



Fiduciary Management Survey 2017

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Fiduciary management described by respondents

As in our previous two surveys, we asked respondents to describe fiduciary management in their own words. Four-fifths shared their views, with the vast majority providing well-informed descriptions.

The descriptions show clearly that understanding of fiduciary management — what it is in theory, and what it delivers in practice — has grown exponentially since we started asking the question.

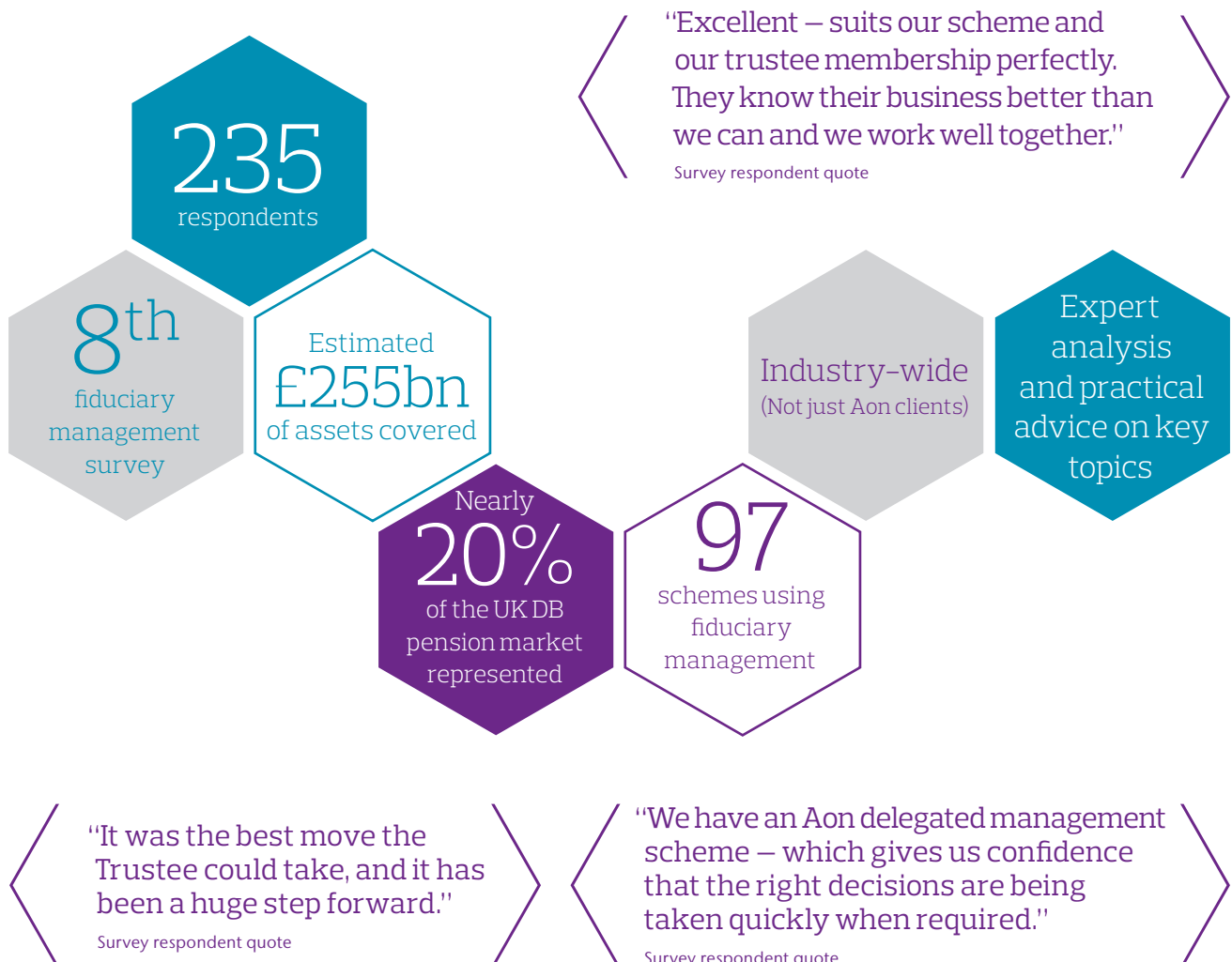
Executive summary

This is Aon Hewitt's eighth survey on fiduciary management for UK defined benefit (DB) pension schemes. It remains the largest and longest-running survey in the UK pensions industry on this area of the market. It is unique due to its eight-year history, large scale and focus on users rather than providers.

This year's survey represents the views of 235 respondents. 100% of these are pension scheme representatives in some form, including chairs of trustees, trustees and pensions managers. The survey covers an estimated £255 billion of assets, representing nearly 20% of the DB pension market in the UK (in asset terms). The survey includes 97 schemes using fiduciary management, the highest number since the survey was launched, covering an estimated £125 billion of assets. Importantly, this is a survey of the entire industry and not just Aon clients.

We define fiduciary management as the delegation by trustees of the day-to-day investment decision making and implementation to third parties. Over the years, we have seen this approach grow significantly, with this year's results showing the highest take up to date.

The survey examines trends and developments within fiduciary management. It provides expert analysis and practical advice on key topics, including provider selection and performance measurement.



We draw out some of the main highlights from the survey below. Within the rest of the survey we show the full analysis and key findings within each of these, and other, areas.

Fiduciary management continues to grow in popularity

48% of respondents to this year's survey have either full (33%) or partial (15%) fiduciary management in place. This compares to 45% in 2016.

Since 2011, fiduciary management among small schemes (those with £100m or less in assets) has leapt from 28% to its current position of 52% in other words, there are now more small schemes with fiduciary management than without. This has increased from 49% in 2016, and 43% two years ago.

The same can be seen among medium-sized schemes (those with £101m – £1bn of assets). Over half (52%) now have fiduciary, a jump from 45% in 2016. They have also seen the largest growth since 2011 when just 15% had a fiduciary mandate.

Fiduciary management among large schemes (£1bn+ in assets) has grown from 17% in 2011 to 40% today. This reflects a growing trend towards delegation.

The UK findings from our [2017 Global Pension Risk Survey](#) strongly echo this, noting that 'every aspect of the investment strategy has shown consistent growth in delegation over the last four years and, if anything, the trend has accelerated in the last two years'. It also notes that 'delegation is firmly a part of the pensions lexicon'.

Fiduciary mandates are more common among closed schemes; over half (53%) of schemes closed to future accrual use fiduciary management. As we have seen in previous surveys, small and medium-sized schemes are more likely to have full fiduciary mandates, with large schemes more likely to have partial mandates.

98% satisfaction with fiduciary management

As we have seen throughout the survey's history, confidence in fiduciary management is exceptionally high. 98% say their overall experience is excellent, good or satisfactory. 55% of large schemes rate fiduciary management as excellent.

99% say the same about client service — an increase since 2015 — with 96% saying the same about the impact on their funding level. 99% are satisfied or better with the impact fiduciary management has had on their risk controls. 95% say the same about transparency of fees and costs.

Expertise remains essential — but nimbleness is equally vital

As in 2016, 'investment expertise' is cited by the majority as a key advantage of fiduciary management, cited by 51%.

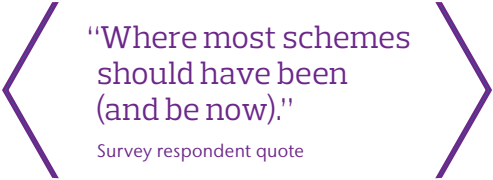
'Nimbleness' has leapt up from third place in 2016 to joint first in 2017, also with 51%. In 2016, this was the third most-cited advantage, named by 37%.

While respondents continue to recognise the expertise a fiduciary approach brings to scheme investment, its ability to allow schemes to make swift, incisive investment decisions is increasingly appreciated.

The need for expertise is evident. Trustees are more time-pressed than ever on investment matters, with 73% spending five hours or less each quarter on investment. This, coupled with an ongoing increase in the complexity of the solutions available to them, drives the need for external expertise.

With volatile markets requiring rapid, accurate decisions, schemes are recognising the value of fiduciary management in delivering timely action. These views are polarising: those with fiduciary management increasingly report that decisions are made at the right speed, whereas those without increasingly view decision-making as too slow.

'Expertise in decision making' remains the main factor when choosing a fiduciary manager.



"Where most schemes should have been (and be now)."

Survey respondent quote

Transparency is more important than ever when choosing and using fiduciary management

Schemes continue to use rigorous processes for fiduciary manager selection. A face-to-face, in-depth approach is preferred, with due diligence (used by 73%), beauty parades (68%), RFPs (64%) and site visits (42%) all showing increased popularity compared to the 2016 survey.

This preference for in-depth, in-person contact reflects the growing importance of transparency in corporate decisions. 90% of respondents cite transparency of performance and risk as an important feature of a potential fiduciary provider, with 85% citing transparency of all fees and costs as an important factor.

Schemes want to measure success against their specific objectives

The vast majority of respondents continue to show a strong preference for measuring performance against their own bespoke objectives. This is even more pronounced among those who already have a fiduciary mandate in place. 86% overall, and 90% of those with fiduciary management, prefer to measure the success of their solution against their own specific objectives.

Performance monitoring, again as in previous years, is largely done by trustees. 70% of respondents — up from 61% in 2016 — report that their trustees are responsible for monitoring performance.

The results of the 2017 survey show that fiduciary management is an increasingly-used approach among schemes of all sizes. Levels of take up continue to grow, and satisfaction ratings continue to be very high.

Throughout the rest of the survey, we examine the reasons for the continued growth of a delegated approach. We explore the ways schemes are selecting their fiduciary providers, the features they value and the ways they monitor their performance. We hope you find the survey interesting and useful.



Sion Cole

Senior Partner and Head of European Distribution
Delegated Consulting Services
Aon Hewitt



Key findings

Section 1

Demand for fiduciary management grows ever stronger

- **Take up of fiduciary management continues to increase:** 48% of schemes now have a fiduciary mandate, compared to 45% in 2016 and 18% in 2011.
- **Among medium-sized schemes (assets of £101m – £1bn), more schemes now have fiduciary mandates (52%) than do not.** This group has also seen the largest growth in fiduciary take up since 2016, up from 45% to 52%.
- **Full fiduciary management remains more common among pension schemes with assets of £1bn or less,** while partial fiduciary management is more frequently found among schemes with assets of £1bn or more.
- When including those schemes that ‘plan to explore’ or have ruled out but ‘may reconsider’ fiduciary management, **74% of schemes either have or may consider a fiduciary approach.**



Section 2

Expertise remains the key driver of growth

- **The desire for expertise in pension scheme decision making remains the main driver of fiduciary management growth.** 64% of respondents cite this as the most important factor when appointing a fiduciary provider.
- This makes sense when **schemes are seeing trustee time squeezed** – 73% now have five hours or less per quarter to dedicate to investment matters.
- **With investment complexity continuing to grow** (LDI, for instance is used by 66% of schemes, compared to 57% in 2016 – a 16% increase), the need for this expert advice and help with implementation is greater than ever.



Section 3

Benefits of fiduciary management

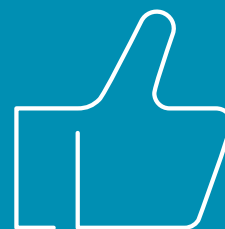
- As in previous surveys, **investment expertise is the clear winner when we ask about fiduciary management’s advantages** – 51% cite this.
- It remains the joint-top benefit cited in 2017, and **has been joined by ‘nimbleness’**, which has seen a huge leap in importance, up from just 9% in 2015 to 51% today.
- **Daily attention to risks and investments** – closely related to the need for a nimble approach – remains third (43%) and has increased in importance since 2016. This has increased particularly significantly among large schemes (from 31% to 47%) over the last year.
- **Large schemes highly value daily attention and investment expertise**, while medium-sized schemes see nimbleness as particularly important.
- **The difficulty of comparing providers remains the top concern** among those with fiduciary management (68%).
- **Schemes with fiduciary providers are increasingly happy with the speed of investment decision making.** Those with fiduciary management are more likely than last year (81% vs 78%) to report that decision making happens at the right speed. Those without are more likely than last year (35% vs 26%) to report that decisions are taken too slowly.
- Those with either full or partial fiduciary management **enjoy more diversified investment portfolios than those without.**



Section 4

High satisfaction with fiduciary management

- **Levels of satisfaction with fiduciary management remain extremely high.** 98% say their overall experience is excellent, good or satisfactory.
- 99% say the same about risk controls and operations, 99% about client service, 97% about the reporting they receive and 96% about the impact on their funding level.
- For the first time, we asked about **satisfaction with transparency of all fees and costs.** 95% cite this as excellent, good or satisfactory.



Section 5

The process for selecting a fiduciary provider

- **A hands-on approach remains the most popular way of selecting a fiduciary provider.** 73% of schemes carry out due diligence; 68% run a beauty parade and 64% issue an RFP.
- **All three of these have increased** in use since the 2016 survey.
- **42% take or would take advice from a third-party evaluator (TPE)** while 44% would take advice from their existing advisers.
- **A clear investment process (52%), followed by proven track record (49%),** are the quality indicators used by most schemes to evaluate fiduciary providers.
- **58% of respondents would appoint the fiduciary business of their existing investment consultant or actuarial adviser** as their provider.



Section 6

Monitoring and measuring fiduciary provider performance

- As we have seen in previous surveys, the vast majority of respondents (86%) like to **measure the success of their fiduciary provider in terms of performance relative to their unique investment objective.**
- **This is even more pronounced among those already operating a fiduciary approach** (90%) and among small schemes (97%).
- In 70% of schemes, **monitoring is carried out by the trustees.**
- **This is particularly evident in large schemes,** where 70% monitor fiduciary provider performance via trustees — more than three times as many as would use a third-party evaluator for this (22%).



Section 7

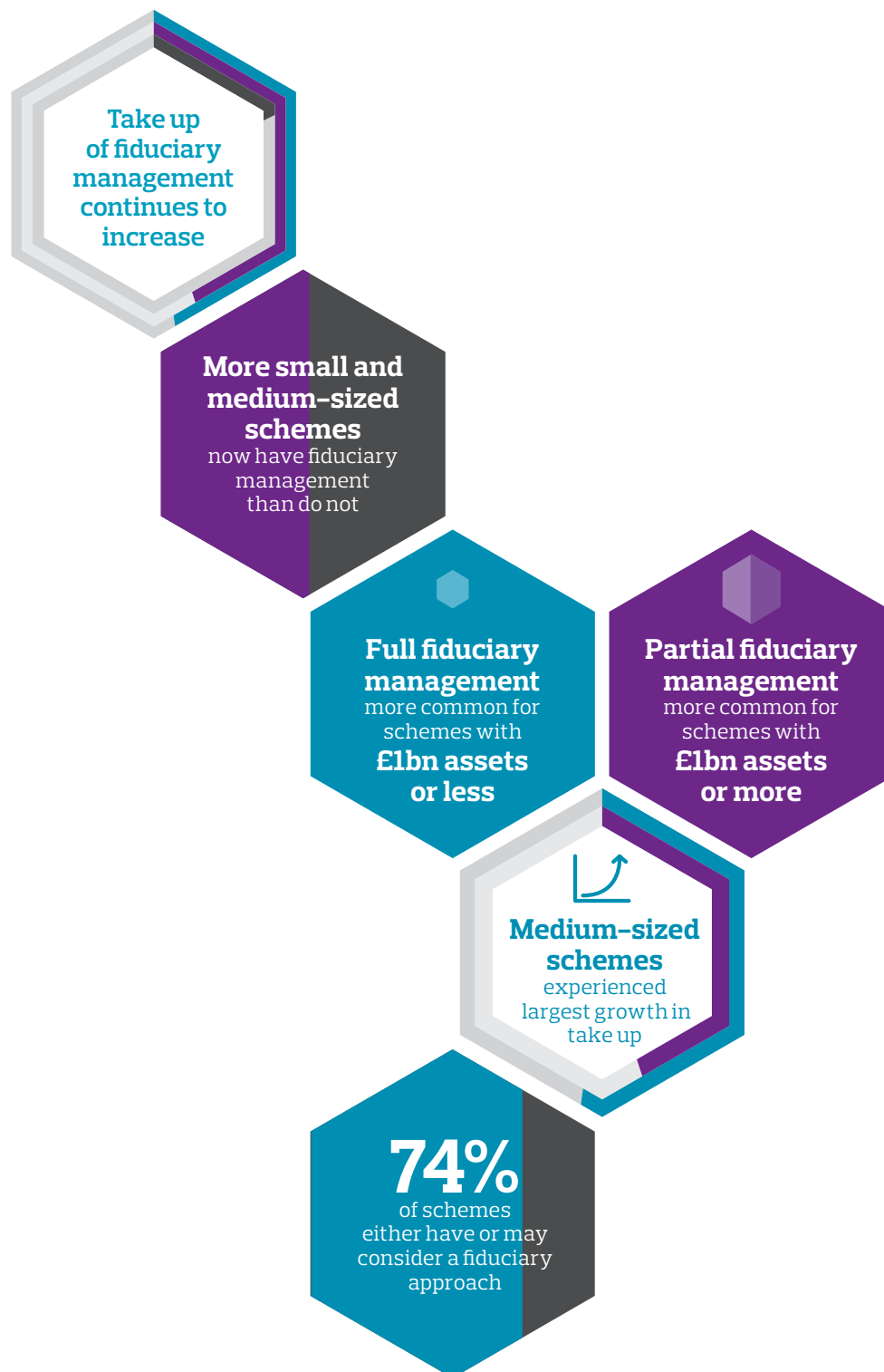
What are DB pension schemes really concerned about?

- **Funding levels, investment overall, deficits, and the strength of sponsor/employee covenants are the issues of most concern to our survey respondents.** Returns, low yields and market volatility remain important as well.
- These are **very similar to the issues cited in 2016.**
- **We explore the concerns in full** in the word cloud on page 44.



Section 1

Demand for fiduciary management grows ever stronger



Take up of fiduciary management continues to increase: 48% of schemes now have a fiduciary mandate, compared to 45% in 2016 and 18% in 2011.

The growth of fiduciary management continues. 48% of all schemes surveyed now have some form of fiduciary mandate. Another 8% plan to explore it and a further 18% are open to reconsidering their decision not to go down a delegated route.

Among small and medium-sized schemes, more schemes now have a fiduciary solution than do not (52% of small and 52% of medium-sized schemes now operate fiduciary management).

Among those with a fiduciary provider, 68% have a full fiduciary mandate, where all investment decisions have been delegated. 32% have a partial one, where the scheme has only delegated the management of, for example, certain asset classes.

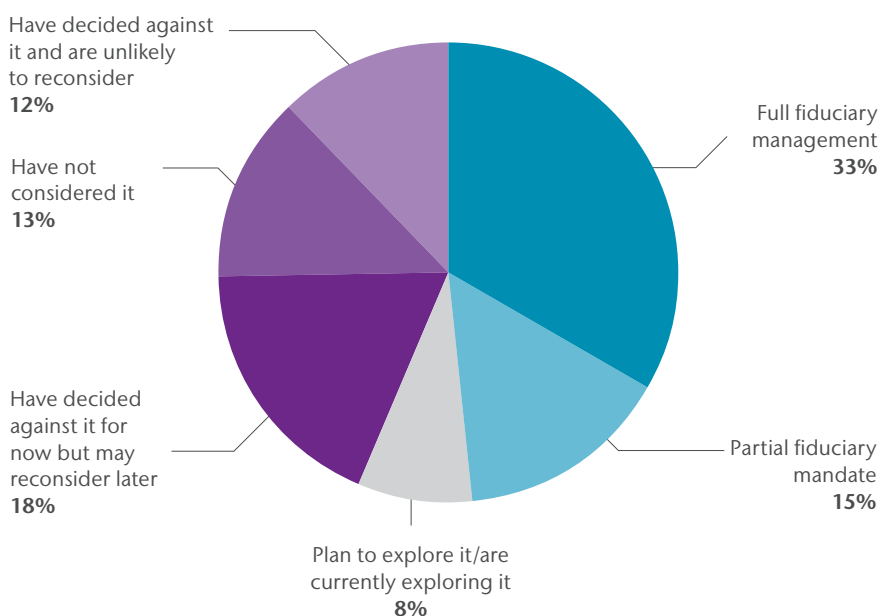
The findings show a steady climb in the popularity of fiduciary management — back in 2011, only 18% of schemes took a delegated approach. Just 12% claim that, having explored fiduciary management, they are unlikely to reconsider their decision. Only 13% say they have not considered it at all.

Key finding

48% of schemes now have some form of fiduciary management, compared to 18% in 2011 and 45% in 2016. The fiduciary market continues to grow strongly.



Take up of fiduciary management



Number of respondents: 201

Among medium-sized schemes (assets of £101m–£1bn), more schemes now have fiduciary mandates (52%) than do not. This group has also seen the largest growth in fiduciary take up since 2016, up from 45% to 52%.

“It gives us comfort that our funds are being managed by professionals on a day to day basis, not by amateurs on a quarterly basis. It has delivered a funding surplus.”

Survey respondent quote

Full fiduciary management remains more common among pension schemes with assets of £1bn or less, while partial fiduciary management is more frequently found among schemes with assets of £1bn or more.

Small and medium-sized schemes lead growth

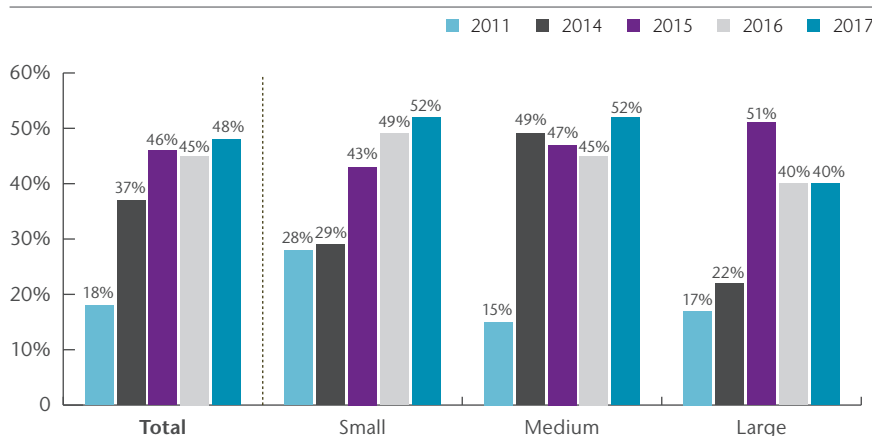
The strongest growth in the last 12 months has been among small and medium-sized schemes. More schemes in these market segments now have fiduciary, than do not. This is a major tipping point for fiduciary management, with an expert delegated approach now more popular than trustees managing the investments themselves (with advice and support).

Smaller and medium-sized schemes continue to be those most likely to have a full fiduciary mandate. Of those respondents with full fiduciary, 56% are small and 32% medium-sized; 12% are large schemes.

Key finding

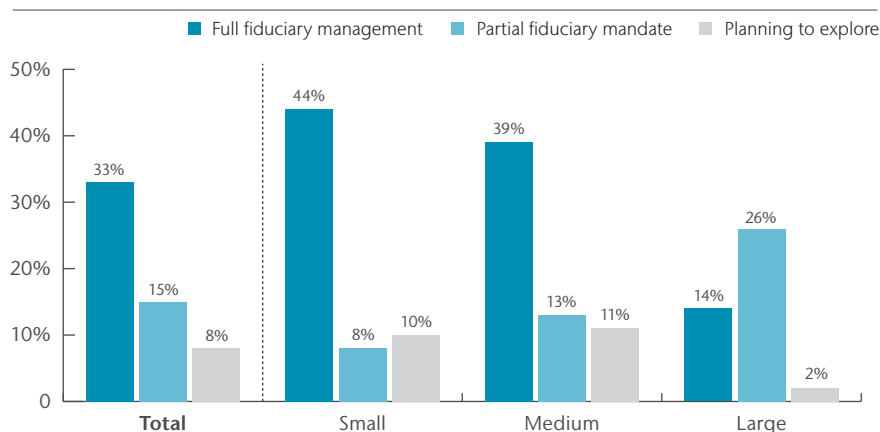
More small and medium-sized schemes now operate fiduciary management than do not.

Take up of fiduciary management by size



Number of respondents: 201 (2017)

Fiduciary management take up by mandate type and size



Number of respondents: 201

As in previous surveys, fiduciary management is more popular among schemes that are closed. 53% of schemes that are closed to both new entrants and future accrual have a fiduciary mandate, and 46% of those that are closed to new entrants.

When including those schemes that 'plan to explore' or have ruled out but 'may reconsider' fiduciary management, 74% of schemes either have or may consider a fiduciary approach.

Aon Hewitt perspective

Since our last survey was published in September 2016, there has been a plethora of challenges for trustees and sponsors. For many, the EU Referendum and the 'leave' vote caused a drop in funding level. Politics caused uncertainty with the stalling of pension scheme legislation changes during the General Election and subsequent changes of Pensions Minister. Market volatility and increasing investment complexity also continued.

As an investment and governance solution, it is not surprising that with such a backdrop, fiduciary management is on the rise.

The continued growth in fiduciary management reflects what we are seeing within our own fiduciary management business, which has grown around 40% year-on-year since launching at the end of 2009.

With the majority of DB schemes already closed, this means they have a finite time to reach their end goal. This, coupled with the ongoing challenges in the market and uncertainty surrounding Brexit (be it 'hard' or 'soft'), exacerbates the reasons that schemes are considering fiduciary management. Of those that do not yet use fiduciary management, our survey said that 8% plan to explore or are currently exploring this approach. We anticipate that within the next five years around 25% of UK DB schemes will be using some form of fiduciary management. Indeed, some experts think that this number could be close to 50% in the future.

Fiduciary management is suited to schemes of all sizes

We are frequently asked what size scheme is most suited to fiduciary management. There is no set answer to this question. Fiduciary management is a bespoke solution, designed to meet each scheme's unique needs and is therefore suited to schemes of all sizes.

Fiduciary management is often perceived to be used only by smaller schemes, which are able to benefit from the greater diversification, access to managers and implementation of a 'get busy' strategy within a low governance framework. This is something previously only thought achievable by the largest schemes.

While the survey shows that full fiduciary management is most common among schemes under £100m in size, the take up by mid-sized schemes (those between £101m – £1bn) has actually been the greatest since 2011 and is now similar to the levels of take up among small schemes.

Most interestingly, our survey respondent data shows that it is now more common for small and mid-sized schemes to have fiduciary management than not. Those without fiduciary management are therefore now in the minority. This trend reflects the general direction of the wider industry.

Large clients demanding even more tailored solutions

Furthermore, and linked to our own experiences during conversations with clients over the past two years, the survey results show that the number of large schemes (£1bn and greater) investing in fiduciary solutions (either full or partial) has increased over the last six years (although levelling off in 2017). We believe this is due to the wider range of solutions and much greater tailoring available to large schemes. This includes incorporating their in-house team within the fiduciary solution or decision-making process, and bespoke solutions taking into account investment beliefs or unique restrictions.

For example, trustees are asking to adopt part of the infrastructure and operational set-up of fiduciary managers to help improve their own investment decision making and speed of implementation. We are also seeing some really interesting conversations from larger pension schemes that want to be involved in all the decisions but want to utilise a fiduciary manager's expertise in manager research or idea generation. The list of possibilities really is endless and this level of tailoring is something we see increasing demand for in the future.

“Delegating investment decision making to a professional firm of investment managers, subject to trustee oversight.”

Survey respondent quote

Section 2

Expertise remains the key driver of growth



So, why does fiduciary management continue to grow so strongly?

The need for greater expertise remains the main impetus for a move to fiduciary management. 64% see this as the most important consideration when appointing a provider.

This expertise is much needed, to make up for a shortfall in trustees' time and ability to manage investment decisions. Nearly three-quarters of trustees (73%) spend five hours or less per quarter on investment matters. This is the highest number we have seen since 2014. With investment options growing ever greater and the solutions available more complicated (two-thirds of schemes now use the highly complex Liability Driven Investment [LDI]), the mis-match between the amount of time and level of expertise trustees need, and the amount they can provide, increases.

Key finding

Increasingly complex investment options, coupled with pressure on trustees' time, drive the need for professional, expert support.

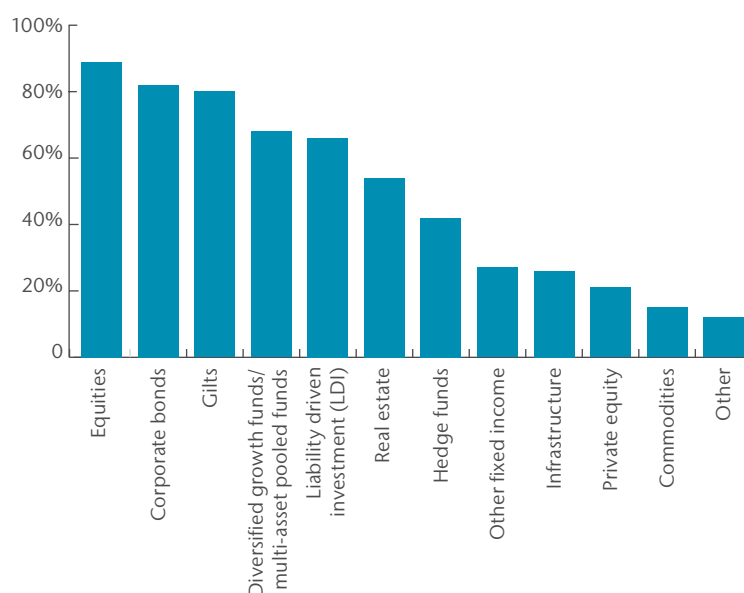
Continued increase in investment complexity

Pension scheme investment continues to grow more complex. This is something we have seen in previous years, and the 2017 survey continues the trend. There is an ever-increasing number of asset classes and investment solutions, and increased complexity within these options.

LDI has seen strong growth in popularity, and is now used by 66% of schemes, up from 57% last year. The complexity of the approach, in terms of the time and expertise needed to implement, as well as the ongoing supervision requirements, make LDI a significant incentive to move to an approach where investment is delegated.

This move to more complex investments is supported by the UK findings from our [2017 Global Pension Risk Survey](#), which shows a net increase in LDI investments among respondents of 42% (percentage increased less percentage reduced) along with a net increase in alternatives (26%) and illiquids (13%).

Asset classes invested in



Number of responses: 1382 (226 respondents)

Hedge funds (invested in by 42%), infrastructure (26%) and private equity (21%) remain other popular, but sometimes complex, asset classes. Again, these demand close monitoring, as well as an understanding of the need for diversification within the asset class (for instance within hedge funds). Without expert help or the requisite time, this presents a huge challenge.

This increasing complexity explains the fact that 53% of respondents with fiduciary management and 51% of those without cite expertise in decision-making as a key reason for choosing a fiduciary approach (see page 18).

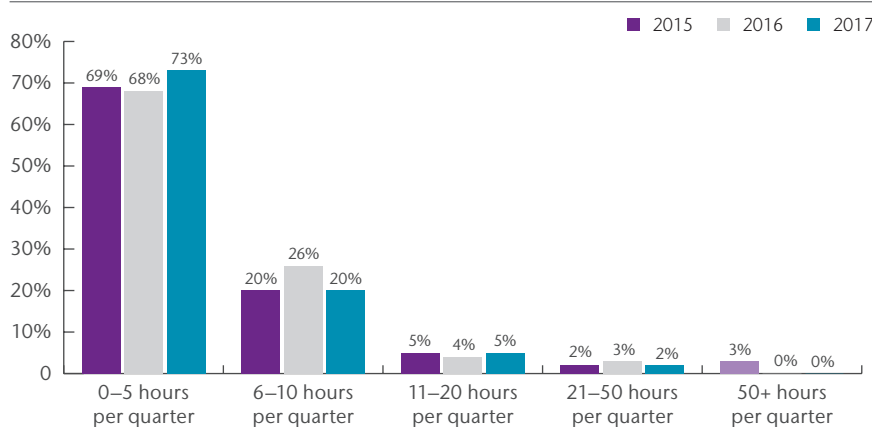
The desire for expertise in pension scheme decision making remains the main driver of fiduciary management growth. 64% of respondents cite this as the most important factor when appointing a fiduciary provider.

Trustee time is increasingly pressurised, while governance grows in importance

73% of pension scheme trustees spend just five hours or less per quarter on investment matters. The number of trustees saying this has gone up since the 2016 survey. Only 2% spend more than 20 hours a quarter on investment. As well as being at odds with the increasing investment complexity trustees face, it could impact schemes' ability to deliver good governance.

Trustees are expected to keep a close eye on their investment strategy — something that is just not possible to achieve on their own in the time available. 'Trustee governance time' is the second biggest issue driving the appointment of a fiduciary provider; at 36%, this shows an increase of nearly a third since last year.

Trustee time spent on investment



Number of respondents: 221 (2017), 235 (2016), 149 (2015)

Investment committees

The survey also asked schemes with investment committees how much time these committees spent on investment matters. 30% spend less than five hours a quarter, with 31% spending between six and ten hours.

Key finding

73% of trustees spend five hours or less per quarter on investment matters — at a time when governance pressures grow.

With investment complexity continuing to grow (LDI, for instance is used by 66% of schemes, compared to 57% in 2016 — a 16% increase), the need for this expert advice and help with implementation is greater than ever.

“An investment strategy where trustees neither have the time, desire or expertise to make timely investment decisions, delegating it to experts.”

Survey respondent quote

Maximising schemes’ investment agility

‘Speed of implementation’ has moved up to be the third most-considered factor when appointing a fiduciary provider, with over a third (34%) of respondents citing this. Given recent market volatility, and with new investment products often needing swift decisions, this is not surprising.

Schemes are increasingly looking at risk settlement and liability management exercises to help reduce risk and reach their end goals. This includes buyout or partial buy-ins, for example. To benefit from advantageous market conditions, sponsors and trustees need to be in a position to act quickly when the time is right to transact. A fiduciary mandate provides the daily monitoring, speed and expert investment management that schemes need to help reach these end goals (and those solutions that are integrated with risk settlement expertise help significantly to optimise the use of these tools).

“Nimble investment management with access to non-standard financial products.”

Survey respondent quote

Flight plans show continued popularity

We define ‘flight plans’ for pension schemes as systematic plans or programmes for dynamic de-risking as schemes reach pre-agreed triggers, such as particular funding levels.

The use of flight plans has increased dramatically since our surveys started. From 2016 to 2017, their use has increased by 16%; 66% of schemes now use them, compared to 57% last year.

Schemes with fiduciary management are far more likely to have flight plans than those without. Three quarters (75%) of respondents with a fiduciary mandate operate a flight plan, compared to just over half (56%) without. Large schemes are more likely to have flight plans (72% have one) than smaller schemes (57%).

44% of those without flight plans are planning to explore them in future, so we expect the number using them to grow in future surveys.

Key finding

One third of respondents cite ‘speed of implementation’ among their top three factors when considering a fiduciary provider.



Key finding

75% of schemes with fiduciary management operate a flight plan.



Expertise the key factor in decision to appoint a fiduciary provider

We asked respondents about the key factors in the decision to appoint a fiduciary provider. These have seen some changes since 2016.

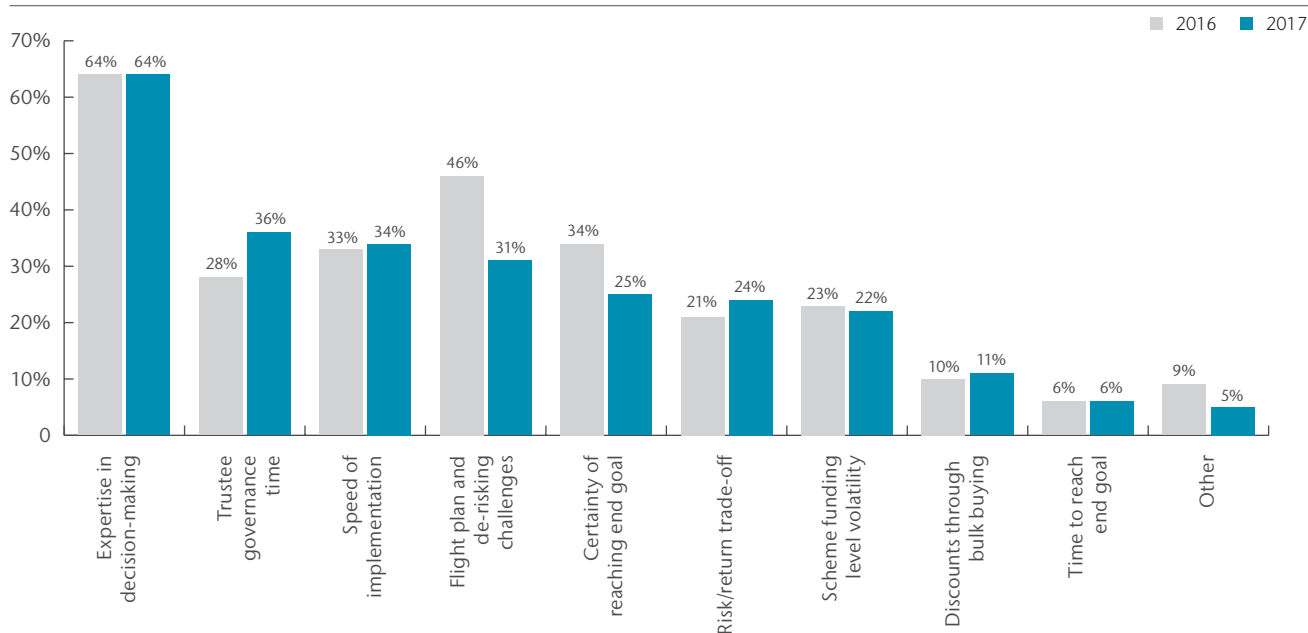
Expertise in decision-making remains by far the most-cited factor. Trustee governance time has risen to second.

Speed of implementation has also grown in importance, and is now the third most important factor; a third of schemes (34%) cite this.

Key finding

Expertise remains the key factor in the decision to appoint a fiduciary provider.

Most important factors in appointing a fiduciary provider



Number of responses: 538 (199 respondents)

"A great way to delegate investment decisions to the professionals."

Survey respondent quote

Aon Hewitt perspective

Fiduciary management is one of the leading investment and governance solutions available to trustees to help them address the challenges they face in meeting their end goals. Three key aspects are fuelling the significant growth in fiduciary management and all link to expertise; increasing investment complexity, pressures on trustee time and incorporation of flight planning.

Increasing investment complexity

The range of investment solutions available has never been greater. There is also increased complexity within this. For example, more complex investments such as LDI and hedge funds require greater understanding, training, analysis or work by the actuary and/or consultant, selecting managers (including legal advice), and then monitoring and reviewing. Use of these more complex investments has increased consistently each year but in 2017, for LDI in particular, this has seen a significant increase. This means greater pressure on trustee time and a growing need for expertise. Help with implementing LDI and managing the cash calls (collateral) are some of the main reasons we hear as to why trustees are considering fiduciary management.

Pressures on trustee time

Despite this increased complexity, the time spent by trustees on investment matters has not increased. In fact, it has reduced consistently over the last four years. Trustees have limited time and have a huge array of topics to cover at meetings. This makes fiduciary management even more applicable as it means trustees can focus the time they do have for investment on the strategic matters and monitoring of the fiduciary manager (rather than multiple managers and reviewing asset allocation, for example). They can delegate (outsource) the day-to-day management of their portfolio to a fiduciary provider who can dedicate the time to expertly managing the scheme's portfolio on the trustees' behalf.

Our survey shows that those with fiduciary management can confidently spend less time on investment matters (focusing this time on strategic issues). There is also a difference in the time investment committees spend on investment matters; those with fiduciary management spend less time, as the fiduciary provider relieves some of this governance burden.

It is for these reasons that expertise remains one of the key factors in the decision to appoint a fiduciary provider and, as discussed in Section 3, is seen as the main benefit of this approach. It is also not surprising that trustee governance features so highly on the list of reasons for adopting a fiduciary solution.

Flight planning more efficient as part of fiduciary management

Demand for flight plans has continued to increase over the course of our surveys. There is a strong link between the use of fiduciary management and flight plans. Our survey shows that 75% of schemes with fiduciary management have a flight plan (34% more likely than those without). This is most likely due to the operational complexities and costs associated with implementing flight plans; it is more efficient to do so as part of a fiduciary arrangement approach. For many schemes, it would be difficult to identify between trustee meetings if de-risking opportunities had taken place, much less then be able to take the swift action needed to move assets from growth-seeking to liability hedging in order to capture these opportunities. Implementing a flight plan alongside a fiduciary solution can mean quicker implementation of changes so that opportunities to de-risk are not lost and gains can be locked in. The use of flight plans therefore remains a key factor when deciding whether or not to appoint a fiduciary provider.

Section 3

Benefits of fiduciary management



As in previous years, the survey asked about the advantages of fiduciary management. The answers are interesting, particularly when we compare those from schemes that have implemented, and have not yet implemented, a fiduciary approach.

Respondents were asked to choose up to three advantages of fiduciary management. Investment expertise remains the most recognised advantage. Over half (51%) see this as the biggest benefit, with large schemes in particular seeing a big jump in the numbers citing this as an important advantage (62% this year compared to 56% in 2016).

Joining expertise as the most-important benefit is 'nimbleness', an advantage that has leapt in importance since the previous survey. 51% also cited this, up from 37% in 2016.

Related to this need for agility, fiduciary management's ability to offer daily attention to risks/investments is the third

biggest advantage, mentioned by 43% in 2017, compared to 41% in the 2016 survey. This has seen a significant jump among large schemes (cited by 47% in 2017, vs 31% in 2016). This is interesting as, historically, larger schemes were the ones assumed to have the most resource and time (through in-house teams, for example) to devote to paying their own frequent attention to risks and their investments.

Many of fiduciary management's perceived advantages are far more beneficial in reality than is expected by those who have not yet gone down a fiduciary route. Those with a fiduciary mandate experience the benefits of investment expertise (53%), derisking (28%) and diversification (23%), for instance, more strongly than those without anticipate (51%, 18% and 11%, respectively).

We look at perceived disadvantages on page 21.

Key finding

Nimbleness joins investment expertise as the two key advantages of fiduciary management.

Fiduciary management advantages

1.	Investment expertise	51%
2.	Nimbleness	51%
3.	Daily attention to risk/investments	43%
4.	Bespoke/tailored solution	29%
5.	De-risking	23%
6.	Better understanding of strategy	21%
7.	Freeing up trustees' time	17%
8.	Diversification	17%
9.	Control by trustees	11%

Number of responses: 499 (189 respondents)

Fiduciary management disadvantages

1.	Cost	60%
2.	Hard to compare providers	54%
3.	Conflicts of interest	36%
4.	Complexity	30%
5.	Loss of control by trustees	28%
6.	Governance	23%
7.	Fiduciary responsibilities unclear	8%
8.	It's new	0%

Number of responses: 499 (189 respondents)

"Better and more nimble than trustee investment decision taking and implementation."

Survey respondent quote

“A significant step forward in our investment management decision process.”

Survey respondent quote

Agility is a major plus for fiduciary management

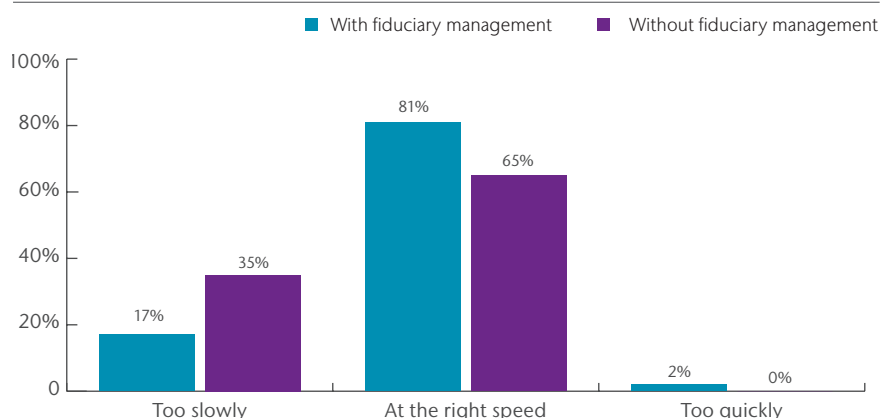
The ‘nimbleness’ that schemes appreciate in a fiduciary management approach takes two forms: speed of decision-making and speed of implementation.

We asked respondents if they are happy with the speed at which scheme investment decisions are taken. Over the years, we have consistently seen that schemes with a fiduciary solution are happier with this than those without.

This is increasingly polarised, with this year’s survey showing that more people think decisions are taken at the right speed with fiduciary management, while more believe that they are taken too slowly without it.

81% of those with fiduciary management believe that their investment decisions are made at the right speed (78% in 2016). 35% of those without a fiduciary mandate believe decisions are taken too slowly (26% in 2016).

Speed of decision making



Number of respondents: 215

Key finding

81% of those with fiduciary management are happy that investment decisions are made at the right speed.

Schemes with fiduciary providers are increasingly happy with the speed of investment decision making. Those with fiduciary management are more likely than last year (81% vs 78%) to report that decision making happens at the right speed.

“Letting trustees make strategic decisions and letting fiduciary managers get on with it!”

Survey respondent quote

Those with either full or partial fiduciary management enjoy more diversified investment portfolios than those without.

Schemes enjoy a broader range of assets

Diversification of a scheme's investments is often cited as an important benefit of fiduciary management. The 2017 survey backs this up, with schemes having a fiduciary mandate investing in a wider range of assets than those without.

If you have a fiduciary mandate, you are seven times more likely to be invested in 10 or more asset classes than schemes without (14% vs 2%). Schemes with a fiduciary manager are also more likely to have between seven and nine asset classes in their portfolio, and less likely to have six or fewer.

Historically, more diversified portfolios have been the preserve of larger schemes, which have the resource available to manage a range of asset classes. Fiduciary management is making investment diversity more egalitarian, with smaller schemes showing a slow but steady increase year-on-year in the number of asset classes they invest in. Historically, small schemes have often lacked the investment expertise, time or money to invest in a range of assets. Today, fiduciary management is making that possible.

"Fiduciary management has speeded up changes in assets, enabling the scheme's investment portfolio to be more flexible, while working within strategic parameters."

Survey respondent quote

Key finding

Schemes with fiduciary management tend to invest in a wider range of asset classes than those without.

Large schemes highly value daily attention and investment expertise, while medium-sized schemes see nimbleness as particularly important.

Perceived versus actual disadvantages — an interesting analysis

The disadvantages of fiduciary management remain very similar to those reported in previous surveys.

Also as in previous surveys, there are some interesting differences between the disadvantages schemes expect to encounter, and those actually experienced by those who have a fiduciary mandate in place.

One of the biggest concerns of those without fiduciary management is a conflict of interest — 48% cite this, although only 25% of those with a fiduciary provider recognise it as an issue.

Similarly, a loss of control by the trustees is feared by 37% of those yet to appoint a fiduciary provider, but only 15% of those with fiduciary management noted it as a disadvantage.

Cost, again, ranks more highly as a perceived disadvantage (63%) than an actual one (54%), as does governance (26% of those without fiduciary see it as a disadvantage, but only 20% of those with).

Interestingly, 'it's new', which featured as a barrier in all of our earlier surveys, no longer registers as a concern — reflecting the extent to which fiduciary management is now an established solution within the UK DB investment landscape.

The fact that it is hard to compare providers remains the largest disadvantage experienced by those with fiduciary management — 68% recognise this. Our thoughts on selecting a fiduciary provider on page 27 have suggestions as to the best way to tackle this challenge, while the findings on transparency (page 29) will also be relevant when comparing potential providers.

The difficulty of comparing providers remains the top concern among those with fiduciary management (68%).

Aon Hewitt perspective

Significant benefits of fiduciary management

This year it was interesting to see that two areas are highlighted as the top advantages of fiduciary management; expertise and nimbleness.

Expertise has been consistently top of the list of advantages for the past few years across all schemes. It is interesting to see this year that despite some of the largest schemes having in-house resources or larger investment teams, over 62% of large schemes also recognise expertise as the top advantage (up from 56% last year).

Increasing investment complexity and an ever-expanding range of investment solutions, tools and asset classes mean that expertise is effectively a prerequisite for investment success (as discussed in Section 2). Using the expertise that a fiduciary provider can offer allows trustees to use the full range of return seeking and liability matching solutions in order to achieve the results that they need. By appointing a fiduciary manager, trustees are making sure that their investment strategy is appropriate now and in the future (effectively future proofing their scheme as it will evolve over time as new opportunities arise).

Nimbleness has been gradually increasing in importance to our survey respondents. In 2015 it moved up to third place where it stayed in 2016, and in 2017 it has moved to joint first place. This covers both speed of decision making and speed of implementation. Clearly this is also linked to daily attention (which remains second): fiduciary providers are able to look at the portfolio and investments on a daily basis. This means they can react quickly to any changes, capture opportunities as they occur and really actively manage the portfolio. So clients get a nimble and evolving solution. For example, during the EU Referendum vote period, our fiduciary clients benefitted significantly from the active management and portfolio positioning that we did for our clients. Whereas we know that other schemes without fiduciary management suffered during this period.

Trustees typically look at their investments and positioning on a quarterly basis, sometimes less. A fiduciary approach means trustees avoid the delays in the decision-making process and hence missed opportunities that occur without a fiduciary provider in place. Fiduciary managers' ability to continuously monitor the investment landscape and to make highly informed decisions is one of the key advantages they can bring to time-pressed trustees.

Our survey also shows that appointing a fiduciary provider offers the benefits of greater diversification. Schemes with fiduciary management are more likely to hold a greater number of asset classes than those without. At Aon Hewitt, our full fiduciary solutions typically give our clients access to 15–50 different investments, diversified across three levels; by asset classes, strategy type within the assets and by managers. We only invest in best in class, externally managed, buy-rated funds; this means our clients get access to our highest conviction ideas and managers that we believe have the best chance of delivering the excess returns needed over the long term.

Disadvantages differ between those with and those without

Consistent with previous years, the main concern noted by respondents was around cost. People often ask if fiduciary management is more expensive (or even assume it is) and ask how you know whether it is value for money. This does not have a straightforward answer. Whether fiduciary management is more or less expensive depends on your starting point (ie, what investment portfolio and services you currently have) and where you are looking to get to (ie, what your aim is and what you want to get from your fiduciary solution). In practice, there are some instances where it could be more expensive, and this could be due to the investment portfolio in place rather than fiduciary management being expensive, and others when it is actually a lower-cost approach. After all, cost is dependent on the solution put in place.

When we look at those with fiduciary management, only 54% noted cost as a concern, compared to 63% of those without. This reflects that in practice, cost is less of an issue and that clients feel they are getting value for money, and the better outcomes they want.

We remain highly committed to providing all clients with fee transparency to help with this; our fees are charged separately (unbundled approach) so that the client can see how much they are paying and to whom. We also show all performance net of all fees, so that clients can see the results they are getting once all those fees have been deducted — a true measure of success. This is something we would urge all other providers to do. (See our perspectives in Section 4 for more on our views on transparency and the FCA's Asset Management Market Study.)

Difficulty in comparing fiduciary providers remains second on the list of disadvantages. We believe that fiduciary management is a bespoke solution and therefore tailor the exact offering and portfolio to meet each client's unique needs. Fiduciary solutions both between and within providers will vary significantly depending on the scheme

and the range of solutions and services the fiduciary provider can offer. This makes it challenging to compare solutions and the fees being quoted, as there could be significant differences between them (for example, depending on hedge ratios, growth/matching split, asset classes used, active versus passive management, flight planning services etc). The most important thing is to look at the overall solution: does it meet your needs and take into account your investment beliefs or preferences; does it offer added value; and will it deliver the outcomes you need net of all costs and fees.

At Aon, we have written a number of educational papers that provide suggested questions trustees should ask across key areas in order to really understand the solutions available and delve into the detail. This means they can make an informed decision on which provider and solution is right for their individual scheme's needs. We have also published papers around understanding the fees charged, which may help trustees to understand any differences in price and how this may, or may not, impact the results they can expect. We welcome any thoughts you may have on how we can help overcome the difficulty of comparing providers.

Finally, loss of control was noted by 28% of respondents as a disadvantage and, while this is a minority, we believe this is still a common misconception of fiduciary management. We believe that trustees actually have greater control under this approach. Trustees set, and are in control of, the investment strategy, objectives and risk tolerances, as well as any investment restrictions or parameters around the mandate. They then delegate the day-to-day management of the portfolio to the fiduciary provider (and their investment experts), who is responsible for designing and implementing an investment solution that meets these requirements. By using experts there is greater certainty of outcomes, better pensions stability and reduced funding level volatility, and therefore greater control.

Section 4

High satisfaction with fiduciary management



Levels of satisfaction with fiduciary management remain extremely high. 98% say their overall experience is excellent, good or satisfactory.

Whatever the perceived advantages or disadvantages, the best way of measuring how well fiduciary management is doing is to look at the outcomes and client satisfaction levels across key areas.

We therefore continue to ask respondents about their experience of fiduciary management, overall and in terms of funding level/performance; reporting; transparency of costs and fees; client service; and risk control/operations.

Satisfaction with fiduciary management solutions across the entire industry (not just Aon clients) remains exceptionally high.

98% rate their overall experience as excellent, good or satisfactory.

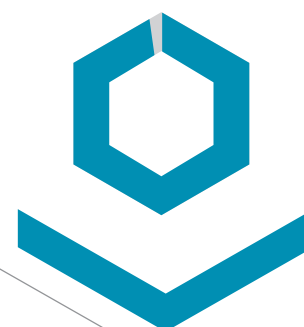
Client service has a 99% satisfaction rate (excellent, good or satisfactory), with 92% rating it as excellent or good.

99% are happy with risk controls and operations, up from 95% in 2016. 97% rate their reporting as excellent, good or satisfactory, while 96% say the same about the impact on their funding level.

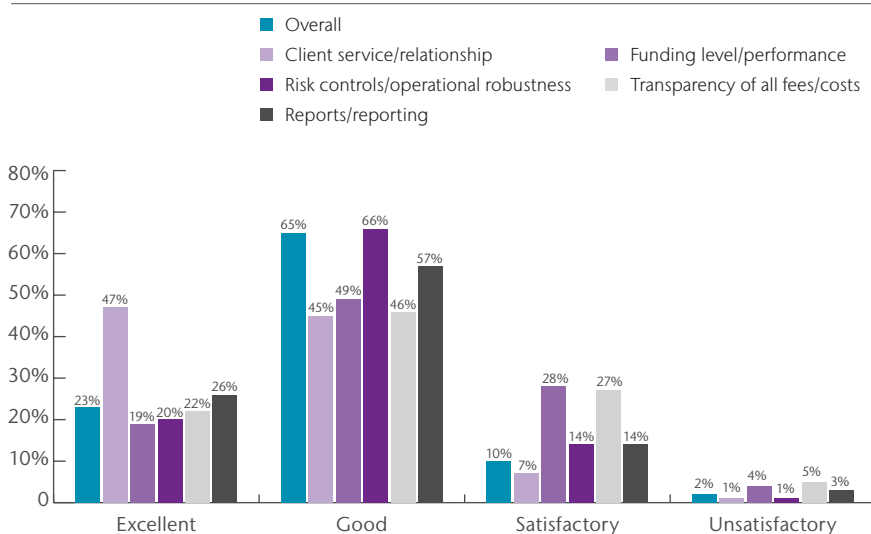
In this year's survey, we asked for the first time about transparency of all fees and costs. 95% report satisfaction with this.

Key finding

Fiduciary management continues to achieve excellent feedback, with 98% satisfaction rating overall.



Satisfaction with fiduciary management



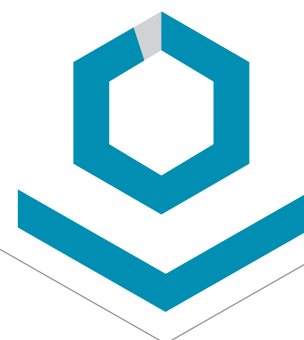
Number of respondents: 96

"A means of improving the trustee's decision-making, streamlining some of the processes... thereby leaving trustees free to concentrate on the important issues."

Survey respondent quote

Key finding

95% are satisfied or better with the transparency of fees and costs of their fiduciary solution.



99% are satisfied about risk controls and operations, 99% about client service, 97% about the reporting they receive and 96% about the impact on their funding level.

Aon Hewitt perspective

There is no doubt that the vast majority of those who have appointed a fiduciary provider are happy with the outcomes and results they are seeing.

The aim of fiduciary management is to help pension scheme trustees and sponsors achieve their long-term goals and objectives. Therefore the real test of whether fiduciary management is a success is based around the results delivered and the views of the clients who have adopted this approach.

We believe that fiduciary management is helping many UK DB pension schemes to reach their end goals, either more quickly or efficiently or with greater certainty, and that it is helping schemes overcome many of the challenges they face. Our survey results consistently show an overwhelming vote of confidence in fiduciary management (which has increased over the years). Importantly, this is across all areas of fiduciary management, not just in terms of funding level/performance but also their overall view, transparency of fees and costs, risk controls and reporting.

The high satisfaction in performance (improvements in funding levels) is also not surprising given our own experiences and results for clients. As at 30 June 2017, our longest standing full fiduciary client outperformed their bespoke liability benchmark by +2.1% p.a. net of all fees (since inception date of 1 January 2010).

Transparency of fees and costs

In light of the FCA's Asset Management Market Study in June 2017, it is very pleasing to see that 95% of schemes were satisfied or better with the transparency of all fees/costs when it comes to their fiduciary solution. We advocate full transparency of all fees/costs, performance and the overall fiduciary solution, and hence this is an area we are very proactive about. In response to the FCA's Interim Report, we, along with two other consultancy firms, offered a series of Undertakings in Lieu (UILs). One of these was in relation to the disclosure of fees and costs in

relation to fiduciary management services. Most investors are aware of the explicit management fees charged by their fiduciary manager and underlying investment managers. However, the additional investment costs associated with an investment mandate (for example, custody, admin, transaction costs etc) have historically been the subject of less scrutiny and hence less well understood.

We are confident that all the transparency and disclosure UILs proposed represent best practice and as a firm we intend to adopt elements of them on a voluntary basis, but believe they will work best when adopted consistently across the industry. Specifically in relation to fees and costs, these would be disclosed to prospective (and current) clients in an agreed standard format broken down by management fees, additional expenses and ongoing transaction costs at both the fiduciary manager and overall underlying manager level. Although it is the net of fees performance that provides the value to a pension scheme, we understand the importance of transparency, on a consistent basis, in relation to costs and fees. We believe that standardisation of the basis for the disclosure of fiduciary fees and costs will provide for easier comparison. For those considering a fiduciary approach, it is important to look at the total fees and costs of their current arrangements on the same basis as the fiduciary management solution.

We believe that all areas of pension schemes (not just those with fiduciary management) should be encouraged to maximise the quality of their reports and transparency of all their fees and costs so they can readily compare fees and performance across different schemes.

Past performance is not a reliable indicator of future performance.

Section 5

The process for selecting a fiduciary provider



Criteria for fiduciary provider selection

Respondents were asked about the most important quality indicators when selecting a fiduciary provider.

A clear investment process has edged ahead of a proven track record as the most important criterion: 52% of respondents chose this. Track record remains an important factor, in second place, with 49%.

Investment experience, with 42%, is in third place. This, and the track record as evidence, make sense when considered alongside other trends in the survey: trustees' increasing lack of time for investment matters; the growing complexity of the investment options they have to consider; and the need for external investment expertise.

A dedicated fiduciary team (40%) and an understanding of scheme liabilities (34%) are the fourth and fifth most-cited indicators.

There are some variations between different-sized schemes. While all are agreed on the importance of a clear investment process, a proven track record is more important for smaller (52%) and medium-sized schemes (53%) than for large ones (43%), while large schemes place more value on investment experience (48% see this as a key indicator,

compared to 40% of medium-sized schemes and 37% of small ones).

A provider that understands scheme liabilities is more important to small schemes than medium-sized or larger ones (43% versus 32% and 30%), and management of conflicts of interest is more important to larger schemes than their smaller peers (22% for large schemes, against 12% among medium-sized ones and 9% among small ones).

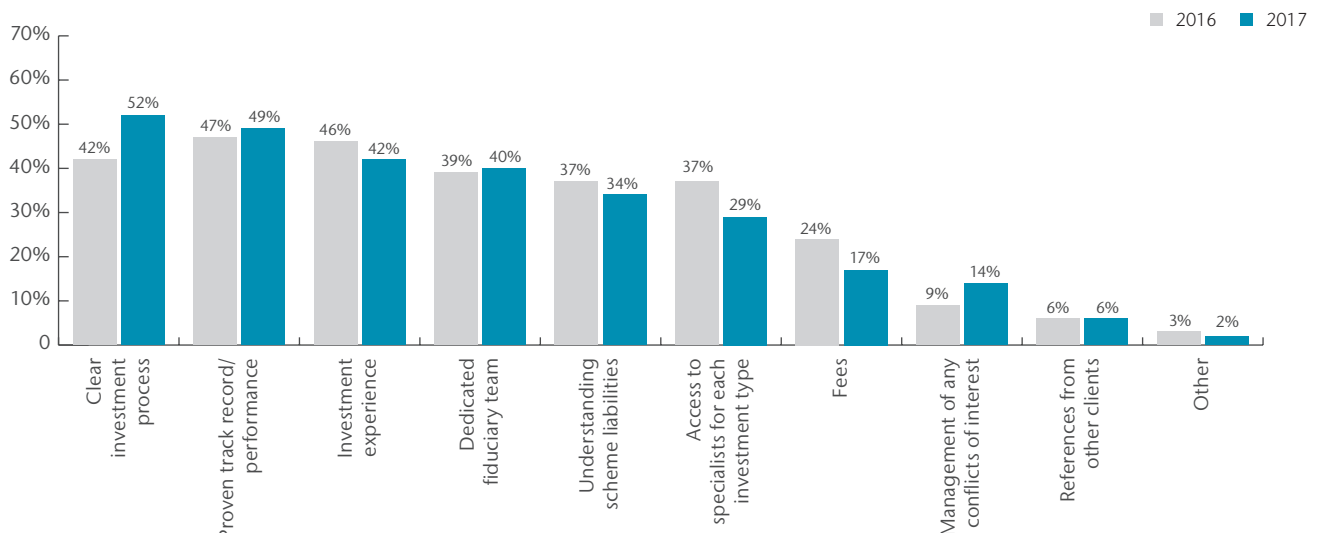
There are also some interesting distinctions between schemes that have appointed a fiduciary manager and those that have not. Those without a fiduciary mandate see a proven track record as more important than those with (57% and 45%) — maybe reflecting that those with fiduciary management find that performance is self-evident from their own results, while those yet to appoint a manager look more at historic performance.

For those with fiduciary management, a clear investment process is by far the standout indicator, and is more important than it is to those without a fiduciary mandate (57% vs 45%). The need for a dedicated fiduciary team is also far more evident among those who have appointed a provider (53%) than those who have not (26%).

Key finding

A clear investment process and proven track record are the key indicators for schemes when appointing a fiduciary provider.

Quality indicators of a provider



Number of responses: 566 (199 respondents)

A clear investment process (52%), followed by proven track record (49%), are the quality indicators used by most schemes to evaluate fiduciary providers.

Important features in a fiduciary provider

We also asked respondents to rank a number of features in terms of their importance when selecting or thinking about selecting a fiduciary provider. Respondents were asked to rank factors from 0–5 where 0 is irrelevant and 5 is essential. The graph below shows the percentage of respondents ticking a factor as ‘four’ or ‘five’ (ie, those that were the most important to our respondents).

The two most important features, by some way, were transparency of performance/risk (cited by 90%) and transparency of fees/costs (85%). This was the first year either of these options was included among the question options, and they have clearly struck a chord.

The cost of the overall solution was the next most important factor, with 75%, followed by a provider’s ability to vary interest rate and inflation protection (72%).

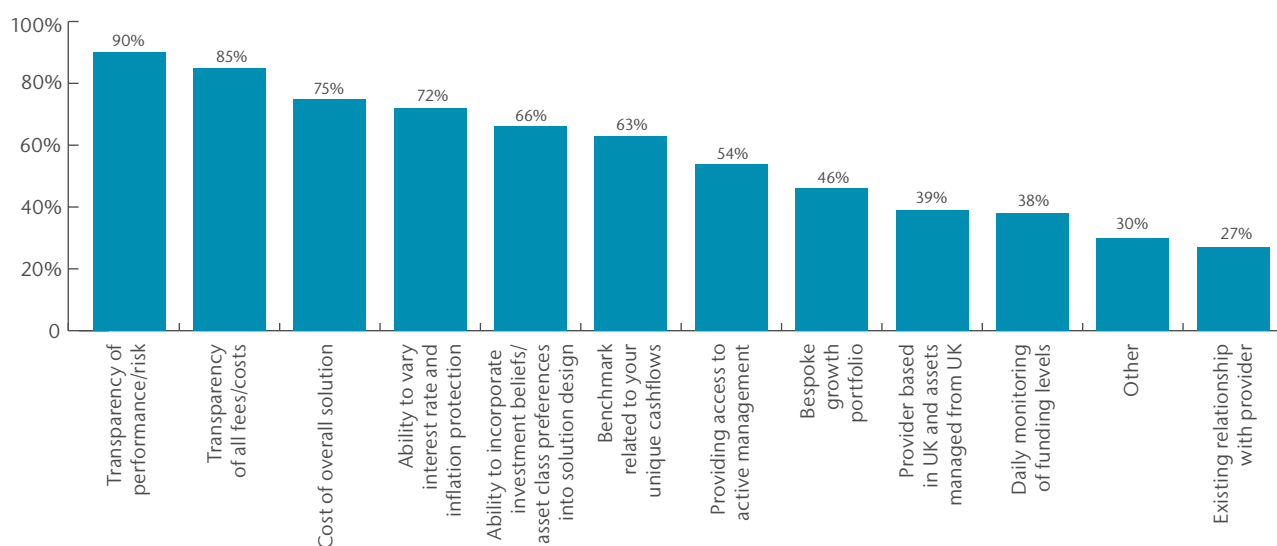
When we look at the factors seen as ‘essential’ (ranked five), transparency is again the clear winner, with 66% seeing transparency of performance/risk as essential and 58% saying the same about fees and costs.

Factors specified by those who ticked ‘other’ include ‘an understanding of the sponsor’s culture’; ‘track record’ and ‘dedicated expertise’.

Among those with fiduciary management, transparency of performance and risk becomes slightly more important (92%) and transparency of fees/costs slightly less so (83%). ‘Existing relationship with provider’ (39% citing it as a feature) and ‘providing access to active management’ (70%) show the biggest difference between those with fiduciary management and those without, among whom 16% and 39% respectively see these as important features.

‘Cost of overall solution’ and ‘transparency of fees/costs’ are the only two features ranked higher by those without a fiduciary mandate than those with one.

Important factors when selecting a fiduciary provider



Number of respondents varies for each part of this question.

“A sensible choice for a trustee board with little investment expertise but a clear understanding of its strategy and requirements.”

Survey respondent quote

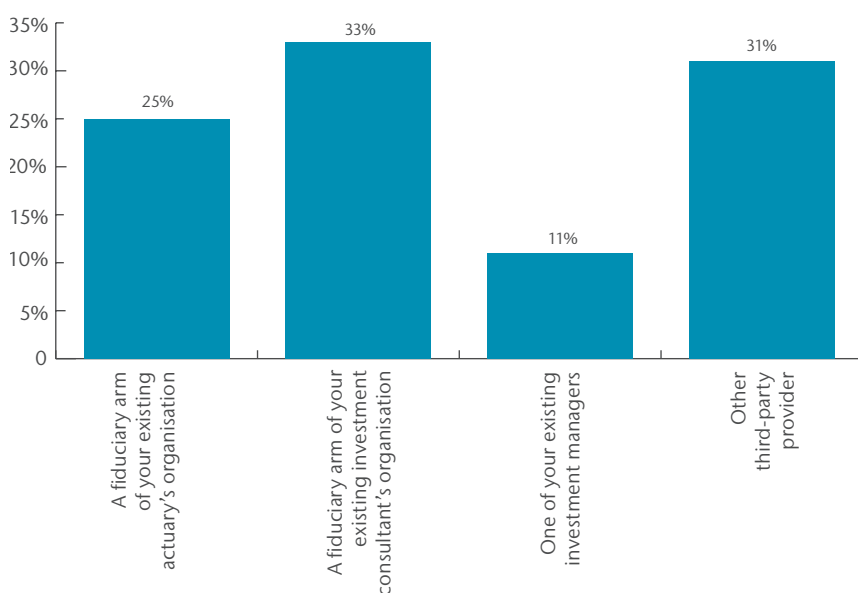
Fiduciary provider preferences

The survey asked about the type of organisation schemes have appointed or would appoint as a fiduciary provider.

As in previous surveys, the majority (33%) would appoint the fiduciary arm of their existing investment consultant. 25% have chosen or would choose a fiduciary arm of their existing actuary. 31% would choose another third-party provider, while 11% would use one of their existing investment managers.

Those with a fiduciary mandate are more likely to appoint their existing actuary/consultant than those without (60% vs 53%).

Who did/would you appoint as your fiduciary manager?



Number of respondents: 123

Key finding

60% of those with fiduciary management have appointed, or would appoint, a fiduciary provider linked to their existing actuary or investment consultant.



Aon Hewitt perspective

A clear investment process edged ahead this year to top the list of quality indicators when it comes to selecting a fiduciary provider. A proven track record (performance) was pushed to close second after remaining top for a number of years. Investment experience was third with fees falling further down the list.

Performance track record should not be used alone when looking at which fiduciary provider to select, but clearly it is important. A strong and clear investment process, with strong investment experience to back that, are clearly both contributors to any performance track record. No provider can generate consistently good performance without those two elements in place. This slight change in the top three quality indicators is actually very positive as it shows trustees are delving beneath the numbers to understand what sits behind them. This is something we have been talking about at industry conferences for a number of years.

Given the difficulty in comparing and then selecting fiduciary providers, it might be surprising to see fees so far down this list. In practice, we often find that fees are used as an 'easy' comparison or criteria to help judge between providers. This is something we would discourage, as it should be all about the overall solution; whether it offers value for money and most importantly, whether it is tailored to meet your unique needs. If you walked into a car showroom to buy a Rolls Royce but left with a Ford Transit van, would you be happy you saved money? Or vice versa, if you wanted a Ford Transit but were sold a Rolls Royce, would you be happy?

100% of Aon's full fiduciary clients have outperformed their bespoke liability benchmarks since inception to 30 June 2017, reflecting our strong performance track record. As mentioned in Section 4, our longest-standing fiduciary client, who has been with us since Q1 2010, has seen strong returns above their bespoke liability benchmark, with an improving funding level, net of all fees.

Transparency a key feature

Given the FCA's Final Report of the Asset Management Market Study in June 2017 and the focus on greater transparency across the pensions industry, it is not surprising that transparency of fees and performance both ranked so highly when this was added to the options this year (what features were important in a provider). As discussed in our perspectives in Section 4, we are strongly behind helping to drive greater transparency across the industry, both within fiduciary management and the wider asset management and consulting practices. This result is therefore pleasing and we hope will encourage all firms to improve transparency in response.

Relationships are key

Fiduciary management is often seen as the implementation of the best ideas, strategic advice and services already provided by an investment consultant. It is therefore unsurprising to see that the fiduciary business of an existing investment consultant or actuary are highly ranked as preferred potential fiduciary providers. This also links in with the importance of understanding of liabilities when selecting a fiduciary provider (as a quality indicator) — something that is much more associated with consultancy firms as opposed to, say, investment managers.

We believe that trust and building a strong long-term relationship are key to the success of a fiduciary management approach. Providing transparency in the approach, the solution, the fees, the performance, operations and risk (to name a few example areas), will help build this trust. Selecting a provider where there is already an existing relationship is therefore a natural choice, unless there are pre-existing issues or concerns.

Past performance is not a reliable indicator of future performance.

How do schemes select fiduciary providers?

Schemes continue to take a face-to-face, in-depth approach to fiduciary manager selection.

When asked what process they did, or would, use to select a provider, first-hand insight is preferred. Due diligence (used by 73%), beauty parades (68%), RFPs (64%) and site visits (42%) all show increased popularity compared to the 2016 survey. As in 2016, due diligence nudges beauty parades into second place in terms of the most-used selection process.

77% take a face-to-face approach, using a beauty parade and/or site visit, evidencing schemes' thoroughness when it comes to manager selection.

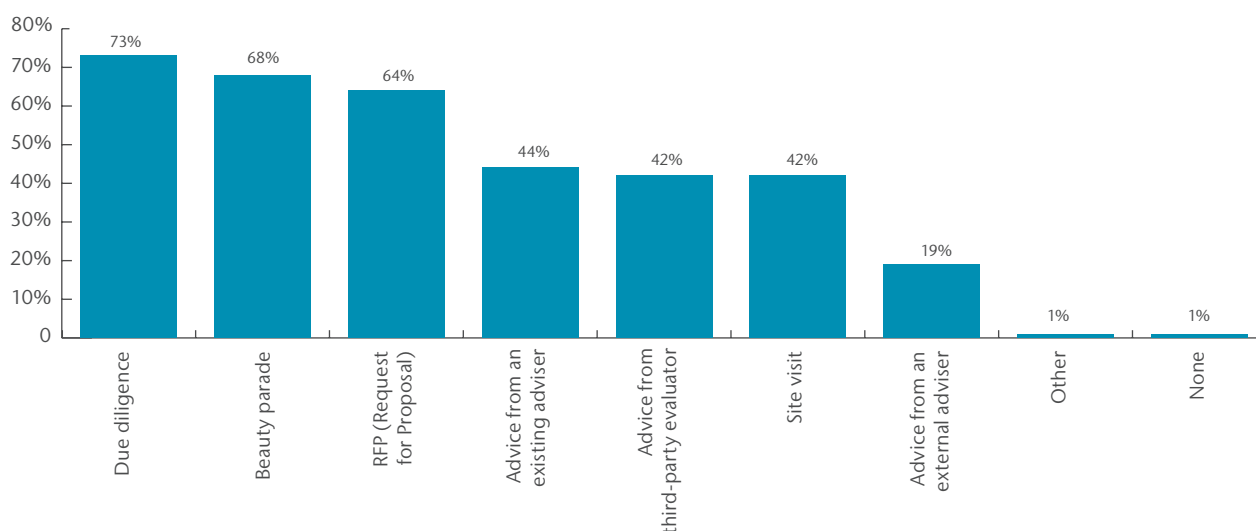
The number of schemes using third-party evaluators (TPEs) to inform their decisions remains fairly static. 42% of respondents would use a TPE; this is consistent with previous surveys. Most schemes prefer to take their own approach to assessing potential providers.

Key finding

77% take a face-to-face approach when selecting a fiduciary provider (beauty parade and/or site visit).



What, if any, process did you or would you use to select a fiduciary provider?



Number of responses: 634 (179 respondents)

Separately, we asked respondents if they would (or did) use a third-party evaluator (TPE) to help them actually select a fiduciary provider (which differs to the 'advice from' option in the question above).

This question highlights some interesting differences in preference between those with and without fiduciary management. Among those currently using a fiduciary approach, just 39% used or would use a TPE for the initial provider selection process, compared to the 66% of those without a fiduciary mandate that anticipate doing the same.

The first-hand evidence of those who have been through the fiduciary manager selection process endorses the need for schemes to take a hands-on approach. We can see from earlier answers that sponsors and trustees take provider selection very seriously, using due diligence and first-hand evidence via site visits and beauty parades. The findings on TPEs show that some trustees also draw upon their resources and expertise to support this.

"A fiduciary manager should be a trusted partner to the pension board, helping them to achieve their investment goals."

Survey respondent quote

Investment in external funds preferred to in-house alone

When asked what investment approach respondents would like their fiduciary provider to take, the results are identical to the 2016 survey.

73% prefer to use externally managed funds (25%) or a combination of in-house and external funds (48%). This has increased from 70% in 2015 and 68% in 2014.

Fiduciary management fee preferences

The number of schemes that want a fee based on a combination of basis point and performance fee is growing. This is the preferred charging structure for 55% of survey respondents, up from 47% in 2016 and 43% in 2015.

Respondents also have a growing preference for an unbundled fee structure. This is where all fees related to the fiduciary solution, such as the

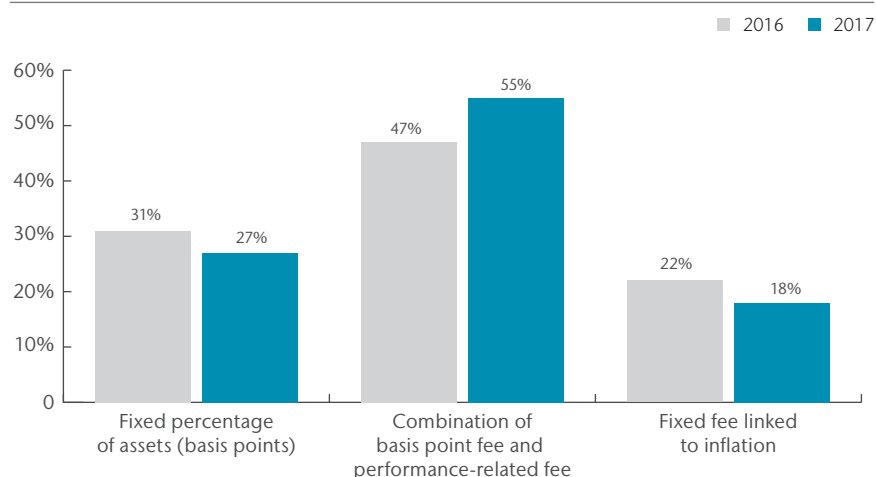
provider and underlying manager fees, are charged separately. 59% express a preference for this, an increase from 54% in 2016 and 36% in 2015.

Large schemes (67%) and those that are still open (75%) show the strongest preference for unbundled fee structures.

Key finding

A growing number of schemes want an unbundled approach, with all fees charged separately.

Preferred charging basis



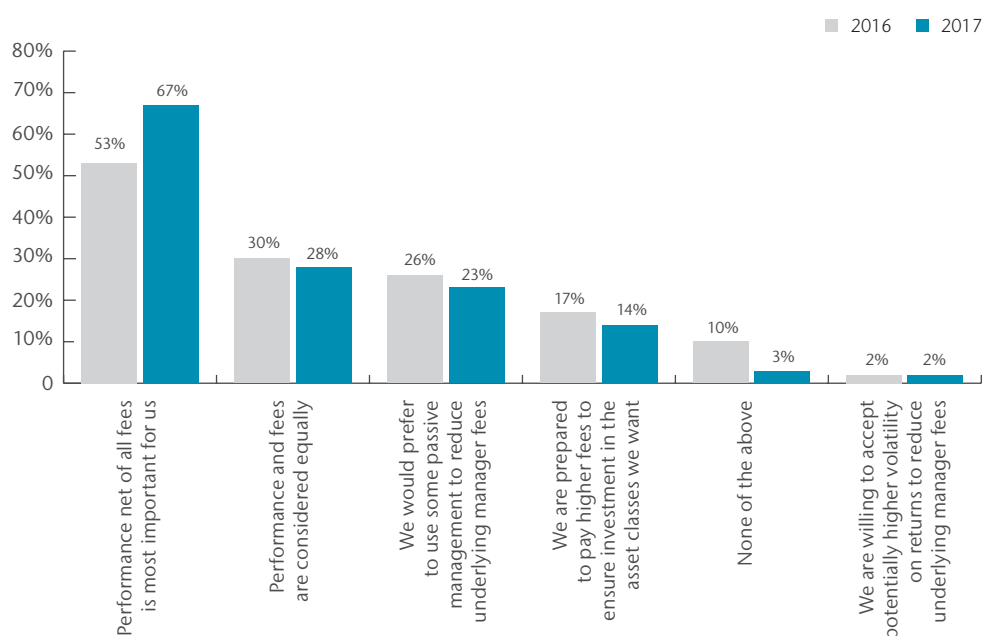
Number of respondents: 174

"A partnership between the trustees, scheme sponsor and fiduciary manager to assess and determine the most appropriate way to handle the scheme's investment strategy and implementation."

Survey respondent quote

The survey also asked about the importance of underlying manager fees if/when considering fiduciary management. As in previous surveys, performance net of all manager fees is the most important thing for the majority of schemes, and is increasingly valued. 67% of respondents said that this was most important, up from 53% in 2016. It is a particular preference for large schemes, 71% of which stated this as their preferred approach when looking at underlying manager fees.

Importance of underlying management fees if/when considering fiduciary management



Number of respondents: 203

"Efficient – service provided by Aon Hewitt."

Survey respondent quote

Aon Hewitt perspective

Rigorous selection process

Fiduciary management gains a lot of attention from the pensions industry for a number of reasons. One of the misconceptions cited is that far too few mandates are being won on a competitive basis, and that clients are being ‘flipped’ by their investment manager or investment consultant into a fiduciary solution without a full tender process. Both the results of this survey and our own experiences tell us this statement is not reflective of what is actually happening in practice.

Our survey shows that 68% would/did undertake a beauty parade and that this would be used in combination with at least one other form of selection process. Nearly two-thirds of respondents would, or did, use an RFP, and there has been a significant increase in the number undertaking formal due diligence. With advice from both external advisers and TPEs around 40%, some trustees are using this additional support and others are clearly undertaking their own rigorous processes, as part of a competitive tender selection exercise.

Trustees are using a combination of processes to make sure that they select both the provider and the solution that is right for them. This makes a lot of sense when considered alongside the concern raised around the difficulty of comparing providers. It is encouraging to see that the vast majority would use face-to-face interaction to help achieve the right result. We are strong advocates of site visits before any decision is made. This gives the trustees a great opportunity to really understand the solution, the systems and risk management approach. It also gives the chance to meet the people who will actually be responsible for their portfolio, and to get a feel for what it would be like working with the provider. Given that fiduciary management is a trusted and long-term partnership, this is key.

Our own personal experience is that the vast majority of fiduciary mandates are going out to a full competitive tender process. We have seen a mix of approaches being taken, with some trustees using their in-house expertise, procurement department or paid trustees to help support the process which may include RFPs, site visits and formal presentations. At Aon, around 70% of our fiduciary business wins over the past 18 months have been through a full competitive tender process (100% in 2017 YTD).

The use of third party evaluators (TPEs) within fiduciary management is still relatively new compared to the provider side, and is yet to be fully proven in terms of the value they add (ie, does their use help to generate better outcomes). However, as their offerings have developed and they have increased their understanding of all the fiduciary providers in the market, we are seeing them being part of more selection processes and this is partly reflected in this survey. For trustees that do not feel confident running a selection process themselves, using a TPE to help them can give comfort. We would urge caution; if appointing a TPE to help with the selection process, we would encourage trustees to remain fully involved and ‘hands on’. By this we mean, for example, speaking with the providers to outline your views and needs, providing key criteria, reviewing RFPs and understanding any differences between providers. Appointing a fiduciary provider is a big decision and requires work and input from the trustees at the outset to make sure that you put in place both a solution and a provider that is right for your unique scheme. Keeping arm’s length during the process could have a negative impact and result in future issues.

This part of the industry is still evolving and it is unclear exactly what form/presence it will take in the future and how prominent it will be. There are a number of firms entering this area of the market and each has their own challenges to overcome. Just as with fiduciary managers, TPEs need to prove added value, demonstrate transparency and manage their conflicts of interest (which could otherwise prove a barrier for appointment). Indeed, there are currently more TPEs than there are fiduciary providers so clearly some consolidation and changes are to be expected.

Aon Hewitt perspective

Externally managed funds preferred

In terms of investment approaches, the majority of respondents still prefer the use of external, best-in-class funds only or a combination of in-house and external funds. This has been consistent over the four years we have asked about this. Respondents have felt that investing in in-house funds has the greatest potential conflict of interest. Who is being remunerated and how? Are any funds being invested in that the provider manages in-house or via another firm which the parent company owns (and is thus receiving remuneration from)? The potential conflicts around setting and implementing the investment strategy, and how underlying managers or investments are selected, can vary between providers so it is important to understand whether there are any conflicts and, if so, how these are managed or minimised.

Fiduciary management fees

As discussed in Section 3, cost, or fees, is one of the main concerns around fiduciary management. The four component parts of fiduciary management are: the fiduciary provider fee, underlying manager fees, investment consultancy and other fees (such as administration and custody). All of these will vary depending on the provider and the solution in place. It is therefore critical to make sure you have full clarity on every aspect of these fees.

We offer our clients an 'unbundled' fee structure which means that each of these four component parts are charged, and shown, separately. Clients receive a full breakdown of fees so they know how much they are paying and to whom. 59% of respondents cited this as their preferred charging structure. We also offer our clients flexibility when it comes to the fiduciary provider fee; they can choose to have a basis point fee or a combination

of basis point and performance/variable fee. This was the preferred charging structure for 55% of respondents. This combined fee preference has increased since 2016, although from our experience this has yet to flow through into client requests as the vast majority of clients we speak to still prefer a fixed basis point fee with no variable element.

There is often a difference in view between trustees and sponsors around cost and the emphasis placed on this. For example, one party may want fees as low as possible and can be very focused on the absolute numbers, whereas another party may be willing to pay slightly more in order to get an even better outcome and be focused on the end result.

As this is an area we have frequently seen debated, since 2015 we have asked respondents how important underlying manager fees were if/when considering fiduciary management. More than two-thirds (67%) said that performance net of all fees was most important. This has gone up since 2016. Interestingly, 22% of large schemes said they would pay higher fees to get access to the asset classes they wanted.

This is supportive of our view that it is net of fees performance or added value that is most important, and not just at a manager level but in terms of the overall cost of the solution. Our experience is that once schemes are comfortable with the solution and understand how the fees are derived, the benefits and added value of a fiduciary solution (net of all fees) mean this is a really attractive option. We always show all performance net of all fees so that clients can see exactly how they have performed, and thus the results they have actually achieved.

Section 6

Monitoring and measuring fiduciary provider performance



As we have seen in previous surveys, the vast majority of respondents (86%) like to measure the success of their fiduciary provider in terms of performance relative to their unique investment objective.

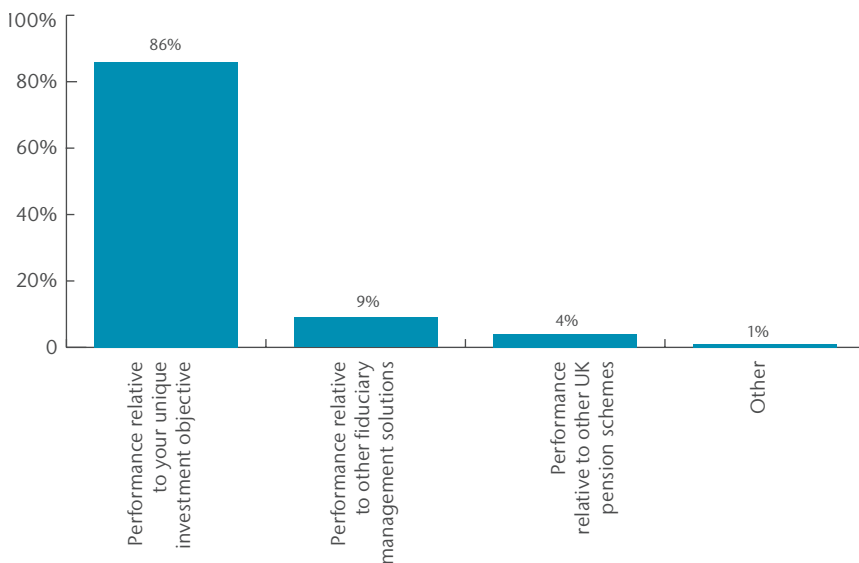
This is even more pronounced among those already operating a fiduciary approach (90%) and among small schemes (97%).

Assessing performance against unique objectives

The performance and track record of fiduciary managers is clearly of paramount importance for schemes considering delegation. Here we look at the ways schemes measure the performance of their own fiduciary solution.

The vast majority (86%) prefer to measure the success or failure of their solution relative to their scheme's unique investment objective, rather than in relation to performance of other UK pension schemes or other fiduciary solutions. This is in line with the findings from the previous survey.

Measuring success or failure



Number of respondents: 140

Key finding

86% of schemes, and 90% of those with fiduciary management, want to measure fiduciary management performance against their unique investment objectives.

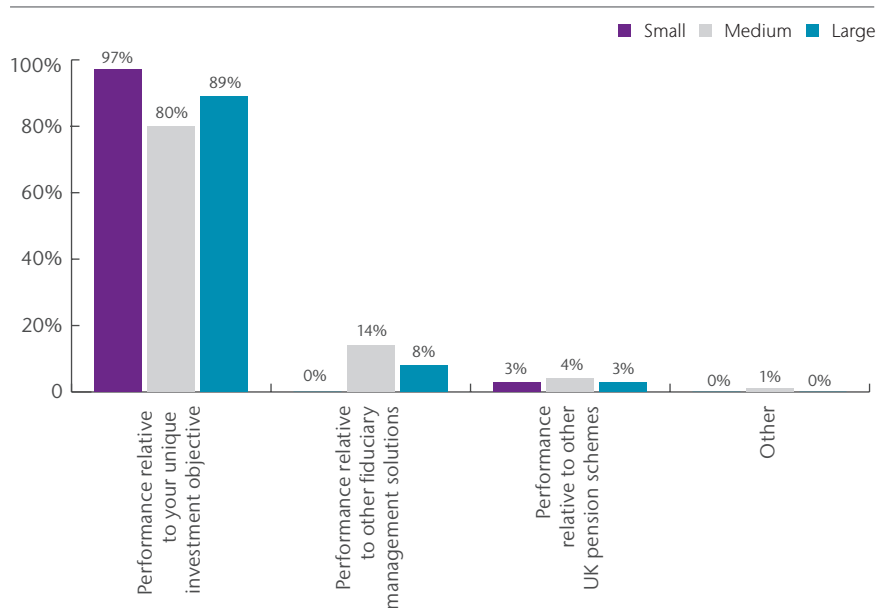


"The delegation to a third party to manage the scheme's assets with the aim of meeting defined financial goals."

Survey respondent quote

This is particularly the case among small schemes, where 97% prefer to measure performance in this way, and among those that already have a fiduciary mandate (90%).

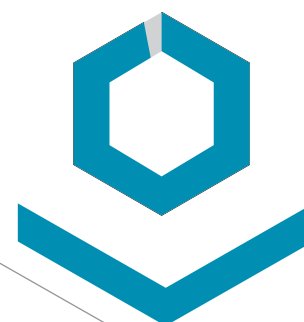
Performance measurement preference by size of scheme



Number of respondents: 140

Key finding

97% of small schemes prefer to measure fiduciary performance against their unique investment objectives.

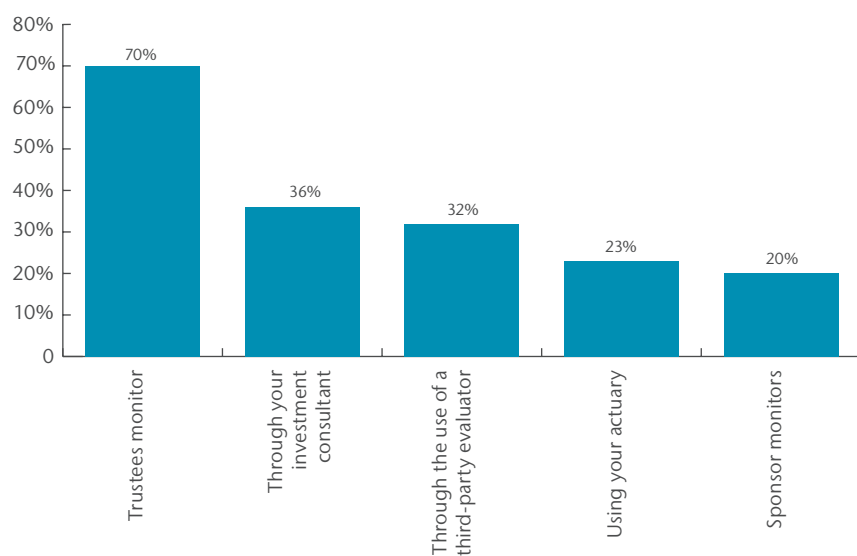


Monitoring fiduciary management

Respondents with a fiduciary mandate were asked how they monitor the performance of their existing provider.

Trustees monitor fiduciary provider performance in the vast majority of schemes (70%, up from 61% in the 2016 survey, and the top answer for the last three years).

How do you monitor the performance of your fiduciary provider?



Number of respondents: 91

Key finding

Trustees monitor fiduciary provider performance in 70% of schemes.



70% of large schemes monitor fiduciary provider performance via trustees – more than three times as many as would use a third-party evaluator for this (22%).

Third-party evaluation

We separately asked about the role of third-party evaluators (TPEs) in monitoring fiduciary providers after implementation. Respondents were asked how likely they were to use a TPE to help with quarterly monitoring and with one, three or five year reviews.

There were some differences here between those with and without a fiduciary mandate in place.

Less than half of those with fiduciary management (49%) use or plan to use TPEs for one, three or five year reviews, while 76% of those yet to appoint a fiduciary provider expect to. 31% of those with a fiduciary mandate use TPEs for quarterly monitoring, compared to 37% of those without who plan to use them for this.

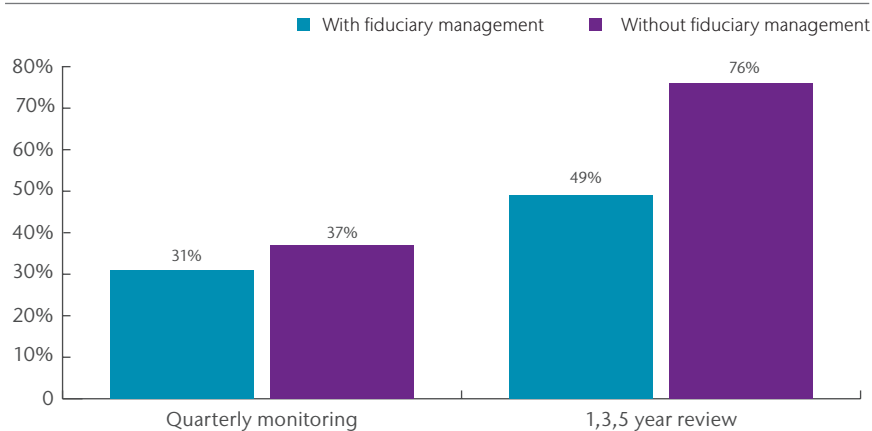
Over half of those without a fiduciary mandate, 54%, said they would not consider using a TPE for quarterly monitoring. 25% said the same of initial selection, and 22% of one, three and five year reviews.

Key finding

Less than half of schemes with fiduciary management plan to use TPEs for long-term reviews, and less than a third for quarterly monitoring.



Using third-party evaluators



Number of respondents varies for each part of this question.

“Professionally delivered investment mandate.”

Survey respondent quote

Aon Hewitt perspective

How to measure the performance of your fiduciary solution/provider remains one of the more topical areas of fiduciary management. Consistent with last year, 87% of our respondents state a preference for measuring the success or failure of a fiduciary provider by looking at the performance of their solution versus their unique investment objectives, rather than versus other UK pension schemes or versus other fiduciary management solutions. This is supportive of our view.

When implementing a fiduciary solution, we believe it is important that trustees make sure their provider constructs a benchmark which accurately reflects their precise objectives and their unique liability profile. It is important that performance is shown clearly versus this benchmark and that the trustees have a full breakdown of what is behind that performance. For example, how the performance was achieved in terms of detractors and contributors; the level of risk taken to achieve it; and how the risk is broken down. As mentioned in Sections 4 and 5, it is also important that performance is shown net of fees so the actual outcomes can be clearly seen. Ultimately, this will help the trustees determine whether the fiduciary provider is delivering what they promised and in the way that they said they would do it.

Disclosure of fiduciary management performance

As we mentioned on page 26, the FCA published its Final Report on the Asset Management Market Study in June 2017. Transparency of performance and fees across the entire pensions industry formed a key part of this. One of the Undertakings in Lieu we mentioned earlier related to the disclosure of fiduciary management performance.

We believe that the creation of a standard format for disclosing performance would make comparison easier for clients. Along with a number of other fiduciary providers, we proposed a methodology for doing so. The FCA are currently considering the UILs and the views expressed during a public consultation. We expect their final decision relating to the UILs in September 2017 (after this survey is published). We are confident that the UILs proposed around the disclosure of fiduciary management performance represent best practice. Full disclosure of results, in the right way, is something that we fully support and we therefore intend to adopt the transparency and disclosure elements of them on a voluntary basis.

We believe in improved transparency across the pensions industry and would therefore suggest taking this a step further. Why limit this disclosure and measurement of performance to just those schemes with fiduciary management in place. An industry standard for measuring and disclosing the overall performance of ALL pension schemes would be best. This would include looking at all aspects of pension scheme management, all services and all providers and advisers. This should incorporate trustees, any professional trustees, third-party advisers, investment consultants, fiduciary managers and asset managers. If we were able to measure performance of all schemes using a consistent and appropriate methodology, then it would also be possible to identify trends and commonalities that the very best performing schemes share.

Trustees responsible for monitoring their provider

Again, consistent with other years, not only are trustees taking the lead when selecting a fiduciary provider, they are also doing so when it comes to monitoring their provider's performance. This could be because they feel more in control of their strategy, having delegated the day-to-day decisions to a trusted partner that they spent time selecting. The holistic reporting at the overall scheme level, versus their benchmark, also means that trustees can more clearly see the provider's performance and progress toward meeting their end goal, without the need to review multiple manager reports with performance versus standard indices. The improved transparency of performance and reporting that many fiduciary providers offer means trustees can focus on the key strategic decisions and overall performance at their quarterly meetings and less on the day-to-day activities.

Based on our survey results, the use of TPEs for ongoing monitoring or reviews seems limited at this point in time. Many TPEs focused their initial efforts on working with trustees as part of a fiduciary provider selection process (see Section 5), and therefore the ongoing monitoring and reviews offered by TPEs are still new and their value yet to be proven.

Our experience is that increasingly, schemes with a fiduciary management approach are undertaking more in-depth reviews of their mandates every three or five years, sometimes with a light touch review after one year to make sure it is doing as they asked at the outset. Many trustees are doing this by themselves or with the support of their procurement department and external advisers. Some are also turning to TPEs to help assist with some elements of the review, albeit with clear parameters to ensure costs are controlled. We welcome oversight from TPEs where the trustees have asked for help in this area and where the parties involved have worked hard to understand our offering.

Section 7

What are DB pension schemes really concerned about?



For the third year in a row, we asked respondents to list their two main concerns with regard to their UK DB pension scheme. This was a free text box answer to encourage honest and open views.

We have grouped these responses into themes in the ‘word cloud’ below. This shows pictorially the most common concerns, which included funding level, investments, deficits, sponsor/employer covenant and volatility.

Unsurprisingly, many of the concerns and challenges listed correlate closely to the drivers of growth within fiduciary management (see Section 2, page 12) and the key factors in deciding to appoint a fiduciary provider (see pages 16 and 27).

Funding levels, investment overall, deficits, and the strength of sponsor/employee covenants are the issues of most concern to our survey respondents. Returns, low yields and market volatility remain important as well.

These are very similar to the issues cited in 2016.

Main DB concerns



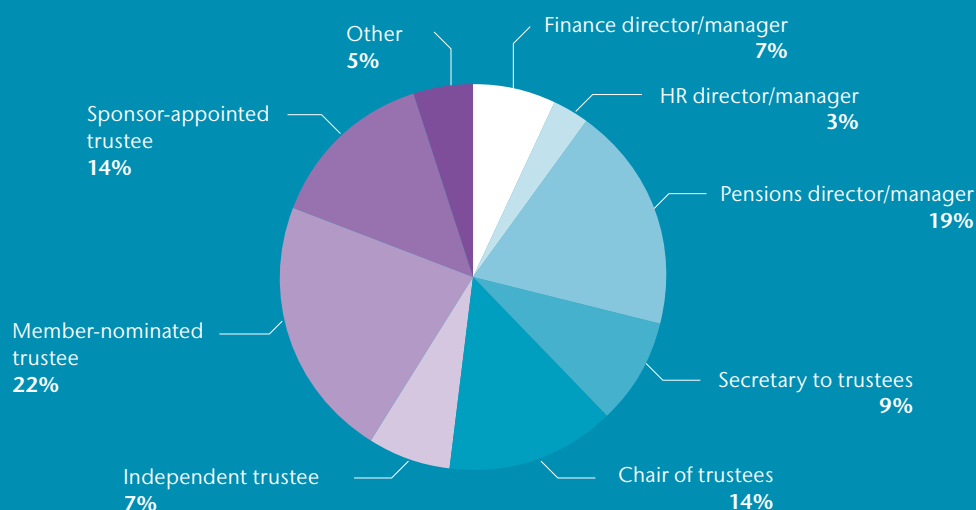
Section 8

About the survey

The survey continues to reflect the views of pension scheme representatives rather than providers. All respondents are involved in DB pensions in some form and represent the views of their scheme, either from the sponsor or trustee side. 19% are pensions directors or managers. 36% hold either member-nominated (22%) or sponsor-appointed (14%) trustee positions.

14% are chairs of trustee boards and a further 9% secretaries to the trustees. 7% are independent trustees. 7% are finance directors or managers and 3% are HR directors or managers. 5% have titles that are not listed but are not providers as these have been excluded.

Roles of respondents

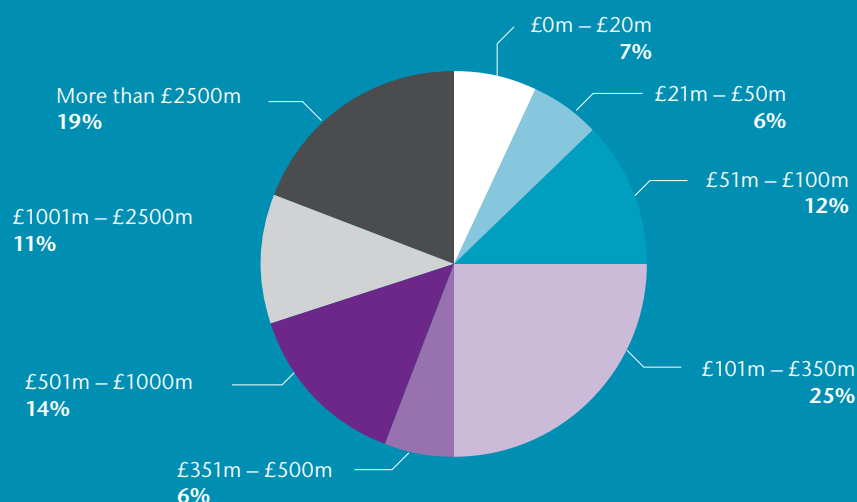


Number of responses: 286 (235 respondents)

The make up of schemes in the 2017 survey is very similar to that in previous years.

30% have over £1bn in assets; 39% have between £101m – £1bn and 25% have £100m or less.

Scheme size



Number of respondents: 232

Contact

Sion Cole

Senior Partner and Head of European Distribution
Delegated Consulting Services
Aon Hewitt

+44 (0)20 7086 9432
sion.cole.2@aonhewitt.com

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Working in partnership with our clients

At Aon Hewitt we believe in working closely with our clients from the very outset to understand the challenges they face and their individual needs. Working in partnership with the trustees and sponsor, we create a bespoke solution to help address these issues and help them to meet their long term goals. No two clients of ours are the same and each has their own bespoke liability benchmarks, reflecting our truly tailored delegated offering.

To talk to us about any of the points we have raised in this survey or to find out more information about our delegated offering, please do not hesitate to contact your Aon Hewitt Consultant or Sion Cole, Senior Partner and Head of European Distribution, Delegated Consulting Services, on **+44 (0)20 7086 9432** or at **sion.cole.2@aonhewitt.com**.

aonhewitt.com/delegatedconsulting

About Delegated Consulting Services

Aon Hewitt's fiduciary offering (Delegated Consulting Services) is focused on helping trustees and sponsors work towards better outcomes for their scheme members. We do this through helping you meet your unique long term objectives and, importantly, through improving your scheme's funding level. What makes us different? Only we ask the best questions and then really listen to exactly what our clients tell us. By working in partnership in this way we can then create a truly bespoke solution that is designed to meet your unique requirements. We don't just say bespoke, we live by it.

Aon Hewitt has won fiduciary manager of the year awards for four years in a row. Our ability to create truly bespoke solutions has been cited as part of these award wins and is one of the reasons why our clients vary significantly in size and how we work with them. Examples of some of the solutions we can offer clients include full fiduciary with bespoke growth and liability matching portfolios and daily monitoring of triggers. We also offer single solutions (partial fiduciary mandates) such as hedge funds, alternatives mandates and flight planning with dynamic de-risking.

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About Aon

Aon plc (NYSE:AON) is a leading global professional services firm providing a broad range of risk, retirement and health solutions. Our 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance.

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