Never one-size-fits-all

Sasha Mandich explores the importance of a good scheme/fiduciary manager relationship

Is your fiduciary manager still getting to know you?
In today's environment, an increased number of schemes are seeking a fiduciary management (FM) partner to help navigate volatile markets and achieve their key investment objectives – to manage liability valuation risk, synchronise cashflows, and achieve required returns. As the fiduciary management landscape continues to develop, it is important to work with the right partner in order to achieve your goals. At Russell Investments, we always put clients' needs first – by recognising that each of our partnerships are unique. This is why we firmly believe in Russell Investments iFM - fiduciary management that is precisely tailored to your scheme's individual circumstances.

Do they understand your unique needs? Do they listen first? It's time to look closer.
The relationship between the client and provider is what we often call the 'human element'. Although sometimes hard to quantify, it is easy to qualify. The FM provider that you partner with should deeply understand your goals, your journey plan and your trustee board culture, in order to decode your scheme's individual fingerprint.

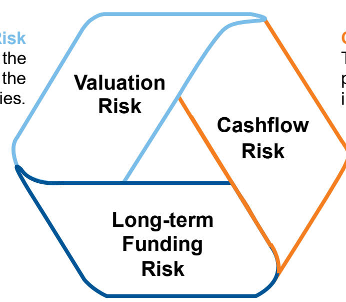
We believe that the most important initial step to building a solid partnership is the provider's ability to listen first. This enables the FM provider to truly understand your unique cashflow and liability fingerprint, and design a strategy fully tailored to you and your scheme's end goals.

Translating your objectives into an investment strategy
We often observe that many schemes tend to be invested in products that fit the provider's standard model – rather than representing a customised solution.

The Russell Investments iFM approach means that we seek the feedback of every individual trustee, the company and the actuary. Then we work together to solve the key challenges.

For most schemes, the primary objective is to pay members' pensions as they fall due. This can be achieved by either running off the scheme's assets or completing a buyout. We translate these overarching goals into a strategy by helping schemes manage three key risks, described below.

Valuation Risk
This is the variability of the market to market value of the assets and the liabilities.



Cashflow Risk
This is the ability to meet benefit payments through reliable investment income.

Risk of Insufficient Returns
This is the risk that the portfolio generates insufficient returns over the long-term to meet the benefit payments.

The above three risks are interlinked. A strategy that targets a higher return reduces the risk of insufficient returns but may expose the trustee to excessive valuation and cashflow risk. We design your strategy by optimising the portfolio for these risks, taking into account the role that different assets can play.

We believe that considering a total portfolio holistically will enable your scheme to more efficiently meet all your objectives.

Customised governance – one size never fits all
If you wish to retain your current adviser, the fiduciary manager should be flexible enough to accommodate that preference. Your adviser would continue to help you set the high-level strategy, with the fiduciary manager then taking full accountability for implementing that strategy.

Furthermore, your fiduciary manager should also fully understand the trustee requirements and beliefs around environmental, social and governance (ESG) factors. All trustees are on an ESG journey, as risks and opportunities emerge whilst regulatory and societal obligations change.

Fiduciary management should never be a one-size-fits-all product. Done correctly, FM is individualised. Your plan is unique, isn't it? Then it is time to demand an FM solution that is customised to your needs.

Written by Russell Investments director, UK institutional, Sasha Mandich

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