

Summary

- Professional trustees on pension boards are able to challenge the scheme's advisers.
- A professional trustee on a board can clarify adviser information to lay trustees and bolster confidence for lay trustees to quiz advisers themselves.
- Some professional trustee firms may also offer additional services to the board, such as secretariat work, that may have been traditionally provided by the advisers.
- Professional trustee firms providing additional services to their schemes may cause tension with the advisers, but open and honest dialogue can minimise this risk.
- A clear delineation between trustee and advice services can also reduce any conflict-of-interest risk.

Professional trustees have, in recent years, had somewhat of a 'glow up'. No longer considered as just a 'post-career' role, people with increasingly varied experience and skillsets are looking to professional

Shifting relationships

► Laura Blows explores how the increasing use of professional trustees is changing board dynamics with advisers, and how the boundary between additional trustee services and advisory services is starting to blur

trusteeship as an attractive career option in its own right.

Scheme sponsors are also finding professional trusteeship good looking, as research from Hymans Robertson, released in January, found that 68 per cent of DB scheme sponsors expect to increase their use of professional trustees in the future. This follows the strong growth in professional trustee appointments that LCP's research in September 2023 noted, with half of UK pension schemes now having a professional trustee on the board.

Working with advisers

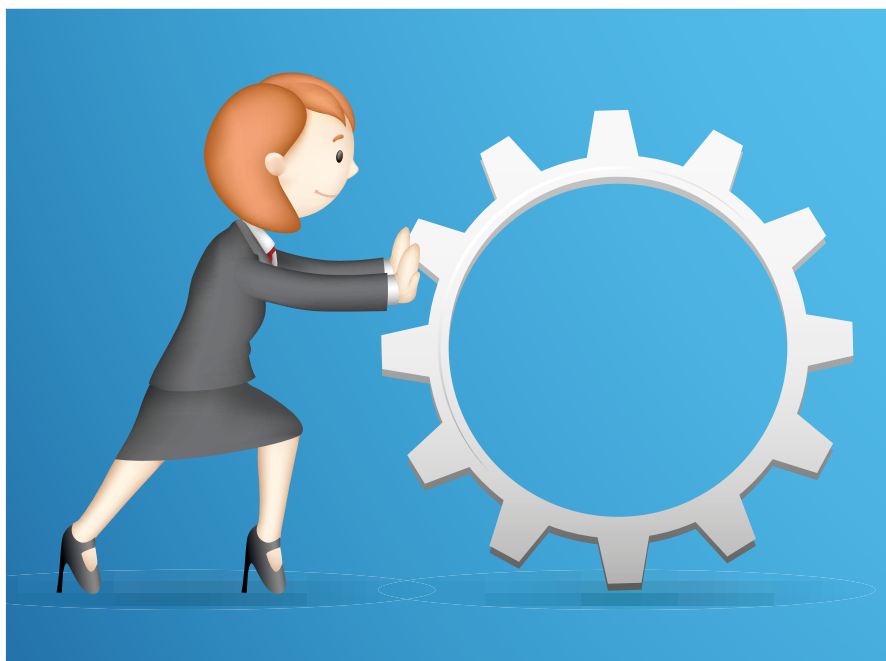
As professional trustees are turning heads, it's therefore unsurprising that having a hot new thing entering the scene would shake up established dynamics on trustee boards. This can particularly be the case with the scheme's relationship with its advisers.

After all, the biggest reason for the use of professional trustees was due to sponsors looking for better management of advisers and costs, as stated by 47 per cent of respondents in Hymans Robertson's research.

"More schemes are interested in one-stop-shops by trustees, especially if this is in a sole corporate trustee arrangement," LCP partner and head of strategic relationships, Nathalie Sims, says. "A number of professional trustee firms are hiring across levels of seniority to be able to offer a broader set of services at lower costs to traditional advisers/arrangements."

Having a knowledgeable, professional trustee in a particular topic can be a huge benefit when applied effectively, she adds.

"For example, suppose a consultant is less knowledgeable in the longevity de-risking space but is appointed to run a project. In that case, the professional trustee with the knowledge of the subject matter can either raise the issues directly if they feel the advice isn't given in the best interest of members or select



a different consultant for the advice. LCP has often stepped into roles where professional trustees have identified a poor service – and that is often picked up by professional trustees who have a better understanding of advice provided through their various appointments,” Sims explains.

Charles Stanley Fiduciary Management senior portfolio manager, Bob Campion, notes that the bigger professional trustee firms are bolstering their expertise by hiring people such as ex-investment consultants and ex-buyout experts, but “this is to challenge advisers, not replace them”, the Society of Pension Professional (SPP) DB committee member, Judith Fish, states.

This can provide the benefit of the advisers and professional trustees talking on a more peer-to-peer basis, Association of Professional Pension Trustees (APPT) council member, Vassos Vassou, says, where they can “discuss very technical topics and make, hopefully, positive, strong, good decisions for a pension scheme on the back of that discussion”.

“That probably is one area where the dynamic is changing a little bit,” he adds, “where the advisers historically haven’t had to manage that element of challenge in quite the same way.”

The impact on lay trustees

A professional trustee can also cause the lay trustee/adviser relationship to change, particularly as the professional trustee may become a ‘third party’ in the middle of the two – working with the lay trustees on the board, while also having that ‘peer-to-peer’ relationship with the board’s advisers.

“The increased acceptance of the need for professional trustees who have knowledge and experience of the broader pensions industry has already changed the relationship with lay trustees,” Zedra client director, Melanie Cusack, says.

“However, a good professional trustee will stand alongside their fellow trustees in decision making and not in front of

them, reflecting that they are jointly and severally responsible for the decisions taken with a view to ensuring effective decision making. If the professional trustee takes on *[an adviser type]* role as well, it runs the risk of shifting the dial on that cohesiveness.”

Capital Cranfield managing director, Harus Rai, states that he has “never had a scenario where a lay trustee has said to me, ‘I don’t want the information from the adviser; can I get it from you?’”

Instead, they may ask him for clarification of what the adviser has said and use him, as a professional trustee, as a sounding board, he explains.

“A clear delineation between who is giving and who is taking the advice is essential”

While there has always been a role for the professional trustee to provide context to the advice through their broader experience, Fish notes that “the presence of the professional trustee can raise confidence levels of lay counterparts and encourage more proactive engagement and discussion. This is not the same as dependence”.

However, “for some schemes, there has been a shift in the relationship between lay trustees, professional trustees and advisers due to increased regulation, for example, resulting in more reliance on external expertise often brought through the skills of a professional trustee”, Sims states.

“When it comes to the relationship between lay trustees and advisers, it is particularly concerning when professional trustees are keeping advisers at arm’s length, as delivering advice with little context is more challenging for consultants.

“Consultants need to ensure that their advice is received and understood by both professional and lay trustees. Professional trustees can be very

influential in driving particular decisions but it is important for the member nominated trustee voice to be heard,” she adds.

Who provides the additional services?

Lay trustees may also see less of their advisers due to using them for fewer services.

For instance, Campion highlights a decrease in the use of third-party evaluators, where the professional trustee is overseeing the fiduciary manager themselves.

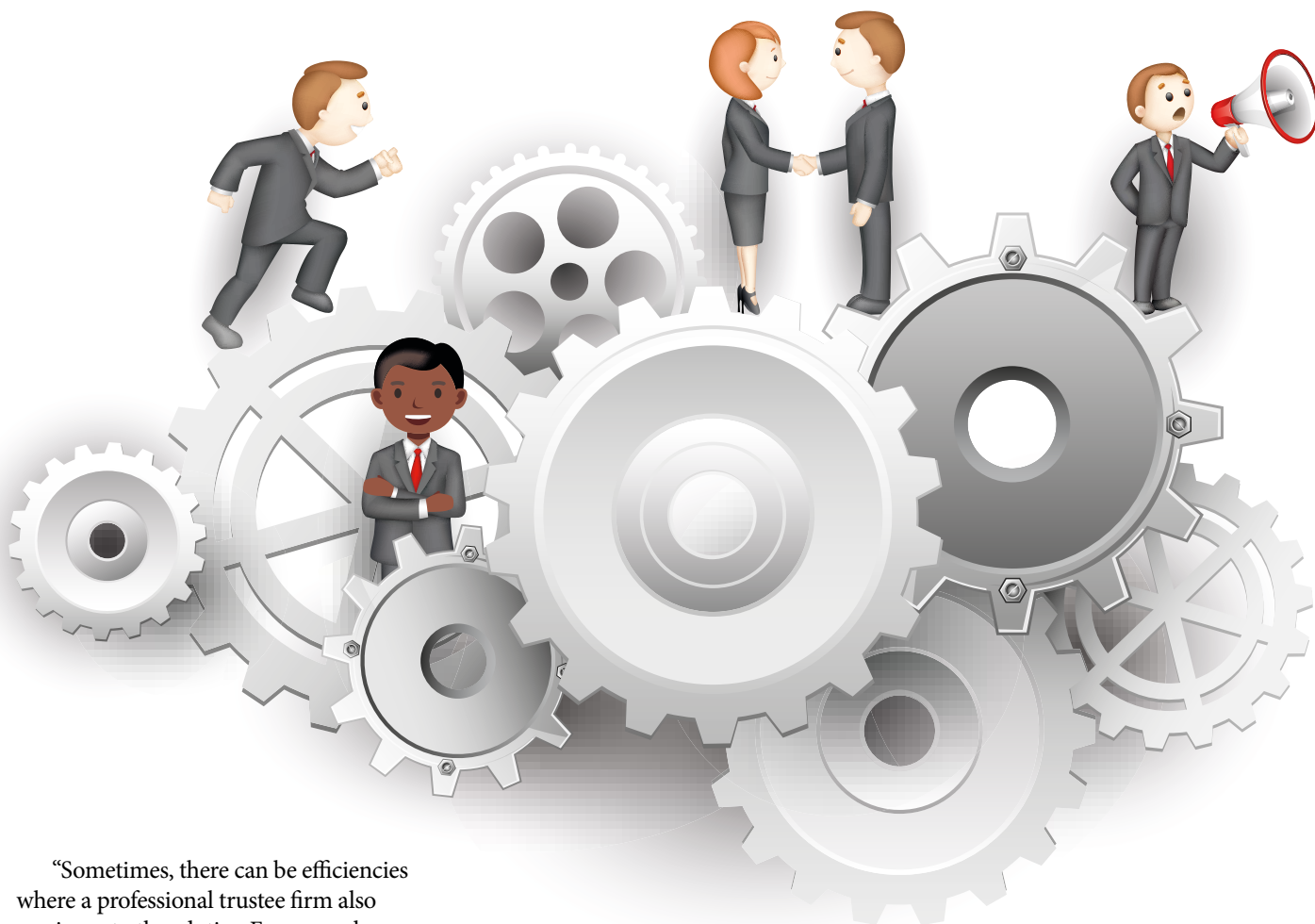
“We’re increasingly seeing the professional trustee firms running their own tender process and not using an oversight firm for ongoing monitoring,” Campion explains. However, “I think it’s different with bigger schemes, as they would have access to more resources, so would typically have a wider set of advisers”.

Also, according to Vassou, “with the recent growth in the professional trustee sector, there are more professional trustee firms perhaps using their own scheme secretaries, rather than paying for third-party firms to do it”.

“Traditionally, ancillary services such as secretarial were being performed by employee benefit consultancies. However, we have seen a rise in the number of RFPs where sponsors have asked the professional trustee firm to also provide this service to create perceived synergies,” Rai says.

Over the years, LCP has seen an increase in professional trustee firms hiring people with a range of different skills and backgrounds, Sims says, “enabling some of the firms to provide a one-stop-shop service with additional services such as covenant, legal, investment, longevity de-risking, actuarial, secretariat advice and technology”.

According to Fish, there are governance and non-advice aspects of the adviser/consultants role that professional trustee firms can also offer to the trustee boards they work with.



“Sometimes, there can be efficiencies where a professional trustee firm also carries out other duties. For example, where the professional trustee firm is also the scheme secretary, this can improve efficiencies around meetings,” she adds.

“However, trustees cannot advise themselves and so will always require a scheme actuary, lawyer, auditor and

investment adviser to provide advice.”

There has also been rising interest from private equity firms in the professional trustee market, with them considering what additional services the firms could provide. Rai says that

“we are aware that private equity is coming in and is interested in professional trustee firms.

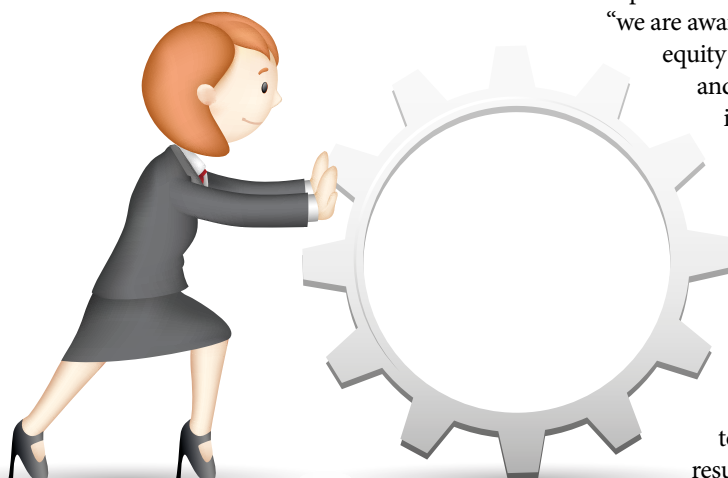
We have seen many of our competitors expand the types of ancillary services that they provide to a scheme as a result”.

Risk of tension?

While only regulated firms can offer formal advice, Hymans Robertson head of corporate DB endgame strategy, Leonard Bowman, notes that “the question has been raised in the industry whether this ‘experienced’ trustee role could stray into an advisory role, rather than a trustee role”.

“Whilst this is a risk, in our experience professional trustees are very aware of this risk and are careful to not stray into the advice space,” he says.

When providing additional services outside of trusteeship, the key is to keep an open and honest dialogue between the consultants and the professional trustees to ensure there is clarity on who is providing the advice and where the risks lie, Sims says. “In the absence of



that, I can imagine it can cause tension.”

However, as “it is and always will be the case” that trustees must use regulated advisers, there shouldn’t be any particular tension or any particular concerns from the advisory community in respect of advice that’s needed for pension schemes, Vassou says.

And while an adviser firm may mutter under their breath about a reduction in use of some of their services, “professional trustee firms will always need third-party administrators, actuaries and advisers so there will still always be a strong working relationship between these firms”, Champion says.

While the majority of professional trustee firms have expanded their services, with all but one offering secretariat services, and a number providing wider services, some consciously offer ‘pure’ trusteeship only to ensure there is as little tension as possible with advisers, Sims says.

Managing conflicts of interest

Conflicts of interest can arise when professional trustees blur the line between advice and trusteeship, which can lead to poorer governance and/or increased risk if advice by consultants isn’t taken into consideration, Sims warns. “One way of overcoming this is through clear communication with advisers on roles and responsibilities,” she suggests.

Cusack agrees that a clear delineation between who is giving and who is taking the advice is essential. For instance, Zedra provides trustee services and secretarial services to trustee boards through distinct teams but “we are aware that not all independent trustee firms keep this delineation”, she says.

For firms that also offer regulated advice, as well as professional trustee services, this delineation is even more important. Champion acknowledges that it can be “a bit awkward is when you’ve got professional trustee from the same

firm as some of their regulated service providers but for most of them, they’ve either avoided that or got rid of that problem”.

For instance, earlier this year professional trustee firm, Independent Governance Group (IGG) announced the acquisition of IC Select, which specialises in helping trustee boards select and monitor investment consultants and fiduciary managers. However, IGG confirmed that the IC Select will be retained as a separate brand.

Meanwhile, last year saw 20-20 Trustees, which was acquired by Broadstone in 2017, merge with fellow professional trustee firm PSAG to form the new professional trustee company, Vidett. This separation from administration services provider Broadstone also removed that potential conflict of interest.

Also, the APPT’s code for professional trustees covers off conflicts of interest, making it clear that the professional trustee cannot provide advice and cannot provide advisory services from its group or company.

However, there is little enforcement of the code currently, Sims warns.

Aon partner, Susan Hoare, also highlights that the remuneration policy required under the General Code “is an ideal place to address any conflicts of interest that exist as a result of professional trustees carrying out additional services”.

“So far, there is little additional regulation of professional trustees, let alone sole trustees, despite their positions. It seems only a matter of time before this changes,” she adds.

Looking ahead

While self-regulation is currently the case for the professional trustee sector, “this will continue to be an area that the government and TPR monitor closely and could well introduce new

requirements in the future as the industry develops”, Bowman says.

Meanwhile, Rai would like to see conflict of interest registers in place for every pension scheme, which “needs to be taken as seriously as a risk register, and have a conflicts policy in place to both identify conflicts and outline steps to either eliminate or mitigate these”.

Whether further regulation occurs remains to be seen, but professional trusteeship looks set to continue growing in both the DB and DC world, further reshaping relationships within them.

For DC schemes, “the compliance requirements, together with consolidation, suggests more professional trustees at the table of large schemes, but few advisers overall due to fewer DC schemes”, Cusack suggests.

Meanwhile, within DB, the diminishing number of lay trustees has contributed to the rise of professional corporate sole trusteeships, she adds, with LCP’s September research finding that 20 per cent of pension schemes with a professional trustee had a sole trustee arrangement in place.

However the professional trustee/adviser relationship evolves, “I think it’s going to be a strong relationship and positive relationship for all concerned”, Vassou says. “What we as professional trustees are looking for from the consultancy industry is for them to embrace that as there is so much good that we can do together.”



Written by Laura Blows