Summary

• Recent months have seen stirrings of activity in the UK fiduciary management market with attention focused on the acquisition by Kempen Capital Management of fellow Dutch group MN's UK business.
• Most UK funds opting for fiduciary management are small, typically with total assets of less than £1 billion.
• A KPMG report showed a 47 per cent year-on-year increase in fiduciary management last year and a 23 per cent rise in total assets under management from 2013 to £72 billion.
• The new era of 'pension freedom' launched by Chancellor George Osborne in the 2014 Budget promises to extend fiduciary management from defined benefit schemes to defined contribution schemes.

A market on the move

Recent entrances and exits by key players pose the question of where the UK's fiduciary management market is headed. Graham Buck asks whether it is ready to take on both larger pension funds and DC schemes

It's still early days for the UK fiduciary management market, which started gaining traction five years ago. Nevertheless recent months have seen stirrings of activity, with attention focused on the acquisition by Kempen Capital Management (KCM) of fellow Dutch group MN's UK business. The deal, announced in July, is set to complete in early September.

MN UK's pension fund clients have nearly €11 billion in assets, with more than a third representing full-service fiduciary management mandates. KCM's chief executive, Paul Gerla, confirmed that the group aims to make its mark in the UK's growing market, having thrived in the Netherlands despite strong competition.

Given this expansion – with both trustees and the great British public more receptive to the fiduciary management concept – some might regard the MN UK sale as bad timing. However, EY advisory and actuarial services division partner Iain Brown suggests the Dutch parent possibly has different aspirations.

"It all boils down to the fundamentals – the market is certainly growing, but possibly not quickly enough for some," he suggests. Other considerations may have been that to date most UK funds opting for fiduciary management are small – typically with total assets of less than £1 billion – or simply that MN got a good price.

Brown adds that EY monitors fiduciary managers and until recently monitoring activity was noticeably busier than selection activity, but this has changed in the past year as selection has picked up.

Market participants are also waiting to see whether Russell Investment Management announces a change of ownership. The London Stock Exchange (LSE) group, its parent following a £1.6 billion acquisition in June 2014, bought Russell principally for its equity indices.

The subsequent announcement last February that LSE planned to dispose of the asset management business was widely anticipated; although how close the group is to finding a suitable buyer isn't known. Once the name has been revealed it could create "quite a flurry", Aon Hewitt European head of distribution Sion Cole says.

Activity outpaces players

"Although we're seeing an increase in UK activity, it's not being accompanied by a commensurate increase in fiduciary management providers within the market here," Mercer's head of UK fiduciary management Ben Gunnee comments. "Only a fairly limited number of firms have the resources to be a good fiduciary manager and meet the requirements of UK pension schemes." These include the ability to offer strong consulting skills and develop appropriate strategies for clients, select investment management solutions and add value to portfolios.

The 'Big Three' investment consultants and fiduciary specialists, collectively with a sizeable chunk of the UK market, are Mercer, Towers Watson and Aon Hewitt, with smaller shares taken by MN, Cardano, SEI and P-Solve.

JLT Employee Benefits, launched three years ago, has focused particularly on managing funds with assets under £300 million. JLT reported in July that it now manages over £3 billion on behalf of

150 clients after more than doubling in size during 2014 and expects the figure to top £4 billion by year-end. Much of the remainder is shared between asset managers such as BlackRock, Goldman Sachs, AllianceBernstein and Russell.

"It could be argued that it's relatively easy for asset managers to enter, given that implementation and execution are major factors in fiduciary management," Brown says. "Banks are also looking at the market; indeed Goldman promotes itself as a fiduciary manager and BNP Paribas has expressed interest."

JLT's investment platform head John Finch believes there are now 14 UK market players and competition is heating up as newer entrants seek to establish a presence via smaller funds. This would mark a change from the finding in KPMG's 2014 report on the UK market, which noted a marked lack of competition for new mandates despite strong growth.

Many expect the group of 14 will in time be joined by Legal & General, but L&G is the only major name widely cited as a new entrant.

Growth potential

The question is how much potential growth remains in the UK market. KPMG's report showed a 47 per cent year-on-year increase in fiduciary mandates last year and a 23 per cent rise in total assets under management from 2013 to £72 billion.

KPMG's head of fiduciary management research, investment advisory Anthony Webb says the 2015 report is still being compiled – with publication due late-October – but a further double-digit year-on-year rise is likely.

"Although the UK fiduciary management market has grown consistently over the past five years it isn't always an easy one," he notes. "Winning new clients, each with specific needs and requirements, is challenging."

Cole adds that recently Aon Hewitt has been seeing requests from larger corporate clients for global solutions so fiduciary management can extend to their schemes in Europe and North America.

KPMG's 2014 report showed fully delegated mandates used by 5 per cent of the UK's DB schemes and 3.4 per cent of defined benefit assets. That 5 per cent compares with a whopping 85 per cent for schemes in the Netherlands. However, Webb points to the fact that while it has proved easy to merge many Dutch pension schemes to create major, industry-wide schemes for fiduciary management, UK schemes are typically more disparate and mergers more difficult to achieve.

Nonetheless, as Britons discover more about and grow more comfortable with fiduciary management, the figure of 5 per cent is set to increase significantly. Gunnee sees it potentially rising to 20 per cent or 25 per cent, but adds: "Before this happens, there needs to be a sea change in thinking and responsibilities, as the trustee model is generally seen as having served the UK market well.

"Scheme members will also want evidence of an established track record, which after five or six years is now starting to emerge."

Webb has previously suggested that three years in is "a natural review point" for schemes to review their fiduciary managers' performance and decide whether its triennial valuation indicates it's time to consider alternative providers. "Keeping a close eye on your fiduciary manager is essential – delegation of powers can increase the scope for both good and bad performance," he says.

A number of schemes reached (or will shortly reach) their third anniversary under management in 2015 and Webb suggests that they "should assess the respective strengths, weakness and value for money offered by each manager." KPMG's view is that many schemes would benefit from conducting a more regular review – even once a quarter.

A new era

Most recently, the government's proclaimed new era of 'pension freedom' launched by Chancellor George Osborne in the 2014 Budget promises to extend fiduciary management from defined benefit (DB) schemes to defined contribution (DC) as well.

Although, as Webb notes, there are differing interpretations on what fiduciary management for a DC scheme actually entails, Brown suggests that "it's a highly attractive market – DC investment structures in the UK are usually fairly basic and employing fiduciary management thinking can potentially offer a lot of value."

According to Brown: "The DC market is getting increased attention from fiduciary managers, which is very welcome. DC investment strategies have been basic to say the least, so an approach that better educates and informs the member on options and likely retirement outcome has to be well-received."

JLT's Finch reports: "What we're seeing with DC is the creation of blended schemes that reflect individual requirements, with management of the various managers within a growth fund.

"Provided the fund assets are of a reasonable size, you can put in a number of different managers, rather than relying on a single one – and they can be replaced quickly if necessary."

So the future is bright. The fiduciary market is here to stay and its growth "will be highly correlated with education and transparency," Brown underlines. "Everyone has a part to play in supporting this growth, whether they are a fiduciary manager, trustee, corporate representative or independent consultant."

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