



# Fiduciary Management Oversight

What it is and how it can benefit your  
pension scheme

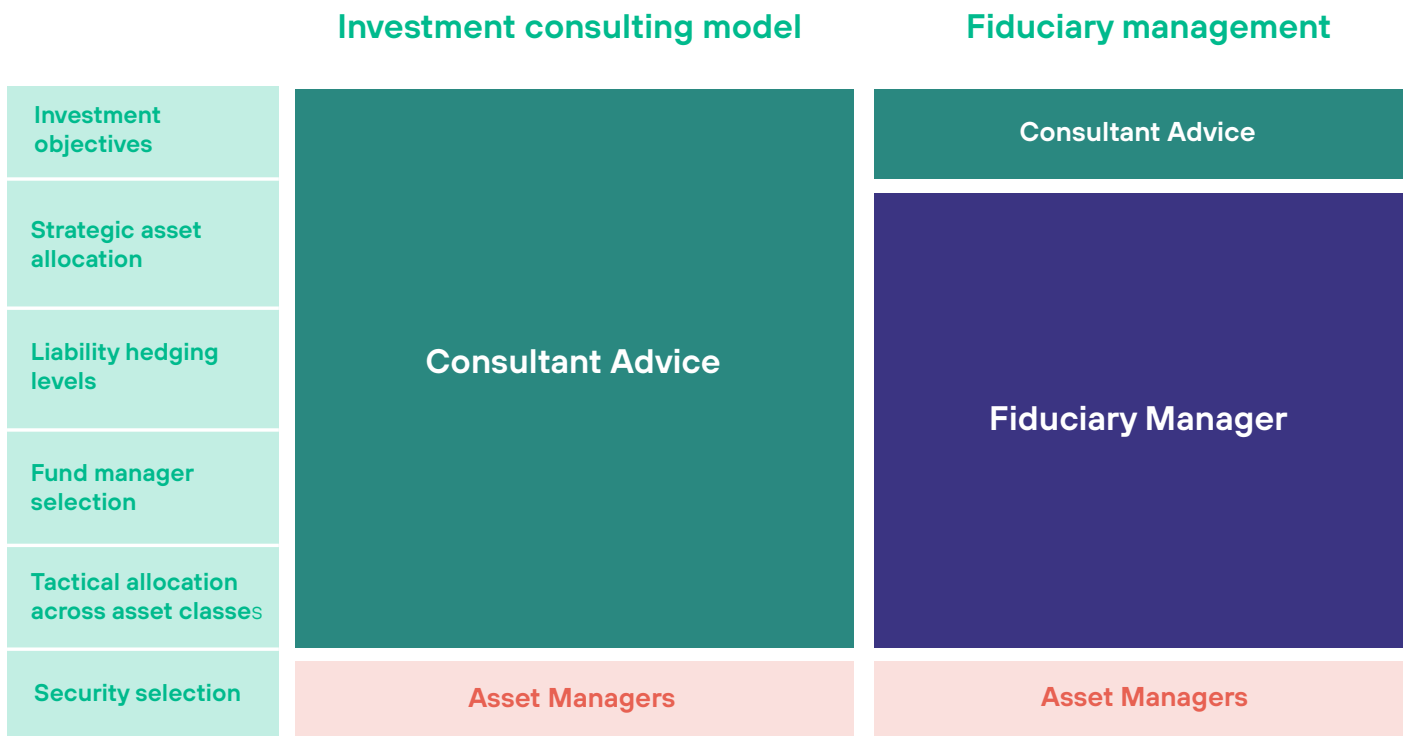


# 1 What is fiduciary management?

Fiduciary management (or “FM”) is a way of managing assets that includes both advice on how to invest, and also the implementation of that advice. This is an increasingly common way to manage assets for UK pension Trustees in particular.

Under a traditional consulting model, this advice comes from their investment consultant; whilst under an FM model, a number of the investment decisions are delegated to the fiduciary manager. Importantly, under both approaches, the Trustees will retain responsibility for setting the investment objectives.

The chart below compares a traditional investment consulting model versus that of a FM model.



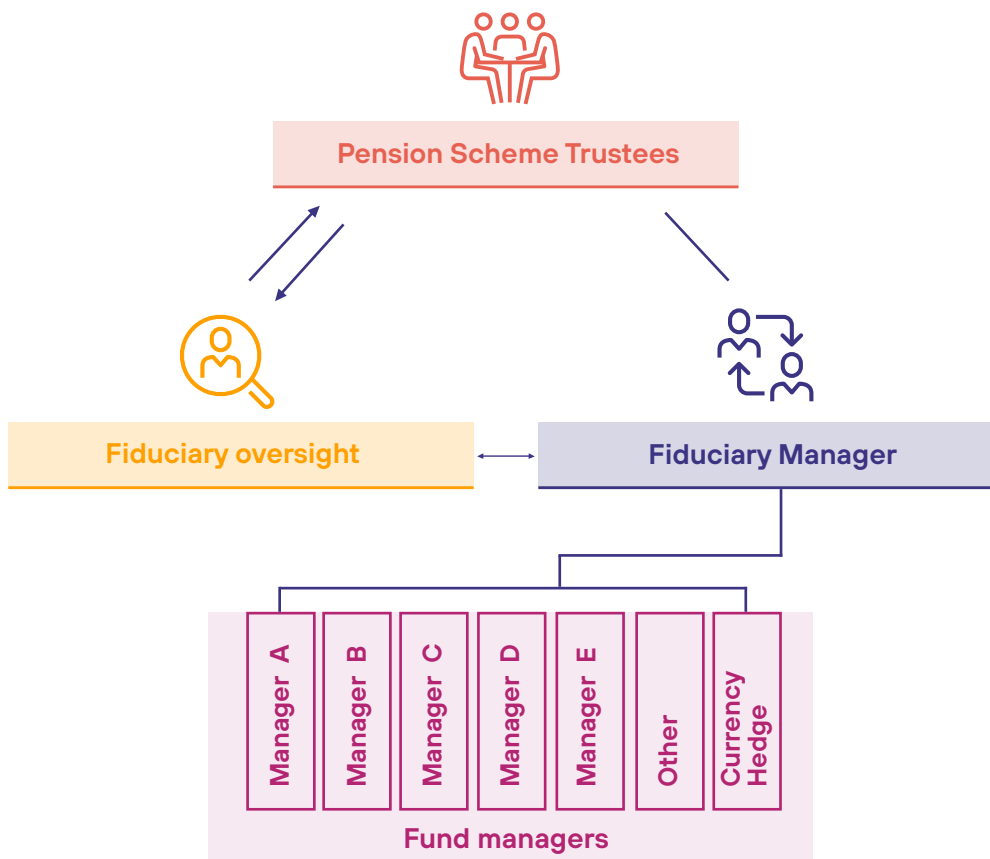
# 2 What is fiduciary management oversight?

Because fiduciary managers cannot independently assess how they are doing – and will often be using a complicated strategy with lots of different asset classes and funds – many pension schemes will appoint a fiduciary management oversight provider to help make that assessment.

A fiduciary oversight provider will periodically review the fiduciary manager to let the Trustees know: are they doing a good job and adding value? Could they be doing anything else? Are the fees and costs still competitive? Are there any risks that need to be addressed? (For a comprehensive list see the checklist on the next page).

A fiduciary oversight provider then helps you get the most out of your fiduciary manager, improving your outcomes (e.g. reducing risk, meeting your funding objectives, improved reporting).

## Fiduciary Management structure



# 3 How does it work?

The approach taken to fiduciary oversight should be flexible and aligned to the specific needs of the client.

We believe what works best is an annual review of how the manager has performed with more frequent light touch “check-ins” to make sure that everything is on track.



Here is an example fiduciary oversight checklist covering some of the areas that we think are important. If you use fiduciary management you may want to consider these questions for your pension scheme.



“At Isio we also supplement our monitoring with a formal rating (red, amber or green) of your fiduciary manager so you can have confidence that they have a “clean bill of health”. Our ratings are continually refreshed so if anything changes which could impact on their ability to deliver their service you will know straight away.” **Paula Champion, Head of FM Oversight, Isio**



“A fiduciary oversight provider should provide concise, easy-to-read reports. They should complement and not duplicate information you receive from your fiduciary manager.” **Daniel Walsh, Fiduciary Specialist, Isio**

|  | Yes / No / Investigate further   |
|--|--|
| 1. Am I on track to meet my journey plan objectives?                               | <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> |
| 2. Has recent performance been good?   | <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> |
| 3. Was performance the result of good judgement (or good luck)?                    | <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> |
| 4. Am I happy that those investment decisions that lost money were still sensible? | <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> |
| 5. Does this compare well with other fiduciary managers and schemes?               | <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> |
| 6. Is my Environmental, Social or Governance impact positive?                      | <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> |
| 7. Is my fiduciary manager highly rated?   | <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> |
| 8. Is my fiduciary fee in line with the market?                                    | <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> |
| 9. Are my overall investment costs low?  | <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> |
| 10. Can I disinvest my assets if I want to (or am I “locked in”)?                  | <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> |

We have also included some case studies within the appendix that give you some real-life examples.

# 4 What is the benefit?

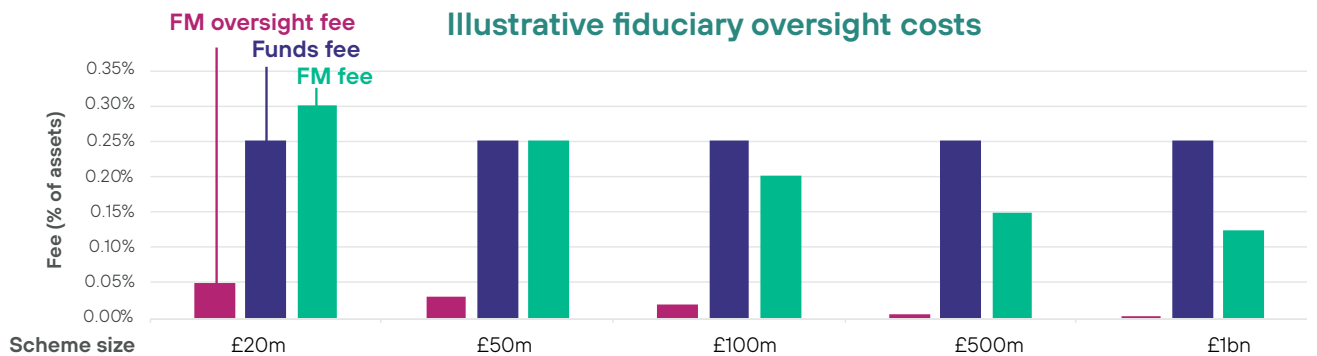
If done well fiduciary oversight will mean that you make improvements to your investments sooner, and achieve materially better outcomes as a result.

### This could be through:

- Helping keep your scheme on track to meet its long-term objectives, to ultimately secure member benefits.
- Fiduciary cost control, which can save tens of thousands or even hundreds of thousands of pounds per year depending on scheme size (see charts below).
- Dealing with any areas of underperformance, which could be costing your scheme millions of pounds per year.
- Finally, a clear understanding of your fiduciary manager's approach and confidence that they are doing the right things on behalf of your scheme.

# 5 How much does it cost?

Typical fiduciary oversight costs are relatively very low for schemes with more than £20m in assets. For schemes larger than £100m the oversight fee is typically less than 0.02% of assets per year.



| Scheme size                    | £20m   | £50m    | £100m   | £500m     | £1bn      |
|--------------------------------|--------|---------|---------|-----------|-----------|
| <b>FM oversight fee (£ pa)</b> | 10,000 | 15,000  | 20,000  | 30,000    | 35,000    |
| <b>(% of assets)</b>           | 0.05%  | 0.03%   | 0.02%   | 0.01%     | 0.004%    |
| <b>Funds fee (£ pa)</b>        | 50,000 | 125,000 | 250,000 | 1,250,000 | 2,500,000 |
| <b>(% of assets)</b>           | 0.25%  | 0.25%   | 0.25%   | 0.25%     | 0.25%     |
| <b>FM fee (£ pa)</b>           | 60,000 | 125,000 | 200,000 | 750,000   | 1,250,000 |
| <b>(% of assets)</b>           | 0.30%  | 0.25%   | 0.20%   | 0.15%     | 0.13%     |

Note: fees set out above are indicative based on our experience of what we have seen in the market and are not guaranteed. The scope of the fiduciary oversight services will typically differ between small and large schemes.

# 6

## Why Isio for FM oversight?



"We have been publishing the "FM Survey" for almost ten years now, covering the development of the fiduciary management industry. The latest copy is available online [here](#)  
**Faye Mullen, Head of FM Research, Isio**



"Would you like to speak to an independent investment expert to check that everything is working as well as it can with your fiduciary management strategy? If so we would love to hear from you."  
**Anthony Webb, Head of FM Clients, Isio**

1. At Isio we have been providing fiduciary oversight services for over 10 years and have one of the largest teams with the most research and client experience. That means we have hands on **practical experience** of some of the fiduciary management issues that can arise, and how to avoid them.
2. All of our oversight consultants are either **qualified to give investment advice** in their own right or are working towards this qualification. So we can really understand the nuts and bolts of what the fiduciary managers are doing.
3. Finally, at Isio we have a **large pensions team** on hand who we work with to make sure that everything is lining up properly: your assets, funding level and – ultimately – buyout with an insurer.



## Contact

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# Appendix



## Case Study 1 - adding value through ongoing oversight

For the last four years we have been providing fiduciary oversight for a £600m scheme.

At the start of our appointment we agreed the Trustee's priorities for their fiduciary manager. We then put in place quarterly light touch reports and annual reviews.

### How we added value:

- Based on our market view, achieved fiduciary manager **fee savings of £0.5m per annum**.
- Facilitated an **increase in the liability hedge level** for interest rates and inflation from 75% to 100% of assets. Helped **protect capital and funding levels** over the last two years.
- Worked with the fiduciary manager to **improve the clarity of reporting** to Trustees.

### Outcome:

Improved terms with clear objectives for success, and ongoing support from our team to ensure their fiduciary manager achieves it.

## Case study 2 – oversight for identifying errors and reducing risk

We provide light touch fiduciary oversight to a £60m pension scheme.

Our brief is to make sure that the fiduciary manager is doing what they said they would, and that decisions taken by the fiduciary are adding value. We provide a light touch (one page) quarterly review.

### What happened?

In Q1 2019, we identified the FM had invested in High Yield bonds, despite this asset class not being permitted by the client. This had not been identified by the fiduciary manager.

### Outcome:

We notified the fiduciary manager who accepted liability for any losses that would have resulted, (although in this event a small gain was made). Our post-mortem found that no-one with first-hand knowledge of the client was reviewing instructions to buy and sell assets. On the back of our feedback the FM have evolved their process to stop similar mistakes from occurring in future.