

Latest trends in Fiduciary Management

2021 Isio UK Survey



isio.
Fiduciary
Management
Survey 2021

Snapshot of the fiduciary management market 2021 – A positive outlook despite a very challenging year

The fiduciary management market faced a challenging 12-months. Fiduciary Managers (“FMs”) had to navigate uncharted market conditions driven by COVID-19. Alongside this, the June 2021 CMA Order deadline added additional pressures on the industry by increasing the level of activity and competition. Against this backdrop, there was a small growth in the total number of both full and partial mandates as most of the activity revolved around the CMA Order retenders. This led to a number of mandates shifting between FMs, but more notably drove a significant reduction in fees for pension schemes.

As the world started to recover from the impacts of COVID-19, markets looked ahead towards what a global economic recovery could represent for clients’ portfolios. Despite the focus on retenders, the increase in ESG engagement over the year has been positive. As the initial deadline of the CMA tender has now passed, we would expect the industry to continue to focus on ESG and the level of client engagement to increase further.

Key messages

- 1** Overall growth in the FM space was positive but has slowed since our last survey. Most of the activity was around the retender of mandates which in turn drove a reduction in fees for pension schemes.
- 2** The increase in Third Party Evaluators (“TPEs”) is evident for both selection exercises and ongoing oversight. This is a very positive step for better managing risk in pension schemes with fiduciary management.
- 3** Despite the market falls of Q1 2020, pension schemes’ funding levels improved, leading to increased liability hedging and a decrease in expected return.
- 4** ESG continues to be an ever-evolving area in the market and pension schemes’ engagement on ESG matters has significantly increased over the year, becoming more bespoke and embedded for schemes of all sizes.

[See more on page 4](#)

[See more on page 10](#)

[See more on page 11](#)

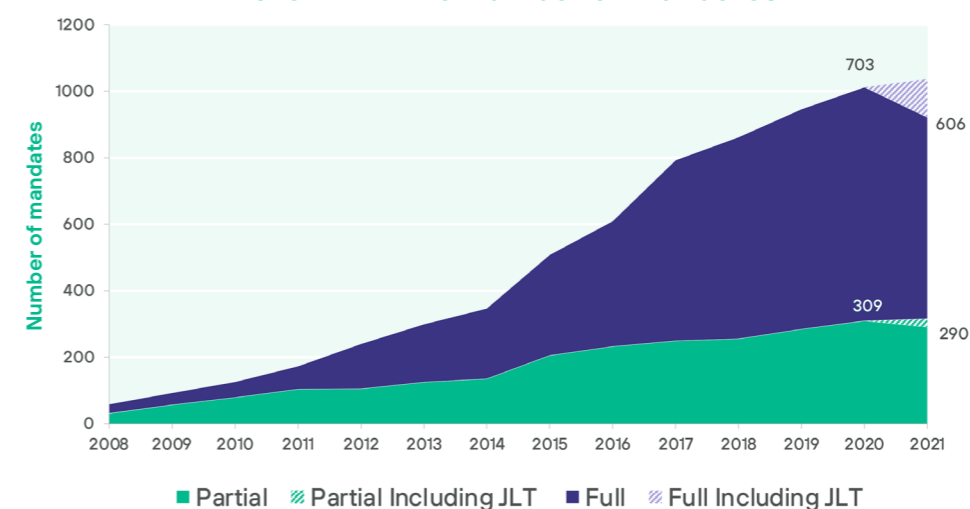
[See more on page 12](#)

Market Update

Growth slows. Will this continue?



Growth in the Number of Mandates



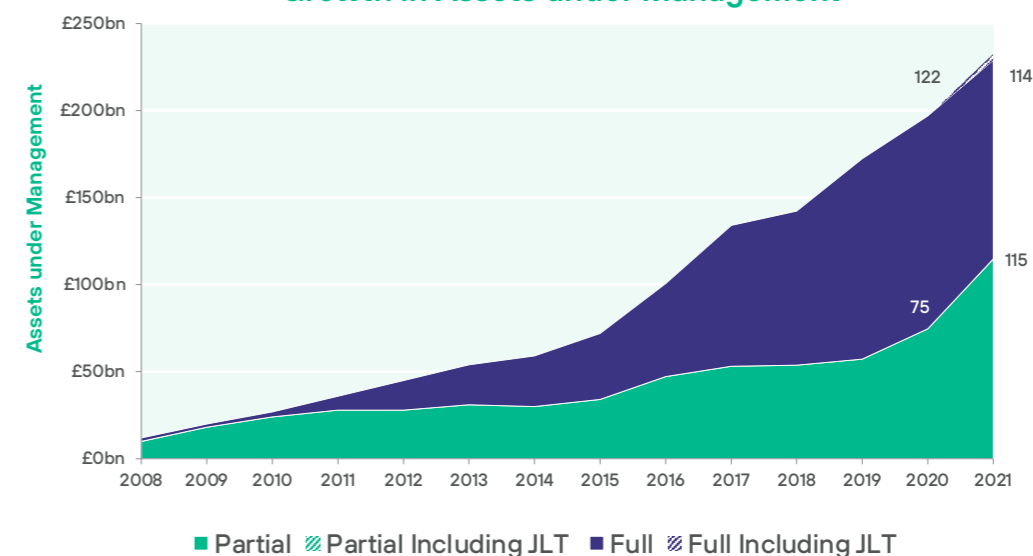
Growth marginally increased over the year as the market was dominated instead by CMA retender activity.

By its nature, retender activity has taken up significant time over the past year for both the fiduciary manager and third-party evaluator communities. The slow growth numbers might reflect the slower pace to implement mandates as the market has been dominated by retenders and the new tendering requirements. As the industry settles back to normal levels of activity next year, it will be interesting to see in our 2022 survey if growth continues at the pace previously seen.



One potential offsetting factor is the increase in Schemes undertaking insurance transactions such as buy-outs which would impact AUM and number of mandates. We expect the impact of this to increase in future reports.

Growth in Assets under Management



The assets under management ('AUM') have increased by 16% over the last year*. This was mostly driven by six large new partial mandates totalling c.£40bn. Overall there has been a slight decline in the growth in full mandates' AUM despite the expectation of an increase due to positive market conditions. This may have been counteracted by schemes targeting a lower return and therefore smaller growth in asset size.

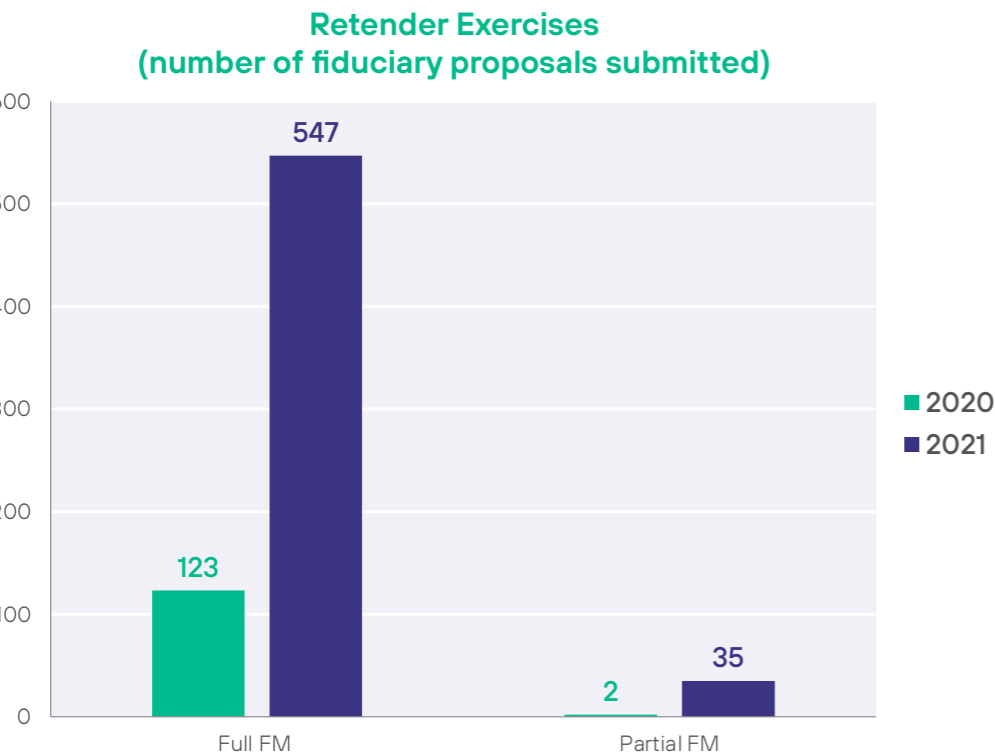
Investment Managers have seen higher growth rates relative to consultants, which continues the same trend seen last year. Growth of number of mandates for consultants was 1.6% vs 9.4% for Investment Managers.

Footnote: A number of mandates, that we had included in previous years, have been excluded, due to re-classification in 2021. These were mandates previously held with JLT, and then transferred to Mercer.

* % increase is calculated where 2020 and 2021 figures are inclusive and exclusive of JLT mandates respectively.

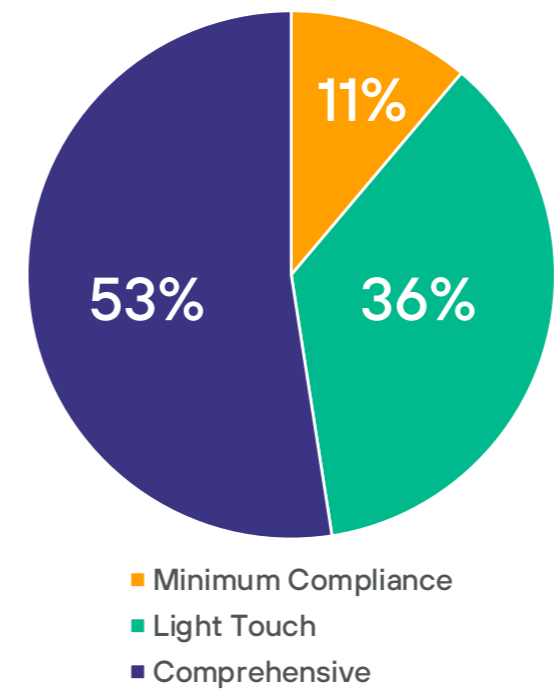
Retender Activity

Significant retendering, but minimum switching of providers



Following the CMA review in 2019, we expected to see an increased amount of retender activity. We have seen this come through in the data, as the activity in 2021 has been substantial.

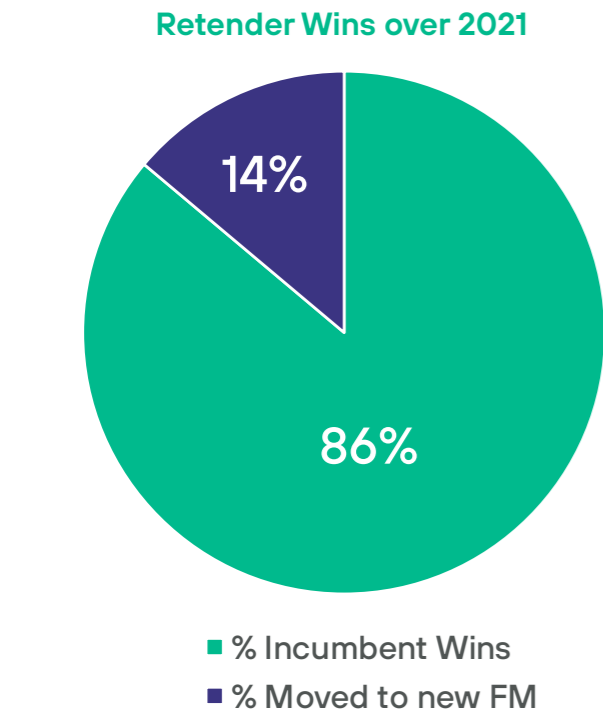
Types of Full FM Retenders over 2021



Despite the majority of schemes remaining with their original FM, most schemes decided to undertake a comprehensive retendering process. Only a small number of schemes took a minimum compliance approach in their retender. In our experience reasons for this varied between trustees who were happy with their current FM, and those where cost management was a priority.

What next?

The level of retendering will likely decrease as the deadline for schemes that appointed their FM more than 5 years ago without a competitive tender exercise has passed. Yet, the requirement for schemes to retender within 5 years of appointment will likely keep levels consistently higher than pre-2019.



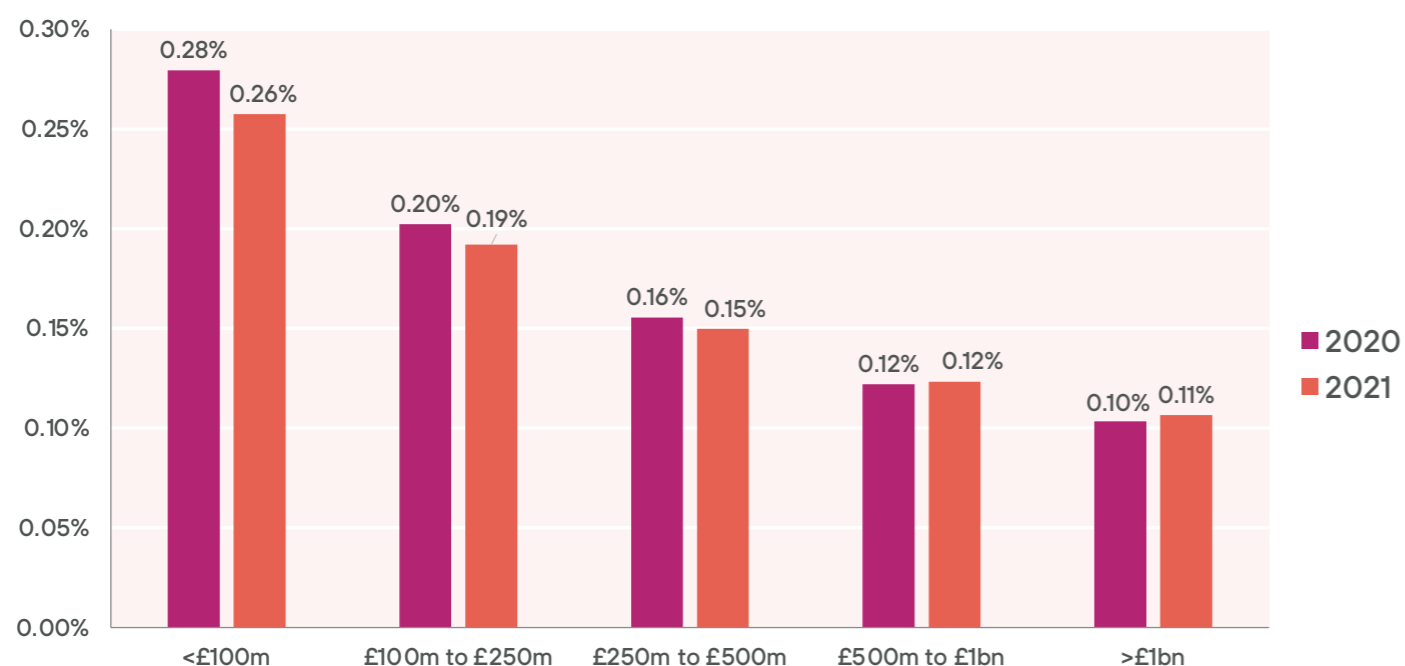
As expected, many trustees decided not to switch providers. More surprisingly, however, the number of schemes who switched decreased marginally in comparison to the retenders in 2020. This may be due to more comprehensive exercises in 2020 and a flurry of last-minute minimum compliance exercises in 2021. The 14% figure shown is inclusive of retenders that were still ongoing as at 30 June 2021. We would therefore expect this to be marginally lower after all exercises complete.

Regardless of whether a manager changed hands, our experience tells us that for those who stayed with their incumbent three areas were firmly on the table: improvements in service, relationships and fees.

Fees

A potential positive outcome of all the retendering: fees reduce across the board

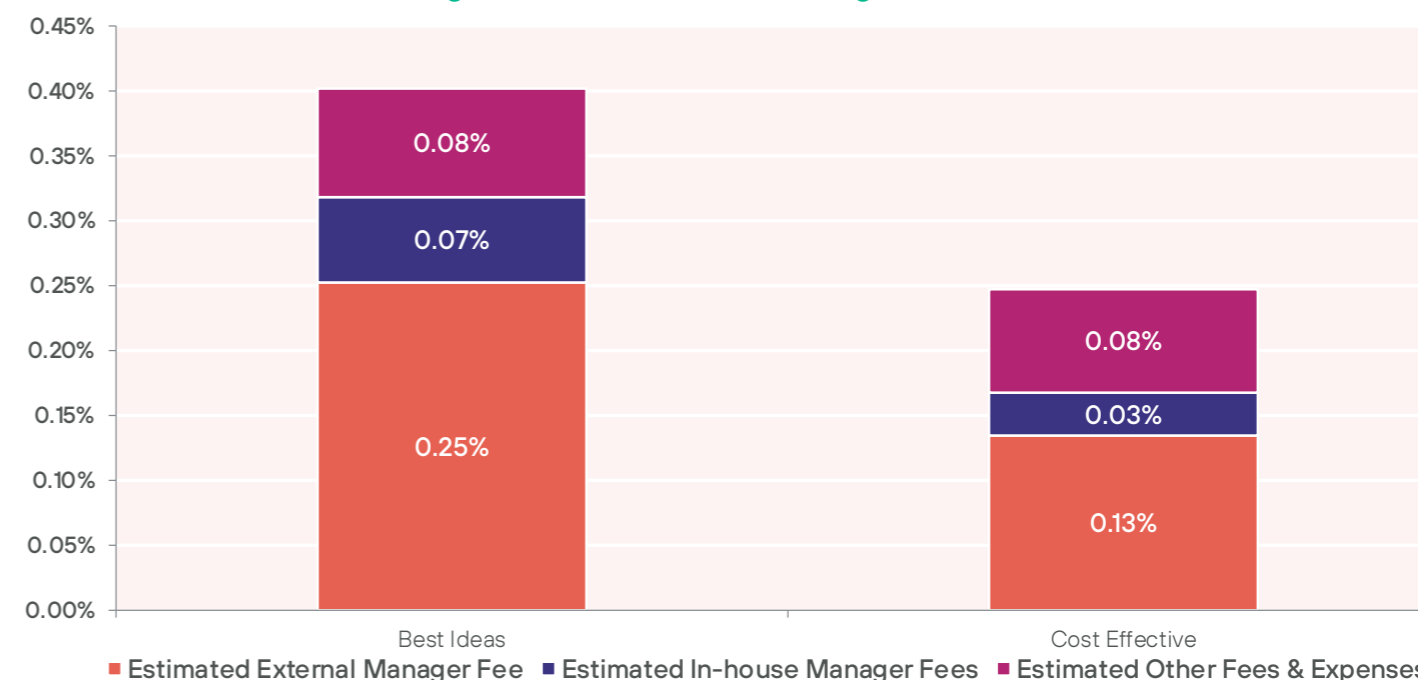
Average FM Fee by AUM



The data tells a clear story: there's a visible reduction in indicative FM fees from last year. This is largely driven by the high retender activity and possibly also influenced by a significant proportion run by TPEs (79%) vs independent trustees (10%) or lay trustees (11%).

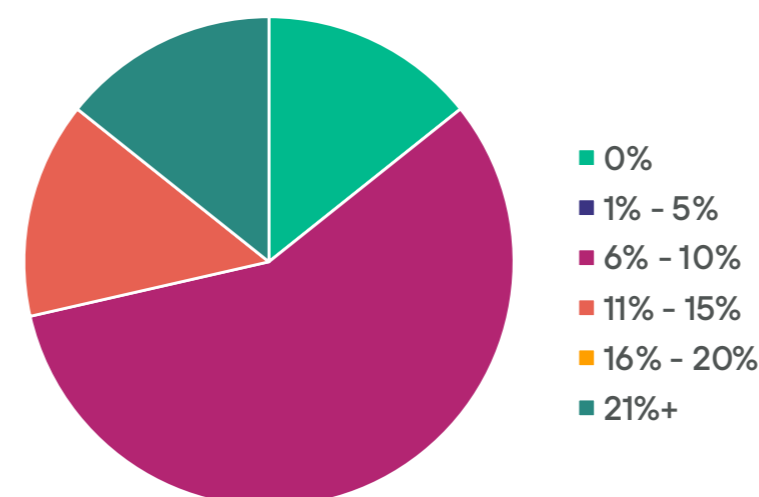
The majority of clients (apart from those with assets over £1bn) have seen their fees reduce. This has been especially prevalent in clients with assets less than £250m (the majority of schemes). For a scheme of £250m, our data suggests that fees have reduced by c.£25,000 p.a. over the last year – not an insignificant amount.

Average best ideas fees vs Average cost effective fees



Fiduciary managers have the flexibility to use a 'best ideas' or 'cost effective' portfolios. Our data shows the average fee for a 'best idea' type portfolio, based on a client with £500m of assets, has reduced from 0.44% to 0.40% per annum. 'Cost effective' portfolios, which already operate at lower fees, saw an average fee reduction of 0.01% to c.0.25% per annum.

Fee reduction for incumbent wins



A clear positive outcome of the retender activity was that trustees who maintained their incumbent manager had substantial fee reductions. One manager even said:

"They gave a 21% fee reduction on average"

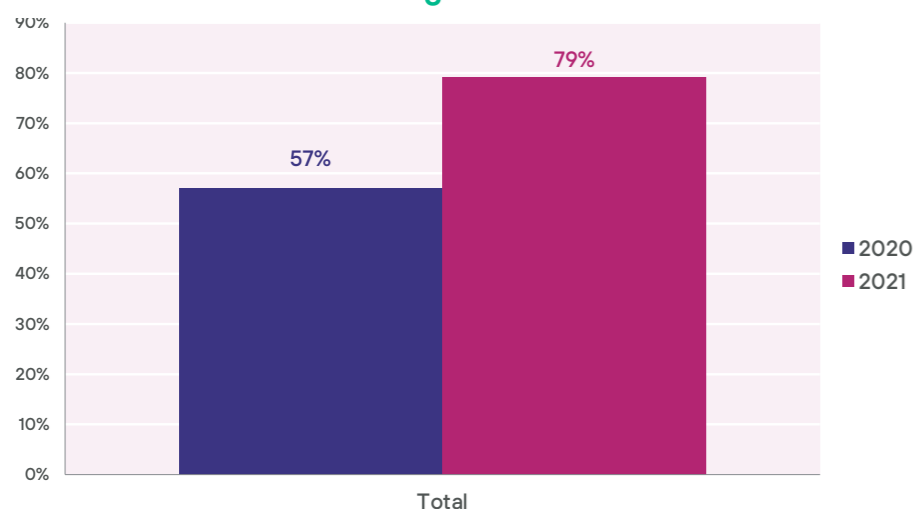
This is all a clear indication that retender exercises have been a valuable fee-reduction activity, regardless of whether a scheme remains with the incumbent.

Footnote: Average FM fee by AUM is based on an average of each FM's proposed fee for the best ideas and cost effective portfolio.

Third Party Evaluators

Third Party Evaluators facilitate increased engagement and help secure competitive fees

Used TPE During Selection Process



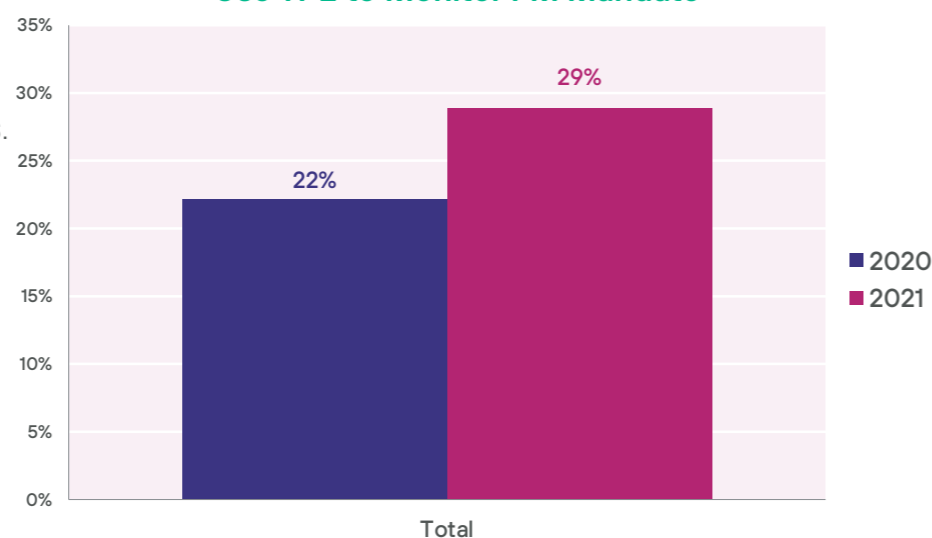
The use of Third-Party Evaluators ("TPEs") was another area of the market that experienced material change as a result of the CMA Order.

The proportion of schemes who used a TPE in FM selections and tenders increased from 57% to 79% over the past year. This indicates trustees are increasingly seeing value in appointing specialist independent advice, and we believe TPEs have been a key driver in helping to achieve fair (and often lower) FM fees.

29% of clients use a TPE to monitor their FM mandate, up from 22% last year. The increase applies to clients of all sizes, although the largest change in adoption of a TPE for the monitoring of FM mandates came from mandates under £100m. This increase could be driven by positive experience of TPEs during tenders.

With huge market volatility in 2020 due to COVID-19, trustees and sponsors were keen to make sure their fiduciary manager was still on track to meet their objectives, dynamically take advantage of opportunities and protect capital. The renewed focus on making sure managers were doing a good job could also have influenced the use of TPEs.

Use TPE to Monitor FM Mandate

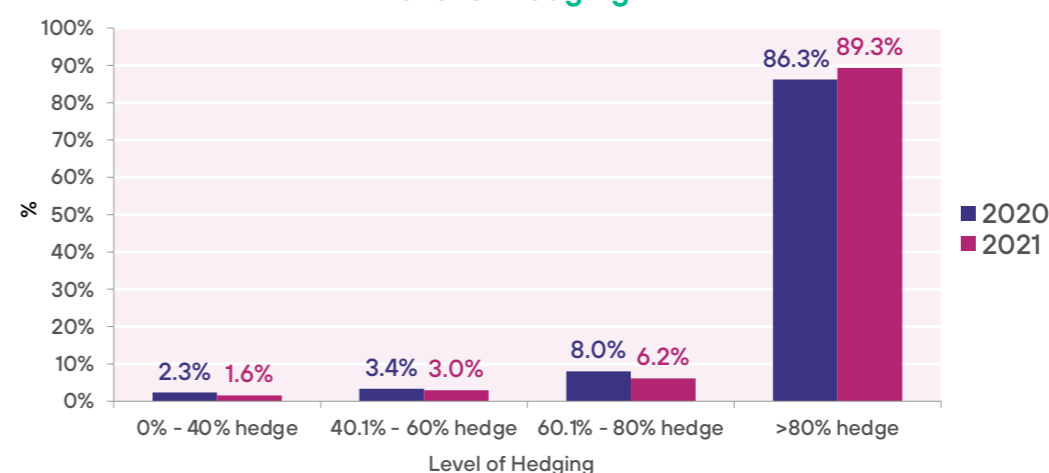


Asset Allocation

Trustees continue to focus on pension schemes' long term objectives

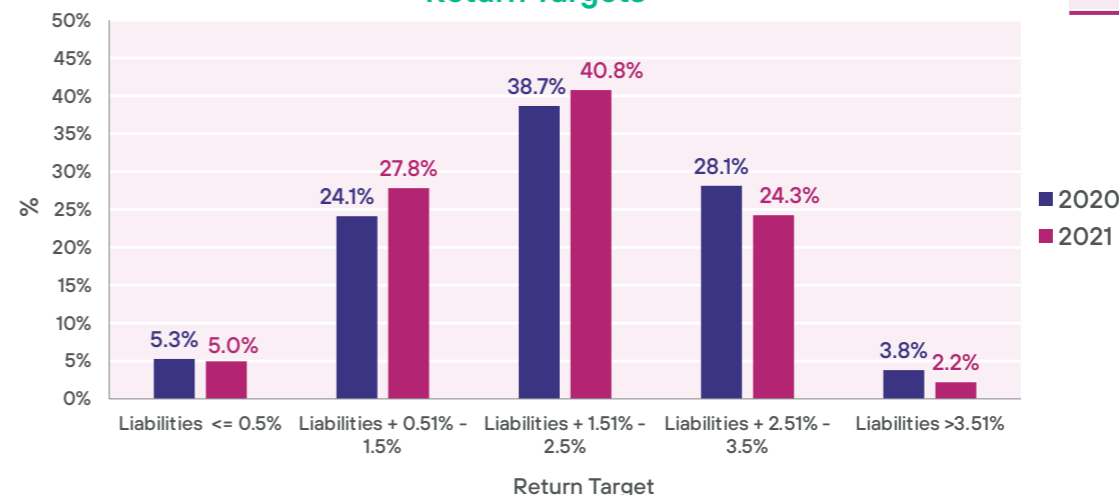
A positive correlation exists between reduced returns and increase in hedging. This is understandable as trustees have crystallised their gains over the period and taken risk off the table following funding level improvements. This all suggests the larger trend of trustees actively assessing long term objectives has continued.

Level of hedging

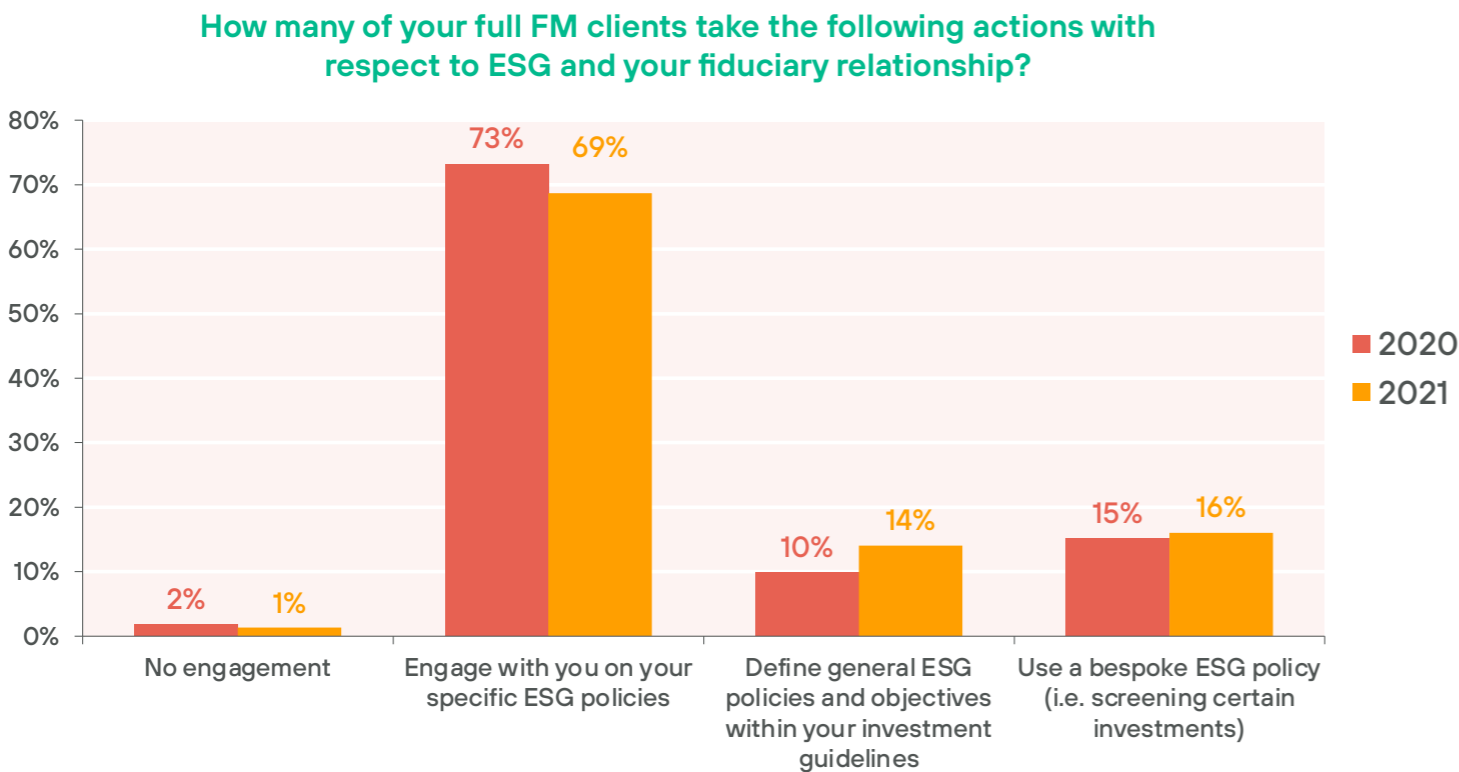


Positive performance of growth assets and favourable yield movements over the year have improved the majority of schemes' funding levels.

Return Targets



A continued increase in schemes adopting ESG policies



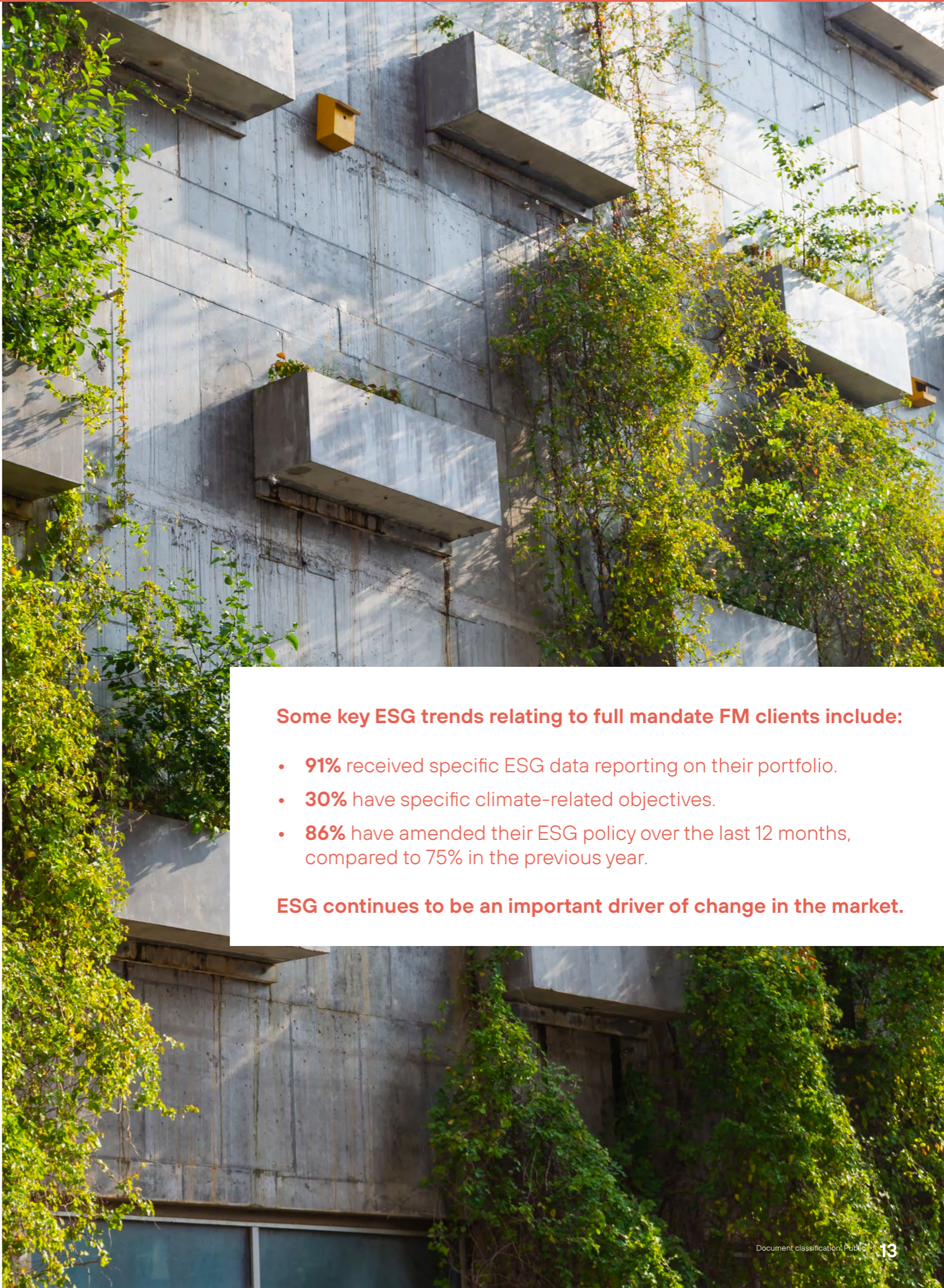
Two new ESG requirements came into force this year:

- 1. The Task Force on Climate-Related Financial Disclosures (“TCFD”) for Schemes over £1bn.
- 2. The production and publishing of Implementation Statements for most schemes.

As a result only 1% of FM clients did not engage on ESG and more clients defined general ESG policies and objectives relative to last year.

The increase in ESG trends in society and across regulatory bodies means ESG reporting has quickly become normal and expected by clients.

We hope to see a continued trend of schemes doing more than minimum compliance and only expect this to increase as more schemes will be required to meet TCFD requirements.



Some key ESG trends relating to full mandate FM clients include:

- **91%** received specific ESG data reporting on their portfolio.
- **30%** have specific climate-related objectives.
- **86%** have amended their ESG policy over the last 12 months, compared to 75% in the previous year.

ESG continues to be an important driver of change in the market.

Isio and fiduciary management advice



Fiduciary management expertise

We provide ongoing independent fiduciary oversight to clients ranging from less than £20 million in size to £4 billion.



Investment advisory expertise

Our traditional investment advisory practice advises the trustees and corporates of UK DB pension schemes and others, with assets under advice of over £50 billion.



Wider pensions resources

We can bring you experts in trustee board governance, insurance and risk transfer solutions, Defined Benefit and Defined Contribution services, or any other areas required in advising on how best to meet your scheme objectives.

What can we do for you?



Governance review



Ongoing monitoring and oversight



Onboarding and document review



Provider selection and retenders



Provider review



Ad hoc fund review and selection

Who took part in our survey?

The survey results are based on the responses from the following fiduciary managers, who operate in the in the UK Defined Benefit pensions market. The data was collected up-till 30 June 2021.

- Aon Hewitt
- BlackRock
- BMO
- Cambridge Associates
- Cardano
- Charles Stanley Asset Management
- Goldman Sachs Asset Management
- Kempen
- Legal & General
- Mercer
- River & Mercantile
- Russell Investments
- Schroders
- SEI
- State Street Global Advisors
- Willis Towers Watson

Thank you everyone for your input and time. We have relied on the information provided to us by the fiduciary managers as being correct.

Definitions used in this survey

Full delegation

The fiduciary manager is typically engaged under an investment management agreement to manage 100% of scheme assets. The services provided include all or the majority of the following: journey plan design, strategic and tactical asset allocation, growth and matching portfolio structuring, manager selection, implementation and administration, so that there is a combination of investment advice and investment management.

Partial delegation

Trustees delegate only a subset of the investment management to the provider. The subset may comprise a portion of the scheme assets or a portion of the “full fiduciary” responsibilities, for example, a proportion of the scheme’s growth assets. The subset must also be a subset of an alternative full fiduciary management service provided by the same firm.

Environmental, Social and Governance (‘ESG’):

Investing with an awareness of the wider risks associated with the impact of investments on society as a whole.

- Environmental: How an investee company performs as a steward of the natural environment.
- Social: How a company manages relationships with its employees, suppliers, customers and the communities in which it operates.
- Governance: Looking at a company’s leadership, executive pay, internal controls, external audits and shareholder rights.

Engagement is defined as the inclusion of an ESG item on a trustee or investment committee agenda which you have discussed in the year to 30 June 2021.

Retender classifications:

Minimum compliance – the tender process is undertaken purely to meet the minimum requirements of the CMA Order, i.e. best endeavours to receive three competitive tenders from fiduciary providers (including a fee quote). This would be the least detailed process of the three options.

Light touch – a more detailed tender process than minimum compliance which could involve more than three competitive tenders from fiduciary providers and looks at additional areas compared to the minimum compliance approach, e.g. their ESG capabilities and reporting provided by the managers. The responses provided will be more generic than the comprehensive approach and will not include a beauty parade with the shortlisted providers.

Comprehensive – is the most in-depth tender process and will include a detailed review of the shortlisted managers, including a proposed investment portfolio, journey planning advice for the Scheme and further client-specific questions. The fiduciary managers will likely have been invited to a face to face (including virtual) presentation in a comprehensive exercise.



Contact



Paula Champion
Head of Fiduciary Management Oversight
paula.champion@isio.com
+44 (0)117 3746 477



Anthony Webb
FIA, Head of Fiduciary Clients
anthony.webb@isio.com
+44 (0)207 123 6004



Daniel Walsh
Head of Fiduciary Research
daniel.walsh@isio.com
+44 (0)113 512 5643

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

Isio Services Limited is authorised and regulated by the Financial Conduct Authority FRN 922376