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Perspective

Fiduciary Management

Staying in control of your objectives with Fiduciary Management

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Setting a “Long-Term Funding Target” will be an important focus for many trustee boards this year. In this paper, we look at what this new target means for trustees and demonstrate how good governance can support trustees in staying in control of this target.

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What is the long-term funding target?

This year’s Annual Funding Statement from TPR set an explicit expectation for schemes to think about investing and funding towards a long-term funding target (LTFT). For the first time, there was a strong steer for trustees to think beyond technical provisions, to consider a target which reflects their ultimate objective, such as self-sufficiency or buy-out. We believe that thinking about your scheme in this way is vital for long-term success, but it’s not without challenge – often there a stark difference between a technical provisions and a self-sufficiency or buy-out basis.

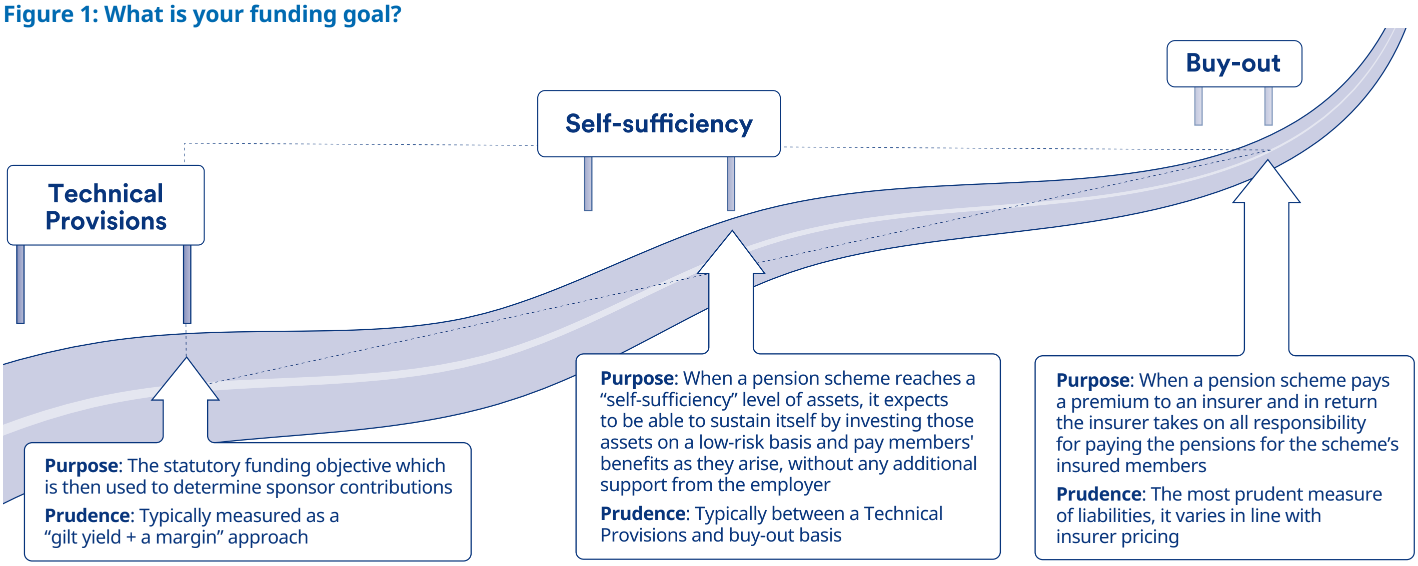
Regardless of the target that has been set however, we believe that an essential element for success is the implementation of a measurable plan in place to get there.

Why is governance important?

We have always thought robust governance is an incredibly important ingredient. Instinctively this makes sense; a well-run and organised trustee board is more likely to make sound, well-informed decisions.

There is another reason governance is important – and that is regulation. There has been a very clear trend over the past few years, with significant increases in the volume of new legislation, guidance and codes from various industry bodies on good governance. From the Pension’s Regulator 21st Century Trustee campaign, to the IORP 2 Directive (Institutions for Occupational Retirement Provision) which both have a significant focus on governance. It’s not a trend we see slowing anytime soon.

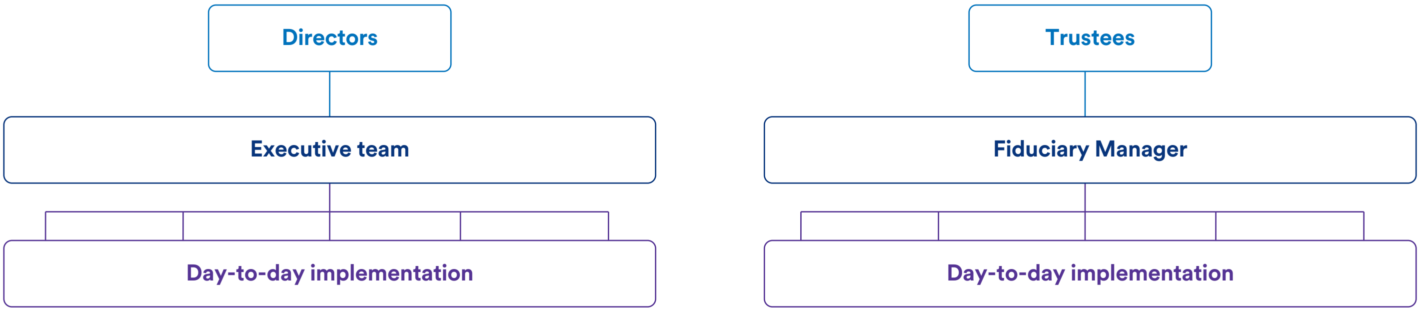
Figure 1: What is your funding goal?



Source: Schroders

Schroders

Figure 2:



Source: Schroders

Staying in control

We believe that staying in control isn't about being involved in every single activity relating to your scheme.

Having clarity of purpose and clear roles and responsibilities are ways to truly stay in control. Getting lost in the detail can distract, outsourcing some of that burden on the other hand can enable you to focus on the strategic decisions and objectives that matter

It's not unreasonable to compare a board of trustees to a company board, with the key functions of investment, legal, actuarial, administration, company secretariat and audit reporting into them.

In a company you have the board of directors who set the overall strategy. They delegate this to the executive team who set a plan in place to deliver against those objectives, with the relevant teams working to implement this on a day-to-day basis. The board remain ultimately responsible, but are able to take a high level view of the challenges faced and not have their time overly monopolised by day-to-day considerations.

Traditional trustee boards typically get far more involved in day-to-day implementation. However, it is also possible for Trustees to delegate some of this tactical workload and fiduciary management is a potential tool to help achieve this. Under this scenario the Trustees set the overall investment strategy, but then delegate the day-to-day implementation of this to a fiduciary manager.

How can delegation help?

Investment strategy is hugely important factor in achieving your long-term funding target - the difference between a good and bad investment decision can have a major impact on a scheme. However, in recent years there have been significant additional requirements and pressures on trustees. These competing demands can mean that trustees simply don't have the time they would like, to spend on investment matters.

This governance framework makes sure all parties are clear on their roles and responsibilities. It sets out the possible decisions and activities relating to a pension scheme and then investigates each of the key parties involved and what their role is.

We have populated this for one of our fiduciary management clients.

The key things to highlight are that whilst the day-to-day implementation is delegated, the Trustees own the main decisions – **staying in control**

Figure 3: Example governance framework

Discover
"Where are we going?"

Decision/Activity	Trustee	Implementer	Overseer
Funding objective	Owner	Advisor	
Time horizon	Owner	Advisor	
Risk tolerance (over time)	Owner	Advisor	
Integrated Risk Management framework	Owner	Advisor	

Translate
"How do we get there?"

Decision/Activity	Trustee	Implementer	Overseer
Flight Path framework	Owner	Advisor	
Liability coverage	Owner	Advisor	

Implement
"What are the tools we will use?"

Decision/Activity	Trustee	Implementer	Overseer
Managing total portfolio risk	Overseer	Owner	
Growth portfolio management	Overseer	Owner	
Matching portfolio management	Overseer	Owner	
Implementation methodology	Overseer	Owner	
Manager selection/deselection	Overseer	Owner	

Review and adapt
"How are we doing?"

Decision/Activity	Trustee	Implementer	Overseer
Funding level reporting	Overseer	Owner	
Review Fiduciary Mandate	Owner		Advisor

Source: Schroders

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