

Lightening the load

✓ Paul Enderby discusses the benefits of outsourcing DC investment



When it comes to managing and administering their DC schemes, employers and trustees have both limited budgets and limited time to spend on governance. Increasingly, they need to find better ways of spending their money and time more effectively.

As DC investments become more sophisticated, incorporating new asset classes and complex strategies, the burden of delivering them to scheme members likewise becomes more difficult for resource-constrained trustees and employers, who also need to be assured that they are discharging their duties effectively. The ability to pursue other initiatives, such as improving member engagement, is also being compromised for employers and trustees as the more immediate challenges of day-to-day governance and administration take centre stage.

To add to the strain, those who administer schemes have to comply with an onerous set of duties from the regulator. All of these things combined mean that we are increasingly coming across employers and trustee boards

for whom the complexities of managing and governing DC investments are becoming more and more difficult.

Whilst some trustee boards have access to and budget for high quality DC investment advice and have time and resource to monitor and change investments, many employers and trustees don't. Some employers want to focus on their core business, comfortable in the knowledge that day-to-day management of investments is being delegated to a fiduciary manager.

So for these reasons, delegated solutions for DC schemes are an option that trustees and sponsors can now consider.

What is a 'fiduciary'?

The definition of 'fiduciary', a term used widely in this context, was neatly captured in *Bristol and West Building Society vs. Mothew* as "...someone who has undertaken to act for and on behalf of another in a particular matter in circumstances which give rise to a relationship of trust and confidence".

In such a relationship, the fiduciary is required to act at all times for the sole benefit and interest of the one who trusts.

In the DC world, the fiduciary in question is an investment manager to whom the management, administration and governance of the scheme is delegated by the employer. Trust in the manager is critical for employers, trustees and members: there has to be trust that the delegated manager is acting in their best interests.

With fiduciary solutions, the trustees vest their confidence, good faith, reliance

and trust in managers whose expertise is sought because the increasing complexity of the operation requires outside help.

Fiduciary solutions can be seen as an entirely sensible and appropriate solution for trustees who may find it increasingly difficult to act in the best interests of their members, and for employers who want to seek the best outcome for their employees.

Delivering fiduciary in DC

In the modern DC environment, master trust is the purest form of fiduciary solutions. A master trust allows employers to fully outsource the governance, investment and administration of their defined contribution pension scheme. Each employer formally participates in the trust, has a discrete and distinct section of the scheme, and operates their own contribution structure.

Unlike a group personal pension or stakeholder scheme, the ongoing management of the scheme and its assets are overseen by an independent, experienced trustee board. This gives many employers significant comfort that their members are being well supported and that risks are being better managed.

Not only are the investments designed and managed by experts but the whole delivery of retirement savings is entrusted to those whose expertise and resources are focused on ensuring the best experience for members and employers.

Over 64 employers have entrusted Legal & General's Mastertrust to manage and deliver over £3.2 billion of retirement savings for more than 628,000 members, as at March 2017.



Written by Paul Enderby, corporate solutions director, LGIM

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