

LCP Fiduciary Management Survey

Produced in conjunction with the IAPF
September 2018



Introduction

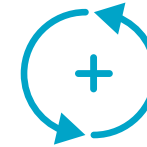
This survey gives an insight into the fiduciary market in Ireland from the perspective of fiduciary managers, pension schemes, and other interested parties.

We asked fiduciary managers about their employment as a fiduciary manager, and about the schemes they manage. We also asked pension schemes in Ireland about their views of fiduciary management (and a little bit about their experience if they had appointed one.)

Key Findings From the Surveys



The Irish fiduciary management market is relatively small, but market participants expect it to grow, and for more companies to begin offering these services in Ireland as the market develops. LCP estimates the size of the market in Ireland as €10-12bn.



The majority of schemes that have appointed a fiduciary manager have given them a full mandate. We expect that over time, those schemes which have only partially mandated a fiduciary manager will move to full management as the relationship between trustees and managers develop.



Transparency of costs and a dedicated expertise in fiduciary management were the two most important factors in selecting a fiduciary manager from the Trustees perspective.



Conflicts of interests are managed on a case-by-case basis, and the ethos of each appointed manager largely directs their response to such conflicts.



The use of independent third party advice in the appointment process of a fiduciary manager is well regarded by the fiduciary management providers themselves.

This survey provides an interesting view of fiduciary management in Ireland both from the perspective of Fiduciary Managers and pension schemes. Moving to Fiduciary Management is a big decision for trustees and these surveys give them an insight into some of the issues involved which can help inform their decisions.

*Jerry Moriarty
CEO of the IAPF*

Survey Results

About the fiduciary managers and their schemes

Our respondents (6 of whom are currently active fiduciary managers in Ireland) classify their respective companies as shown in Fig. 1.

The number of schemes which have fully delegated their asset management decisions to a fiduciary manager far exceeds those who have only partially delegated their asset management to a fiduciary manager. Of the total schemes currently managed, 72% of them are fully mandated. (Fig. 2) The size of the schemes managed varies greatly from company to company (Fig. 3) but the overall distribution is skewed towards smaller DB schemes, with 73% of schemes currently under a fiduciary manager having less than €100m in total assets.

The use of fiduciary services in Ireland is relatively new, and as the method is growing in popularity, so too are the opportunities for providers to win new business. LCP estimates that the size of the fiduciary management market in Ireland is approximately €10-12bn.

In the past year, the companies surveyed won a total of 49 new mandates, and 9 schemes moved from partial delegation to full delegation with their current fiduciary manager.

From a provider's viewpoint this is good news, as once mandated it is uncommon for schemes to switch fiduciary manager. Only three new mandates over the past year were won from another fiduciary manager.

Fig. 1

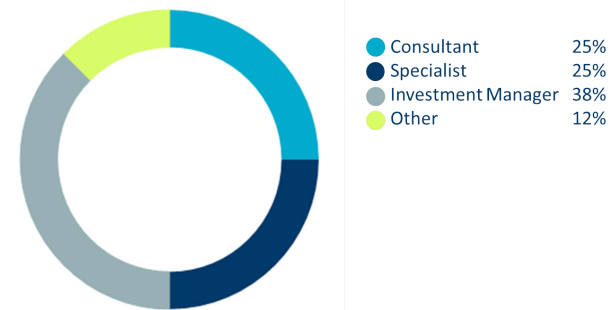


Fig. 2

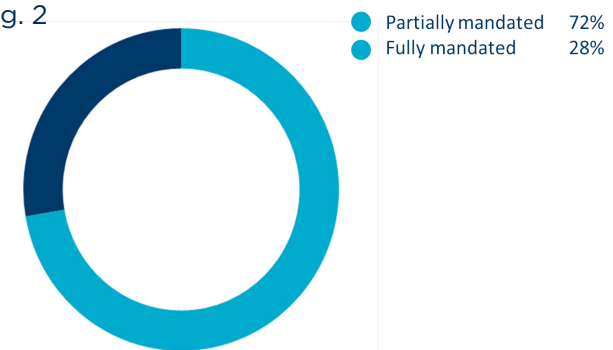
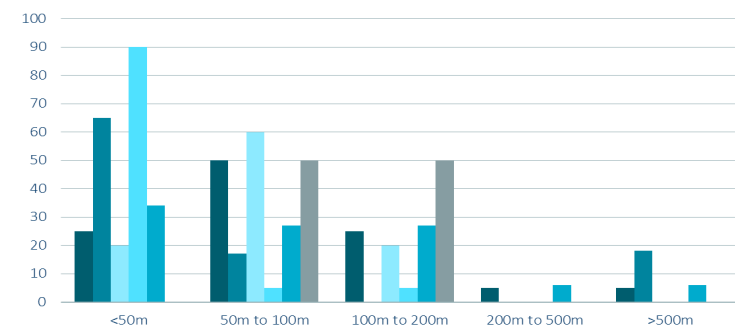


Fig. 3 Size distribution of schemes managed - %



Employment as a fiduciary manager

Receiving a mandate to provide fiduciary management services should represent the beginning of a long-term relationship between provider and the trustees of the scheme.

Of the surveyed managers, 83% said that the trustees of each scheme they looked after received independent written advice about their employment.

Independent third party advice is becoming more important as more schemes opt for fiduciary management services, and fiduciary providers in Ireland seem to be aware of the importance of this impartial advice. When asked about the benefits of seeking such counsel, 100% responded that independent advice is either beneficial or extremely beneficial both to them and the schemes they manage.

50% of managers surveyed may recommend seeking such advice to their clients, while the rest would always recommend that their clients do so.

The demand for such third party advice seems to be on the rise, with one provider commenting:

Not all appointments are intermediated but increasingly this is the case

A Fiduciary Manager

The benefits of having a Third Party Evaluator relies on the ability and market knowledge of the independent third party.

A Fiduciary Manager

View of the fiduciary market in Ireland

We asked all of the managers who completed our survey, whether or not they were currently active in the Irish market, about their views of the current fiduciary management market in Ireland.

When asked about the number of opportunities there were in the Irish market at present, there was a mixed response (Table 1.) 50% of our respondents felt that there were too few opportunities in the market.

100%

of active fiduciary managers see independent third party advice as beneficial or extremely beneficial

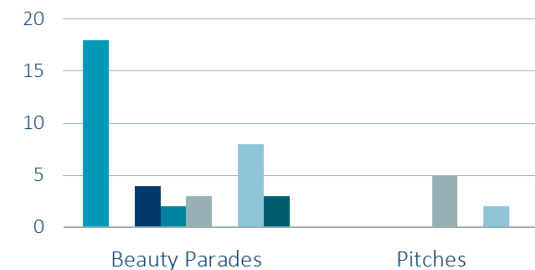
Table 1

Plenty	Just Enough	Too Few
38%	12%	50%

Clearly there is a vast difference in the opportunity set for individual fiduciary managers.

Fig. 4 shows the number of Beauty Parades attended and the number of times each manager was the sole manager to pitch to a company.

Fig. 4



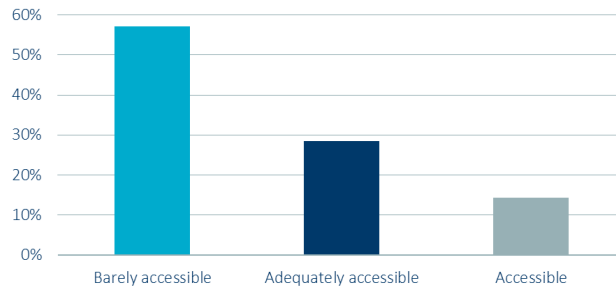
It should be noted however, that while these figures are very different, of the companies that won new business over the past year, the new business as a percentage of their total fiduciary clients remained relatively static. (With the exception of one large provider who currently enjoys a large percentage of the fiduciary market in Ireland; see Table 2 below.)

In addition, we asked all managers to rate the accessibility of the market on a 5 point scale, from “Inaccessible” to “Easily Accessible.” It is interesting to note that no respondent chose either extreme, but still the responses showed a more negative attitude to the market (Fig. 5)

Table 2

New Mandates	25	3	15	5	1
% of current clients	11%	23%	38%	33%	33%

Fig. 5



Thoughts on the future of the market

All of the managers surveyed believed that the market would increase and correspondingly either planned to increase their involvement in the market or expand into it.

Managing conflicts of interest

Finally, we asked our respondents how they dealt with conflicts of interest in their company and especially among their fiduciary clients. The range of responses was wide and most responses referenced the ethos of the company in some way. A selection of what our respondents said is featured on the right.

We are every open with clients who are considering adopting a fiduciary approach outlining potential conflicts and remedies to those conflicts.

A Fiduciary Manager

We have structures and controls in place to ensure we act in the best interests of our clients and select the most appropriate investment strategy for them.

A Fiduciary Manager

Our strong adherence to our core value of integrity reminds employees to act in our clients’ best interests at all times, and helps us prevent conflicts of interest from arising, and to disclose and manage conflicts which do arise.

A Fiduciary Manager

About the schemes and their respondents

The survey was also sent to IAPF members and responses were gathered from a range of respondents, with varying scheme size, and at varying stages of the scheme lifetime. (See Fig.s6 and 7).

Fig. 6

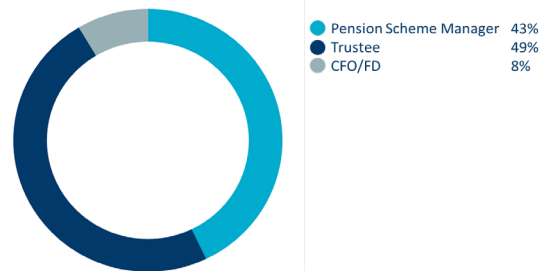
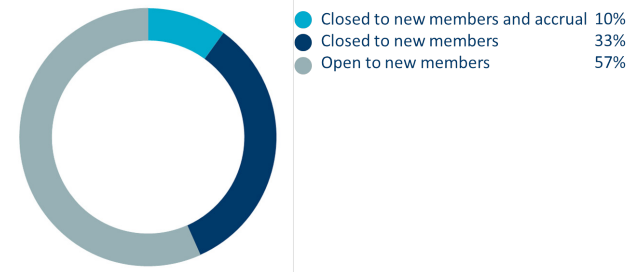


Fig. 7



We asked the schemes about their use of fiduciary management and of those who responded that they did indeed employ the use of a fiduciary manager, there was an even split between those that had fully delegated their schemes and those that had only partially delegated their schemes.

Employing a fiduciary manager

Of the schemes who responded, 50% of them had used fiduciary management for more than 5 years, 39% for between 3 and 5 years and the remaining 13% for up to 3 years.

When selecting a fiduciary manager, there was an even spread between the number of managers considered (ranging from 1 to 5) during the selection process with the most popular selection process used being Requests for Proposals, with 75% of respondents utilizing this process.

It is interesting to note that 75% of respondents had employed a fiduciary manager from a company that they already had an existing relationship with.

When thinking about selecting a fiduciary manager, we asked the schemes who had considered this to rank what characteristics of the manager were important.

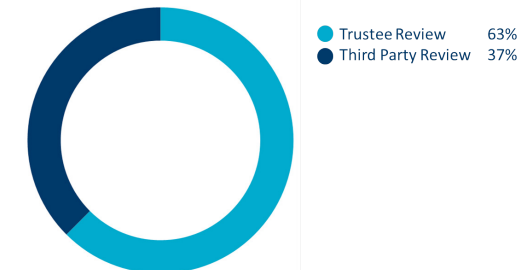
The results are below:

1. **Transparency of costs and fees**
2. **Dedicated expertise**
3. **Transparency of performance and risk**
4. **Cost**
5. **Access to active management**
6. **Existing relationship to manager**
7. **Understanding of company's culture**
8. **Provider is based in Ireland**

Oversight of employment

Half of the schemes surveyed said that they had used an independent adviser to assist with the manager selection process. 75% of schemes said they review the performance of their fiduciary manager annually, and 63% of schemes monitor their manager's performance using a third party (Fig. 8)

Fig. 8



Once appointed, 63% of schemes said that they gave their fiduciary manager consent to act on all investment decisions, except with regards to strategic planning, which was overseen by the trustees.

We asked the schemes for their main reasons for using fiduciary managers, and the results are ranked below.

1. **Expertise**
2. **Trustee governance time constraints**
3. **Diversification**
4. **De-risking challenges**
5. **Speed of implementation**
6. **Managing scheme funding level**

Why a scheme may not appoint a fiduciary manager

We asked the schemes who had considered, but ultimately rejected, appointing a fiduciary manager what reasons led them to this decision. The top three reasons given were as follows:

1. The trustees did not want to delegate decision making
2. Conflicts of interest
3. It was unclear as to where they could obtain independent advice regarding employment and oversight of a manager

In particular, conflicts of interest caused much concern. (See the quote opposite).

There needs to be a real separation between the stakeholders in our view in order to make fiduciary management workable - that has not been seen by this trustee in the offerings to date. Otherwise, the concept is very appealing to this trustee and if fiduciary management could be offered on an arms-length basis, it would be very favourably considered.

Quote from a mandated Trustee

Further information pertaining to the schemes

We asked all the schemes surveyed for their perception of the speed of investment decision making. 77% felt that decisions were made at the right speed for their scheme. Of the schemes that felt that investment decisions were made too slowly, all were schemes that did not currently have a fiduciary manager.

In addition we asked what the surveyed schemes' preferred fee structure was when it came to investment, whether that was employing a fiduciary manager or an investment manager, for example. (Fig. 9)

We also asked whether the scheme was interested in separately tracking the costs of buying out the pension liabilities. (Fig. 10)

Fig. 9

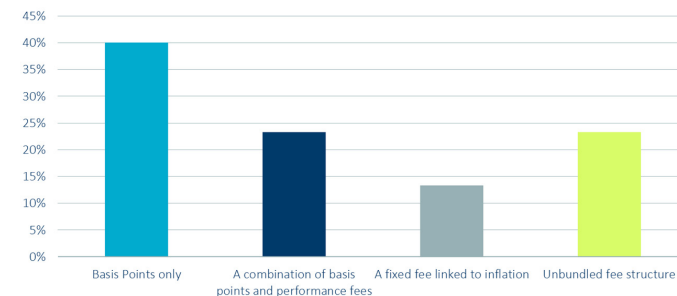
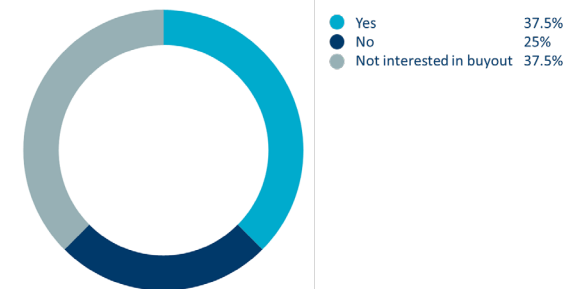


Fig. 10



LCP Comment

We believe that the partial or full implantation of fiduciary management can play an important role in the effective management of a DB schemes' assets. It's clear from our 2018 surveys of the Irish DB fiduciary market that this is an option which is growing in popularity. Our experience of providing independent advice during the appointment process and in conducting formal fiduciary oversight reviews, improves Trustees management and understanding of their fiduciary manager. It also ensures the alignment of interests of the fiduciary manager and the scheme, and delivers transparency and potential cost savings for our clients.



The survey results presented are based on the responses we received from the fiduciary managers operating in the Irish pensions market, with data as at 30 June 2018. We thank each provider for their input in this exercise. We have relied on the information provided to us by the fiduciary managers as being correct.

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