2019 KPMG UK Fiduciary Management Survey

Investment Advisory

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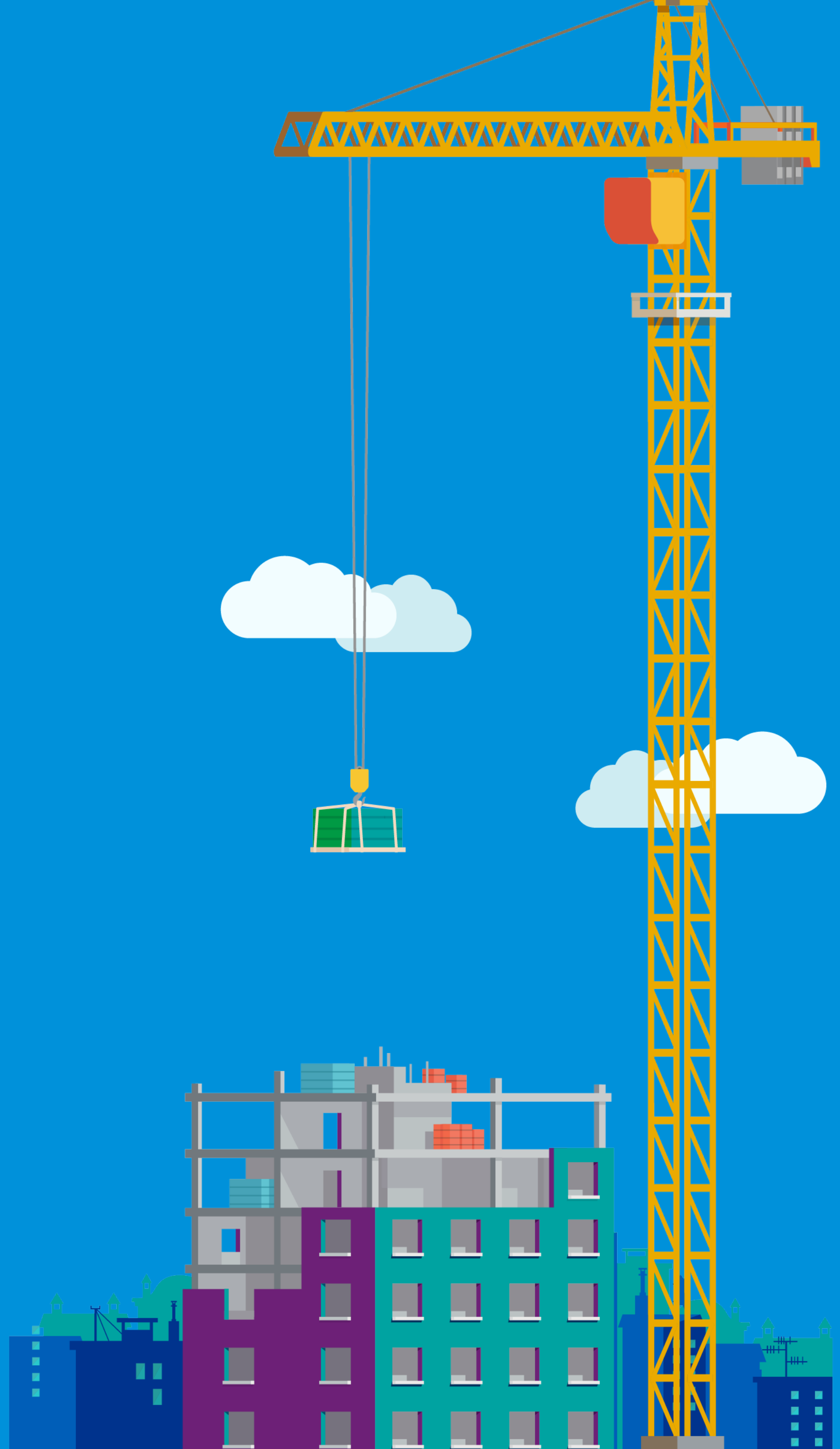


2019: Fiduciary management industry – reconstruction underway?

Our 2019 survey indicates a small improvement in the growth rate this year, with a 10% increase in the number of mandates compared to 9% the year before, with assets managed breaking the £170bn barrier. We estimate that 17% of pension schemes[1] now use a fiduciary manager – about 80 more schemes than in 2018. Interestingly, the growth in mandates has been helped by a pick-up in "partial" mandates – an approach which looked moribund in previous surveys. The use of independent advice when reviewing an existing fiduciary manager or appointing a new one has remained steady or reduced slightly. This slight fall is a surprise to us, given the benefits for pension schemes of an independent view.

Growth remains steady but more to come

The year to 30 June 2019 saw the number of new fiduciary mandates increase by 10%, which is marginally higher than the 9% increase of the year before. The timing of the CMA's remedies (mid June) was likely a restraining factor here. Nonetheless, we record 10% growth in the number of mandates by number, and a 21% increase by assets under management (the latter number helped, we believe, by relatively high levels of liability hedging). Partial mandates made a return, reflecting more considered use of FMs rather than an "all or nothing" fiduciary solution. We expect the 2020 survey to capture a surge in tenders, as some early adopters are required to go to back to the market and retender in order to meet the CMA's requirements. Whilst not increasing the number of mandates, this may lead to a wider distribution across providers – at this stage, consultancies continue to dominate.

Hedging is high but so are target returns

Fiduciary mandates continue to have relatively high levels of liability hedging, with c.70% of mandates targeting 80% hedging or higher. The fact that so few fiduciary mandates are targeting low returns suggests that it is considered a more suitable strategy for Scheme's with higher return targets. Only 27% of mandates had return targets of liabilities +1.5% or less.

[1] Number of defined benefit schemes using full and partial fiduciary management compared to number of defined benefit schemes in the PPF Purple Book 2018, which listed 5,450 PPF eligible UK Defined Benefit Schemes.

End game planning

This year, we asked for the first time about clients' long term objectives and "end game" planning i.e. what will they do once they have reached full funding on a technical provisions basis? Here, it seems there is more work to do, particularly to meet the Regulator's expected focus on a long term objective. 16% of mandates have no specific target – those that do are looking at buy out and run off, with very few targeting a relatively "pure" form of cashflow driven investment ("CDI").

Environmental, Social and Governance ('ESG')

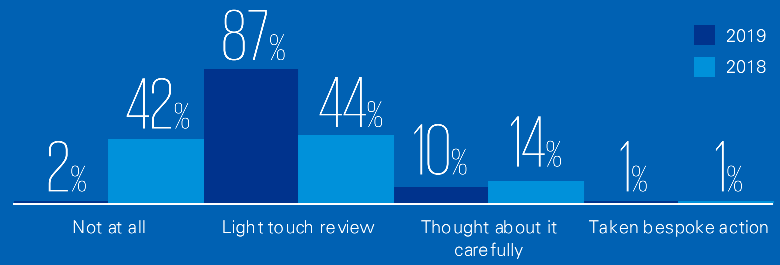
This year has required trustees to look at ESG in more detail and record their stance in their SIP. Our survey suggests most trustees (98%) are now engaging on ESG, compared with 42% not engaging at all last year. However, it appears that few schemes are currently going beyond the minimum requirements.

Use of third party evaluators ('TPE')

Use of independent advice when selecting a fiduciary manager declined by 5% (to 61%), with independent advice for ongoing independent oversight remaining static. This surprised us as we expected both numbers to increase given the clear benefit of independent advice for schemes.

ESG and fiduciary management

We measured the extent to which schemes had engaged with their fiduciary managers on ESG. Data suggests engagement is happening, but few trustee boards are designing bespoke policies and many are heavily guided by the providers' default positions.



End game objective

We asked fiduciary managers to tell us what the end game was for their full UK mandates once they have reached full funding on a long term objective. The results indicate that buy-out remains the preferred option amongst pension schemes.

Return target and hedging level heat map

We measured schemes' hedging levels against their return targets. Our results show that over two-thirds of schemes have hedging levels greater than 80%.

30 June 2019	Target return: Liabilities +				
Hedge %	< 0.5%	< 1.5%	< 2.5%	< 3.5%	> 3.5
0 – 40	0%	0%	0%	2%	2%
40 – 60	0%	0%	2%	4%	3%
60 – 80	0%	3%	10%	5%	1%
> 80	3%	21%	26%	17%	0%

The survey results presented are based on the responses received from the following fiduciary managers operating in the UK pensions market, with data as at 30 June 2019. The measurement period for wins and losses is the 12 months to 30 June 2019.

- Aon Hewitt
- BlackRock
- BMO
- Cambridge Associates
- Cardano
- Charles Stanley Asset Management
- Goldman Sachs Asset Management
- Kempen
- Legal & General
- Mercer
- River & Mercantile
- Russell Investments
- Schroders
- SEI
- State Street Global Advisors
- Willis Towers Watson

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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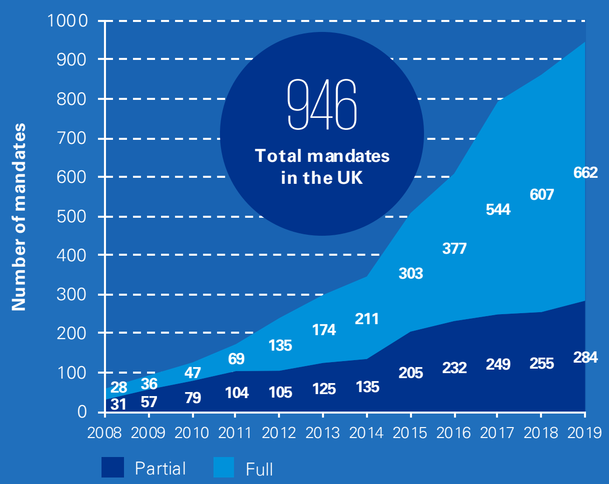
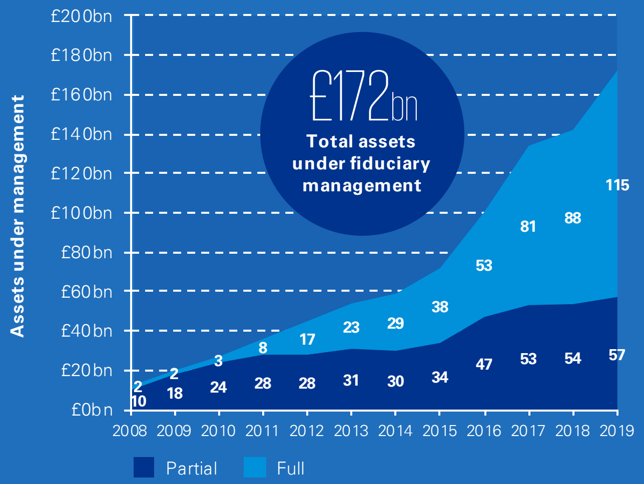
2019 Highlights

Market Size

Growth in the number of mandates



Growth in assets under fiduciary management



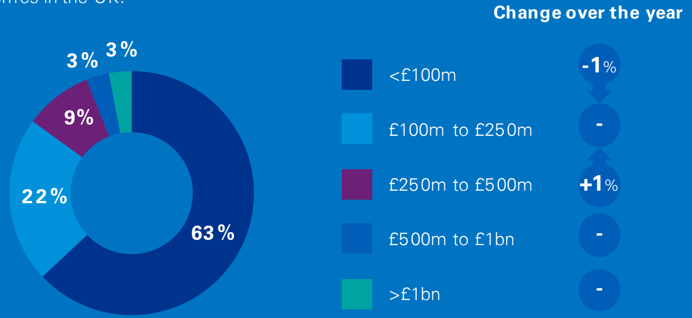
Note: We have assumed JLT data has remained constant from 2018, as following the merger with Mercer this data was not able to be provided.

Market Breakdown

Proportions of mandates by size

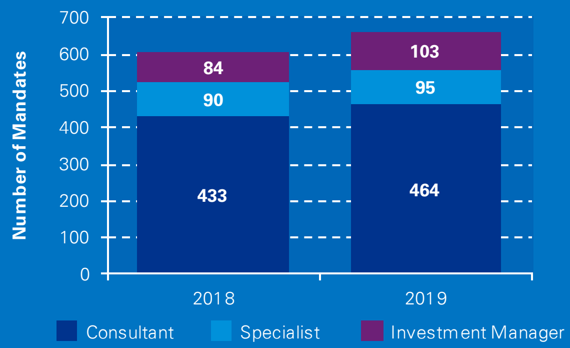
Big and small schemes are using fiduciary management.

This distribution is broadly equivalent to the proportion of big and small pension schemes in the UK.



Number of fully delegated mandates by provider type

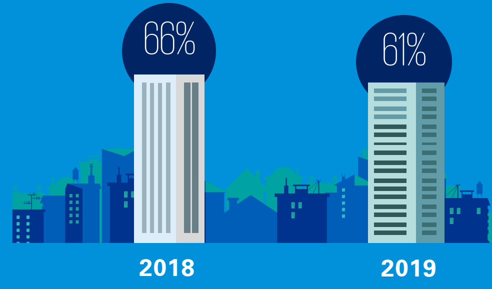
"Consultants" continue to manage the majority of mandates.



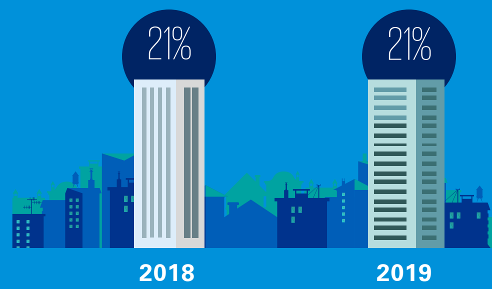
Independent advice

We define independent advice as written advice provided to the Trustees from a third party.

61% of **new appointments** this year were advised by an independent third party.



21% of schemes use an independent **third party overseer** to review the mandate on an ongoing basis. This has remained unchanged over the year.



Sources for data in this survey:

Fiduciary providers and KPMG calculations.

Additional Notes:

We have relied on the information supplied by the participants as being correct. KPMG has not tried to independently verify the information provided.

Unless labelled for full or partial mandates, data/comments are shown for full FM mandates only. Where data was not available for a specific question from a fiduciary manager, this manager was excluded from that part of our analysis. This is not expected to have a material impact on the figures.

KPMG and fiduciary management advice

Independence and experience are a valuable combination in an ever-changing fiduciary management landscape.

KPMG do not offer fiduciary management. We are therefore well placed to provide advice that is truly independent.

KPMG's Fiduciary Management advisory services for pension schemes combines investment consulting experience, internal-controls and operational due diligence expertise, combined with our pensions thought leadership.

What services does KPMG offer?

KPMG provides advice on a wide range of fiduciary management aspects, including but not limited to:

Governance assessment

Deciding if fiduciary management is appropriate, and if so, which governance structure is right.

Fiduciary management selection

From setting criteria to assisting with selection exercises and retendering.

Mandate & guidelines set-up

Setting up and designing the framework against which to measure the provider.

Ongoing review & reporting

Independently checking progress against objectives and providing challenge where necessary.

Editors

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Definitions used in this survey

Full delegation – the fiduciary manager is typically engaged under an investment management agreement to manage 100% of scheme assets. The services provided include all or the majority of the following: journey plan design, strategic and tactical asset allocation, growth and matching portfolio structuring, manager selection, implementation and administration, so that there is a combination of investment advice and investment management.

Partial delegation – trustees delegate only a subset of the investment management to provider. The subset may comprise a portion of the scheme assets or a portion of the "full fiduciary" responsibilities, for example, a proportion of the Scheme's growth assets. The subset must also be subset of an alternative full fiduciary management service provided by the same firm.

Environmental, Social and Governance ('ESG') – investing with an awareness of the wider risks associated with the impact of investments on society as a whole.

Engagement definitions – "Light touch review" is engagement on specific ESG policies, "Thought about it carefully" is defining objectives within investment guidelines, "Taken bespoke action" includes screening investments.

For further information on fiduciary management...

...please see our three page guide, which addresses the questions:

– Is fiduciary management right for me?
– How do I choose a fiduciary manager?
– Is my fiduciary manager meeting my long term objectives?

This is available at the link:
https://home.kpmg.com/uk/en/home/services/tax/pensions/fiduciary-management-advisory.html

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