



Following success in the Dutch market, fiduciary management has taken various forms in the UK pensions industry. **Gill Wadsworth** investigates the all-in-one service

A ROSE BY ANY OTHER NAME

The financial services industry has been falling all over itself to aid trustees in their battle to keep up with pension fund governance. As regulation intensifies and complexities deepen, those responsible for overseeing occupational plans have been turning to their investment consultants and fund managers for greater support in every aspect of pension fund management.

Consequently, there has been a surge in firms offering to take on more responsibility for scheme governance, freeing up trustees to focus their limited resources on making high-end strategic decisions. However, while these services aim to alleviate pressures on trustees, the confusing array of labels and terms for the products on offer have started to muddy the water. As is often the case when providers herd together in one area of the market, desperation to stand out from the crowd has led to a whole host of new jargon and terminology.

Fiduciary management

The blanket term for outsourcing pension fund management to a third-party is 'fiduciary management'. Long in evidence in the Dutch pension fund market, this approach sees trustees hand control of the pension fund in its entirety to a single provider. Once the trustees have decided on their overall investment strategy, the fiduciary manager takes responsibility for the asset mix, benchmark selection, risk budgeting, manager hiring, firing and monitoring, and overall performance.

Paul Trickett, European head of investment consulting at Watson Wyatt, says: "Fiduciary management means the trustees give the manager a risk budget and tell them to build a strategy, set the structure and make all the decisions."

SEI is one of the few providers in the UK that labels itself a fiduciary manager. Originally starting out as a consultancy and then moving into the manager-of-managers space, SEI is a staunch supporter of full delegation to a single third party.

Patrick Disney, managing director at SEI, says: "We believe in full delegation, because if you are going to go down the outsourcing path, you might as well go the whole way. Trustees are trying to get away from a static and reactive decision-making process towards delegating to a firm that is dynamic and responsive."

Psolve is another player in this market – although it shuns the fiduciary management label, preferring the term 'total investment governance solution' (TIGS).

Robbie Bowker, senior consultant at Psolve, accepts that the various terms and labels make life difficult for trustees.

"Everybody is offering something slightly different and it is definitely confusing for trustees. People do get confused by the terminology, but we make clear our terms stating what we cover in our service," he says.

The TIGS offering, which has amassed £1.4bn in assets under management since its inception in 2003, sees Psolve own the fund manager contracts on behalf of the trustees. According to Bowker, this means hiring and firing decisions can be made quickly and efficiently.

“Under other models, if you want to replace a manager, there is usually a time lag. Whereas under the fiduciary model, we can get on and do it instantly,” he says.

Disney adds that, in that instance, fiduciary management offers cost efficiencies, improved transparency and diversification benefits, noting: “It’s neat because there is a single point of contact that is cost-efficient but trustees also get diversification and the comfort of a co-fiduciary who is responsible for asset manager selection.”

However, Rob Gardner, partner at consultancy Redington Partners, argues that the fiduciary management model is not without its flaws.

“Although trustees are solving a major governance problem, they are effectively reducing the number of checks and balances that are in place. How do you know that the one company is best in class in all areas of pension management?” he asks. “My concern with the model is that you may not be getting best of breed and you will have to make trade-offs.”

Solvency management

One of the pioneers of fiduciary management in the Dutch market is Cardano, which set up shop in the UK in 2007 and has since attracted several multi-billion-pound pension funds on board. However, like Psolve, the firm avoids the term fiduciary manager instead opting for ‘solvency management’.

Richard Dowell, head of client management for Cardano, says: “We recognise that there is confusion out there. We call our model solvency management, which we think is a clearer term than fiduciary management.”

Dowell says Cardano asks clients to work out what they want to achieve and in what timeframe. Once it has that information, Cardano takes control of the daily management of the scheme’s solvency position, deciding on asset managers and asset allocation.

“We allow trustees to focus on the big picture and we act as the day-to-day team managing their assets relative to the liabilities. Trustees need to spend their time on the issues that have the greatest impact on their solvency positions,” he says.

Dowell argues that the solvency management model proffers clear lines of accountability because providers have one clear goal: improve the scheme’s funding position.

He says: “The solvency management model tracks the solvency on an ongoing basis so that you can see how well the scheme is doing. If the funding level is improved you know we are doing a good job; if it hasn’t then we’re not.”

Total implemented consulting

The investment consulting community is also responding to increased demand for governance support by carving out its own niche in the fiduciary management market. SEI’s Disney refers to these offerings – usually labelled ‘implemented’ or ‘delegated consulting’ – as a halfway house for schemes unwilling or unable to delegate the full management of their scheme to a third party.

“Implemented consulting is a fiduciary

“Trustees are trying to get away from a static and reactive decision-making process towards delegating to a firm that is dynamic and responsive”

management halfway house. Rather than the consultant advising clients on a shortlist of managers, they recommend one manager who then still contracts with the trustees and they remain responsible for replacing them when appropriate,” he says.

Watson Wyatt’s contribution to the market, which Trickett refers to as ‘enhanced investment solutions’, takes responsibility for manager selection and long-term portfolio strategy, but not day-to-day decisions.

Trickett says: “We would definitely take decisions about strategic asset allocation, but we wouldn’t be making short-term changes to asset allocation. The trustees don’t lose that responsibility, but we become a very close part of the team involved in building the management structure and the asset structure for the client. Trustees do not appoint us as an asset manager, we’re still an adviser.”

Mercer calls its service implemented consulting, although it says it attempts to avoid labels, preferring instead to lay out the ways in which it can support trustees.

Michael Kinney, European head of implemented consulting services at Mercer, says: “We use implemented consulting, but rather than worry about labels I tend to talk about what we actually do. There are lots of delegated consulting, solvency management and advisory services out there and they are all variations on the same thing.”

He adds: “The question clients need to ask is which aspects of pension management they want to delegate to someone else, and then find the providers with the intellectual capital to help them address these issues.”

Some players in the market argue that the implemented or delegated consulting services are the main culprits for causing confusion in the fiduciary management space.

Psolve’s Bowker says: “I prefer to call implemented consulting ‘direct advice’ because it’s not really implemented. The clients own the relationship with the fund manager and this is why clients are getting confused; they thought they were getting rid of the problem and all of a sudden they are being asked to retain the relationship with the fund manager.”

Cardano’s Dowell also questions the extent to which implemented consulting can claim to be in the fiduciary management camp.

“Ultimately it’s still an advisory role. What they are removing is the ability to do all the due diligence on the manager, but they still require the trustees to sign the contract and take all the responsibility for each decision. In that regard I would argue that it isn’t a fiduciary model,” Dowell says.

While it is understandable that providers want to separate themselves from the competition, their desire to be different has led to bewilderment among the very people they are trying to help. However, the nuances between each service mean it is pretty much impossible to apply one term for the entire market and as such, trustees who are looking to outsource some or all of their pension fund governance to a third party will have to do their homework before making a choice.

Gill Wadsworth is a freelance journalist