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PENSIONS WATCH – ISSUE 19:
WHAT'S BEEN HAPPENING AND WHAT'S ON THE HORIZON IN THE WORLD OF PENSIONS

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With trustee investment governance, in many cases, being tested to the limit, in this edition of Pensions Watch we look at the rationale for defined benefit schemes appointing a fiduciary manager and whether fiduciary management has delivered to expectations.

Harnessing the investment governance premium

Although readily apparent within defined contribution (DC), the need for Trustee investment governance to do more of the heavy lifting if good defined benefit (DB) retirement outcomes are to remain the norm, is perhaps less evident. However, a reluctance by many DB scheme sponsors to increase deficit reduction contributions (DRCs); regulatory pressure to shorten deficit recovery periods; ever present challenges to accepted macroeconomic and investment paradigms and norms; increasingly abrupt volatility spikes in public markets, and the ever greater role within investment decision making of Environmental, Social and Governance (ESG) risk factors, particularly climate change risk management, collectively highlight the need for best practice investment governance in DB.

The level of investment governance employed by a decision making body, such as a DB Trustee Board or Investment Committee is, by definition, commensurate with its collective capabilities, its specialist investment knowledge, the efficacy of its time management and how well it organises itself. As such, the challenge remains that only if a Trustee Board or Investment Committee has strong and diverse collective capabilities,[1] can operate in a nimble fashion, focus on impactful strategic imperatives and intelligently share, capture and constructively challenge the collective knowledge, experience and expertise of all in the room, will more optimal investment and risk management decisions result. Just as importantly, these decisions must be followed through with timely implementation and efficient execution.

Not only that, best practice investment governance, which has been successfully applied and developed by many of the UK's larger and better resourced DB pension schemes, is increasingly concentrated on a wider, more governance-intensive, opportunity set. That is, harvesting the illiquidity and complexity premia of heterogeneous, and more governance-intensive, illiquid real, private markets and alternative asset classes, such as real estate and social and economic infrastructure equity and debt. And for good reason. Not only do these assets offer very different return drivers to publicly traded assets, thereby acting as genuine diversifiers of equity and credit risk, many offer secure long-term cash flows, often with an implicit or explicit/contractual inflation linkage – a characteristic increasingly valued when faced with high single digit inflation. However, tapping into this opportunity set typically requires nimble investment governance if the associated risk premia are to be captured in a timely manner. Then there's the increased role that active management can selectively play in a more governance-intensive portfolio to both limit downside and capture upside.

[1] Best practice investment governance for all pension schemes starts with considerations of size and diversity. After all, smaller decision making bodies with defined accountabilities perform better than large, while cognitive diversity, deriving from differences in gender, age, ethnicity, socio economic, educational and cultural background and neurology, further optimises decision making.

Of course, best practice investment governance also extends to having the ability to successfully manage a multitude of risks of different shapes and sizes – some highly visible and quantifiable, others less so. Indeed, as *Pensions Watch* has long maintained, successfully running a DB pension scheme has increasingly become a complex exercise in risk management. Central to this notion of risk management and critical to the success of DB scheme outcomes, is running a Liability Driven Investment (LDI) portfolio. Indeed, those DB schemes which have failed to adopt a formalised LDI policy, certainly over the past decade or so, have seen their deficits spiral skywards.[2] However, there is an additional consideration, which adds a degree of complexity to LDI policies for the sheer number of DB schemes that are now cashflow negative.[3] And that is ensuring sufficient liquidity is made available to meet pensions in payment over the short- to medium-term without overly relying on regular disinvestments from return seeking assets – the very same assets that ultimately seek to plug deficits and pay pension increases.

Perhaps unsurprisingly, the reward for adopting an advanced level of investment governance, and consistently applying this to innovative investment thinking, timely implementation and efficient execution, is estimated to be, a not insignificant, addition of 1% to 2% per annum to long-run risk-adjusted returns.[4] Moreover, a more governance-intensive portfolio should materially reduce the values of key risk metrics, notably the scheme's Value at Risk (VaR) and Funding Level at Risk (FLaR).

Outsourcing investment governance[5]

Given the extraordinary demands on Trustee investment governance, many DB Trustees are now starting to more fully appreciate the attractions of delegating day-to-day investment, risk and cashflow management to a Fiduciary Manager (FM), whether on a full or partial basis[6] – *delegating* being the operative word. Indeed, as a solution to the, seemingly inexorable, DB investment governance challenge, there is a growing realisation that Fiduciary Management (FMt) isn't an *abdication* of fiduciary duty, or a loss of Trustee control,[7] but a *delegation* to a trusted partner, who understands the scheme's needs and is fully aligned with the Trustees' values, investment beliefs and policies. Moreover, appointing a FM typically allows Trustee governance to be freed up to pursue, often under explored, strategic imperatives such as agreeing and refining long-term objectives and end game planning, longevity hedging, liability management exercises and formulating best practice responsible investment and climate change risk management policies.

Moreover, although FMt has principally been the investment governance model of choice for many smaller DB schemes,[8] anecdotal evidence suggests that even £1bn+ DB schemes are increasingly engaging with this model, with the very largest DB schemes, many with in-house investment teams, beginning to gravitate to the partial Outsourced Chief Investment Officer (OCIO) model,[9] to address increased regulatory and investment complexity and rising operational costs. The British Airways Pension Scheme and the National Grid UK Pension Scheme being the most recent examples of this embryonic trend.

[2] See Pensions Watch – Issue 17. https://www.columbiathreadneedle.co.uk/en/inst/insights/pensions-watch-issue-17/

[3] 76% of UK DB schemes are now cashflow negative, i.e. with more cash being paid out than coming in, with almost all DB schemes expected to be in this position in 10 years time. See: See: European Asset Allocation Insights 2021. UK DB De-risking Trends. Mercer LLC. 2021. p.6. This survey of c.460 UK DB schemes, with combined assets in excess of £400bn, comprises 42% of participants with assets under £100m (2% of surveyed assets), 42% with assets between £100m and £1bn (15% of surveyed assets) and 16% with assets over £1bn (82% of surveyed assets).

[4] The two seminal papers which, in the mid-noughties, led to the establishment of an investment governance premium were: 1. Keith Ambachtsheer, Ronald Capelle, and Hubert Lum. Pension fund governance today: strengths, weaknesses and opportunities for improvement. Working paper submitted to the Financial Analysts Journal. October 2006. Gordon L. and Clark and 2. Roger Urwin. Best-Practice Investment Management: Lessons for Asset Owners from the Oxford-Watson Wyatt Project on Governance. September 2007.

[5] The principal alternative to outsourcing investment governance, at least for larger (£10bn+) DB schemes, is to create internal investment and risk management teams with an appointed Chief Investment Officer (CIO). However, as noted below, even these larger schemes with internal teams are starting to turn to outsourced solutions.

[6] Delegating to a FM is not a binary decision in that it can be a full or partial delegation. Full FMt means the FM is typically engaged under a fiduciary management agreement (FMA) to manage 100% of scheme assets, whereas under partial delegation, only a portion of the scheme assets or a portion of the Trustees' fiduciary responsibilities are delegated. Partial FMt can simply comprise the greater use of delegated, or manager of manager, pooled investment funds. It can also just focus on improving the operational side of things, notably implementation without the prior advice. By contrast, under a full mandate, there is a combination of investment strategy, advice and management - the services provided under a full FMt mandate including all or the majority of the following: journey plan design, investment strategy, strategic and tactical asset allocation, growth and matching portfolio structuring, manager selection, implementation and administration. At 606 versus 290 mandates (both adjusted for the integration of JLT into Mercer and the latter's definition of FMt), full FMt in the UK outnumbers partial by over two to one, though assets under management for each is broadly equivalent at £114bn and £115bn, respectively. See: Latest trends in Fiduciary Management 2021. Isio UK Survey November 2021. p.5.

[7] Trustees continue to set the scheme's high level investment strategy, i.e. the return target, key risk parameters, investment beliefs and responsible investment policies.

[8] In 2021, 54% of DB schemes delegating to a FM had < £100m of assets, 27% had between £100m and £250m of assets and 13% £250m to £500m. See: UK Fiduciary Management Survey 2021. Isio. November 2021.

[9] Although in practical terms OCIO is the same as fiduciary management, it is sometimes called the master manager model or outsourced investment management, and refers to the full or partial outsourcing of a pension scheme's investment function to a third party asset manager or investment consultant. By adopting the partial model, as some larger DB schemes with an internal investment and risk management team have done, the scheme retains some level of fiduciary responsibility, for example separating control of investment strategy, asset allocation and asset/liability modelling from day-to-day investment and risk management operations and implementation. This separation of responsibilities might result in the OCIO focusing on: manager monitoring and selection; day-to-day liquidity management; implementation of the scheme's RI/ESG/climate change strategy; reporting on manager research findings, asset class positioning, risk metrics and scenario analysis, and ESG and TCFD regulatory reporting.

Not all Fiduciary Managers or mandates are created equal

As FMs and their solutions come in all shapes and sizes, DB schemes looking to outsource their investment governance are increasingly using independent third party search and selection services, or third party evaluators (TPEs),[10] to not only determine which investment governance solution will work best for their scheme, but also which of the many providers will best assist them to meet the scheme's desired journey and end game. Although FMt is multifaceted in that relationship management, client engagement and the quality and transparency of reporting are all integral components, ultimately the validity of any outsourced investment governance rests on realised outcomes, principally the level and quality of risk-adjusted returns, relative to a low investment governance portfolio. Not that FMt is about shooting the performance lights out – it isn't. Rather, it's about managing to an agreed outperformance objective within a Fiduciary Management Agreement (FMA) and Guidelines, reflecting the fact that each DB scheme has a unique journey plan, comprising target investment return, risk tolerance and term to full funding.[11] Not that this target investment return remains static. Indeed, progression to full funding typically results in the scheme de-risking and setting a commensurately lower target investment return. This was readily apparent in 2021.[12] Also, while most FM mandates are unconstrained in their investment policy, which extends to setting (typically high) liability hedge ratios, some mandates do set constraints on the FM's latitude to tap into the available opportunity set.

So given the uniqueness of each FM mandate, how can we assess whether FMt truly provides a solution to the investment governance challenge increasingly faced by DB schemes? Well, one approach, adopted by Investment Consultant and TPE, XPS, that seeks to avoid comparing apples with pears, is to analyse the annual net of fees returns of those FM best ideas growth portfolios, which collectively represent almost 100% of UK FM assets, benchmarking these against lower governance investment solutions. Granted, 12 months isn't a sufficiently long period by which to robustly assess FM performance.[13] However, given how differently markets performed in 2020 and 2021, it is nevertheless instructive to look at the results of XPS's 2021 and 2022 surveys in order to gain an insight into whether FMt, as an outsourced investment governance solution, does what it says on the tin.

The story of 2020: *a 10% dispersion of FM returns with 86% of FMs outperforming the median Diversified Growth Fund (DGF) and 36% the upper quartile DGF*

2020 was, of course, a volatile year for markets, where dynamic asset allocation and risk management were the key to providing downside protection in Q1 and capturing opportunities thereafter.

In collecting the net of fees returns in 2020, on the 22 best ideas growth portfolios of 18 FMs, XPS found that the difference in net returns between the best and worst FM performers was around 10% (15% if including the outliers).[14] Although all FMs recouped their Q120, pandemic-driven, losses relatively quickly,[15] so generating positive absolute returns for 2020 as a whole, all but one FM underperformed global equities and all but two underperformed a low-cost index tracking 60/40 equity/bond portfolio, in what ultimately proved to be a strong year for equities and fixed income. However, the vast majority of FMs (86%) outperformed the median Diversified Growth Fund (DGF), arguably the most appropriate of the three benchmarks, not least given the multi-asset nature of FM portfolios, in both risk-adjusted and non-risk adjusted terms.[16]

[10] Search and selection services are principally provided by those investment consultants and governance specialists who do not have a fiduciary management or OCIO offering. According to Isio, 79% of FM searches in 2021 were conducted by an independent third party. This percentage materially increased, from 57% in 2020, as schemes which had already appointed a FM more than 5 years ago for more than 20% of scheme assets without a competitive tender process, undertook a tender process as required by the 2019 CMA Order. This retender is required by the later of 5 years from the original appointment or 9 June 2021. According to Isio, 53% of these schemes ran a competitive tender process, 36% a light touch and 11% a minimum compliance tender process. See: Latest trends in Fiduciary Management 2021. Isio UK Survey November 2021. p.11.

[11] Of course, subject to agreed risk tolerances and portfolio constraints not being breached, it is perfectly acceptable for a FM to harvest returns from buoyant markets in excess of the stated target return and to put the scheme ahead of its journey plan if the latter isn't to be compromised when markets are less buoyant and returns fall short of target.

[12] According to Barnett Waddingham, the proportion of DB schemes with FMt mandates targeting a return less than liabilities + 1.5% increased in 2021 to 42% from 33% in 2020. See: 2021 Fiduciary Manager Investment Performance Review. Barnett Waddingham. April 2022. p4.

[13] A full market cycle would be ideal. However, most FMs in the UK have yet to experience a full market cycle.

[14] Data to 31 December 2020. Fiduciary Manager Review 2021. XPS. May 2021. p.8. Compared to previous years, the 2020 FM results were characterised by heightened levels of volatility and little correlation between the volatility associated with the resultant returns. Separately, in analysing 12 FMs, accounting for around 90% of UK FM assets under management, TPE Isio, in adopting a similar methodology to XPS, found that during 2020 the difference in cumulative return between the best and worst FM performer peaked at c.8% on 31 March, narrowing to under 5% by the end of the year. See: A beginners guide to assessing fiduciary management performance. Isio. 27 May 2021.

[15] Around one third of FMs eliminated their losses within three months, with almost all doing so within six months. See: XPS (May 2021). op.cit.p.7.

[16] Very few schemes benchmark themselves against global equities, given that the associated level of volatility of equities can be almost twice that assumed by the median FM portfolio. Although each DB scheme does, of course, have a unique target investment return and risk tolerance, and each FM has its own investment approach, a 60/40 portfolio or the median DGF, is perhaps a more appropriate benchmark. This is especially true of the latter, given the multi asset nature of FM portfolios and an associated level of volatility which typifies that assumed by the median FM. While accepting that DGFs can take many forms, what FMt typically offers, over and above investing in a DGF, is greater access to the illiquidity premium, principally via liquid alternatives and the ability to tailor investment strategy to trustee investment beliefs, for example asset class or ESG beliefs.

FM performances in 2020 were, of course, principally determined by the level of equity and credit allocations going into the early stages of the pandemic and the extent to which these were dynamically altered coming out of a highly volatile first quarter. With little, if any, consensus by FMs around strategic asset allocation (SAA) and with significant variations in the level of dynamism attaching to these (DAA), the resultant dispersion of FM returns was perhaps inevitable.[17] Take each FM's average global equity holding and the changes made to this allocation throughout the year. During 2020, one FM's best ideas growth portfolio had over 60% on average invested in equities while another had less than 5%, with every other manager being somewhere in between. Likewise, whereas one manager's best ideas growth portfolio equity allocation was static over the year, another's shifted by almost 25%. Of course, these allocations would have reflected different target investment returns and risk tolerances. However, as one would expect from the risk-controlled nature of FMt, most managers altered their equity allocations by less than 10% over 2020 and exhibited similar restraint in their asset allocation shifts to corporate bonds. This heterogeneity also played out in the average allocations to LDI assets and cash, which varied from around 3% to 84%, and to illiquid and alternative asset classes, from 2% to around 40%.[18] However, casual observation of the statistics suggests that, on balance, those FMs who experienced the greatest losses in Q120, captured the biggest gains during the remainder of the year.

Not that this dispersion in approaches to SAA and DAA is anything new. Indeed, over three years – a period characterised by much lower levels of volatility than those experienced in 2020, but with equity weightings again being a significant driver of returns – there was, according to XPS, a c.7% dispersion in annualised FM performance, with almost all managers (86%), once again, outperforming the DGF median return.[19]

The story of 2021: ***an 8% dispersion of FM returns, that progressively reduced during the year, with 72% of FMs outperforming the median Diversified Growth Fund (DGF) and 56% the upper quartile DGF***

With market risk being well rewarded in 2021, it's unsurprising that the majority of returns, from the 18 best ideas portfolios of 14 FMs, were principally driven, once again, by strongly performing, albeit less volatile, global equity markets. Real assets and many private markets also performed strongly, against the backdrop of an economic recovery gathering momentum and dramatic (supply side-led) rises in inflation expectations.[20] These persistent inflationary pressures, in turn, led to bond yields bouncing off historic lows which, despite tightening credit spreads, saw both investment grade credit and high yield bonds failing to register gains. Hedge funds and absolute return strategies also disappointed.

Against this backdrop, all 18 portfolios, being well diversified, unsurprisingly underperformed global equities though, in absolute terms, 56% outperformed the DGF upper quartile return, with 44% outperforming a low-cost index tracking 60/40 portfolio. However, while 28% of FM portfolios underperformed the median DGF return, none dipped into DGF bottom quartile territory. Crucially, all portfolios comfortably outperformed their stated return targets, which variously ranged from cash +2.8% to cash + 5%,[21] though some FMs managing to lower return targets uncharacteristically outperformed those targeting higher returns. The dispersion of returns also progressively reduced during the year, with the volatility of FM returns being lower than in 2020. Indeed, on a risk-adjusted basis, 56% of portfolios outperformed a passive, low governance, 60/40 portfolio, while 39% did similarly against the upper quartile DGF.

As in 2020, there were large variations in average asset allocations throughout the year, demonstrating the significant differences in the approach adopted by each FM – each managing to unique guidelines. For example, FM equity allocations ranged from just below 20% to just under 80%. However, once again these equity allocations were fairly static throughout the year, as was the case for FM asset allocations as a whole. What was significant though were the differences between FMs in the degree of equity market capture on the upside and downside, with bigger differences in the former than the latter, principally reflecting the extent to which active and passive equity management was employed by each FM.

[17] This lack of consensus around SAA is in direct contrast to the blatant herding by the UK's four top institutional fund managers of the 1980s and 1990s around a median asset allocation. These, so-called, balanced managers, who were each entrusted by the vast majority of UK DB schemes to manage a scheme's entire asset portfolio, converged to a consensus asset allocation for fear of underperforming their peers - with disastrous results.
[18] XPS (May 2021). op.cit.p.9.
[19] XPS (May 2021). op.cit.p.8. Separately, Investment Consultant and TPE, Isio, in analysing three years of performance data for its 12 FMs, found that almost all (83%) had significantly outperformed a low investment governance portfolio, comprising a 50% MSCI AC World/50% IBOXX non-gilts 15+ years indexed benchmark, and at a lower annualised risk. Of the 12 FMs, one manager had a negative annualised return over the period, while another achieved a lower annualised return than the low governance benchmark. See: Isio (May 2021). op.cit.
[20] As noted earlier, many real assets typically have an implicit or explicit (contractual) inflation linkage.
[21] These return targets also included one set at gilts + 3%.

What about performance persistency?

Separately, Investment Consultant and TPE, Barnett Waddingham, in its 2022 FMt survey, acknowledging that the longer-term performance of most FMs is ahead of target, looked at the performance persistency, over 2019, 2020 and 2021, of a select group of 13 FMs.[22] In other words, whether the top performers in one year, repeat this feat in successive years, in what were very different markets. Relative to the performance of their peers, only three of the 13 generated a top half peer group performance over all three years, principally as a result of having high global equity exposure and liability hedge ratios. While not particularly impressive at first sight, statistically, i.e. based on luck alone, only two FMs would have been expected to have performed this feat. Moreover, two of the three persistent outperformers posted first quartile performances over 2019 and 2020, albeit not in 2021, having adopted a more defensive stance last year. Additionally, three FMs achieved top-half performances in 2019 and 2020, but not in 2021, while one posted a good 2019, a strong 2021 but a poor 2020.

Of course, these short-term performance analyses don't provide the ultimate litmus test, in that analysing these results over a full market cycle would provide a better proof of concept. However, as few FMs have a performance track record which extends over a full market cycle, it may be a while before that particular analysis can be conducted. That said, when coupled with three- and five-year risk-adjusted performances,[23] relative to that of the median and first quartile DGF, that are not too dissimilar from these one year performances, it's fair to conclude that FMt, as a mechanism for advancing the investment governance of DB schemes, should receive a relatively firm tick. This still holds even when evaluating performance through the lens of performance persistency.

That said, FMt may not be for every DB scheme. After all, there are some very talented Investment Consultants, ably assisted by well resourced teams who, through the advisory model, continue to help transform the investment governance credentials of many DB schemes. However, if FMt is the desired means by which to help achieve the chosen journey plan and end game, then read on.

Fiduciary Manager evaluation through multiple lenses

While FM performance against a mandated return target and lower governance portfolio solution benchmarks is the principal means of evaluating a FM, increasingly that evaluation is extending into many others areas. These include assessing the quality of advice, help in setting ESG and climate policies, the integration into portfolios of stewardship and ESG, particularly climate, considerations, the quality of reporting more generally but especially in relation to ESG and climate, trustee education and engagement, and, of course, whether of all of this is reflected in competitive fee levels.

How competitive are Fiduciary Management fees?

Despite the increased complexity of FM portfolios and the associated regulatory demands on reporting in recent years, FMt total expense ratios (TERs)/(ad valorem) fees have very much been on a downward trajectory. Why is that? Well, aside from increased competition and transparency, 2020 and the first six months of 2021, in particular, were characterised by significant FM mandate retendering activity, as a result of the 2019 CMA Order.[24] In all, there were 209 mandate retenders (with a further 74 expected after June 2021).[25] While, perhaps unsurprisingly, due to the high financial and governance cost of switching providers, only 22% of these retenders resulted in schemes changing FM,[26] FMt fees fell by around 15-20% across both best ideas and cost effective portfolios for both those switching and those remaining with incumbent FMs. In fact, for many, these fee reductions more than recouped the cost of the retendering exercise and have been particularly marked for those schemes with assets below £250m.[27] Additionally, this downward pressure on fees has resulted in many schemes being able to move from traditional advisory to FMt, whilst lowering their overall TER. What's more, the retendering process has seen schemes gain an increased understanding of their FM arrangements, resulting in most reviewing their high-level strategy and re-examining what they need from their FM.

[22] See: Barnett Waddingham (April 2022). op.cit. p.10. These 13 FMs were managing to return targets of 1.5% to 2.5% above scheme liabilities and employed a high or unconstrained liability hedge ratio.
[23] Barnett Waddingham similarly concludes that over the five years to end-2021, most FMs, particularly those with lower return targets, achieved their outperformance objectives, though this was predicated on employing high levels of liability hedging first and equity exposure second. See: Barnett Waddingham (April 2022). op.cit.p.9.
[24] Those schemes that had already appointed a FM more than 5 years ago for more than 20% of scheme assets without having employed a competitive tender process, were required by the 2019 CMA Order to undertake a retendering process by the later of 5 years from the original appointment or 9 June 2021. On 6 June 2022, the government confirmed its intention to "largely replicate" the relevant parts of the CMA Order into legislation.
[25] Fiduciary Manager Survey 2021. IC Select. September 2021.p.7.
[26] IC Select (September 2021). op.cit. p9.
[27] Isio (November 2021). op.cit. p.8.

Monitoring via an appropriate governance framework

Although there is an element of guarding the guards, employing a TPE to independently oversee and report on a FM, at a fraction of the cost of a typical FMt mandate fee, is seen, particularly by some larger schemes, as a valuable layer of additional governance.[28] However, despite prompting from The Pensions Regulator, only a minority of FM schemes employ independent oversight.

While for many schemes this oversight may simply comprise an annual health check or a triennial deep dive, for some this monitoring can take the form of high-level quarterly reporting on asset allocation, performance attribution (what is driving performance and why),[29] a horizon scanning of the key risks and compliance with the FMA and Guidelines. However, this is often complemented by a more detailed annual health check and triennial deep dive, both of which incorporate an assessment of whether the investment strategy is still appropriate, the level and structure of fees and the positioning of the FM amongst its peers. Of course, a review of the level and structure of FM fees becomes an even greater imperative when a FMt scheme, having progressed ever closer to full funding, adopts a low risk, principally low cost, portfolio with a commensurately lower return target.

Why does all of this matter?

While it is readily apparent that investment governance needs to do more of the heavy lifting if good DB retirement outcomes are to remain the norm, not all schemes have the requisite governance bandwidth to replicate the advanced investment governance and innovative investment thinking of the UK's leading-edge DB schemes.

Although FMt, which operates in an increasingly price competitive marketplace, has the potential to advance investment governance sufficiently to help secure good retirement outcomes, as with any outsourced solution FMt shouldn't be seen as an investment governance panacea. Indeed, given the dispersion between providers in terms of investment approach, notably towards strategic and dynamic asset allocation and the adoption of active management, which ultimately translates into often significant variations in risk-adjusted returns, even for similar scheme return targets, choosing between providers is absolutely crucial.

That said, FMt may not be for every DB scheme. After all, there are some very talented investment consultants, ably assisted by well resourced teams who, through the advisory model, continue to help transform the investment governance credentials of many DB schemes. However, if FMt is the desired means by which to help achieve the chosen journey plan and end game, then there's no substitute for putting in the hard yards to identify which of the many providers best fits the bill and in monitoring the progress of the selected provider.

Of course, the critical characteristic any scheme should seek in a FM is one of trusted partner – with a willingness to understand the scheme's needs, align with its values and investment beliefs and focus on the journey ahead by setting clear triggers for action. Suffice to say, the chances of doing this successfully are considerably enhanced by enlisting the help of a TPE to guide the search and selection process.

[28] According to IC Select, 70% of FM schemes with over £1bn of assets employ independent oversight. See: IC Select (September 2021). op.cit. p9.
[29] This includes an assessment of the extent to which performance is attributable to FM skill and how much to the market.

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