With traditional approaches seemingly unable to address the current issues faced in Middle Eastern pension schemes, endowments & foundations and end of service benefit schemes, many sponsors are looking further afield for a more sophisticated solution to meet their needs. The governance structures of many of these schemes seem to be historical accidents and the very framework around existing decision making processes is being called into question more than ever before.

The Investment Problem
The barren economic landscape and low interest rates caused by the ongoing global financial crisis have prohibited ‘automatic’ growth in many regional schemes. In some locations the problem is compounded by increased benefit terms brought about by the Arab Spring. As a consequence, many schemes are faced with a considerable mismatch between their assets and liabilities, i.e. the future payouts of the scheme. In essence, a considerable number of pension schemes, endowments & foundations and End of Service Benefit schemes in the Middle East are witnessing funding gaps on an unprecedented scale. There is no easy cure for these problems. Sponsors who have the means can inject more funding into the scheme or they can invest more aggressively in the hope of obtaining higher returns. These remedies would however only be treating the symptoms of the problem and not the underlying causes.

A more shrewd approach may be to look to a solution that addresses the root of the problems and the long-term needs of the schemes.

As a comprehensive and flexible model, Fiduciary Management has the potential to assist in overcoming these challenges.

Introducing Fiduciary Management
Fiduciary Management is an integrated approach to managing assets against liabilities with the goal of achieving 100% funding. It is not a new concept and was pioneered in the Netherlands earlier this century, where it now accounts for 82% of Dutch pension fund assets under management.

It is also gaining traction in the UK due to the re-emergence of pension deficits, prevailing market volatility and the inability of pension governance structures keep up with the demands of the schemes. The Pension Protection Fund (PPF) in the UK showed a record shortfall of £265 billion in its member schemes in January 2012.

“The growing complexity of financial markets, increasing volatility, and the diversity of the investment universe is a key challenge to trustees today”
- National Association of Pension Funds (NAPF), October 2010

Historically, investment strategies in the UK have been reviewed intermittently and scheme valuations only reviewed every three years. This structure is ill at ease in the context of today’s challenges and has led to a greater focus on governance and control. The result has been the emergence of independent Trustees, the formation of investment committees, a focus on liability driven investing and the rise of Fiduciary Management.

The Benefits of Fiduciary Management
By using a Fiduciary Manager, sponsors can delegate the day-to-day management of their scheme freeing up more time to focus on strategic issues. This can provide sponsors with greater control by creating clear lines of accountability and the ability to be nimble in making decisions that may impact the funding level and help sponsors to achieve their objectives. The degree of delegation can be flexible according to the specific governance gaps within the scheme and the level of comfort amongst the sponsors.

A Fiduciary Management approach offers:

› Simplicity - A single point of contact system allows for a more simple and timely flow of information
› Accountability – A single partner responsible for helping to manage the funding level
› Pro-activity - Because a Fiduciary Manager is accountable for decisions about managers and asset allocation, decisions do not have to be delayed by the scheduling of sponsor meetings and long manager searches

1Spence Johnson Fiduciary Management Market Insight, Market Metrics, March 2011
2Professional Pensions, February 2012
Efficiency – Fiduciary Management can provide for a cost-efficient implementation and a clear pricing model where fees are tied to results, not activity. It is also time-efficient because the Fiduciary Manager can have discretion for manager decisions and asset allocation, sponsors are able to increase their focus on more strategic issues.

This all-encompassing approach can lead to sponsors being in a better position to meet their funding objectives.

Conclusion

Pension funds, endowments & foundations and End of Service Benefit schemes in the Middle East are faced with extraordinary challenges that need to be tackled at source. Finding a solution that addresses the immediate and long-term needs of the schemes is of paramount importance. With conventional approaches seemingly unable to cope with these new challenges, now could be the right time to evaluate a different and more sophisticated approach. There are a number of providers offering a range of potential solutions to meet these challenges. However, the holistic and flexible nature of Fiduciary Management may provide a distinct competitive advantage over other approaches that makes it worthy of consideration.

Contact

For more information about how your scheme could benefit from a Fiduciary Management approach please contact Jahangir Aka by email at jaka@seic.com or telephone 00 9714 401 9720.

IMPORTANT INFORMATION

This information is issued by SEI Investments (Europe) Limited (“SIEL”), 4th Floor, Time & Life Building, 1 Bruton Street, London W1J 6TL United Kingdom +44 (0)20 7518 8950. This document and its contents are directed only at persons who have been categorised by SIEL as a Professional Client, or an Eligible Counterparty, for the purposes of the FSA New Conduct of Business Sourcebook. SIEL is authorised and regulated by the Financial Services Authority. This information is distributed by SEI Investments (Middle East) which is a Dubai International Financial Centre trade name of SEI Investments (Europe) Ltd which is regulated by the Dubai Financial Services Authority as a Representative Office.

This material is not directed to any persons where (by reason of that person’s nationality, residence or otherwise) the publication or availability of this material is prohibited. Persons in respect of whom such prohibitions apply must not rely on this information in any respect whatsoever. No offer of any security is made hereby.

Whilst considerable care has been taken to ensure the information contained within is accurate and up-to-date, no warranty is given as to the accuracy or completeness of any information and no liability is accepted for any errors or omissions in such information or any action taken on the basis of this information.

SIEL is the distributor of the SEI Funds which are authorised in Ireland pursuant to the UCITS regulations and also serves as an investment manager and/or fiduciary manager for clients who invest all or a portion of their assets in such Funds. SIEL provides the distribution and placing agency services to the Funds by appointment from its associate, the manager of the Funds, namely SEI Investments Global, Limited, a company incorporated in Ireland (“Manager”). The Manager has in turn appointed another associate, as investment adviser to the Funds, namely SEI Investments Management Corporation (“SIMC”), a US corporation organised under the laws of Delaware and overseen by the US federal securities regulator. SIMC provides investment management and advisory services to the Funds.

Any reference in this document to any SEI Funds should not be construed as a recommendation to buy or sell these securities or to engage in any related investment management services.

Recipients of this information who intend to apply for shares in any SEI Fund are reminded that any such application must be made solely on the basis of the information contained in the Prospectus (which includes a schedule of fees and charges and maximum commission available). Commissions and incentives may be paid and if so, would be included in the overall costs. A copy of the Prospectus can be obtained by contacting your Financial Advisor, SEI Relationship Manager or by using the contact details shown below.

Past performance is not a guarantee of future performance. Investments in SEI Funds are generally medium to long term investments. The value of an investment and any income from it can go down as well as up. Fluctuations or movements in exchange rates may cause the value of underlying internal investments to go up or down. Investors may not get back the original amount invested. SEI Funds may use derivative instruments which may be used for hedging purposes and/ or investment purposes. This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events.