For Professional Clients only

Lightening the governance load in volatile times

In our latest article, learn how fiduciary management can provide respite for hard-pressed trustees in uncertain times

Everyone is yearning for a return to normality after the past 12 months. The rollout of vaccinations against Covid-19 gives us hope. It has helped financial markets recover some poise after their rollercoaster ride in 2020.

But keeping on top of the implications for the performance of a pension fund remains time-consuming for trustees. It is hard for them to move at the speed it takes to respond to difficult markets. Or to keep up with the changing fortunes of different sectors. A meeting needs to be convened and decisions taken. By then, the market may have changed direction again.

Add to that the complexity and breadth of investments to consider and evaluate for a pension scheme. Today there is so much choice, from infrastructure to private equity to real estate and derivative instruments. There's also the different types of investment strategies and different approaches to managing investment risk to weigh up. It can be hard for trustees to keep up with all the latest thinking, especially as they have to manage these responsibilities alongside their day job.

It's not surprising that trustees are increasingly turning to fiduciary managers to delegate a scheme's day-to-day investment management and reduce some of their workload.[1]

What fiduciary management brings

Hiring a fiduciary manager allows a pension fund scheme to tap skills and knowledge that some trustees may not have and are hard to acquire. Fiduciary managers can also potentially save money on performance fees by aggregating fund purchases.

Outsourcing the day-to-day investment decisions enables a pension fund scheme to be more agile in volatile markets. Fiduciary managers can act quickly to protect the pension scheme's funding level when markets are tumbling or capitalise on market opportunities when they are rising. They are watching and discussing the change in financial markets every day.

Easing the regulatory headaches

There is a constant stream of new legislation affecting how pension fund schemes are run. It can be a daunting task for a trustee to implement and comply with each wave of new rules. A fiduciary manager can help trustees to navigate this. They can spot key legislative and regulatory changes that will affect the pension market. We work with trustees to help them think through and comply with the latest regulations.

Trustees can focus on what really matters

Delegating the day-to-day implementation of an investment strategy to a fiduciary manager frees up trustees' time, eases the stress and allows them to focus on the bigger picture. It provides both the fiduciary manager and trustee with clearly defined roles. Trustees can concentrate on the pension scheme's funding goals and how to reach them, while the fiduciary manager focuses on how to adjust the portfolio as financial markets rise and fall.

From October, trustees of plans with more than £5 billion in assets will be required to report on the financial risks of climate change within their portfolio. This will be extended to schemes with more than £1 billion in assets from October 2022.[2]

With no signs of the demands on trustees easing, I expect more to turn to a fiduciary manager to ease the governance burden.

What sets us at BlackRock apart from our peers is our proprietary investment and risk management software system, Aladdin. It combines sophisticated risk analytics and portfolio management tools on a single platform, allowing clients to see their whole portfolio and helping them to manage the risks.

Written by BlackRock fiduciary management services head, Sion Cole

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[1] https://www.isio.com/media/1269/fm-survey-2020-results-report.pdf P3
[2] FT January 27, 2021

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