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Review of Providers of Fiduciary Management in Ireland

By Verus Advisory

June 2019

Key Findings

Irish Pension Funds continued to increase their assets in Fiduciary Management. These stood at €21.2 billion as at the end of 2018, an increase of 20% compared to two years previously.

Approximately one half of Fiduciary Managed assets are now in Defined Contribution schemes.

The market is still concentrated with two dominant providers, but others have increased their market share noticeably since 2017. In total eight institutions offer Fiduciary Management to Irish-based pension plans. Most of these are well resourced and organised for Fiduciary Management.

A key element in the success of Fiduciary Managers attracting business in Ireland continues to be having resources "on the ground" in Ireland.

Providers generally have wide ranges of asset classes but differ in how they deliver them. Specific changes we have noted since our previous survey include: offering Fiduciary Management as a spectrum of services; greater options, and complexity, in the liability-driven or matching portfolios; and a broadening of the "alternative" asset classes offered to trustees, especially providing access to less-liquid investments.

There has been a slight reduction in fee levels and we assume new entrants who have been successful in making inroads in the market are likely to continue to apply competitive downward pressure.

It remains difficult for trustees, without specific expertise, to compare the investment performance and costs of various Fiduciary Managers. This problem is being addressed in the UK by robust measures introduced by the Competition and Markets Authority. We believe it would benefit trustees and members if similar measures were adopted in Ireland.

Verus has completed its 2019 ongoing review of providers of Fiduciary Management services to Irish pension plans. We received complete replies to our questionnaires from the eight providers who, in our opinion, constitute the Fiduciary Management market in Ireland. This brief report summarises the findings.

Fiduciary Management

Fiduciary Management (FM) covers a broad range of services. Typically, these involve the provider taking on the duties of strategic investment design as well as selecting and monitoring investment managers. In some cases additional authority can be delegated to the provider such as automatically executing asset sector changes in line with pre-agreed parameters. We observed that FM is being offered increasingly as a spectrum of services. FM is also known as Implemented Consulting, Delegated Consulting or Outsourced Investing.

1. Assets under Fiduciary Management

- The market for FM services continues to expand in Ireland. Assets under FM amount to over €21 billion, which are split approximately 50/50 between Defined Benefit (DB) and Defined Contribution (DC) plans.
- Approximately three-quarters of the assets under FM are managed by providers with investment consulting, rather than investment management, backgrounds.
- Five of the providers offer services tailored specifically for DC plans. All of the providers offer FM for DB plans.
- Two of the providers (who provide DB only) will consider only large plans by Irish standards. Others apply either no minimum or minimum assets between €5 million and €20 million.
- All providers view FM as an important feature of their global business plan.
- Some have aggressive business targets in Ireland. Others perceive only limited opportunities. Incumbent consultancy firms are focussed on approaching trustees directly, while others need to have broader marketing strategies.
- While much of the growth in FM has emerged from the conversion of incumbent clients by consultants, we also observed growing evidence of competition in the form of higher turnover of clients.

2. Governance and Oversight

- Some of our questions, specifically on costs and investment performance, did not elicit sufficiently informative answers. This highlights the difficulty for trustees of making effective comparisons among FM providers. The underlying significant governance issues have been

highlighted recently in the UK by the Competition and Markets Authority, who have made strong rulings about measures to address the problems. We believe these are also of relevance in Ireland.
- All respondents observed the benefits to trustees of independent oversight of their FM providers with some strongly in favour of using it.
- The governing document for FM is typically an Investment Management Agreement, although there can be some complex variations.

3. Brexit

In the eventuality of a hard Brexit some clients may need to use a new fund range or a different contractual relationship. Respondents displayed differing levels of preparedness for this possibility.

4. Constraints on Growth

All respondents are attempting to achieve growth or indeed strong growth in their FM business globally.

We asked the FMs what they felt would be the main constraints to growth on their business in Ireland. Four of the respondents identified competition as the main factor while three thought demand would be the key constraint. Only one identified the capacity of sub-managers as the primary issue. We would have expected this to receive greater identification as an inhibitor of growth.

Strategies for growth in the Irish market range from incumbent consultants focusing on their existing clients, to newer players who intend marketing more broadly to intermediaries and directly to trustees. Some mentioned their promotion of Master Trusts for DC plans.

5. Range of Services

All offer a "manager of managers" or similar service that removes from the trustees the traditional duties of hiring and firing investment managers. Other services that are usually included are:
- Investment advice, agreeing investment strategy
- Regular monitoring of the funding level in defined benefit plans
- Automatic execution of investment decisions based on pre-agreed parameters
- Establishing tailored risk-rated funds for defined contribution plans

6. Investment Choices

Some providers offer a defined menu of proprietary funds with which the client portfolio is populated. The underlying assets are managed in some cases by in-house teams whereas others are managed externally by third parties.

Others do not restrict themselves to in-house products and also offer a wide selection of asset classes and funds. In these cases the bulk of the assets tend to be managed by third parties.

All providers offer both active and passive management, although some are heavily biased in one direction or the other. This is one of the more distinguishing features when assessing the investment approach of the various providers.

Four of the providers offer the facility to manage the assets on a segregated portfolio basis.

The range of "alternative" asset classes offered has broadened since our previous review and includes some attempts to give exposure to less liquid opportunities such as Private Equity.

Most providers use ranges of Irish regulated funds or Irish insurance-based funds.

7. Liability Matching

We observed very different approaches to Liability Driven Investment among the Respondents. These can give rise to substantial differences in the level of gearing and can involve complex elements of portfolio design.

8. Staff Resources

Most of the providers have significant global staff resources dedicated to FM. Four of the providers have staff based in Ireland specifically to service their Irish FM clients. There remains a clear pattern that the large bulk of the Fiduciary Management business in Ireland is currently provided by these managers. The other FMs service their Irish clients from London.

Generally the providers have large expert FM teams. In the past five years the number of joiners has considerably exceeded the number of leavers. Turnover rates appear normal to us.

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9. Conflicts of Interest

All providers agree there are clear conflicts of interest in Fiduciary Management that must be managed and monitored if governance is to be effective. While the identification and proposed resolution of these conflicts varied among the Respondents to our survey**,** there appeared to be a greater acceptance that the issues are real and need to be constantly monitored**.**

10. Risk Management

All providers have good tools for observing and managing market risks.
In some cases there was little or no emphasis on operational risks to the clients' assets, which surprised us.

11. Fees

Fees are almost always charged on a percentage of assets under management, and are typically unbundled (i.e. the fee payable to the Fiduciary Manager is separately identified.)

From answers we have received and based on our market intelligence, we observe a slight reduction in fee levels and other costs, compared to 2017. Newer entrants, who have garnered significant business volumes, are likely to continue to apply competitive downward pressure on costs.

Answers to our questions on fees and costs were treated quite differently by the various providers. Some gave helpful explanations of the way fees are charged, what is included and what is not, and what other costs would be incurred by a client. Others were less clear about what was included, while some either provided no meaningful information or denied other costs, even where they obviously would arise. This issue clearly requires close attention when appointing a Fiduciary Manager and on a continuing basis afterwards.

12. Transition Management

Each provider uses a specialist transition team, either in-house or third party.
A high level of accountability is evident in this area.

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13. Key Competitive Advantages

Verus understands the main benefits of Fiduciary Management to be: better use of trustee time; access to world class investment managers; more efficient implementation of investment decisions; and potential cost saving.

Most providers identified their key competitive advantage as their own expertise and investment platform. Other advantages listed include: independence (i.e. don't manage in-house securities); cost effectiveness; manager research capability.

14. Self-Evaluation of Investment Performance by Fiduciary Managers

Most Fiduciary Managers appeared reluctant or unable to demonstrate a clear evaluation of their investment performance. There were also various approaches to setting benchmarks and targets.

Verus would like to acknowledge the effort of all the providers who took part in this survey and we hope that the survey will be of benefit to pension funds considering or using Fiduciary Management in Ireland.

Verus Advisory Limited
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Verus Advisory is an Irish company established in 2011 to provide independent oversight and consulting on all aspects of Fiduciary Management to trustees and plan sponsors.
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