

FTfm

## Outsourcing cut costs for a small defined benefit scheme

### Case study

HABITAT UK

Amid all the arguments over the likelihood of fiduciary management proving itself to be a viable model for pension funds, there is a greater acceptance of its worth for the smaller pension fund. This appears to be borne out by the experience of the £28m (\$45m) defined benefit pension scheme of Habitat UK, which appointed SEI as its fiduciary manager in 2009.

The fund, which has about 700 members and is closed to new joiners and future accruals, reports a reduction in costs and an improvement in its funding level over the period.

Malcolm Curzon, chairman of trustees at the Habitat UK Pension Scheme, explains the frustration with the traditional model of hiring an adviser to help appoint a range of fund managers that led to the appointment of SEI.

"Our investment consultant at that time advised the trustees on the fund managers appointed for the five different asset classes used. Each appointment was a time-consuming and costly exercise taking about six months to implement.

"We were charged for the review of possible managers, charged for the beauty parade itself, incurred due diligence, legal and transmission costs and were never quite sure if we were making the right decision.

"As others have pointed out, managers are often appointed at a peak in their performance, meaning their subsequent performance dips and so the cycle of reviews and new manager appointments continues.

'Outsourcing to a fiduciary manager was the answer we were looking for'

**Malcolm Curzon, Habitat UK Pension Scheme**

"We wanted a more cost-effective and responsive investment approach."

Mr Curzon says under the new model "the trustees still set the investment strategy and have the final say on investment matters, while SEI is responsible for providing advice on strategy, implementing the asset allocation and hiring and firing fund managers. We also worked with

SEI on turning an overall investment strategy, expressed in terms of objectives and risk levels, into an asset allocation framework."

He says the scheme now pays around 25 per cent less in fees, is invested in a much greater range of specialist funds than it could have afforded previously, and reporting is not only simplified but is now provided regularly on an online platform.

"This leaves the trustees more time to focus on strategic issues and able to take a more holistic approach to assets and liabilities. By matching assets and liabilities more closely, we have seen our funding level rise to around 85 per cent, despite difficult market conditions in the past two years."

Mr Curzon has talked to others about the concept of fiduciary management. "A common reaction from schemes is to say they think it is a good idea, but their trustee board is not ready for it yet."

He advises them "to think about the areas the trustee board can really add value and then assess the best governance structure for achieving this focus. For us, outsourcing to a fiduciary manager was the answer we were looking for."

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