It is not surprising that fees and costs are high on many pension schemes’ agendas – they are something that we are often asked about. However, there are also a lot of misconceptions around fiduciary fees that can put trustees off considering this approach. In this article I look to offer some clarity around four of the more common fiduciary fee myths.

1. Fiduciary fees are more expensive
Fiduciary fees are not necessarily more expensive. This is dependent on what your current portfolio looks like and where you want to be (what the new solution looks like). For example, a scheme which has an existing portfolio comprised of a high number of active equity and hedge fund managers, with complex liability hedging arrangements, may see lower fees under a fiduciary approach as assets are consolidated and they take advantage of economies of scale.

2. Fees are not transparent
The level of transparency around fiduciary fees really depends on the fee approach taken. There are typically four component parts to the fees charged within fiduciary management: the provider fee, underlying manager fees, investment consultancy fees, and other fees such as admin or custody. A ‘bundled’ fee approach is where all of these components parts are combined into one overall fee. While this approach gives certainty regarding the costs it does mean some lack of clarity around where costs are incurred.

An ‘unbundled’ fee approach actually gives full transparency of costs as each individual service is shown and it gives providers the ability to show any fee savings that have been made (for example, through asset management fee negotiations).

3. Providers earn fees from the managers they use
Fiduciary management is very much based on trust between the provider and the pension scheme and therefore earning money out of using certain managers would go against this principle. Whether providers use in-house funds or externally managed funds (or a combination of both), it is worth clarifying upfront if the fiduciary provider earns any incentives from this. In addition, if they can negotiate any fee savings due to their scale, are these passed on 100 per cent to the clients (ensuring transparency, as mentioned above).

4. Fees are not aligned with clients’ interests
Fiduciary providers can, or should be able to, charge their fees in the form preferred by the client. By this we mean charging either a base fee or a base fee plus performance fee (where the performance fee is driven by some form of metric such as funding level improvements). The structure of a performance fee is important as it can be used to help directly align the interests of the client and provider. For example, performance fees can vest over, say, three years to encourage steady performance, benefitting both the client and provider.

Where a client has a preference for a fee that clearly aligns their interests with the provider, it is worth requesting a fee that includes a performance element, thereby solving this concern.

There are a number of myths around fiduciary management fees. This is perhaps partially due to them being different in their construction to a more traditional advisory approach and the level to which they are bespoke means fees are hard to compare directly. However, what is actually most important is neither the headline fee, nor if one solution is more expensive than another, it is for trustees to ask what added value they are getting.

Trustees should evaluate each solution based on the benefits and expected outcomes. Really delve beneath the headline fee and ask the questions necessary to ensure they are comfortable with the answers. Ultimately, if one solution is going to be more aligned with your needs, offering greater stability or helping you reach your end-goals quicker for the same level of risk, isn’t that worth it?

Myth-busting fiduciary fees

Sion Cole dispels some of the myths surrounding fiduciary fees

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