

# Fiduciary Management – the shift in power from seller to buyer?



Now more than ever really feels like fiduciary management is a buyer's market. There are a greater number of options available, evolving propositions, reducing fees and a lens on this market to encourage best practise. There is hope that better outcomes for pension scheme members will materialise.

In this article we offer a fresh perspective on the year ahead – we assess the opportunities and developments in the fiduciary management industry for 2021. With the Competitions and Markets Authority (CMA) Order retender deadline looming for some pension schemes, this year promises to help many Trustees ensure that they are getting the most out of their fiduciary provider. The fiduciary management industry is at the forefront of areas such as Environmental, Social and Governance (“ESG”), and the increasingly competitive market is putting pressure on transparency of fees and performance.



### Did you know?

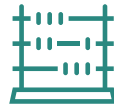
**19% of all UK DB pensions** now use some form of fiduciary management, with total assets under management approximately **£200bn**.



### Did you know?

Of the reenders that were completed between 30 June 2019 and 30 June 2020, **64% were retained** by the incumbent fiduciary manager.

## We outline five key considerations below offering expertise on our experience to date, questions to ask yourself and our predictions for the year ahead.



### 1. Retender activity

The CMA Order mandates pension schemes to undertake a competitive exercise when appointing a fiduciary manager, defined as receiving quotes from three independent parties. This also applies retrospectively meaning that many clients face a deadline of 6 June 2021 to retender their mandate if they didn't originally follow a competitive process; there is more time given to newer mandates beyond this initial deadline.

Do you agree that even a month into the year, we're already amidst a peak of activity ahead of June?

Isio has helped a lot of pension scheme clients with this exercise and overwhelmingly found that a positive outcome is achievable; whether that is in the form of a better understanding of their provider and the market, improved fee terms, better reporting or even simply refining their investment strategy. We have also seen cases of Trustees changing their fiduciary manager because they believe an alternative will do a better job!

#### Questions to ask yourself:

- What areas could be improved with my current provider?
- Have we sufficiently challenged our understanding of their performance drivers and benchmark?
- Do I know what options are available in the wider market and how this compares to my current provider? (Do you only know what you know?)

#### Our predictions

We anticipate that the first half of the year will be rife with activity for schemes who need to complete their retender by 6 June 2021 (this has certainly been true for January). With this, fiduciary managers will be more selective in their response and focus efforts on the opportunities they believe they have most chance of winning. Trustee boards that are engaging with a third-party evaluator to carry out the retender exercises are benefitting from their expertise, particularly in relation to market insight and their ability to challenge the providers. These exercises have also laid foundations to monitor fiduciary managers on specific metrics going forward, with many fiduciary providers welcoming third-party involvement to collaborate and drive the best outcomes for members.



## 2. Performance

We often get asked by our clients, "How has my fiduciary manager been performing compared to others?". Historically it has been difficult doing an 'apple with apples' comparison of fiduciary manager performance, particularly, when fiduciary managers tend to cherry pick the statistic that makes them look more favourable. However, the introduction of the Global Investment Performance Standards (GIPS) has made comparison quite straightforward. This allows us to compare both risk and return statistics calculated using a standard methodology.

### Questions to ask yourself:

- How does my fiduciary manager's performance compare with others?
- How has my manager been able to deliver strong risk adjusted returns?
- Is my fiduciary manager able to protect me when markets fall?
- Is the benchmark for my fiduciary manager appropriate?

### Our predictions

After a turbulent 2020 for financial markets, we are seeing more interest from trustee boards and sponsors in analysing fiduciary manager performance on an ongoing basis. As more and more Trustees become aware of GIPS, we expect a greater desire to use this to assess fiduciary manager performance during 2021. Third-party evaluators can help Trustees with carrying out this comparison. We believe this is quite important in bringing more accountability within the industry. Ultimately, this will allow Trustees to have more informed conversations, and act if things aren't going to plan, leading to better outcomes.



### Did you know?

After the significant drop in funding levels as a result of market volatility in Q1, **only 3 out of 12 fiduciary managers** we monitor have recovered the losses by 30th September 2020.



## 3. Fee transparency

Increasingly competitive fiduciary management fees are one of the big positives for pension schemes who either have a fiduciary manager or are looking to appoint one. We have witnessed a significant decline in fees over the last five years. However, where this industry has been found lacking is in transparency of fees and expenses.

Historically, fiduciary managers have struggled to provide a clear breakdown, particularly in relation to performance fees paid to the underlying investment managers and expenses. New regulations such as the Markets in Financial Instruments Directive (MiFID) and the CMA Order will certainly help improve the transparency but there are still two key issues:

- Are the fiduciary managers providing this information in a timely manner?
- Are Trustees able to understand and challenge the fiduciary manager on fee reporting and transparency?

### Questions to ask yourself:

- Is my fiduciary manager providing me with a total fee and expense breakdown at least annually?
- Are the actual fees and expenses in line with my expectations heading into a fiduciary arrangement?
- Am I getting value for money? This one needs to look beyond numbers
- How does my fee compare to the others in the market?

### Our predictions

We expect Trustees to put more pressure on fiduciary managers to provide clear and transparent fee reporting in a timely manner. This will especially be true for schemes that use independent monitoring of fiduciary managers. As this becomes more common, there will be a greater challenge where actual fees and expenses are much higher than expectations. This will inevitably lead to further pressure on the level of fees in the market.



### Did you know?

Average fiduciary management fee across fiduciary managers range from **0.28%** for schemes **under £100m** to **0.10%** for schemes **over £1bn**.



## 4. Environmental, Social and Governance (“ESG”)

The scale of assets managed by fiduciary managers (c.£200bn) has allowed them to invest in developing their ESG proposition, with some being at the forefront of ESG integration within the industry. That said, greenwashing is not unheard of, with some exaggerating their capabilities and implementing limited meaningful change in practice. Despite its challenges, fiduciary managers are certainly taking this matter seriously as this is the direction of travel.

In our last annual survey, we noted that 15% of schemes managed by fiduciary managers use a bespoke ESG policy, going beyond minimum compliance. The next challenge is how managers can implement a bespoke policy set by clients, with some perhaps being more flexible than others.

### Questions to ask yourself:

- Is my fiduciary manager incorporating ESG considerations within the overall investment strategy as well as selection of underlying investment managers?
- Am I getting the reporting to see if my ESG targets are being met? Is this reporting clear and easy to understand?
- Does my fiduciary manager have the flexibility to align their ESG considerations to the Trustee’s or Sponsor’s ESG beliefs?

### Our predictions

We expect three key areas where significant improvements will be made in 2021:

1. More schemes will adopt a bespoke ESG policy as the mindsets shift towards sustainability as a result of the pandemic
2. Fiduciary managers will continue to develop their proposition, particularly in relation to ESG specific products and reporting
3. Governance burden will increase for Trustees as they look to understand and verify implementation statements as well as the possibility of even more regulation in this space



### Did you know?

We also rate fiduciary managers on ESG. Of the 12 managers we rate, **4 managers** received the **green rating** for their ESG proposition during 2020. See Notes at the end for more details on our ESG rating.



## 5. Is my fiduciary manager helping me to get to my end point?

As many schemes are de-risking over time, there is a reallocation of emphasis in the portfolio and skillset demanded. Areas such as the hedging portfolio, cash flow management and evolving the portfolio in line with the target are becoming increasingly important. Trustees expectations of their fiduciary manager aren’t as focused on them creating clever or expensive things with their growth portfolio as their return requirements fall. It is important however to still ensure that your fiduciary manager is indeed doing a good job even if you are not asking them to deliver the same return as before.

### Question to ask yourself:

- Is the time spent discussing my growth portfolio proportionate to its allocation?
- Do I understand how my journey plan is evolving relative to my end target?
- Do I have confidence that my fiduciary manager is going to get me there?

### Our predictions

As part of the retender exercises completed to date, many Trustees wanted to evaluate the capabilities of fiduciary managers in helping to achieve an insurance transaction. There is currently a divergence in credential of how fiduciary managers can help clients with this, but we expect to see all doing more in this space, both in terms of experience but adding tools to support their proposition.

Conversations and oversight should also shift focus to reflect the scheme’s position i.e. looking more critically at their hedging mandate and making sure that portfolios are changing in line with your journey plan in a pragmatic way (i.e. how much complexity and cost is needed in a small growth allocation).



### Did you know?

85% of full fiduciary mandates have hedging levels over 80% of assets. **67%** of schemes have a return target of **liabilities + 2.5%** or less. These figures are as of 30 June 2020.

# Conclusion

Now more than ever really feels like fiduciary management is a buyer's market. This market has experienced many positive developments in recent years, and this is only set to continue. Whilst 6 June 2021 is a big date for many schemes, those who have entered fiduciary management more recently do have longer to retender. However, through this retender activity and mandated competitive exercises going forward we expect that best practise will prevail through this benchmarking.

We can help you to unpick some of these challenges, address your questions and use our experience to get to a better place for your scheme.

## Why Isio?

We are a market leading team of 13 individuals specialising in fiduciary management oversight and research. Our key market differentiators are:

**1 Fiduciary expertise** – we have extensive experience in this market since 2008 meaning that we have a deep knowledge of best practice and market standards to help you understand the market and assess your manager in this context








**2 Investment expertise** – all our team are investment consultants and are therefore well equipped to have more technical discussion and challenge to your provider

**3 Manager research** – we formally rate 12 managers in the market and invest a huge amount of time monitoring the managers. We know the managers inside-out to keep you up to date with developments and our views but also articulate how they compare to each other

### Notes

- All facts and figures referred to in this article are sourced from our Annual FM survey 2020 and internal Isio research. You can access our survey [here](#).
- We carry out a review of each fiduciary manager's ESG capabilities as part of our ratings process using a quantitative scorecard. Each manager is scored on five key areas which then leads to an overall ESG rating. Green is for managers that are strongest, Amber means there are some areas for development and Red means there are key concerns.

## Our services

-  Helping with fiduciary management selection/retender exercises
-  Ongoing monitoring
-  Performance reviews
-  Fiduciary management training
-  Governance assessment
-  Fee benchmarking exercises
-  Ad-hoc mandate reviews

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



**Faye Mullen**  
Head of Fiduciary  
Management Research  
+44 (0)113 5125 621  
faye.mullen@isio.com



**Aqib Merchant**  
Assistant Head of Fiduciary  
Management Research  
+44 (0)20 7123 6067  
aqib.merchant@isio.com