How the right fiduciary approach can help

Trustees' responsibilities are widespread; they include ensuring their pension scheme is well run, protecting members' benefits and fulfilling their regulatory commitments. Managing the investment strategy forms just one part of these responsibilities, but often it's a time-consuming one. Could partnering with the right fiduciary manager help deliver better outcomes?

Under a fiduciary management approach, trustees delegate day-to-day implementation of the investment strategy to a team of investment experts. Essentially a fiduciary manager makes investment decisions on the trustees' behalf, but within a clearly defined set of guidelines. This governance approach reduces the burden placed upon trustees, which in turn leads to better decisions and therefore ultimately better outcomes for the scheme and its members. More specifically we believe there are four governance benefits a fiduciary approach can harness for trustees. While each scheme will have its own unique requirements and therefore the relative importance of these benefits will vary, all are accessible to trustees who partner with the right fiduciary manager.

We look at each of these benefits below and what they may mean for scheme governance:

1. Increased focus on the decisions that matter the most

Trustees have to manage their responsibilities alongside the demands of their normal day job. Overseeing the investment arrangements is just one part of their role. By delegating the detailed implementation of the investment strategy, they gain the benefits of employing an expert whose sole occupation is to concentrate on investment. By having clearly defined roles and responsibilities, trustees can ensure that they have the necessary time to dedicate to the key strategic decisions that contribute the biggest impact on the future outcome of their pension scheme.

Figure 1: Key focus areas

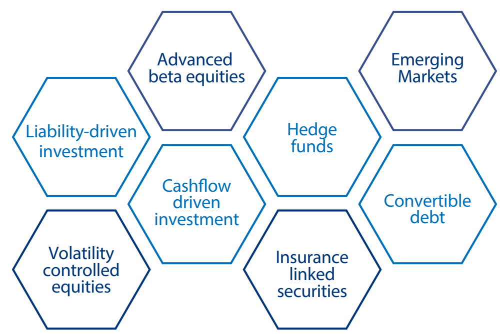
Focus on what's most important…	…by delegating the rest
What are our funding goals?	What asset classes should we invest in?
When do we expect to reach our funding goals?	What implementation route should we use for each asset class?
Is the overall level of risk in the scheme appropriate?	How should we adjust the portfolio for the latest developments in markets?

Source: Schroders

2. Access to knowledge and expertise in investment decision-making

Pension scheme investments are becoming ever-more complex. For example, strategies that involve derivatives such as liability-driven investment (LDI) and equity downside protection are now commonplace; and developments in technology and new thinking are reshaping how investors consider investment risks.

Figure 2: Combining specialist investments



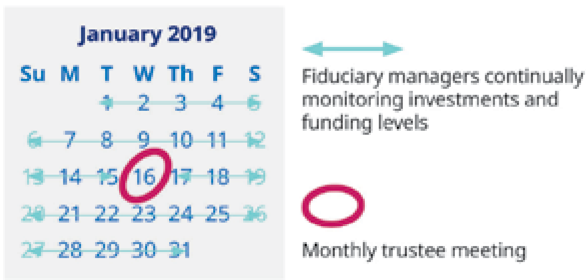
Source: Schroders

It can be hard to keep up with all of the latest developments. By using a fiduciary manager, trustees bring additional specialist investment knowledge onto their board. The fiduciary manager applies their many years of investment experience to the pension scheme's specific circumstances and works with the trustees to develop and implement a strategy to meet the pension scheme's particular needs.

3. Improved agility of decision making and speed of implementation

Trustee groups typically meet on a quarterly basis. While this provides a good framework for longer-term decision making, shorter-term opportunities may be missed if there are delays in approving and implementing investment decisions. The investment climate is dynamic and can change very quickly; it is important to stay nimble to adapt to changing circumstances, to

Figure 3: Speed of implementation



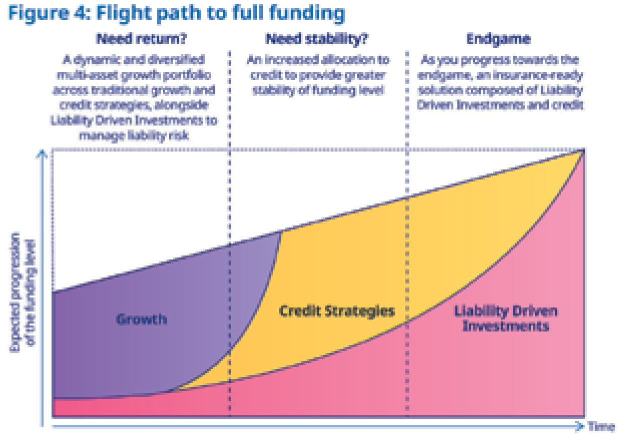
Source: Schroders

protect the funding level or to capture market opportunities. Fiduciary management means that trustees have a team of investment professionals who are monitoring their investments and – crucially – are ready to make decisions on their behalf every working day. In reality, the portfolio does not change every day but by putting in place a fiduciary manager they have the authority to act on the trustees' behalf, enabling them to act swiftly to implement changes. The level of delegation will be clearly specified in the agreed set of investment guidelines. This means that the trustees remain firmly in control.

4. Risk management to enable the long-term objectives to be met

Most DB pension schemes are now closed to new members and many are also closed to future accrual. These pension schemes have a finite time period until the last pension is expected to be paid. As a result, trustees and sponsors are increasingly looking to the end-game and are planning towards a lower-risk investment strategy as the pension scheme matures. Many fiduciary management arrangements include a 'flight path'. This is a long-term plan towards full funding, which captures opportunities to de-risk as the pension scheme's funding level improves. Advances in technology mean that fiduciary managers are able to track the pension scheme's funding

Figure 4: Flight path to full funding



Source: Schroders. For illustration only.

level on a daily basis. When a funding level trigger is reached, the fiduciary manager immediately moves the pension scheme to a pre-agreed lower-risk strategy. This enables the pension scheme to move quickly to capture opportunities. Having a pre-agreed framework in place means decisions can be taken swiftly by the fiduciary manager, but without increasing the trustees' governance burden.

Choosing the right fiduciary partner

The choice of fiduciary manager is one of the most important decisions trustees can make, given their pivotal role in setting and implementing a scheme's investment strategy. It can be a difficult decision to make as there are many different kinds of fiduciary manager. Often comparing providers' approaches is like comparing apples and oranges. Schroders' view is that trustees should work with an independent oversight organisation that can advise them on the selection process, helping to navigate this important decision.

Schroders as your fiduciary partner

At Schroders we firmly believe in the fiduciary management governance model. As we have outlined above, it offers significant benefits to trustees and for many we believe it's the right model to adopt. As an investment manager, Schroders has developed a unique and flexible fiduciary management platform. We combine long-term investment strategy advice and our expertise in managing multi-asset and liability-matching portfolios, ensuring the effective delivery of all aspects of investment is in one place, ultimately reducing your governance burden. This allows you to focus on the bigger picture, whilst we take care of the day-to-day management. Our approach to fiduciary management is rooted in our investment management heritage, something we feel provides a compelling competitive advantage. As a stable family business with over 200 years of asset management heritage, we are client-led in all that we do and have the cultural values necessary to be a trusted partner. We also bring a deep knowledge of UK pensions, actuarial techniques and a breadth of investment experience. We truly believe that the integrated nature of our proposition: across advisory support; investment strategy; and investment management, will deliver the funding level outcomes our clients require.

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