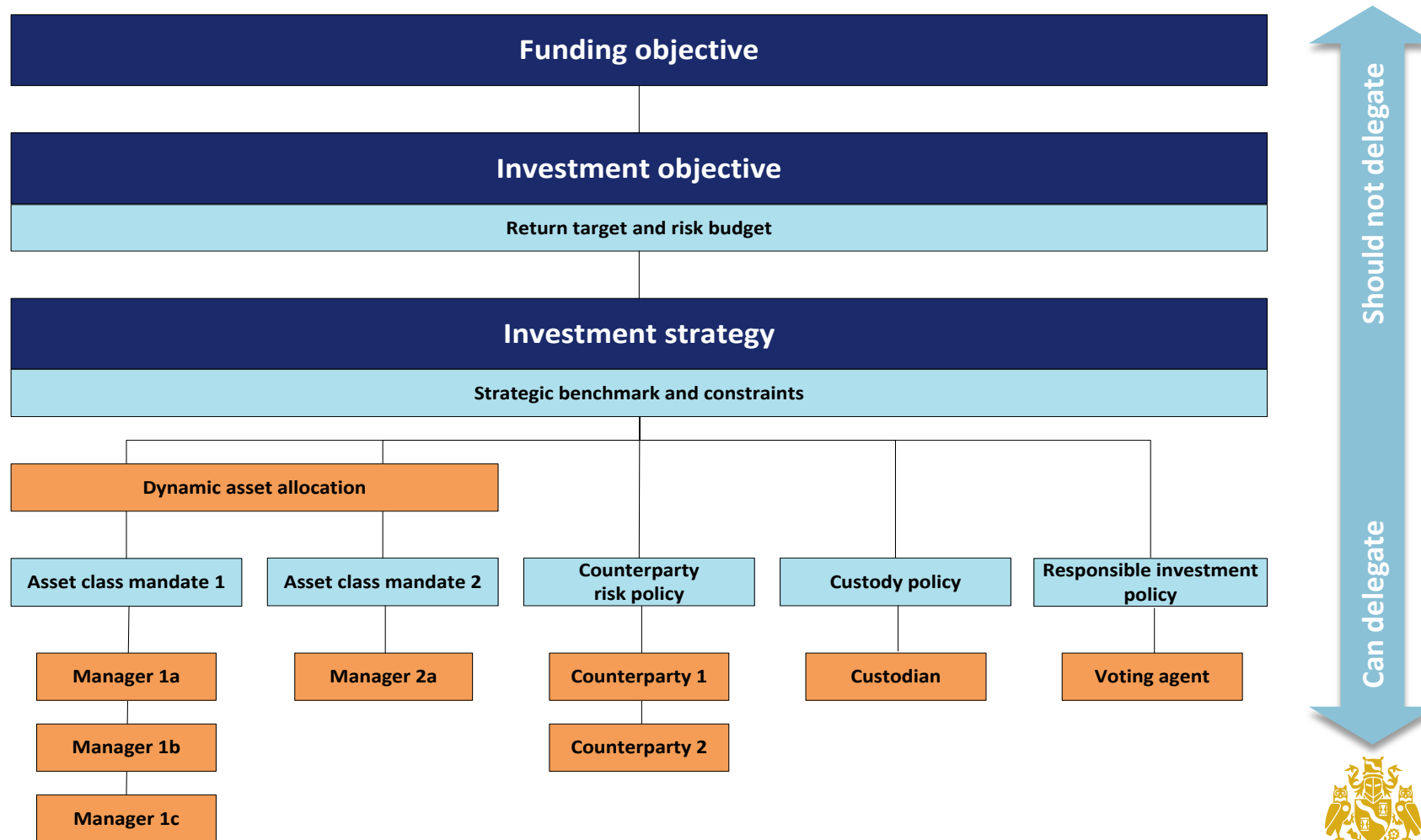


What does the fiduciary manager do?

- **Advise**
 - Holistic: **All assets vs. all liabilities**
 - Pro-active: Take responsibility for the investment strategy, though the trustee remains accountable for the strategy
- **Execute**
- **Report**



Degree of delegation

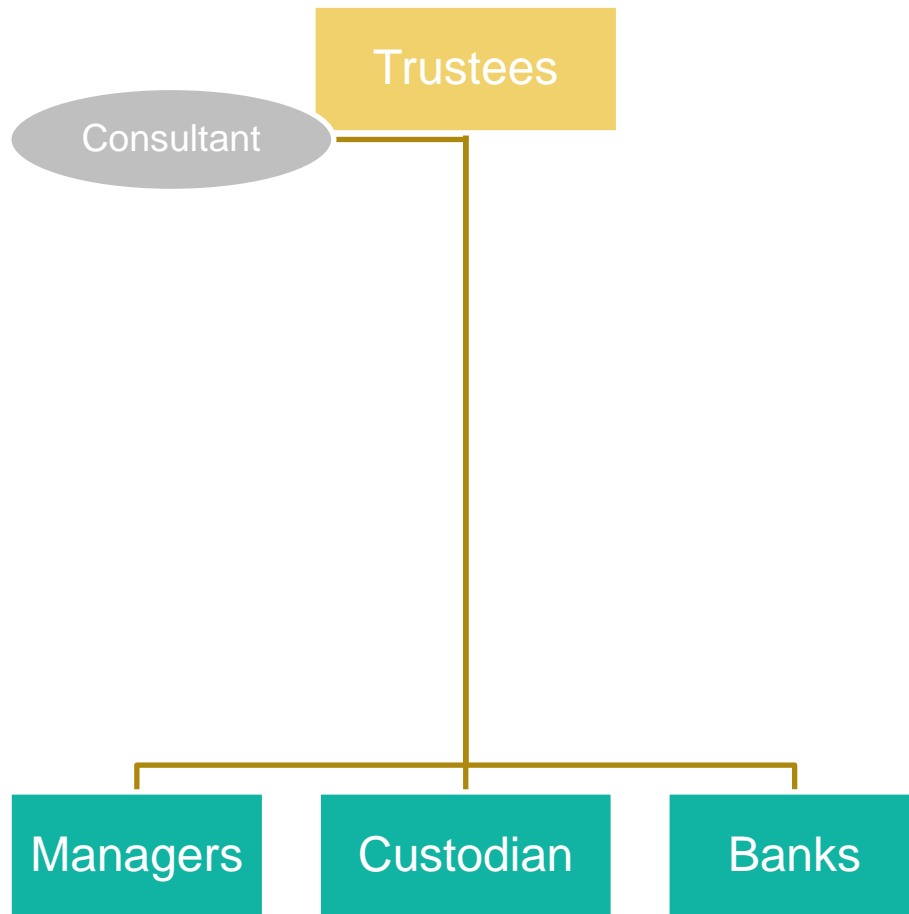


Routes to delegation

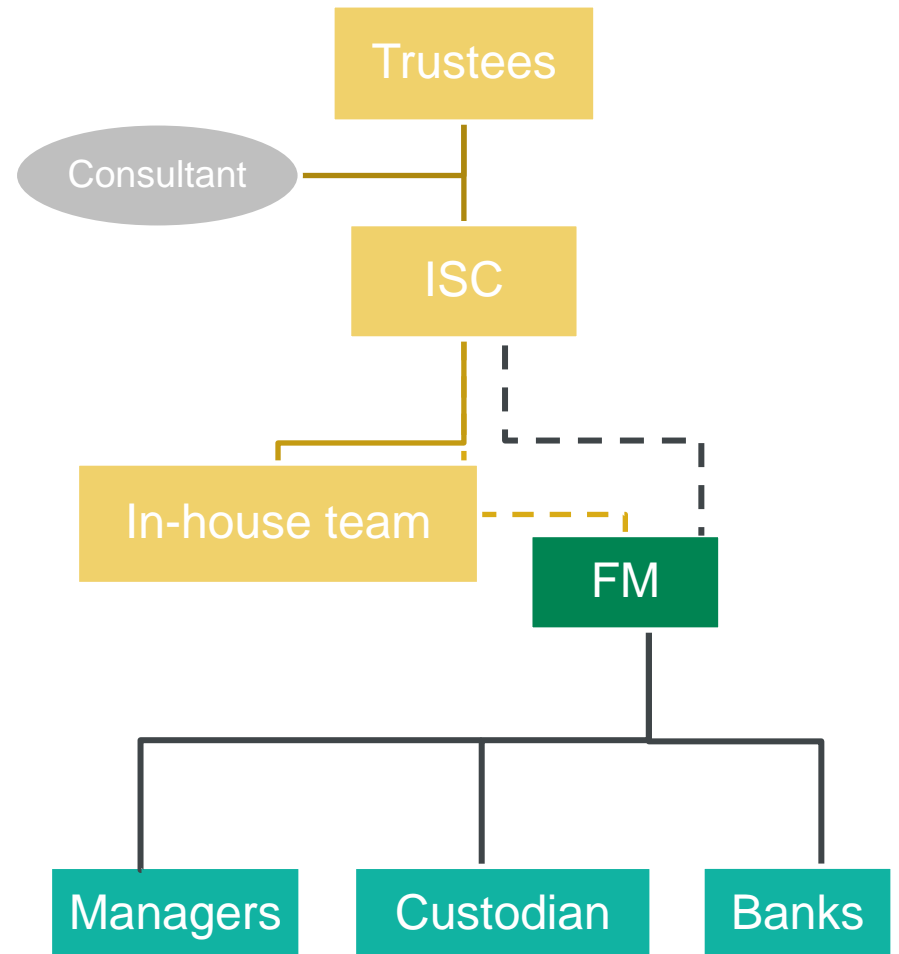


Routes to delegation

Classical



Contemporary



What to delegate, and to whom?

Setting the
objectives

Setting
the strategy

Implementing
the strategy

Monitoring
the strategy







What to delegate, and to whom?

	ISC	In-house team	Fiduciary manager
Setting the objectives			
Setting the strategy			
Implementing the strategy			
Monitoring the strategy			











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Issues to consider

ISC

Naturally
authoritative
Voice for sponsor

Part-time role
How to bring in the
right expertise

Issues to consider

ISC

Naturally
authoritative
Voice for sponsor

Part-time role
How to bring in the
right expertise

In-house team

Full-time role
Hand-built solution

Succession
planning
How to access
specialist expertise

Issues to consider

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Naturally
authoritative
Voice for sponsor

Part-time role
How to bring in the
right expertise

In-house team

Full-time role
Hand-built solution

Succession
planning
How to access
specialist expertise

FM

Full-time role
Depth of expertise
Economies of
scale

Who will watch the
watcher?
How bespoke?
Conflicts?

Summary

- Fiduciary management
 - Holistic solution
- Suitability
 - Trustee responsibilities / statutory requirements
 - Think carefully about what and how to delegate
 - Tailored to the scheme
- Issues
 - Obtain independent advice
 - Due diligence
 - Conflicts
 - Monitor and challenge





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Case study



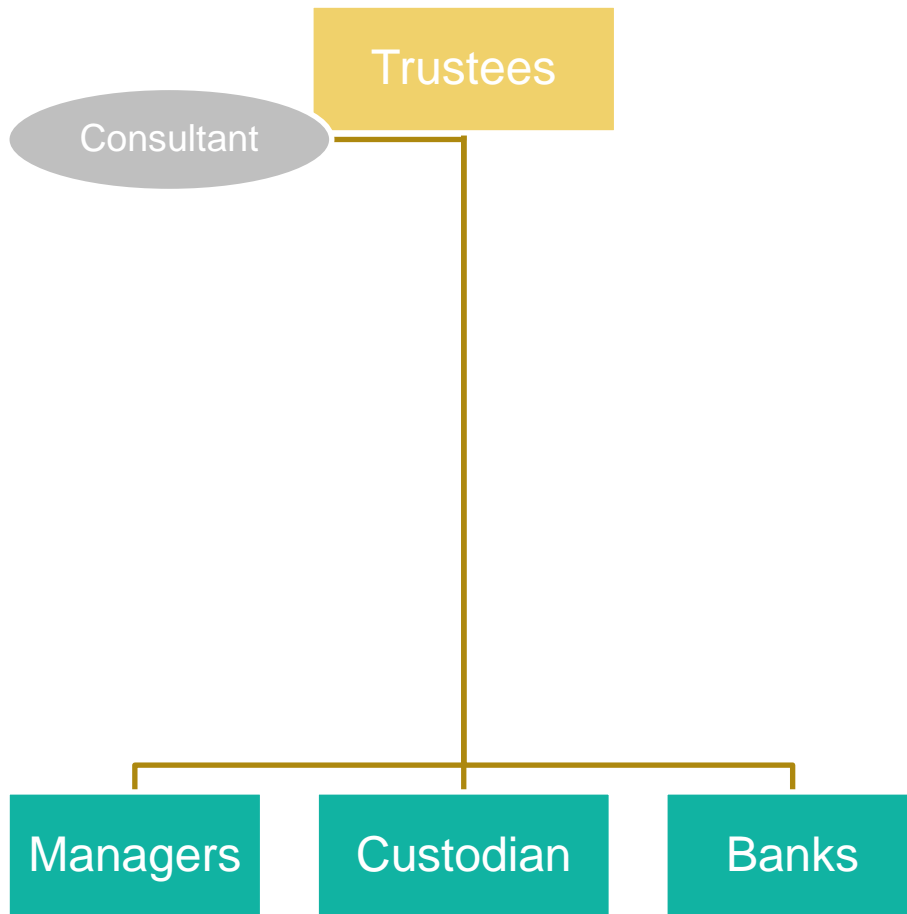
Fiduciary managers

Timeline

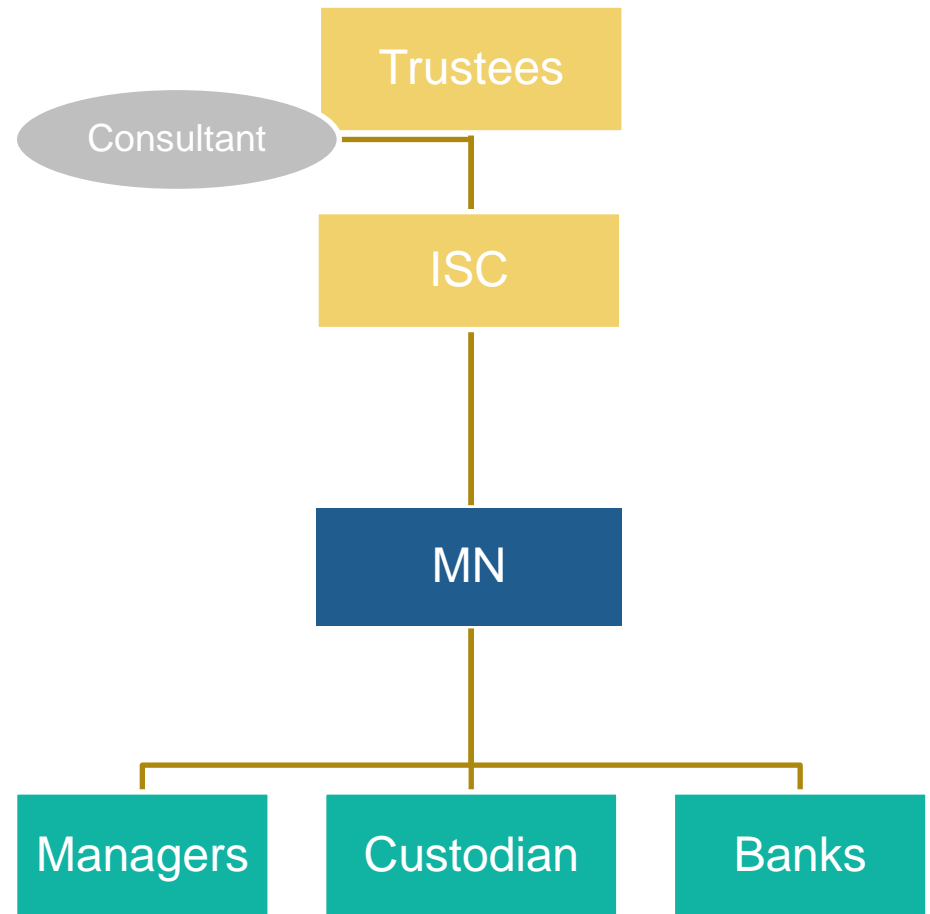


Strengthening the scheme's governance

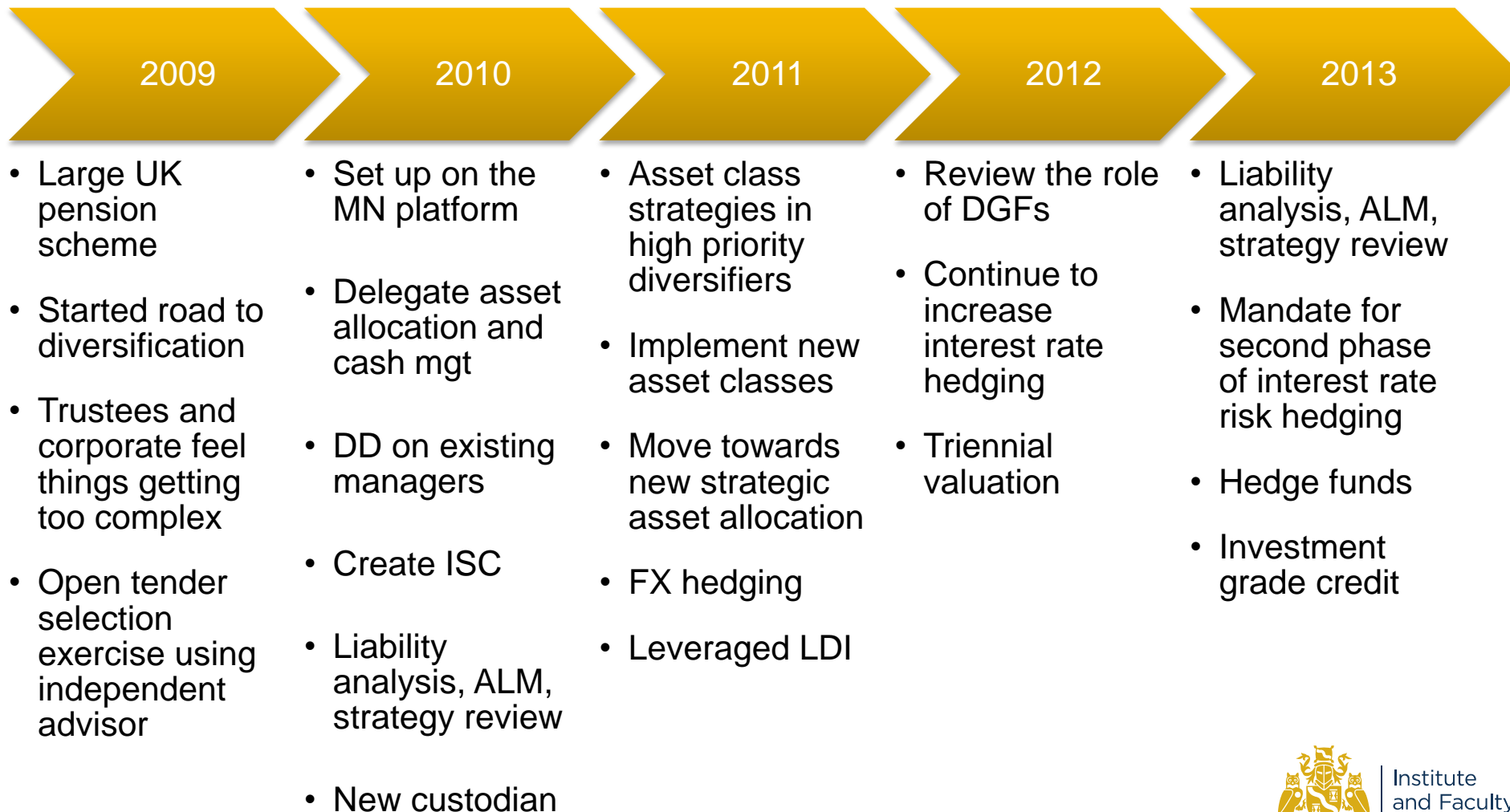
Old model



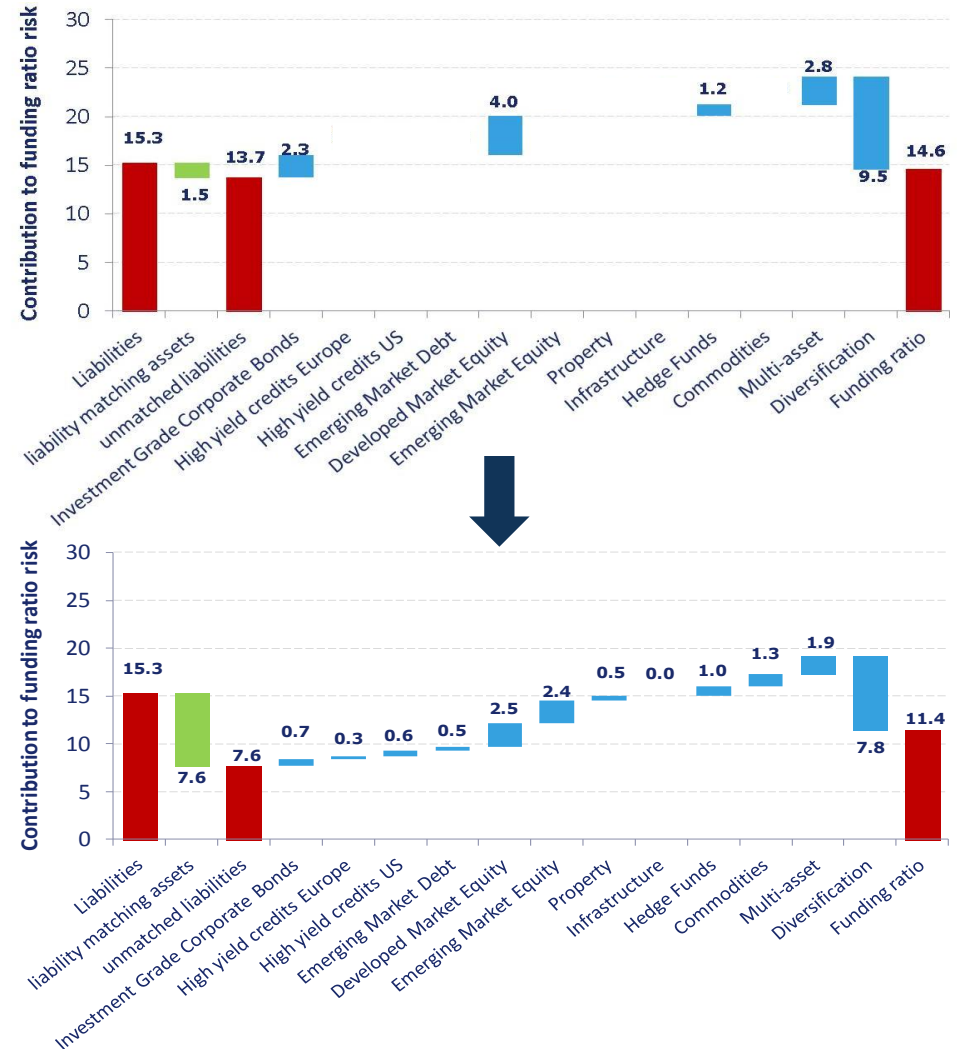
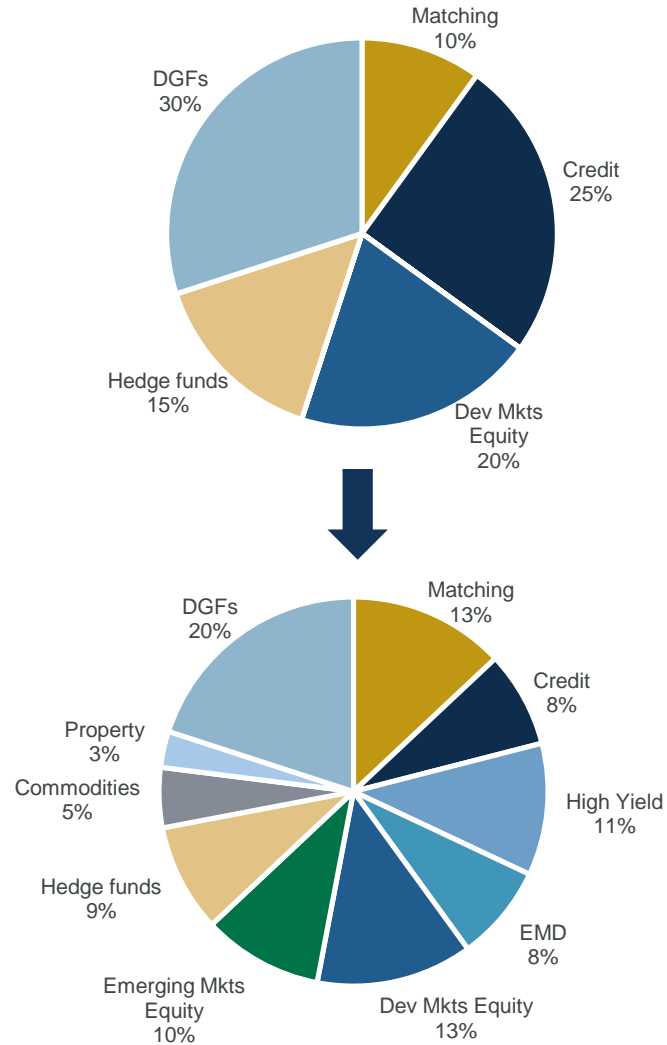
New model



Timeline



Enhanced investment strategy

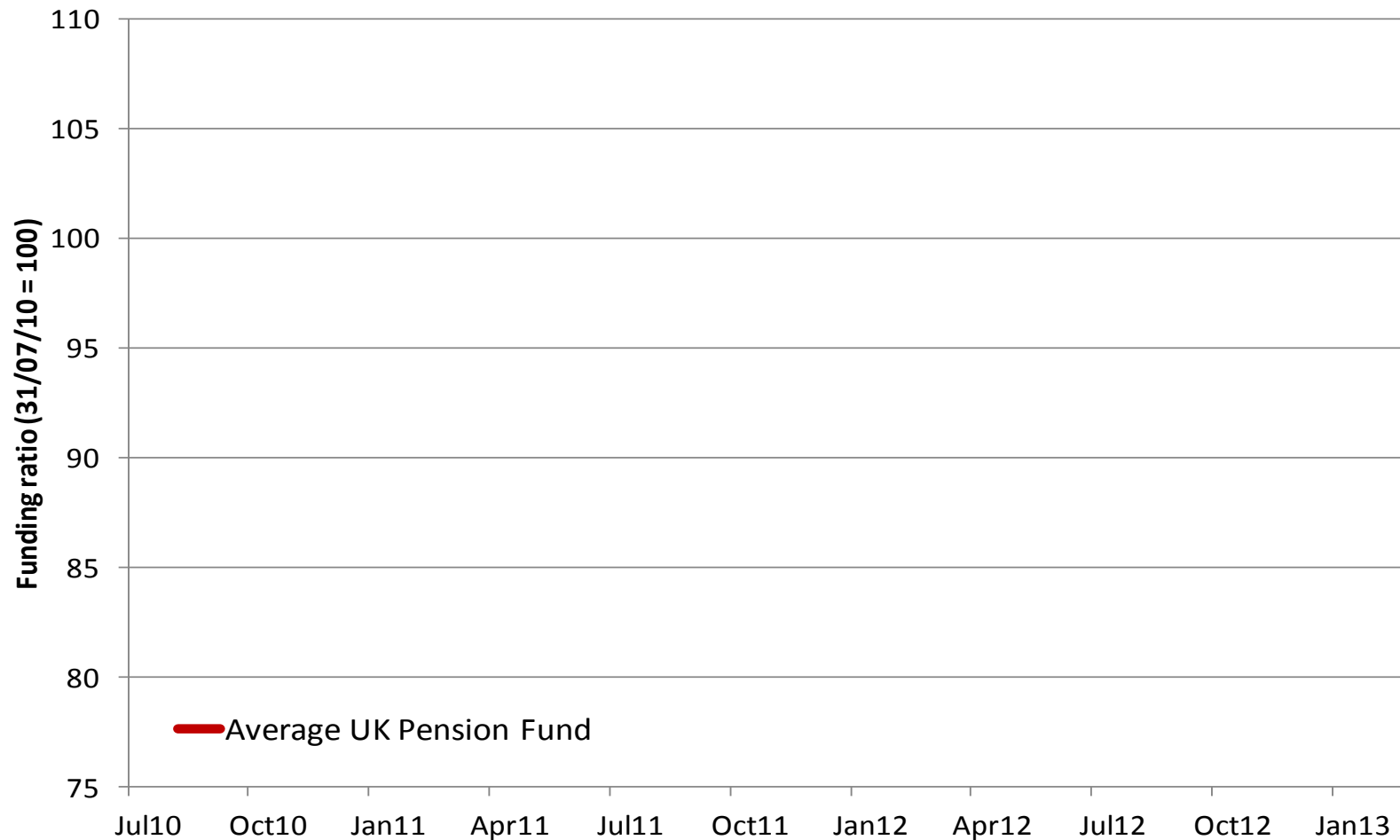


Outcomes

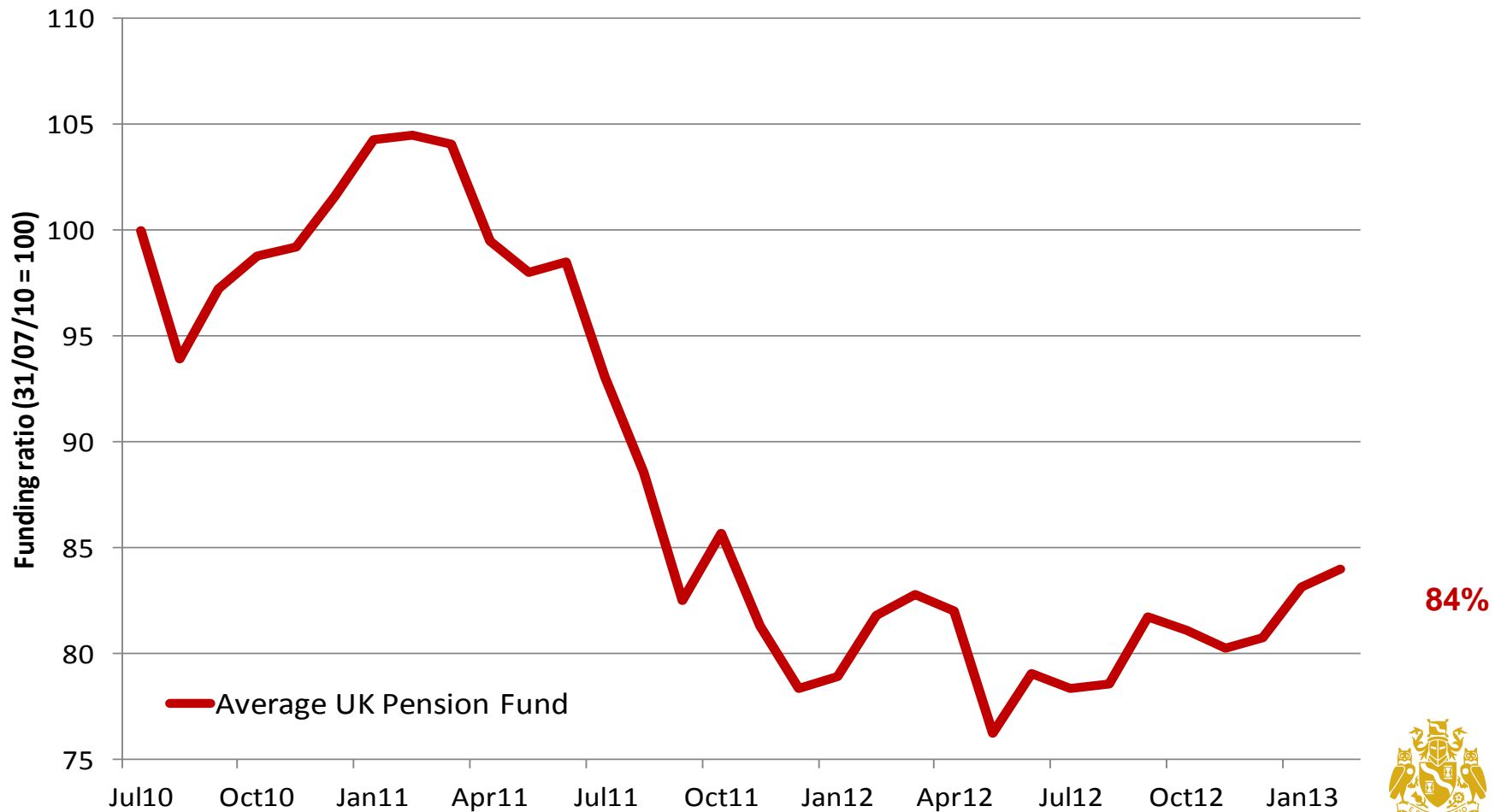
- Trustees spend more time on the big picture
- Trustees spend less time on implementation and meeting managers
- Sponsor more engaged
- Unique combination of advisory and delegated implementation
- More sophisticated strategy with better risk/return:
 - Diversification – more managers, return drivers, regions
 - Dynamic asset allocation
 - Interest rate and currency risks hedged
- Continuous portfolio management of the scheme's overall balance sheet
- Continuous risk management
- Informative, forward-looking reporting that puts trustees in control



Fiduciary management in practice

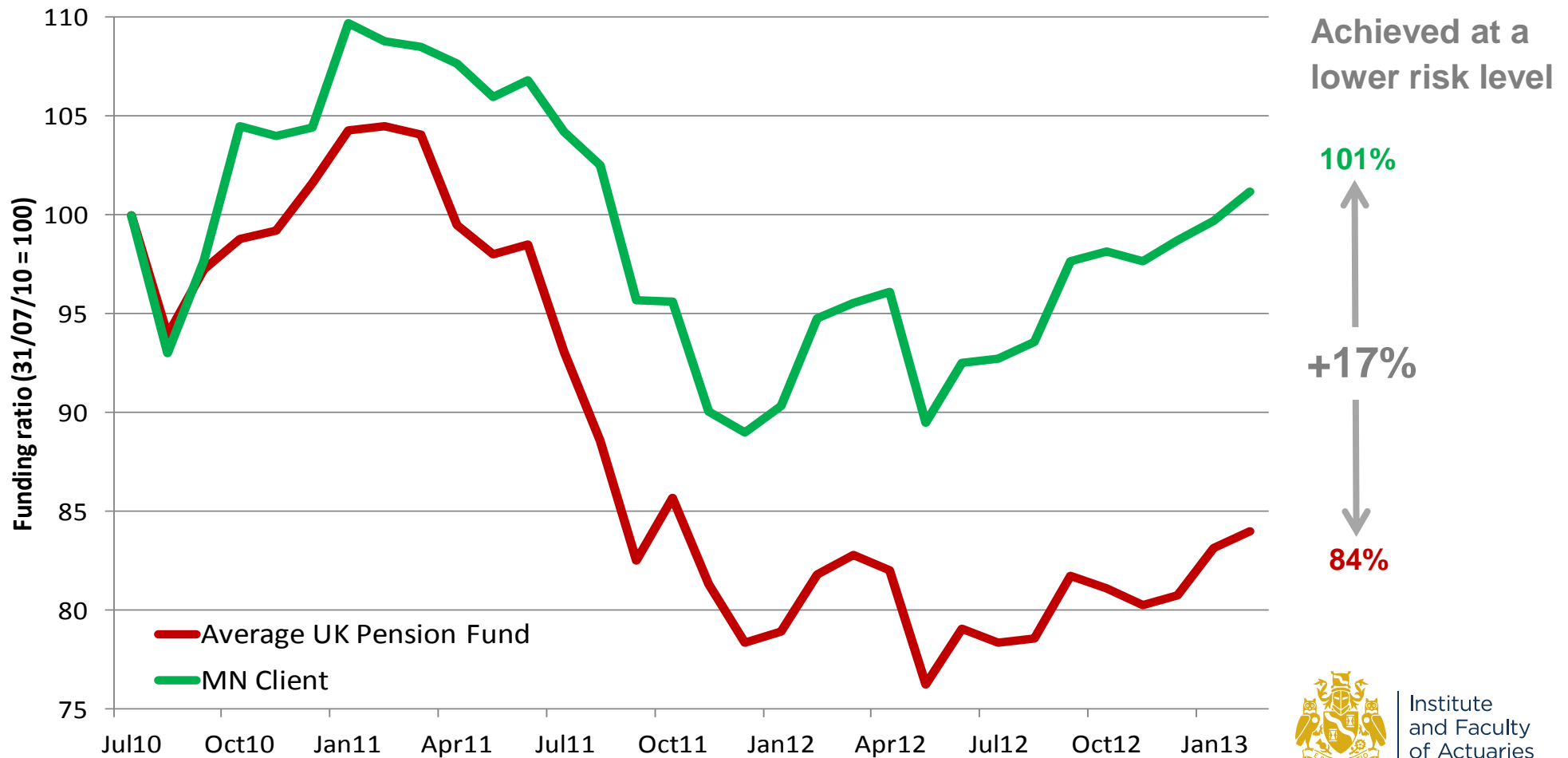


Fiduciary management in practice



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Fiduciary management in practice



Strategic partnership



Get delegation right, and it enhances the trustees' control



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Questions

Comments

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