

Over the last few years, the traditional arrangements between pension funds and their managers have come under increasing scrutiny. Pressures on performance, pricing and transparency have all been questioned. Whilst outsourcing is still a functional need for many, a steady insourcing drive has seen players like RailPen and the Pension Protection Fund increasingly turn to in-house asset management.

More recently, with the creation of Collective Investment Vehicles (CIVs), funds such as Local Government Pension Schemes (LGPSs) have had the opportunity to pool resources, cutting operational costs and driving performance. **The challenge for pension funds, particularly those deciding on CIVs, remains cutting through the noise to really understand the potential benefits of insourced management, and the operating model that will best deliver the returns sought.**

Attitudes on pensions administration

In order to understand this trend, this survey takes a step back to look at the general thinking, when it comes to fund management and administration. Carried out in early 2018, it engaged with over a hundred funds, ranging in size from under a billion pounds to over ten billion and responsibilities of participants - mainly Trustees and Investment Committee Members/CIOs.

The survey presents the sentiment, decision-making and position of pension funds in relation to their present and future arrangements, especially the ongoing impact of alternative methods for managing assets.

Will you be consolidating your trading and administration data?

Chart 1

An overwhelming 49% are unsure of their strategy when it comes to consolidation of trading and back-office administration. Regulation has

Collective thought

▶ A Pensions Age survey in association with SimCorp

provided many pension funds with an added conundrum, when it comes the decision to insource portfolios. On the one hand, they've lifted the lid on the complex operations of asset management firms, raising questions on the ability to implement regulatory compliance in a timely manner. But also, and particularly in the case of MiFID II, clarified previously opaque processes, such as pricing of fees, giving pension funds better transparency of their externally managed assets. This has left many asset owners in a half-way house predicament.

A small sub set (11%) have chosen a fully in-house solution. Cost is certainly a major element, with a recent CEM Benchmarking survey reporting up to 38 basis points saved by bringing asset management in-house. However, there is another driver, that of control, which can be improved by deploying investment management solutions that deliver timely positions and exposure.

In stark contrast, the next largest category (24%), many of whom include the funds considering a move to a CIV, stand in favour of outsourcing. The challenge of garnering in-house resources and talent acquisition could be a key factor for this decision. An important point to bear in mind here for pension funds and ultimately the CIVs themselves, is whether they have the ability to maintain an underlying view of the externally managed assets and in cases where management is a composite of external and internal, whether their investment operations can incorporate data for externally and internally managed assets into one system. Thereby, tackling the issue of cost when it comes to maintaining systems, but more importantly, of transparency and governance.

Will you be managing a portion of your pension fund through a collective investment vehicle (CIV) structure?

Chart 2

Surprisingly, despite much of the recent attention around CIVs, it appears the majority of pension funds are sticking with traditional arrangements, or are unaware of the options. Given this information, there is still much education required around the structure and more importantly, the investment operations of the CIVs, to help the decision process of those pension funds already in flux but also those defaulting to current arrangements out of pure inertia. Much of this can be overcome by understanding the potential benefits CIVs bring, when it comes to economies of scale, lower costs and the added advantage of a master trustee/executor at the helm of a shared investment strategy. For example, accessing a single transparent, real-time view into what the fund owns, what it is worth, and its exposure across the investment book, will provide the operational efficiency many funds are seeking, whilst keeping cost and risk low.

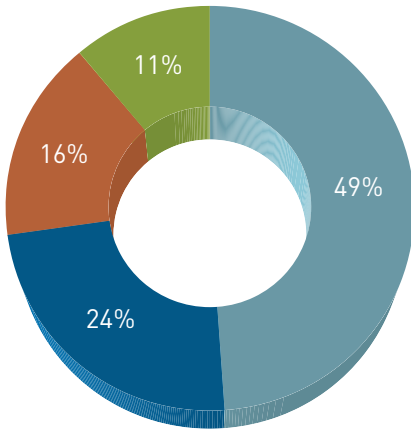
Reasons for using CIVs

Chart 3

When asked the reasons for using a CIV, there appeared to be no correlation between the size of the pension funds surveyed and the reasons given, with access to a wider asset class base forming the main rationale (41%). This is synonymous with the continued market direction towards multi-asset class investment strategies and the rapid growth of alternatives, such private debt and infrastructure, offering promising returns. It also unveils a more interesting point, one which resonates with

Chart 1

Will you be consolidating your trading and admin data



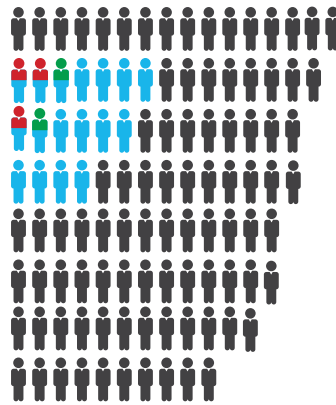
- 49% not sure
- 24% outsource
- 16% still defining strategy
- 11% in-house solution

wider market research. This includes the CEM Benchmarking survey, which found ease of implementation and capacity constraints of external managers, where alternatives were concerned, were one of the key concerns aside from cost, motivating the re-direction of assets in-house.

Whilst the management of traditional asset classes is a highly automated workflow across key functions from performance, settlement and reporting to accounting, finding the same level of automation and integration for growing illiquid, alternative investments, like Private Equity, Real Estate and Infrastructure, has been a challenge for asset management. To date, asset management firms have spent significant money on niche or unicorn systems to overcome lack of integration, which in turn has made their management challenging and costly. By making the time and capital investment towards a

Chart 2

Will you be managing a portion of your pension fund through a collective investment vehicle (CIV) structure



- 84% Not considering moving to CIV
- 8% Considering moving to CIV
- 5% Decided on particular CIVs
- 3% Will positively name CIVs

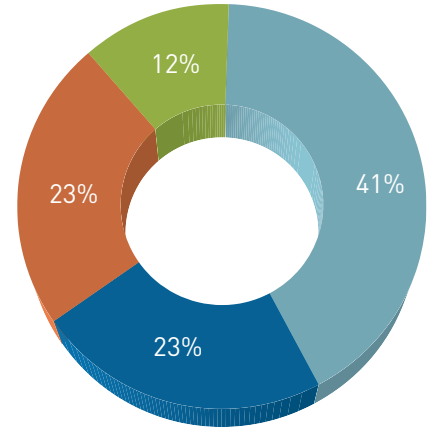
consolidated operating model, pension funds and CIVs can eliminate this challenge and run multi-asset class strategies in one system. Further, a solution that incorporates an Investment Book of Record (IBOR) to provide granular performance data and analytics, will enable pension funds to tighten risk management.

Conclusions

- The advantages of collective investment means one might expect their use to be more widely contemplated. The reality is that there is an education process required when it comes to truly understanding of CIVs.
- This lack of clarity, on the benefits of CIVs and the various approaches to insourced management, may mean asset owners remain inert, continuing with a default position of outsourcing. Furthermore, those considering CIVs are still undefined in their choice.

Chart 3

Reasons for using a CIV



- 23% Better bargaining power
- 23% Change of investment policy
- 12% Lower cost of investment
- 41% Access to a wider asset class base

- It is important that funds can make more informed decisions on their asset management options. Not doing so is a risk, given the lack of access to newer alternative instruments, as evidenced by funds stating wider asset class access as the key reason to move assets to a CIV.
- Both pension funds and CIVs need to consider a consolidated operating model for their investment operations, to achieve the most operationally efficient investment management. This approach provides the most transparent foundation to drive performance, explore new asset classes and retain governance, whilst keeping both cost and risk low.

A Pensions Age survey

In association with

