

Summary

- Amongst other things, fiduciary managers with RI expertise can assist schemes with preparing engagement policy implementation statements and carry out engagement and stewardship activities on behalf of schemes.
- They can also help schemes to deepen understanding of their RI beliefs by using proprietary tools and processes that help with setting RI policies and investment approaches.
- To date, most of the RI innovation across the industry has been in equities, but the development of solutions more broadly across other asset classes – particularly fixed income – is likely to be an important development in the coming years.



A helping hand

Andrew Williams explores the role of fiduciary managers in helping pension schemes with their responsible investment

There is a growing awareness amongst UK defined benefit (DB) pension schemes that fiduciary managers can assist in the fulfilment of responsible investing obligations. So, what exactly is a fiduciary manager? What are their main functions? In what ways can fiduciary managers help UK DB pension schemes fulfil – or potentially even exceed – their responsible investing duties? And what developments and evolutions in the way fiduciary managers help out can we expect in the coming years?

Efficient solution

As Aon responsible investment portfolio specialist, Sam Segameglio, explains, fiduciary managers can help trustees to secure their members' benefits by delivering a more efficient investment and governance solution.

"A fiduciary manager is ultimately responsible for providing daily oversight, expertise and management of the portfolio. This means managing all the decisions around asset allocation on a strategic and tactical level, liability management and risk management, as well as manager and stock selection," he says.

Elsewhere, Ernst & Young manager

of consulting, Ciprian Balan, says the delegation of certain investment decisions has become increasingly popular with pension schemes and other asset owners.

"Commonly, it is motivated by the desire to free up time to focus on key strategic issues, improve implementation speed and efficiency, access a greater variety of asset classes and risk management techniques economically, and ensure there is a dedicated investment resource looking at the investment strategy on a daily basis," he says.

Meanwhile, DWS head of pensions advisory and EMEA consultants, Shalin Bhagwan, reveals that fiduciary management is an increasingly popular route for many pension funds because it provides a low governance and cost-effective approach to the management of, especially, more complex UK DB pension funds. That said, she believes it may not be suitable for all pension funds, especially where a pension fund requires greater choice and flexibility.

"The rise of firms dedicated to providing professional independent trustee services, coupled with an increase in the number of independent consulting firms, provides sponsors with more

options for the professional management of their pension funds. The choice of which model will suit will necessarily be client specific and both models have track records of functioning well for UK pension funds," he says.

Engagement and stewardship

According to Aon senior portfolio manager, Philippa Allen, fiduciary managers can help schemes achieve and provide evidence of the commitments they make in their responsible investment (RI) policies, and "take a lot of the work that goes into that off their hands". For example, she reveals that a fiduciary manager with well-resourced RI expertise will assist schemes with preparing engagement policy implementation statements and carry out engagement and stewardship activities on behalf of schemes.

Although these engagement and stewardship activities are often crucial to evidencing the actions taken to carry out commitments made in RI policies, Allen observes that they tend to require a huge amount of time and expertise to do effectively, meaning that delegating them to a fiduciary manager enables schemes to at the least fulfil their duties and often exceed what would typically be executed in-house or by the board of trustees.

"Fiduciary managers can also help schemes to better understand their RI beliefs by using proprietary tools and processes that help with setting RI policies and the investment approach," she says.

"They can also provide sophisticated

investment solutions to be implemented in line with those beliefs; these may often be solutions that the scheme may not be able to access without the benefits of scale, resource, and expertise that come from having a fiduciary manager,” she adds.

Balan observes that fiduciary managers are now engaging more frequently with their clients to determine whether trustees have any specific environmental, social and governance (ESG) beliefs, in order to reflect these as far as possible into their fiduciary offering.

“Different pension schemes may have different decarbonisation targets and different objectives and we think it is important for a fiduciary solution to be flexible and cater for different ESG requirements and ambitions. Some fiduciary managers have advanced modelling capabilities, such as scenario analysis, and have started using this analysis to inform investment decision making in managing their clients’ portfolios,” he says.

Meanwhile, Redington director of investment consulting, Nick Lewis, argues that the fact most fiduciary managers are set up with scalability in mind means that trustees have very little influence over how RI considerations are implemented.

“Whilst fiduciary managers are increasingly introducing RI alternatives in certain asset classes, this is still very generic and can’t be tailored to individual trustee RI beliefs. It is therefore critical that trustees select a fiduciary manager with an approach to RI that fits with their beliefs. We see significant dispersion in fiduciary managers’ capabilities in and approaches to ESG,” he says.

Market development

Looking ahead, although HS Sole Trustees director, Ray Martin, observes the 16 fiduciary management providers in the UK market place are still in the development stages of their ESG approaches, and to an extent rely on the approach taken by their underlying

managers, he believes it seems likely the market will develop so that the fiduciary manager will offer a particular approach for its clients or a range for them to select from.

“Trustees should find this easier than developing their own approach in the advisory model of investment governance,” he says.

“At the current time ESG responsibilities are generally delegated to the underlying fund manager in most models. Fiduciary managers are however continuing to adapt their models to allow trustees to express their ESG views through them to the underlying managers,” he adds.

Segameglio reveals that a growing number of Aon’s fiduciary clients are demanding investment solutions that align to specific beliefs and generate positive real-world impact on environmental and social issues, and observes that fiduciary managers have played, and will continue to play, a critical role in providing solutions that implement RI approaches that cater for these client needs.

“We have developed innovative solutions in this area and have a range of equity strategies with different approaches to RI, including a low carbon, negative-screened fund and an impact fund. In our factor-based equity solution, we have achieved a circa 50 per cent reduction in carbon versus the broad equity market and excluded the most controversial sectors. Last year we also launched the Aon Global Impact Fund, which invests to contribute positively to the United Nations’ Sustainable Development Goals (UNSDG),” he says.

Sustainability focus

For Lewis, the innovation of allowing trustees to have some say on how the fiduciary manager should engage on different topics is positive and can help with the issues some trustee boards have of finding cost-effective ways to demonstrate they are implementing their unique engagement preferences. He

also predicts that, in the coming years, fiduciary managers will likely continue to provide more flavours of RI options available to trustees to provide some customisation.

“Fiduciary managers have an opportunity to solve the age-old problem of differing time horizons between trustees and asset managers. Trustees want asset managers to fully integrate long-term systemic risks, such as climate change, but assess the managers on quarterly performance – and portfolio managers pay is usually linked to annual performance. Can fiduciary managers step in and bridge the gap? It is an extremely challenging problem to solve but I would like to see fiduciary managers try,” he says.

“It is important that trustees remember they can outsource the investment functions of the scheme but are still accountable for setting and implementing their RI beliefs and policies; they need to ensure they hold fiduciary managers to account,” he adds.

Moving forward, Allen predicts that net zero will be a key focus for fiduciary managers and the broader investment industry in the coming years. In order for the industry to reach these goals, she also expects the growth of sustainability or impact-focused funds to increase.

“We have begun developing our own solutions in this space and will soon be launching a sustainable multi-asset credit fund, which will invest in alignment with climate goals and UNSDG’s,” she says.

“To date most of the RI innovation in the industry has been in equities, but developing solutions more broadly across other asset classes is going to be critical – particularly in fixed income, as more schemes de-risk and so desire reduced equity exposure in portfolios,” she adds.

Written by Andrew Williams, a freelance journalist

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