

**Mark Hodgkinson** and **Anne Kershaw** of Muse Advisory share their thoughts on the Fiduciary Management market.

## Navigating new waters: an insight into Fiduciary Management

With fiduciary management set to be one of the big pensions issues for trustees over the next few years should we be concerned that, in a recent industry survey, fewer than half of trustees questioned felt they understood what it actually offers them? Other research, carried out by Muse Advisory, reveals that even in the fiduciary management marketplace there is little commonality to be found. There are as many different definitions of the services available as providers offering the service. So how should trustees struggling with their investment agenda assess whether fiduciary management offers a serious opportunity to enhance their scheme's investment governance processes?

Some fiduciary management providers want to do everything from advising on your investment strategy to hiring and firing individual investment managers. Other providers would rather leave the strategy to investment consultants and concentrate on implementing the agreed investment brief. Some fiduciary managers have evolved within long established investment consulting businesses whilst others are an extension of services offered by well known investment managers. There are also entirely new players, perhaps with a background of in house pension fund management. Some fiduciary managers will utilise, to some degree at least, their own in-house pooled funds whilst others avoid this (and the consequent potential conflict of interest).

### Time to delegate?

Trustee boards who are considering the options open to them for outsourcing their investment responsibility will find that taking the time to make an honest assessment of their strengths and weaknesses is a sound place to start (and that is not always an easy process). Trustees should be open to using independent, experienced consultants who can help them challenge accepted wisdom and long established ways of working. When the self-assessment is complete, some trustee boards may correctly conclude that they are up to the challenge of managing their investment responsibilities and hence

would likely rule out the idea of delegating any decision taking to third parties. Others may decide that changes need to be made. Those changes may or may not include delegation of some or most aspects of investment decision taking to a fiduciary manager. Either way, for those who conclude that their governance is lacking in any significant way, whether that be in market knowledge, relevant skills or just time and support, then the key challenge is to address such shortcomings without delay. If a decision to delegate is made, the next step is to identify exactly what you are prepared to delegate. Do you want to hand over your entire fund? Or might you prefer, initially at least, to award just a slice of the assets to a fiduciary manager to enable a real comparison with existing arrangements to be made over time? Which fiduciary manager is most likely to meet your fund's particular requirements and hence be most effective in helping you enhance your investment arrangements?

### New challenges

With the UK fiduciary management market still in its infancy and with so much variety in the market place, it is vital that a suitably rigorous assessment and selection process is adopted to identify which providers and products are right for your fund. But the challenge to trustees does not end there. The transition to the new way of working needs careful management to ensure the

new appointment is working successfully for all parties. And, once the fiduciary manager is 'bedded in', trustees face a new governance challenge to ensure they are geared up to monitor what their fiduciary manager is doing on their behalf. Fiduciary management may help trustees use their limited time more effectively but it does not diminish their ultimate responsibility for sound investment governance. The investment arena is complex and the right procedures need to be in place to deliver clear reporting that trustees can understand, evaluate and act on.

## Effective investment governance is essential for long term success.

Like many developments of the last decade, such as LDI or the buy-out market, trustees should not ignore the developing fiduciary management market. By doing so they may unwittingly be failing to act in the best interests of the pension scheme and its beneficiaries. Whether trustees choose to remain with a traditional approach or adopt some level of outsourcing, effective investment governance will remain an essential component of long term success.

Call it fiduciary management, implemented consulting or anything else, Muse Advisory would like to help you discover whether delegation of investment decision taking could be your route to improved investment governance.

For independent, experienced support, up to the moment market knowledge and some top tips on this rapidly developing issue, call 0845 6800 340 and speak to Mark ([mark@museadvisory.com](mailto:mark@museadvisory.com)) or Anne ([anne@museadvisory.com](mailto:anne@museadvisory.com)).

