Fiduciary Management Survey 2018

Aon
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Foreword

Welcome to Aon's ninth survey on fiduciary management for UK defined benefit (DB) pension schemes; the largest and longest-running survey in the UK pensions industry on this area of the market.

Since starting this survey, we have seen fiduciary management change from a new, largely untested solution to one of the fastest-growing and widely-accepted investment and governance solutions. Schemes are turning to this approach in increasing numbers and in this 2018 survey, for the first time, delegated investment is 'a way of life' for the majority of respondents.

For the past few years, fiduciary management has also been one of the most widely-debated topics within UK DB pensions. The past 18 months have been no different, with the Financial Conduct Authority review and subsequent Competition and Markets Authority investigation (the final report and recommendations of which are due by March 2019). These processes have highlighted some challenges for the entire industry, specifically around transparency. From a fiduciary management perspective, while some remedies are being proposed to improve transparency and help trustees select the right provider for them, our survey shows fiduciary management is adding value and helping schemes meet their objectives.

Throughout the CMA investigation, Aon has made it clear that we want to achieve the best outcomes for our clients and their scheme members. We have dedicated time to helping drive down the costs and increase the value of asset management while setting the highest standards for the industry. We are proud of our track record and strongly believe that greater transparency in our industry will enhance competition.

If you have read our previous Fiduciary Management Surveys, you will know that increased transparency is a recurring theme, and something we have been recommending for many years. We have been publishing all our fiduciary clients' performance on our website since October 2017 and show fees in a clear and transparent way.

'Fiduciary management has allowed us to concentrate on the big picture and allow freedom of movement to the investment manager.'

Survey respondent quote

Since launching our business in 2009, we have grown to have over 120 UK DB pension scheme clients using our fiduciary management solutions. We are a leading, multi-award winning provider both in the UK and globally. These credentials, along with our performance track record of delivering great results for our clients, is something Aon, and I personally, are incredibly proud of.

Finally, no matter your views on fiduciary management, I hope that you find this ninth survey interesting and useful. If you would like to discuss anything from this report I would love to hear from you.

Tim Giles
Head of Investment for UK and Ireland
Aon

What is fiduciary management? – as described by respondents

As in our last three surveys, we asked respondents to describe fiduciary management in their own words. Over 90% gave a view. Every year, the number and depth of descriptions given has increased – showing a growing understanding of, and familiarity with, fiduciary management. We have shared a selection of these descriptions throughout this report.

Executive summary

This is Aon's ninth 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 nine-year history, large scale and focus on users rather than providers.

This year's survey represents the views of 190 respondents. 100% of these are pension scheme representatives in some form, including chairs of trustees, trustees and pensions managers. The survey covers an estimated £162 billion of assets, representing more than 10% of the DB pension market in the UK. 82 of the respondents, 51% of the total, are currently using fiduciary management; the highest proportion since the survey was launched, covering an estimated £82 billion of assets. Importantly, this is a survey of the entire industry and not just Aon clients; less than a quarter of respondents with fiduciary management are Aon fiduciary clients. The findings are therefore a good reflection of the entire sector.

Over the years, we have seen fiduciary management grow exponentially, with this year's results showing the highest percentage take up to date. More than half of the respondents to this year's survey have some form of fiduciary mandate in place, with large schemes increasingly likely to use a delegated investment approach.

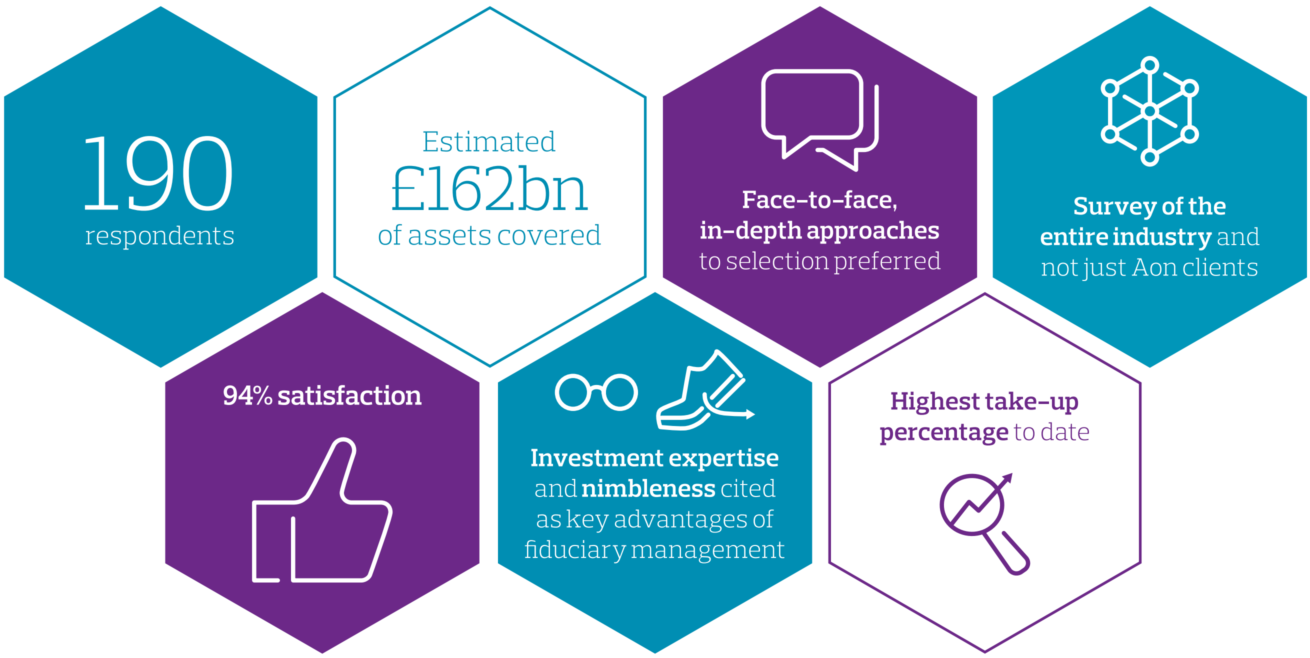
Satisfaction levels also remain very high, with 94% satisfied or better with their overall experience.

The need for expertise is a core driver for a fiduciary management approach, and a key criterion when selecting managers. Reflecting the increasingly volatile and uncertain investment landscape, nimbleness is for the first time cited as the biggest advantage of fiduciary management.

The survey examines these trends and developments, and others, to provide a clear snapshot of the current fiduciary management landscape. It provides expert analysis and practical advice on key topics, including provider selection and performance measurement.

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

Throughout the survey, charts may not add to 100% for reasons of rounding.



Key findings

Section 1

Demand for fiduciary management continues to increase

- **For the first time, more than half (51%) of respondents to this year's survey have either full (35%) or partial (16%) fiduciary management in place**, up from just 18% when we first asked this in 2011 and compared to 48% in 2017.
- **Medium-sized schemes (assets of £101m-£1bn) are most likely to use a fiduciary manager** – 55% have either full or partial delegation, an increase from 52% in the previous survey.
- **Medium-sized schemes have also overtaken the smallest as those most likely to have a full fiduciary mandate** – of those with full fiduciary, 51% are medium-sized.
- **The biggest growth in fiduciary management since the previous survey has been among large schemes**; 48% of £1bn+ schemes now have either full or partial fiduciary mandates, up from 40% in 2017.
- **As in previous surveys, closed schemes are more likely to have implemented fiduciary management**. 53% of schemes closed to future accrual, and 56% of those closed to new entrants, have a fiduciary mandate.
- **Only 13% of respondents have ruled out fiduciary management as an option** – if we take into account schemes that 'plan to explore' or have currently ruled out but 'may reconsider' fiduciary management, 87% of schemes either have or may consider a fiduciary approach.

'The right people with the right knowledge making the right decisions based on the right mandate.'

Survey respondent quote

Section 2

Expertise remains the key driver of growth

- **As in previous years, the need for expertise in pension scheme decision making remains the most important factor when selecting a fiduciary provider**. 62% cite this among the top three criteria when choosing a provider.
- **This is even more highly valued by those with a fiduciary mandate than by those without** – with 73% choosing it among their top three factors, compared to 55% among those without fiduciary management.
- **With trustees continuing to face time pressures** – 89% spend 10 hours or less per quarter on investment matters – and increasingly complex investment options, this external expertise is needed more than ever.
- **Fiduciary management's ability to speed up investment implementation and decisions and a lack of trustee time** – both cited by 35% – are the second biggest factors.
- **Being able to identify and react to market changes swiftly is vital** – but more than a quarter of those without fiduciary management (26%) believe that scheme investments are made too slowly. This drops to just 17% of those with a fiduciary mandate.
- **The investment options schemes face continue to become more complex** – LDI, for instance, is now used by 65% of respondents, and is the fourth most popular asset class. Trustees therefore need more help than ever from external experts when it comes to selecting and implementing their investment choices.

Section 3

Fiduciary management benefits

- **In 2018, nimbleness has overtaken investment expertise as the main advantage of fiduciary management** – 46% cite nimbleness, against investment expertise with 45%.
- **Nimbleness has soared in importance** leaping from just 9% in 2015.
- **Daily attention to risks and investments remains third with 43%.**
- **Large and small schemes particularly value investment expertise**, while nimbleness is the main priority for medium-sized schemes.
- **As in previous years, the top concern among those with fiduciary management is the difficulty of comparing providers** (59% cite this).
- **Schemes with fiduciary providers remain happier with the speed of investment decision making than those without** – 80% of those with a fiduciary mandate believe investment decisions are made at the right speed, compared to 73% of those without.
- **Those with fiduciary management continue to enjoy more diversified investment portfolios** than those without.

'Nimble financial management by experts'

Survey respondent quote

Section 4

Fiduciary management continues to deliver high levels of satisfaction

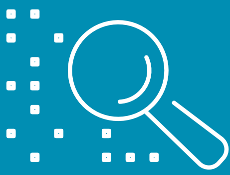
- **As we have seen throughout the survey's history, confidence in fiduciary management is exceptionally high**. 97% say their client service is excellent, good or satisfactory.
- **95% report the same about their funding levels**, 96% about their risk controls, 94% about their reporting and 94% about their overall experience.
- **Large schemes report particularly high satisfaction levels**. 100% of large schemes rate their experience overall as excellent, good or satisfactory.
- **100% of £1bn+ schemes say the same about their client service, funding levels and risk controls**. 95% are satisfied or better with the reporting they receive.

'Provision of excellent advice ensuring trustees plan well for the future.'

Survey respondent quote

Section 5

Selecting a fiduciary provider



- **A proven track record has returned to the top spot as the most important indicator when selecting a fiduciary provider**: 52% of respondents chose this, up from 47% in 2017.
- **The need for a dedicated fiduciary team has overtaken investment experience as the second most important criterion**.
- **Those with fiduciary management are far more likely to cite a dedicated team than those without** (54% vs 35%).
- **Conversely, those without a fiduciary provider are more likely to see proven track record as important** (64% vs 41%).
- **94% of respondents cite transparency of performance and risk as an important feature of a potential fiduciary provider**, up from 90% in 2017, with 88% citing transparency of all fees and costs (up from 85% last year).
- **Schemes continue to use robust, face-to-face selection processes when choosing fiduciary providers**. 67% use beauty parades and/or site visits to get to know potential fiduciary managers. 55% of schemes carry out due diligence and 49% issue an RFP.
- **Fewer schemes than in 2017 are taking advice from third-party evaluators (TPEs)**; 32% take or would take advice from a third-party evaluator (TPE), down from 42% in 2017. Small and medium-sized schemes are more likely to use a TPE than their larger counterparts.

Section 6

Measuring and monitoring provider performance

- **As in previous years, schemes prefer monitoring the success of their fiduciary manager against their own investment objectives**; this is the chosen measure for 79%, with medium-sized and large schemes particularly likely to favour this approach (82%).
- **This monitoring is carried out by the trustees in 72% of schemes**, up from 70% in 2017 and 61% in 2016.
- **The use of TPEs to monitor performance seems to be less commonplace, with 24% reporting that a third-party evaluator monitors performance** (compared to 32% in 2017).

Section 7

Top issues for DB pension schemes

- **DB schemes continue to be concerned about funding and returns**, particularly in the context of global political uncertainty and stock market volatility.
- **Sponsor covenant issues are an ongoing concern**, while those with schemes in surplus are interested in de-risking and self-sufficiency.
- **We explore the concerns in full in the word cloud on page 45**.

Section 1

Demand for fiduciary management continues to increase

Take up of fiduciary management grows ever stronger

Over half (51%) of respondents have a fiduciary mandate, up from just 18% when we first asked this in 2011

Large schemes experienced largest growth in take up in last 12 months

Closed schemes are more likely to have implemented fiduciary management

48% of schemes with **£1bn+ assets** now have a **fiduciary manager**

Only 13% of respondents have ruled out fiduciary management as an option

The 2018 survey shows no slow-down in the demand for delegated investment expertise. For the first time since the survey started, over half (51%) of all respondents have a fiduciary mandate, either full (35%) or partial (16%) – up from 48% in the previous survey.

Key finding

Over half of schemes (51%) now have some form of fiduciary management.

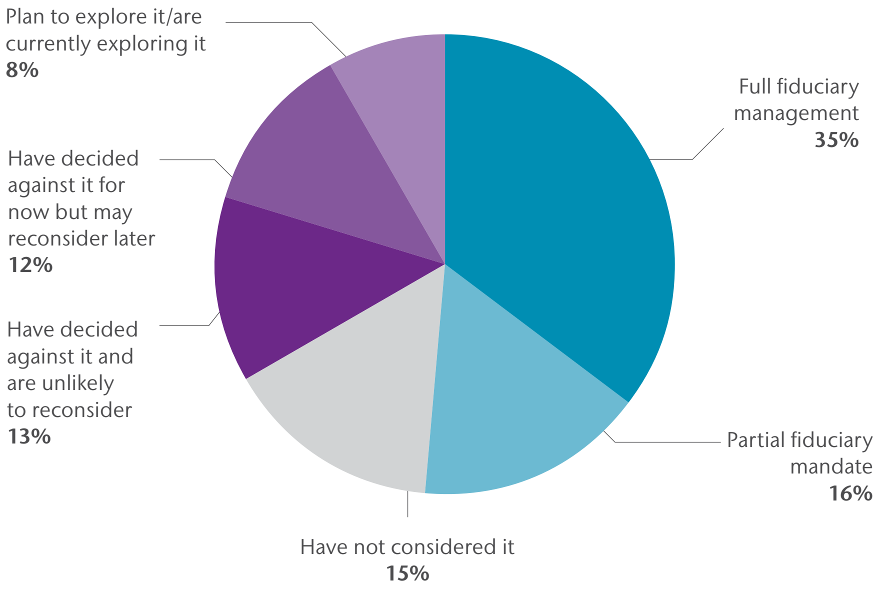
Large schemes – those with £1bn+ of assets – have seen the largest percentage growth in uptake in the last twelve months. 48% of large schemes now have a fiduciary manager, up from 40% last year. 55% of medium-sized schemes and 49% of small schemes now use fiduciary management.

As we have seen previously, large schemes are more likely to have a partial fiduciary mandate, where only certain decisions or asset classes are delegated (31% have partial, compared to 17% with full fiduciary). Schemes with under £100m in assets are more likely to have fully delegated their investment (42% have full fiduciary management and 7% partial).

Also as in previous surveys, fiduciary management is more common – and growing increasingly popular – among schemes that are closed. 52% of schemes that are closed to future accrual have a fiduciary mandate, and 56% of those that are closed to new entrants, compared to 46% and 53% in 2017, and compared to 44% of open schemes.

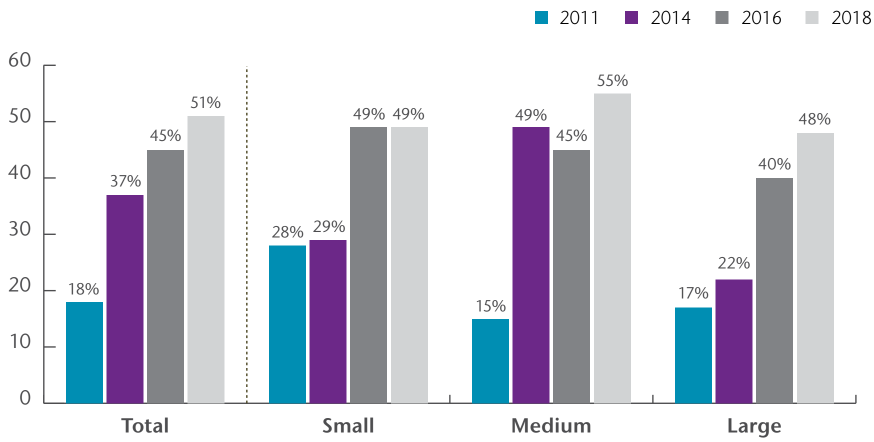
The 2018 findings show a continued climb in the popularity of fiduciary management. When the survey started in 2011, just 18% of schemes had a fiduciary manager. Today, only 15% have not yet considered it as an option.

Type of fiduciary management



Number of responses: 159

Take up of fiduciary management by size



Number of responses: 159 (2018), 194 (2016), 93 (2014), 50 (2011)

Medium-sized schemes increasingly likely to use fiduciary management

Medium-sized schemes (those with assets of £101m-£1bn) are most likely to use a fiduciary manager – 55% have either full or partial delegation, up from 52% in 2017.

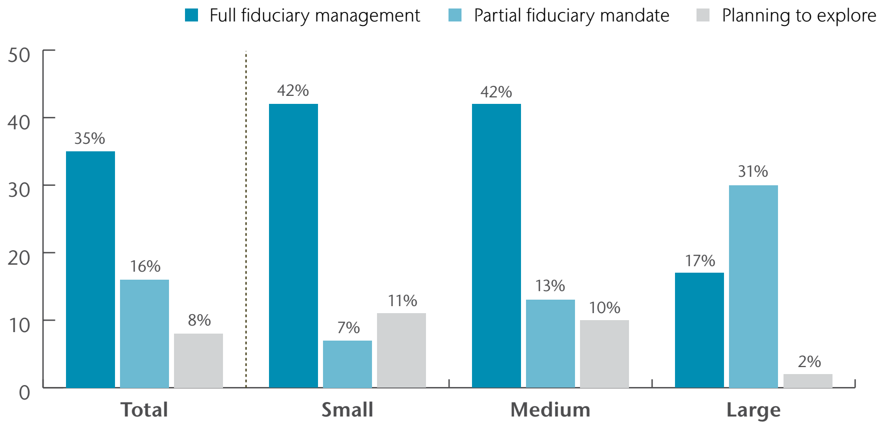
They have overtaken small schemes as those most likely to have a fiduciary provider of any form, and those most likely to have a full fiduciary mandate. 51% of those with full fiduciary are medium-sized.

Key finding

55% of medium-sized schemes now use fiduciary management.

> 'A professional group of people investing for a group of trustees with limited knowledge and no access to the investment market. This is probably the most optimum way for a trustee body to invest.'
>
> Survey respondent quote

Fiduciary management take up by mandate type and size



Number of respondents: 159

> 'An efficient means of executing an agreed strategy.'
>
> Survey respondent quote

Aon perspective

Since our previous survey was published in September 2017, trustees and sponsors have faced ongoing challenges. The investment market has seen continued and increasing volatility, while the complexity of the investment options open to schemes has increased.

The continued growth of fiduciary management as an investment and governance solution is therefore unsurprising, and mirrors the growth we have seen in our own fiduciary management business, which has grown by over 5000% since its UK launch in 2009. For the first time, this year's survey shows that more respondents have fiduciary management than do not.

The majority of DB schemes are now closed, with a finite time to reach their end goal – which for many schemes, as we saw in our 2017 Global Pension Risk Survey, is buyout or self-sufficiency.

Coupled with the unpredictable investment landscape, this makes fiduciary management an increasingly appealing approach for many schemes. Of those not yet using fiduciary management, our survey said that 20% are currently exploring or may in future explore this approach. We anticipate that within the next five years, around 30% of UK DB schemes will be using some form of fiduciary management, with some experts expecting this number to be close to 50% in the future.

Schemes of all sizes benefiting from fiduciary management

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.

Often, a fiduciary approach is viewed as something of most benefit to smaller schemes, enabling them to achieve greater diversification, access otherwise unattainable managers, and implement a nimble strategy within a low governance framework. While this year's survey shows that smaller schemes remain strong proponents of fiduciary management, it shows too that medium-sized and large schemes are also recognising the benefits.

The take-up of fiduciary management among medium-sized schemes has overtaken that among the smallest for the first time. With medium-sized schemes more likely to take a fiduciary approach than not, delegation to experts is increasingly becoming the norm in pension investment.

Large clients demanding even more tailored solutions

Furthermore, and linked to our own experiences during conversations with clients over the past two to three years, the survey results show that the number of large schemes (£1bn and greater) investing in fiduciary solutions (either full or partial) has increased again in 2018, after levelling off in 2017. A number of fiduciary providers have worked hard in recent years to develop a wider range of solutions which can be tailored to meet the bespoke needs of large schemes. This includes incorporating their in-house team within the fiduciary solution or decision-making process, or offering bespoke solutions that take into account investment beliefs or unique restrictions.

For example, some 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, plus adopt more robust risk controls. Some larger pension schemes want to be involved in all the decisions but want to utilise a fiduciary manager's expertise in manager research or idea generation. Large corporate functions are increasingly aware that ongoing due diligence can be a blindspot in a diversified and complicated asset portfolio, and thus are demanding more comprehensive solutions in this space.

We have seen the 'ability to incorporate investment beliefs and asset class preferences into solution design' creep up in importance as a fiduciary manager selection criterion over the years, and this level of tailoring is something we see increasing demand for in the future.

Section 2

Expertise remains the key driver of growth

Decision-making expertise remains the main driver of fiduciary management growth

62% of respondents cite expertise among the most important factors when appointing a fiduciary provider

89% of trustees spend **10 hours or less** on investment matters per quarter

Investment complexity continues to grow

Being able to identify and react to market changes swiftly is vital

Need for expert advice and help with implementation is greater than ever

The need for increased investment expertise in today's complex and fast-moving pension landscape remains the main reason for schemes to appoint a fiduciary manager. 62% cite expertise in decision making among the top three criteria when choosing a provider.

Once schemes have appointed a provider, they value this skill even more highly, with 73% of those with a fiduciary mandate choosing expertise in decision making among their three main factors for choosing a manager, compared to 55% of those without.

As in previous years' surveys, a lack of trustee time underpins this need for external expertise. 89% of trustees spend 10 hours or less on investment matters per quarter. The investment options they can choose from are increasing in both number and complexity, making the trustee's job an increasingly difficult one, as we explore in more detail below.

Key finding

The need for expertise continues to be the main driver for appointing a fiduciary manager.

Investments continue to grow in complexity

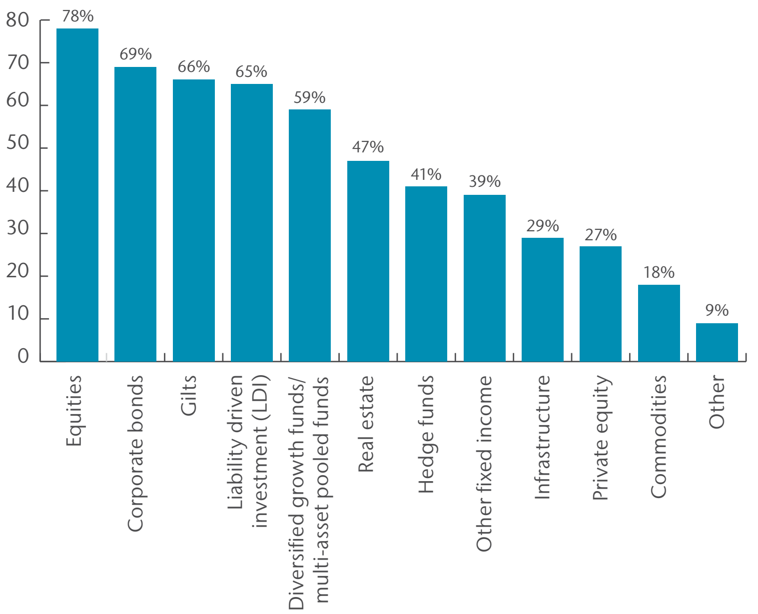
Pension scheme investment continues to grow more complex. There is an ever-increasing number of asset classes and investment solutions, and increased complexity within these options.

As in 2017, schemes are increasingly investing in complex assets like liability driven investment (LDI) (65%) and infrastructure (29%), so the disjoint between time needed to consider investment choices, and time available to dedicate to investment by trustees, is exacerbated.

Hedge funds (invested in by 41%) and private equity (27%, up from 21% in 2017) remain other increasingly popular, but sometimes complex, asset classes. These also demand close monitoring. With hedge funds, investors must also understand the need for diversification within the asset class. Without expert help or the requisite time, trustees face a huge challenge in trying to implement and get the most from these assets.

This increasing complexity explains why 48% of respondents with fiduciary management and 41% of those without cite investment expertise as one of the main benefits of a fiduciary management approach (see page 18).

Asset classes invested in



Number of responses: 1039 (190 respondents)

'Excellent for us – gives us exposure to more investment options and has made LDI straightforward.'

Survey respondent quote

Trustee time is stretched; pressure on governance is increasing

65% of pension scheme trustees spend just five hours or less per quarter on investment matters. Conversely, 3% are spending upwards of 50 hours a quarter – a statistic we have not really seen before.

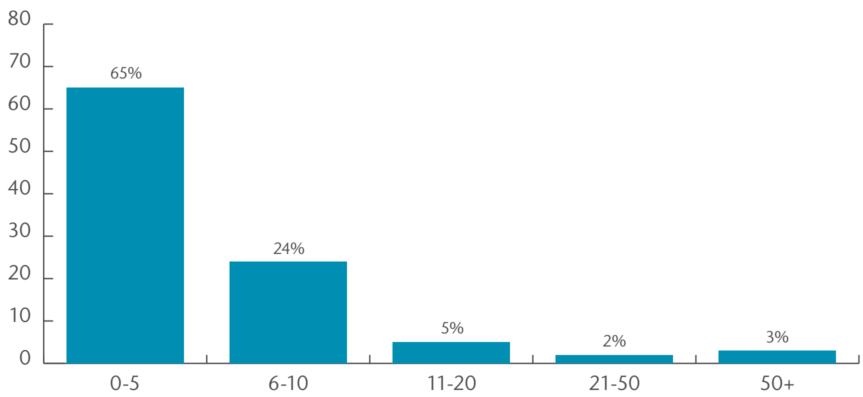
At either end of the scale, this highlights a potential challenge for trustees in how to use their time more effectively. Those who cannot dedicate more than five hours a quarter are unlikely to feel they are adequately tackling the challenges they face, while those spending more than 50 hours may feel overwhelmed by their workload.

With increasing pressure on schemes to have and give evidence of good governance, and with 'trustee governance time' tying with 'speed of implementation' as the second biggest issue driving the appointment of a fiduciary provider (over a third [35%] cite this as a key reason for delegation), it is not surprising that the need for investment expertise is so keenly felt.

Key finding

65% of trustees spend five hours or less per quarter on investment matters, despite increasing complexity and governance requirements.

Trustee time spent on investment



Number of respondents: 171

Investment committees

The survey also asked schemes with investment committees how much time these committees spent on investment matters. Of those with investment committees, 68% said they spent 10 hours or less per quarter, up from 61% in 2017 (ie, more committees are spending less time compared to the 2017 survey).

> 'Very good for time and knowledge lacking trustees.'
>
> Survey respondent quote

Maximising investment nimbleness

In 2018, speed of implementation has moved up to joint second of the factors considered when appointing a fiduciary provider. 35% of respondents see this as a key factor. Ongoing market volatility makes this unsurprising, as schemes seek to make the right decision at the right time to lock in gains and minimise losses.

This need for nimbleness has been an ongoing theme in previous surveys. In 2018, we therefore added to our questions on this, to dig more deeply into the issue of speed of decision making.

48% of those without fiduciary management said they would like to make investment decisions or portfolio changes more quickly, compared to just 34% with full fiduciary.

More than a quarter of those without fiduciary management (26%) believe that scheme investments are made too slowly. This drops to just 17% of those with a fiduciary mandate.

Continued increases in pension risk transfer activity – £18bn of risk was transferred to bulk annuity and longevity swap providers in 2017 (as noted in our 2018 Risk Settlement Review) – bring into focus this need for swift action. Schemes looking to transact, via a bulk annuity or buyout for example, need to be able to move quickly when the time is right.

Key finding

Speed of implementation is the second highest factor when considering a fiduciary manager.

Flight plans continue to grow in 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.

Over the course of our surveys, we have seen the use of flight plans increase exponentially. In 2016, 57% of schemes reported using them; two years later, this has leapt to 73%.

Among schemes with fiduciary management, this is even more pronounced; 79% have flight plans (as opposed to 66% of those without a fiduciary mandate).

A further 15% of respondents plan to explore flight plans in future, meaning that we expect this figure to rise further in future years.

Key finding

79% of schemes with fiduciary management operate a flight plan.

> 'Investment management carried out by experts making real-time decisions within limits set by the trustees.'
>
> Survey respondent quote

Expertise the key factor in decision to appoint a fiduciary provider

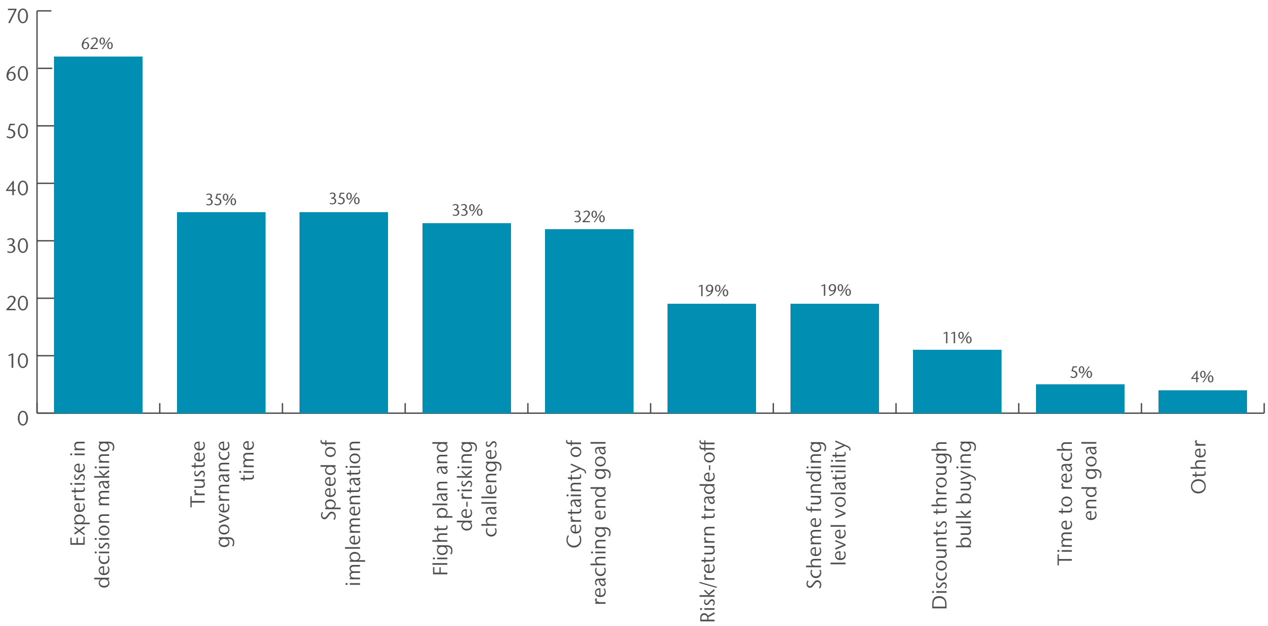
As in previous years, we asked respondents about the key factors in the decision to appoint a fiduciary provider.

Expertise in decision making remains by far the biggest factor, cited by 62%. As above, speed of implementation has jumped to joint second, alongside trustee governance time, both cited by 35%. 'Certainty of reaching end goal' has seen the biggest leap since 2017, cited by 32% (25% in 2017) – again, strongly correlated to the issues of volatility and investment returns.

Key finding

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

Most important fiduciary management factors



Number of responses: 421 (165 respondents)

> 'Outsourcing to investment specialists to enable trustees to focus strategically on the big picture.'
>
> Survey respondent quote

Aon 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 drivers are fuelling fiduciary management growth, all of which highlight the need for increased expertise; growing investment complexity, pressures on trustee time and the continued growth in flight planning.

Increasing investment complexity

Every year, the range and complexity of investment solutions trustees can choose from grows. More complex investments, such as LDI and hedge funds, are increasingly forming a core element of pension portfolios. These demand greater understanding, training, analysis or work by the actuary and/or consultant, in order to select the best managers and then to monitor and review their performance. Use of these more complex investments has increased consistently since our survey began. This means greater pressure on trustee time and a growing need for expertise. We frequently hear trustees cite the need for help with implementing LDI and managing the cash calls (collateral) as reasons they are considering fiduciary management, and the survey reflects this.

Trustee time is increasingly pressurised

Although investment complexity and corporate governance pressures are increasing, the time trustees spend on investment has not increased in tandem. In fact, it has reduced consistently in recent years. Trustees have limited time and have a vast number of issues to cover at meetings, which may take place quarterly at best but can be less. Fiduciary management allows trustees to focus the time they do have for investment on the strategic matters and on monitoring the fiduciary manager (rather than having to track multiple managers or review asset allocation themselves, for example). By delegating, or outsourcing day-to-day management of their portfolio to a fiduciary provider, they can be confident that the scheme's portfolio is being expertly managed on the trustees' behalf.

Those trustees with fiduciary management can use the time they spend on investment more strategically and be more focused – compared to those who need to manage the ins and outs of investment themselves. We often hear of a one hour slot for investments each quarter and that half of that time might be spent debating the performance of just one manager in the portfolio. Is that a good use of the limited time available?

This ability to tap into providers' expertise remains one of fiduciary management's main attractions for trustees. Expertise in decision making is one of the key factors in the decision to appoint a fiduciary provider. It is also viewed as one of fiduciary's main advantages, as we explore in more detail in section 3. With increased governance an ongoing regulatory theme, it is also unsurprising that trustee governance features prominently 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 – given the increase in the number of closed schemes and the shifting focus toward the 'endgame', this is unsurprising.

There is also a strong link between the use of fiduciary management and flight plans. This year's findings show that 79% of schemes with fiduciary management have a flight plan (nearly 20% more likely than those without). The operational complexities and costs associated with implementing flight plans mean that it is more efficient to do so as part of a fiduciary arrangement. Key to the success of flight plans is an ability for schemes to identify when de-risking opportunities take place and act on them swiftly. Many schemes find this difficult to achieve on their own, with meetings tending to happen only quarterly and time limited. Implementing a flight plan in tandem with a fiduciary solution makes sense; it can mean quicker implementation of changes so that opportunities to de-risk are not lost and gains can be locked in. Schemes that implement flight planning therefore often appoint a fiduciary manager simultaneously. With flight planning costs often able to be included in the overall price of a full fiduciary solution and package of services, buying the two together can also be a more cost-effective option.

Section 3

Fiduciary management benefits

Nimbleness and **expertise** viewed as top advantages of fiduciary management

46% cite **nimbleness** as the main advantage of fiduciary management

Medium-sized schemes value nimbleness as particularly important

Daily attention to risks and investment is 3rd highest advantage

43%

Large schemes value daily attention and expertise

Difficulty of comparing providers remains the top concern for those with fiduciary

80% of schemes with fiduciary management report that decision making happens at the right speed

Those with full or partial fiduciary management enjoy **more diversified investment portfolios**

The survey asked respondents about the advantages of fiduciary management. As in previous years, they were asked to name their top three perceived or experienced advantages. This year's responses show some interesting shifts.

For the first time, 'nimbleness' is the biggest recognised advantage of a fiduciary approach, overtaking investment expertise. As we have mentioned in Section 2, volatility of investment markets and the associated reduced expected returns is a key concern for schemes; it was one of the main concerns cited in this survey when we gave respondents free rein to list their biggest concerns, and was also flagged as a key concern in our European Investment Management Survey released earlier in 2018.

46% cite nimbleness as the top advantage of delegation, a benefit recognised equally by those with and without a fiduciary mandate, and one that has increased in importance over time; 34% cited it in 2015. Medium-sized schemes place particular importance on a nimble approach; 55% name it among their top three advantages.

Investment expertise has dropped to a close second, cited by 45%. However, it remains the biggest benefit for large schemes, cited by half of all respondents from £1bn+ schemes.

Daily attention to risks/investments, another vital weapon in the battle for returns, was third (43%).

If we look at small, medium and large schemes separately, there are some interesting shifts in priorities: investment expertise is an advantage for 56% of small schemes in 2018, compared to 40% in 2017. Similarly, better understanding of strategy has leapt from 18% to 31%.

Among medium-sized schemes, fiduciary management's ability to support de-risking has grown in importance, cited by 33% (up from 18% last year).

For large schemes, fiduciary's role in freeing up trustee time is cited by 22% this year, compared to 13% in 2017.

As we have seen in previous surveys, many of fiduciary management's advantages are recognised far more strongly by those who have taken a fiduciary approach than those who have not.

Diversification, for instance, is anticipated as a benefit by 9% of those without fiduciary, but recognised by 23% of those with.

Key finding

Nimbleness has overtaken investment expertise as the top advantage of fiduciary management.

Similarly, fiduciary management's ability to provide a bespoke/tailored solution is cited by 37% of those with fiduciary management, but only 21% of those without, while its potential to offer a better understanding of strategy is recognised by 32% of those with a fiduciary mandate, 22% of those without. Better outcomes/performance, which was a new option in the 2018 survey, is seen as a top three advantage by 23% of those with fiduciary management and 19% of those without.

We look at perceived disadvantages on page 21.

'Aon has greatly improved our strategy.'

Survey respondent quote

Fiduciary management advantages

1.	Nimbleness	46%
2.	Investment expertise	45%
3.	Daily attention to risk/investments	43%
4.	Bespoke/tailored solution	29%
5.	Better understanding of strategy	27%
6.	De-risking	24%
7.	Better outcomes/performance	22%
8.	Freeing up trustees' time	19%
9.	Diversification	16%
10.	Control by trustees	10%

Number of responses: 472 (152 respondents)

Fiduciary management disadvantages

1.	Cost	51%
2.	Hard to compare providers	47%
3.	Conflicts of interest	44%
4.	Loss of control by trustees	35%
5.	Complexity	27%
6.	Governance	25%
7.	Fiduciary responsibilities unclear	20%
8.	It's new	5%

Number of responses: 372 (146 respondents)

'Using manager expertise to diversify assets and improve speed of execution.'

Survey respondent quote

Key finding

80% of those with fiduciary management are happy that investment decisions are made at the right speed.

Nimbleness one of the key benefits of fiduciary management

When we explore the 'nimbleness' that is the main fiduciary management benefit, we can split it into two elements: speed of decision making and speed of implementation.

We ask 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.

In 2018, 80% of those with fiduciary management believe that their investment decisions are made at the right speed. 26% of those without a fiduciary mandate believe decisions are taken too slowly.

'The ability to move or change assets faster than a standard trustee board can.'

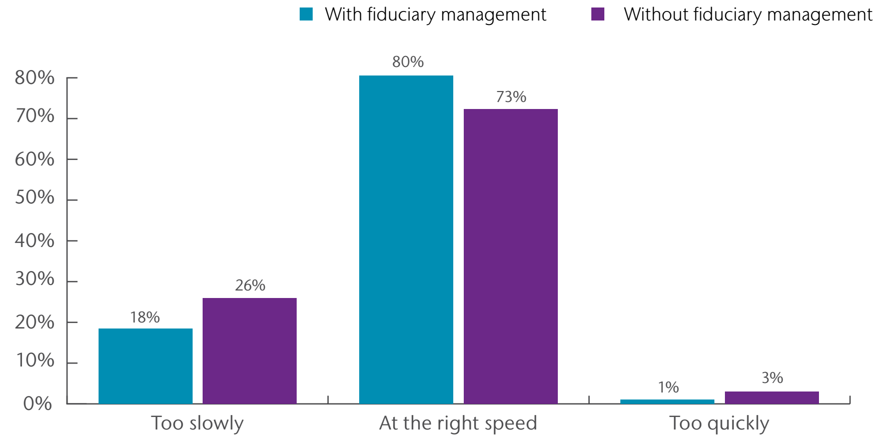
Survey respondent quote

The second aspect of success here comes down to speed of implementation. For the first time in 2018, we asked how happy respondents are with the speed at which changes are executed. Those with only partial fiduciary management or no fiduciary management find executing changes particularly slow and would like to do it more quickly.

Nearly a third (29%) of those without fiduciary management believe changes are implemented too slowly.

Speed of implementation is also now the joint second most important factor when choosing a fiduciary manager (see page 16).

Speed of decision making



Number of respondents: 171

'Delegating investment risk for timely action.'

Survey respondent quote

Schemes with fiduciary management have more diversified portfolios

We continue to see schemes with fiduciary mandates enjoying wider diversification in their investment portfolio.

36% of those with fiduciary management are invested in seven or more asset classes, compared to only 26% of those without fiduciary.

For smaller schemes, one of fiduciary management's key advantages is the access it gives them to the type and range of investments which historically were only available to their larger counterparts. The 2018 findings show that, in effect, fiduciary management enables small schemes to 'behave more like large ones' in terms of diversification; two-thirds (64%) of small schemes with a fiduciary mandate have four or more asset classes, compared to just half of those without fiduciary management.

The investment expertise, time and deftness fiduciary management provides are making the investment landscape more equitable, giving smaller schemes the type of investment opportunities they were previously denied.

Perceived fiduciary disadvantages

The disadvantages of fiduciary management have not changed significantly from those reported in previous surveys, but there are some interesting shifts.

The cost of fiduciary management is becoming far less of a concern. 51% now say it is a disadvantage, down from 60% in 2017. It has been steadily reducing since 2014, when it was cited by 78%. It is less of a concern among those with fiduciary management (47%) than those without (56%).

As in previous years, many of fiduciary management's downsides are higher in perception than in reality. A loss of control by trustees is a disadvantage expected by 49% of those without a fiduciary mandate but only 22% of those with.

Conflicts of interest are perceived as a concern by 51% of those yet to implement fiduciary management, but by only 36% of those who have a fiduciary mandate.

Those with fiduciary management see the difficulty of comparing providers as the biggest disadvantage, something that has been consistent across previous surveys. 59% of those with fiduciary management see this as a concern, something they are counteracting through robust selection processes (our thoughts on fiduciary manager selection are on page 27 onwards).

Key finding

Schemes of all sizes with fiduciary management enjoy greater diversification than those without.

Aon perspective

Significant benefits of fiduciary management

Two areas, nimbleness and expertise, remain the top advantages of fiduciary management, with nimbleness edging ahead for the first time.

Nimbleness has been gradually increasing in importance to our survey respondents over recent years. In 2016 it was in third place, while in 2017 it moved to joint first. Nimbleness covers both speed of decision making and speed of implementation, two essential ongoing considerations when it comes to pension investments. It is closely linked to daily attention (the third biggest benefit): fiduciary providers can look at the portfolio and investments on a daily basis, enabling them to react quickly to any changes, capture opportunities as they occur and actively manage the portfolio. We know from our own clients' experiences that, in times of market volatility, this enables schemes to benefit from opportunities and mitigate their investment risks.

Trustees typically look at their investments and positioning on a quarterly basis, sometimes less, and as we have seen, trustee time is severely pressured. 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.

Expertise had been consistently top of the list of advantages for the past few years across all schemes who responded; this year it drops to second – albeit by just one percentage point – and clearly remains a significant benefit. For large schemes it remains the standout benefit, and is growing in importance for smaller ones, where over half now see it as a major advantage. This is perhaps in response to smaller schemes' increasing adoption of complex and multiple asset classes, as we detail below.

Ever-increasing investment complexity and a growing 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).

As in previous years, those with fiduciary management also enjoy the benefit of greater investment diversification. Schemes with fiduciary management are 38% more likely to invest in seven or more asset classes than those without. At Aon, our full fiduciary solutions typically give our clients access to 15-70 different investments, diversified across three levels; by asset classes, by 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. Net of fees outcomes is therefore a key aspect of this.

Disadvantages differ between those with and those without fiduciary management

While the cost of fiduciary management remains the largest perceived disadvantage, it is good to see that it is reducing. Just over half cite it as a concern in this year's survey; this has dropped from over three-quarters in 2014. People often ask if using fiduciary management is more expensive than not using it (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 (this could be due to the investment portfolio in place rather than because fiduciary management is expensive) and others when it is actually a lower-cost approach. After all, cost is dependent on the solution put in place. In situations where it is more expensive on an absolute basis, we often see that the overall package of services and components included in the fee offer greater value for money and that the net of fees outcomes have been improved.

Those with fiduciary management are less likely to see cost as an issue than those without; 47% noted cost as a concern, compared to 56% of those without a fiduciary mandate. This supports our view and reflects that in practice, cost is less of an issue and clients feel they are achieving value for money and the better outcomes they want.

We remain highly committed to providing all clients with complete fee transparency, and this includes charging all fiduciary-related fees separately (using an unbundled approach). 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. (See our perspectives in Section 4 for more on our views on transparency.) This is something seemingly supported by the CMA; their provisional report in July 2018 stated that showing gross-of-fees performance was a concern and that a bundled approach to fees reduces trustees' ability to assess value for money.

Difficulty in comparing fiduciary providers remains the biggest concern for those with fiduciary management, and second overall. 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 will vary significantly both between and within providers, depending on the scheme and the range of solutions and services the fiduciary provider can offer. This therefore 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 forthcoming templates for the disclosure of fees from the Institutional Disclosure Working Group (IDWG) (albeit voluntary), and the performance standards disclosures, will go some way to helping trustees with this and perhaps this concern might fall in future surveys.

We believe that 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?

As in previous years, we see that many of fiduciary's downsides are higher in perception than in reality; for instance, a loss of control by trustees, something often debated as a negative for fiduciary management, is only cited as a concern by a fifth of those with fiduciary management, compared to nearly half of those without. Similarly, conflicts of interest are a far higher concern before fiduciary is implemented than once it is in place. In the CMA's July 2018 report they noted that conflicts are generally being well managed, and are not a key area of concern.

Section 4

Fiduciary management continues to deliver high levels of satisfaction

The measurement of fiduciary management's outcomes, service levels and client satisfaction is the only objective way to assess how successful, or not, fiduciary management is and how it is performing for schemes.

The 2018 survey asked respondents for their experience of fiduciary management overall and in terms of funding level/ performance; reporting; transparency of costs and fees; client service; and risk controls/operations.

The responses show that satisfaction with fiduciary management remains extremely high. 97% say their client service is excellent, good or satisfactory. 95% report the same about their funding levels, 96% about their risk controls, 94% about their reporting and 94% about their overall experience.

These responses cover the entire industry, as opposed to just Aon clients (less than a quarter of respondents with fiduciary management are Aon fiduciary clients), so this is a fair reflection of fiduciary management generally.

Key finding

Fiduciary management continues to achieve 90+% satisfaction levels across the board.

Satisfaction with fiduciary provider

Number of respondents: 82

'So far a very beneficial move for us.'

Survey respondent quote

Aon perspective

The vast majority of those who have appointed a fiduciary provider are happy with the outcomes and results they are seeing.

Fiduciary management's overall objective is to help pension scheme trustees and sponsors achieve their long-term goals and aims. The real test, therefore, of whether fiduciary management is a success is based on the results delivered and the views of clients who have adopted this approach.

We believe that fiduciary management is helping many UK DB pension schemes (and indeed now DC schemes) to reach their end goals, either more quickly or efficiently or with greater certainty. Furthermore, it is helping schemes overcome many of the challenges they face.

Our survey results continue to show an overwhelming vote of confidence in fiduciary management. Importantly, this is across all areas of fiduciary management, not just in terms of funding level/performance but also overall views on the approach, 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 2018, our longest standing full fiduciary client outperformed their bespoke liability benchmark by +2.1% p.a. net of all fees (since inception date of January 2010). (Please note that past performance is not a reliable indicator of future performance.)

Since October 2017, as part of our drive for transparency and disclosure in relation to our performance as a fiduciary manager and as investment consultants, we publish statistics on our performance. These can be found on our website at: http://www.aon.com/unitedkingdom/retirement-investment/investment/investment-transparency-disclosure-in-the-uk.jsp.

Transparency of fees and costs

85% of schemes remain satisfied or better with the transparency of all fees/costs when it comes to their fiduciary solution. This shows a small drop since the 2017 survey; however, we believe that this is most likely due to the heightened focus in this area generally as a result of the FCA Study and the CMA's investigation. This has helped drive better transparency and led to people questioning the transparency of their own providers, which we believe is a good thing for the industry as a whole.

Part of the FCA's Study in 2017 looked at the disclosure of fees and costs in relation to fiduciary management services. The work of the Institutional Disclosure Working Group (IDWG) has taken this to another level, providing a framework for more granularity and, importantly, consistency of cost disclosure. We have been one of only two investment consultancies taking part in this group and will be fully embracing the IDWG templates.

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. This is both in terms of their size and to whom they are paid.

The IDWG has been working toward developing templates to aid consistent disclosure of costs and charges to help institutional investors. We believe the imminent launch of these cost templates is a positive step forward and will help trustees to better assess the value generated by their asset managers, and indeed fiduciary managers.

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 this standardisation of fee disclosure will also help trustees compare fees across providers more easily as well as accessing value for money. 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.

Section 5

Selecting a fiduciary provider

Proven track record has returned to the top spot as the most important indicator when selecting a fiduciary provider

2nd most important criterion is now need for a **dedicated fiduciary team**

61% of schemes run a beauty parade

49% of schemes issue an RFP

55% carry out due dilligence

32% take or would take advice from a third-party evaluator

Clear investment process and proven track record
Top fiduciary provider quality indicators

Small and medium-sized schemes are more likely to use a TPE than their larger counterparts

'Delegating the investment process to industry experts.'

Survey respondent quote

Key finding

Proven track record and a dedicated fiduciary team are the key indicators when selecting a fiduciary provider.

Criteria for fiduciary provider selection

Identifying key quality indicators is essential when looking at fiduciary providers. In 2018, a proven track record has returned to the top spot as the most important criterion when selecting a provider: 52% of respondents chose this. A dedicated fiduciary team has moved into second place, with 45%.

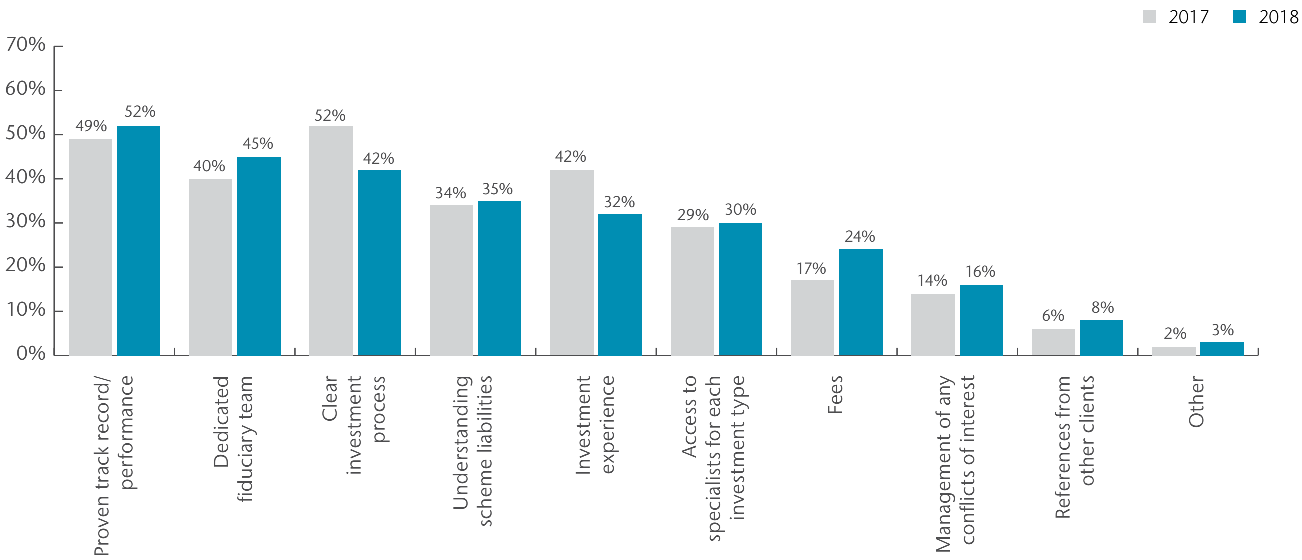
A clear investment process, with 42%, is in third place, with an understanding of scheme liabilities (35%) and investment experience (32%) the fourth and fifth most-cited indicators.

Among those with fiduciary management, a dedicated fiduciary team (54%) is the biggest indicator, followed by a clear investment process (51%). Proven track record/performance is a far larger indicator for those without fiduciary management (cited by 64%) than those with (41%).

The responses from different-sized schemes show some interesting nuances. As in 2017, a proven track record is more important for smaller schemes (56%) than for large ones (50%), while large schemes place more value on management of conflicts of interest – 28% see this as a key indicator, compared to just 9% of medium-sized ones and 13% of small ones.

Investment experience is a key indicator for more small schemes (40%) than medium-sized (28%) or large ones (30%).

Quality indicators of a fiduciary management provider



Number of responses/respondents: 2018 – 460/161, 2017 – 566/199

Important features in a fiduciary provider

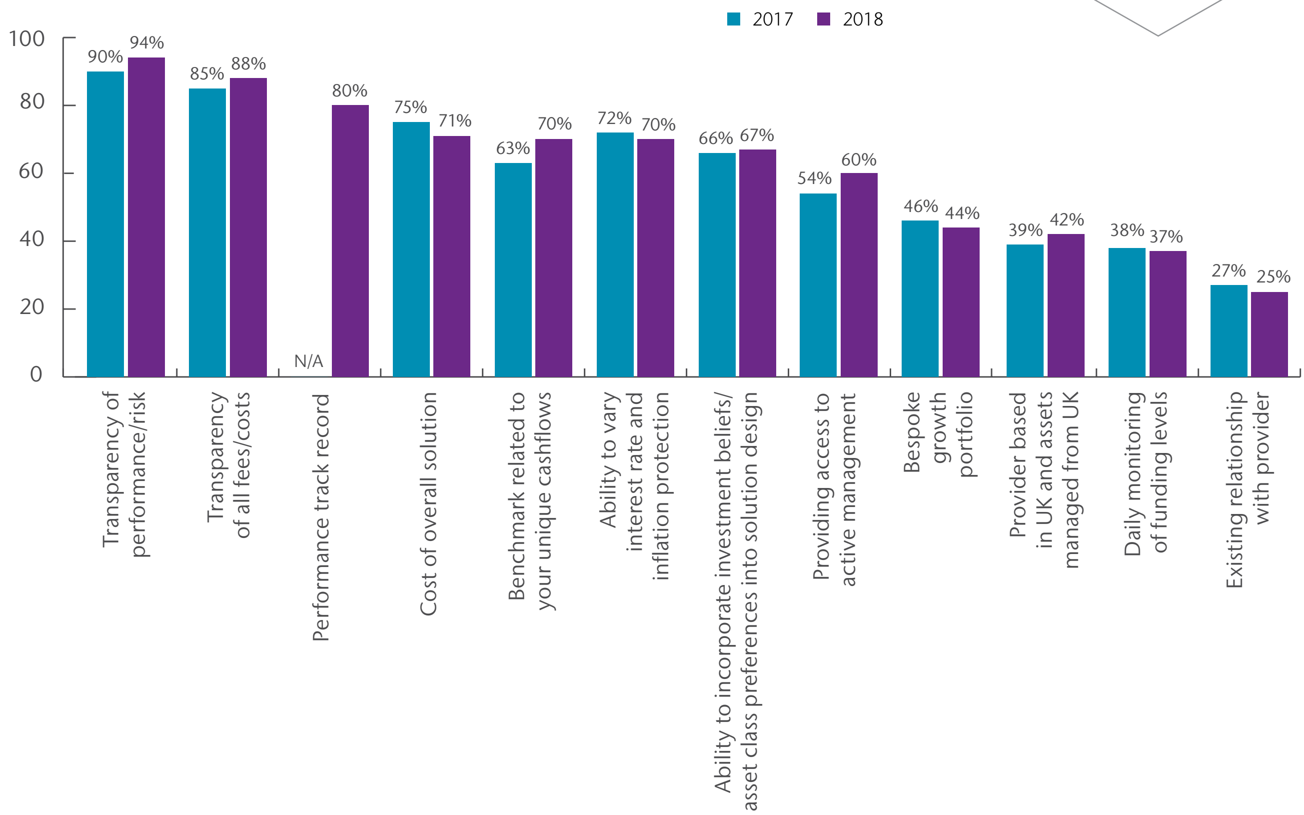
We also asked respondents to rank how important certain features or factors are when selecting or thinking about selecting a fiduciary provider. Respondents were asked to rank from 0-5 where 0 is irrelevant and 5 is essential.

The graph below shows the percentage of respondents ticking a factor as '4' or '5' (ie, those that are the most important to our respondents).

Key finding

Transparency is the most essential factor when selecting a fiduciary provider.

Important factors when selecting a fiduciary provider



Number of respondents varies for each part of this question.

The two most important features, by some way, were transparency of performance/risk (cited by 94%) and transparency of all fees/costs (88%). These factors were added as options in our 2017 survey, and have remained the most important factors in 2018 – both cited by more people this year than last.

Performance track record, a new option added for 2018, is the third-most cited factor; 80% mention this.

Having a benchmark related to a scheme's unique cashflows and the ability to vary interest rate and inflation protection are joint third, both cited by 70%.

Transparency is again the key issue when we look at the factors seen as 'essential' (ie, ranked 5). 65% see transparency of performance/risk as essential, with 57% saying the same about transparency of fees and costs.

Transparency of performance/risk is also the standout factor among those with fiduciary management, cited in the top two by 95%, with transparency of all fees and costs second at 82%. Performance track record is third, at 79%.

94% of those without a fiduciary mandate cite transparency of fees and costs among their top two factors, with transparency of performance/risk named by 93%.

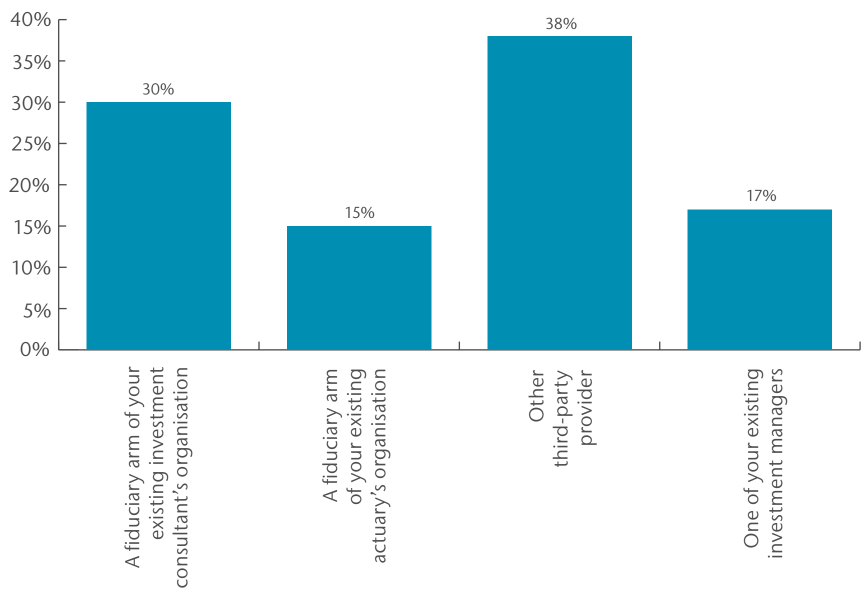
Who do schemes appoint as their fiduciary provider?

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

45% would appoint, or have appointed, the fiduciary arm of either their existing investment consultant (30%) or actuary (15%). 38% would choose another third-party provider, while 17% would use one of their existing investment managers.

Those who have a fiduciary mandate are far more likely to choose (or have chosen) a fiduciary arm of an existing consultant or actuary – 52% have done or would do this, compared to 30% without fiduciary management.

Who did/would you appoint as your fiduciary provider?



Number of responses: 107

Aon perspective

Performance is a key quality indicator. While it may sound a straightforward criterion, it can encompass several aspects. We would expand 'performance' to cover consistency of performance across all market conditions, net of fees performance and results without taking undue risks.

A proven track record (ie, performance) has returned to the top spot in the list of quality indicators for fiduciary providers. A dedicated fiduciary team has moved into second place, with a clear investment process now third.

Performance track record – although it should not be used alone when looking at which fiduciary provider to select – is clearly hugely important. Having a dedicated fiduciary team to deliver that performance and overall solution is essential, and clearly recognised as such by a growing number of schemes. A strong and clear investment process, backed by this dedicated expertise, is a key contributor to any performance track record. No provider can generate consistently good performance without those two elements in place. It is interesting to see how the quality indicators shift year-on-year, as differing concerns and elements of the investment landscape come to the fore. In an increasingly volatile investment environment, it is not surprising that track record and expertise are key indicators when selecting a provider.

Fees remain quite a long way down the list; something we have commented on before. Given the difficulty in comparing and then selecting fiduciary providers, you might expect to see fees cited by more respondents. We often find that fees are used as an 'easy' comparison or criterion to help judge between providers. This is something we would discourage, as the decision should consider the overall solution; whether it offers value for money and most importantly, whether it is tailored to meet your unique needs. With cost less of a concern for those already with fiduciary management, fees should be just part of the overall consideration when choosing a provider; there are far more important issues.

92% of Aon's full fiduciary clients have outperformed their bespoke liability benchmarks since inception to 30 June 2018, 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. (Please note that past performance is not a reliable indicator of future performance.)

Transparency a key feature

As in 2017, when we introduced these new options, transparency of fees and performance remain the stand-out factors when considering a provider. Given the focus on greater transparency across the pensions industry, it is not surprising that transparency of fees and performance both ranked so highly (when people were asked 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 across the wider asset management and consulting practices. As part of this, we publish performance statistics on our website at: http://www.aon.com/unitedkingdom/retirement-investment/investment/investment-transparency-disclosure-in-the-uk.jsp. In the CMA's provisional report in July 2018, it commented that reporting of performance to current clients was mostly clear and detailed, but shared concern where performance was reported gross of fees. As mentioned previously, we always show performance net of all fees to ensure it reflects the real outcomes for our clients.

Furthermore, we have been one of only two consultancies that formed part of the Institutional Disclosure Working Group (IDWG). The IDWG made recommendations to the FCA in June 2018 to help ensure consistent and standardised disclosure of costs and charges. A template for data collection and disclosure will be made fully available later in 2018.

This survey result is therefore pleasing and we hope will encourage all firms to improve transparency.

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. We are therefore not surprised to see that the fiduciary businesses of schemes' existing investment consultants or actuaries continue to be highly ranked as preferred potential fiduciary providers. This ties 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.

Given the importance of transparency, the continued preference to appoint existing advisers demonstrates schemes' trust in their transparent approaches. With the clear majority of schemes using rigorous selection processes, focusing on face-to-face due diligence and assessments, the continued appointment of existing advisers shows that they acquit themselves well when compared to the market as a whole.

We believe that trust and building a strong long-term relationship is 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 any pre-existing issues or concerns.

How do schemes select fiduciary providers?

Schemes continue to take a hands-on approach when selecting a provider. When asked what they did, or would do, to select a provider, 55% of schemes carry out due diligence; 61% use a beauty parade and 49% issue an RFP. Beauty parades have jumped back into the top spot, having been nudged into second place in 2017 and 2016.

Those with fiduciary management are more likely to use due diligence (62% report doing this) than those without (49%); likewise, site visits were used by 44% of those who have appointed a fiduciary manager, but anticipated to be used by just 31% of those without.

This desire for schemes to remain close to their decision making is further evidenced by a drop in the use of third-party evaluators (TPEs) to support fiduciary manager selection. In this year's survey, 32% take or would take advice from a TPE, down from 42% in 2017. More than two-thirds of schemes report preferring to take their own approach when assessing potential providers.

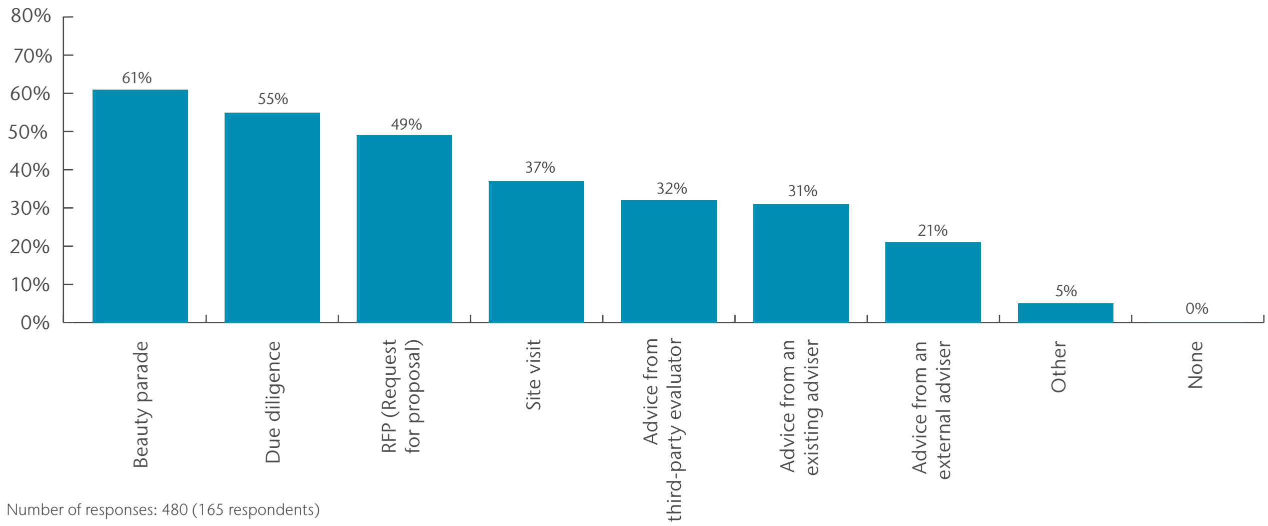
Key finding

A face-to-face approach remains the strong preference when selecting a provider.

'The scheme already has this in place since 2012, and it is working.'

Survey respondent quote

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



Number of responses: 480 (165 respondents)

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

Small schemes are far more likely to use a TPE for initial fiduciary manager selection – 42% did or would do this, compared to 32% of medium-sized and larger schemes.

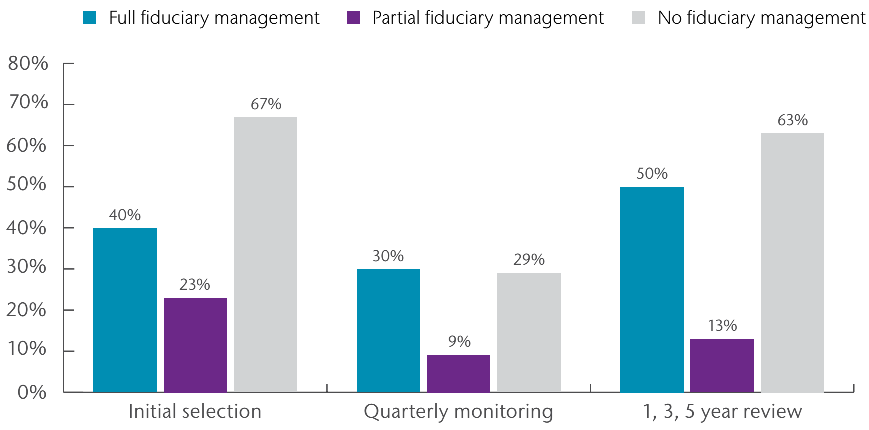
This continues a trend we have observed in previous surveys; large schemes, often with a procurement department to support them, do not typically make use of TPEs, preferring to select their provider entirely themselves. Smaller schemes, without this internal resource, tend to seek more external guidance.

Those without fiduciary management are also more likely to anticipate using TPEs for initial selection as well as longer-term monitoring. 67% of those without fiduciary management anticipate using a TPE for initial selection, compared to the 40% of those with full fiduciary management who did or would again.

Of those with fiduciary management who did use a TPE for initial selection, two-thirds (69%) would use one again. Nearly a third (31%) would not.

63% of those without a fiduciary mandate would use a TPE for one, three and five-year reviews, whereas only half of those with full fiduciary do.

Would you use a third-party evaluator?



Number of respondents: 76

Key finding

A strong preference for an unbundled fee structure continues.

This endorses the responses we have seen earlier, where those with fiduciary management have been seen to use a more 'hands-on' approach to provider selection than those without anticipate using. Sponsors and trustees clearly take provider selection very seriously, using first-hand evidence via site visits and beauty parades to inform their decision. Some schemes – particularly smaller ones – draw on TPEs' expertise to support this, while others prefer to do it alone.

Investment in external funds preferred to in-house alone

Respondents were asked what investment approach they would like their fiduciary provider to take. As in 2017 and previous surveys, the clear (and increasing) majority prefer to use externally managed funds or a combination of external and in-house funds, rather than in-house funds only.

77% in total want some form of external fund investment, with 22% wanting external funds only and 45% preferring a combination of in-house and external.

This is a growing preference, having increased from 73% in 2017, 70% in 2015 and 68% in 2014.

'The delegation of key investment decisions to investment professionals within agreed parameters.'

Survey respondent quote

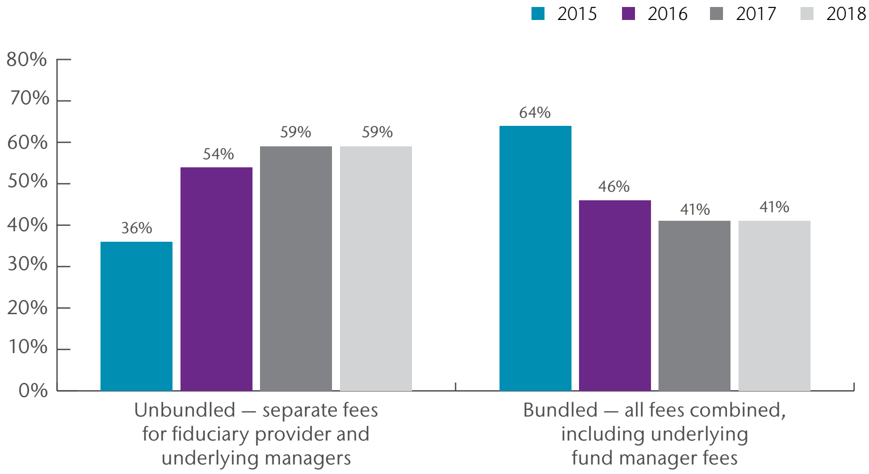
Fiduciary management fee preferences

The number of schemes that want a fee based on a combination of basis point and performance fee is growing. 40% say this is their preferred charging structure.

The preference for an unbundled fee structure continues. 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, as in 2017.

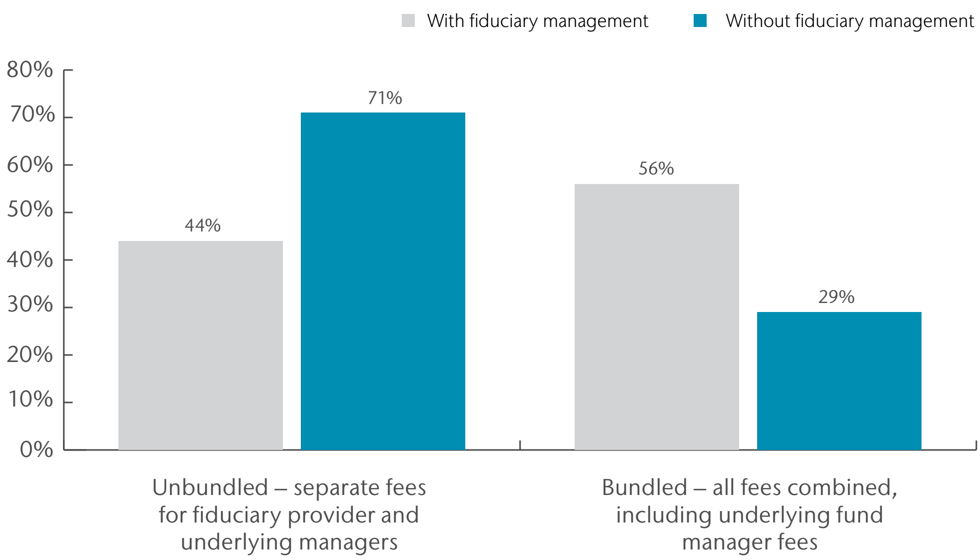
Large schemes show the strongest preference for an unbundled fee structure, 76% choosing it over a bundled approach.

Preferred charging basis



Number of respondents: 139 (2018), 174 (2017), 116 (2016), 77 (2015)

Preferred charging basis



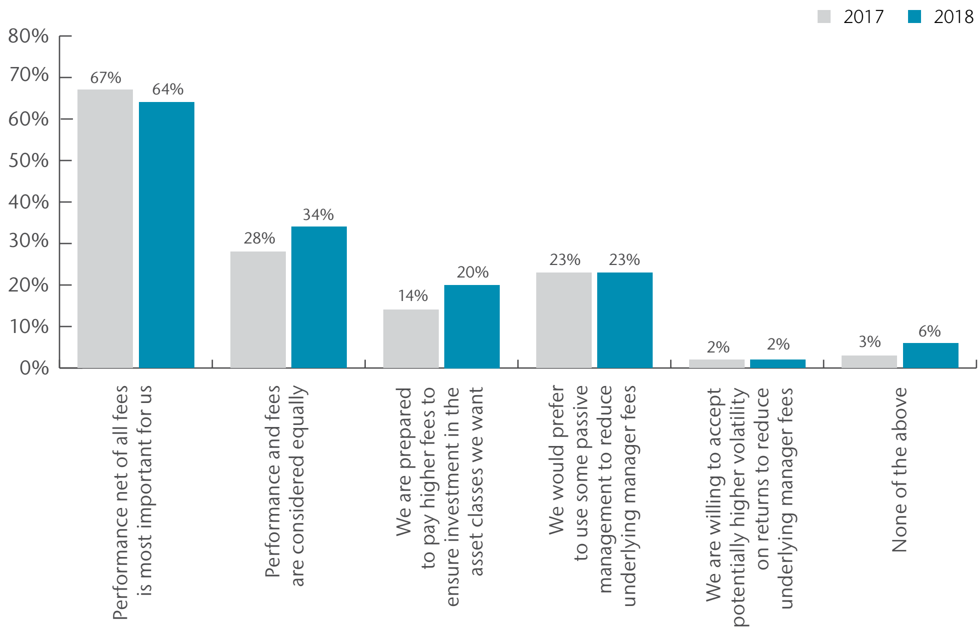
Number of respondents: 107

The survey also asked about the importance of underlying manager fees if/when considering fiduciary management. Performance net of all manager fees remains the most important thing for the majority of schemes; 64% of respondents said that this was most important.

This preference is particularly prevalent among schemes that already have a fiduciary mandate, where three-quarters (75%) prefer this approach, compared to 55% of those without fiduciary management.

'Open and honest.'
Survey respondent quote

Importance of underlying management fees if/when considering fiduciary management



Number of respondents: 2018: 162, 2017: 203

Aon perspective

Rigorous selection process

One of the reasons fiduciary management is such a hotly-debated topic within the pensions industry is due to the questions around the proportion of mandates being won on a competitive basis or through a formal tender process. Indeed, this is something that the CMA has looked at and its July 2018 provisional report proposed remedies which included ensuring that all new fiduciary mandates have to go out to formal tender. This is something that we will be providing our views to the CMA on by the end of August 2018 (around the same time this report goes to print).

Our survey shows that 67% would/did undertake a beauty parade and/or site visit when selecting a fiduciary provider. This is higher in practice (among those who have appointed a fiduciary provider) than in theory, with nearly three-quarters (73%) of those with a fiduciary mandate having used one or a combination of these approaches. Those with fiduciary management are more likely to have used three or four combined processes to select a provider than is anticipated by those without. Some trustees continue to use the additional support of an external adviser or TPE when making their decision, either alone or as part of a wider selection process

This reflects that in practice, schemes are using thorough and considered approaches to selecting a provider – which is something we advocate given we believe that fiduciary management is a long-term relationship and solution. 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 in particular 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. With the fiduciary team itself a growing key factor when selecting providers, and fiduciary management a trusted and long-term partnership, this face-to-face decision making is key.

Alongside the CMA's proposed remedies, the CMA has proposed making a recommendation to The Pensions Regulator to develop guidance to help trustees in running a competitive tender process, including the selection of a fiduciary provider. This should allow trustees to better engage with and manage the tender process.

The use of third-party evaluators (TPEs) within fiduciary management is still relatively new compared to the provider side. As with any service provider, it is important to ask: what value will they add if you use one and will it help you to generate better outcomes? For smaller schemes in particular, without the support of a procurement department or wider team, TPEs can provide a level of assurance. Our survey findings show that TPEs are less widely used among larger schemes, which is unsurprising given the additional resource and in-house teams that they typically have to hand. It will be interesting to see how this statistic changes over the next 12 months as our recent experience has seen a few large schemes use a TPE to aid their selection process.

We are increasingly seeing TPEs being used to support part of the fiduciary provider selection process. This ranges from providing an independent, professional view on solutions being considered by trustees, to conducting governance reviews at the outset to establish clients' requirements and determine which providers might be best placed to meet these. In instances where there is a professional trustee on the scheme, we sometimes see them carry out this role or run the selection process.

Whether or not you use a TPE, 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. Staying at 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. Indeed, a number of TPEs are reviewing their business models and how they structure their teams (particularly where the firm also has an investment consulting business). 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).

Externally managed funds preferred

When it comes to 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 five years we have asked this question. 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 thus receives 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, remains one of the main concerns around fiduciary management – although its importance has reduced quite significantly in 2018. The four component parts of fiduciary management fees 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 is charged, and shown, separately. Clients receive a full breakdown of fees so they know how much they are paying and to whom.

59% of survey respondents cited 'unbundled' 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 fixed basis point fee or a combination of basis point and performance/variable fee (linked directly to performance of the portfolio and/or KPIs). This was the preferred charging structure for the largest cohort of respondents (40%).

In our experience though, while there is a growing preference for a combination of basis point and performance fee, we are finding that ultimately many trustees are choosing to opt for a fixed basis point fee. This is most likely because of the fee certainty this offers trustees.

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 net of all fees.

As this is an area we have frequently seen debated, since 2015 we have asked respondents how important underlying manager fees are if/when considering fiduciary management. This year, nearly two-thirds (64%) said that performance net of all fees was most important, consistent with the previous survey. Interestingly, 22% of large schemes and 23% of medium-sized ones 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 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 highly 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

Measuring and monitoring provider performance

Assessing performance against unique objectives

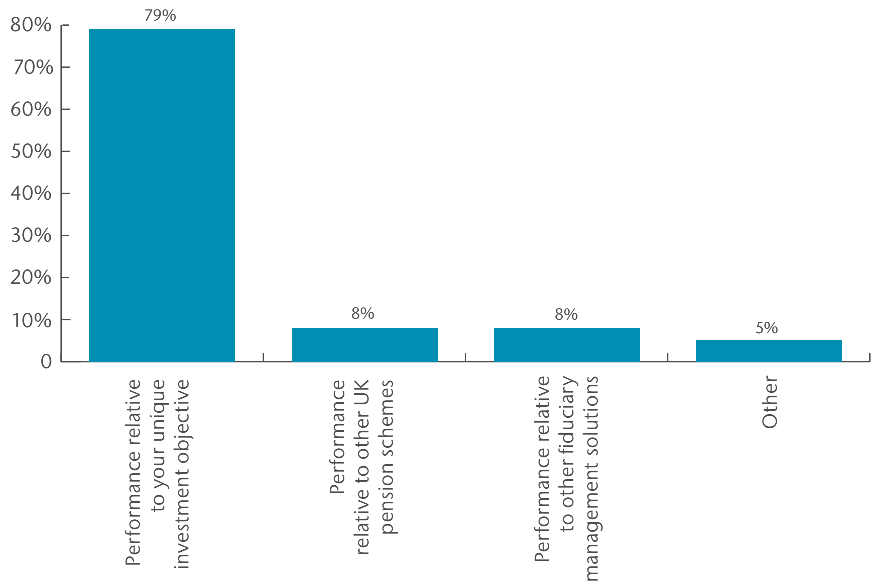
With performance one of the key criteria for a fiduciary manager, we asked schemes how they measure (or would measure) the performance of their own fiduciary management solution.

The clear majority (79%) 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 follows the pattern we have seen in previous surveys.

Key finding

79% of schemes want to measure fiduciary management performance against their unique investment objectives.

How do you monitor performance?



Number of respondents: 106

> 'Management of investment for the long-term benefit of members.'
>
> Survey respondent quote

Monitoring fiduciary management

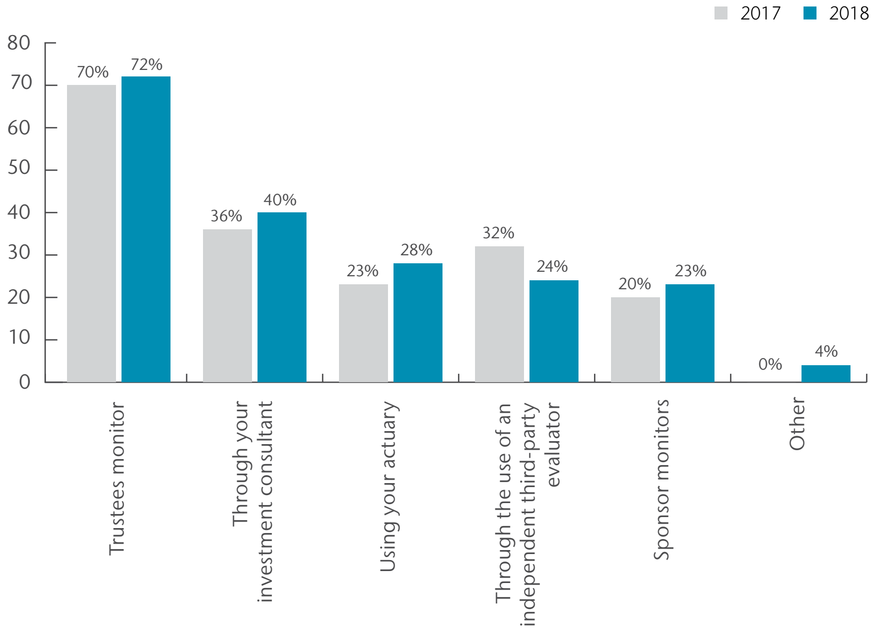
Respondents with a fiduciary mandate were asked how they monitor their provider's performance. In the vast majority of schemes (72%), the trustees monitor provider performance. This continues a trend we have seen for the last four years, and is becoming more pronounced; 70% said the same in 2017 and 61% in 2016.

The use of TPEs for monitoring has dropped, with 24% using them this year, down from 32% in 2017. Sponsors, investment consultants and actuaries are increasingly likely to play a role in fiduciary performance measurement.

Key finding

Fiduciary provider performance is increasingly likely to be carried out by trustees.

How do you monitor performance?



Number of respondents: 78 (2018), 91 (2017)

Key finding

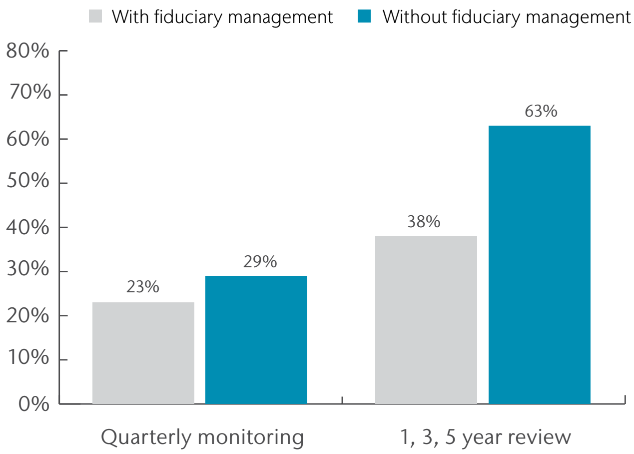
Schemes with fiduciary management are becoming less likely to monitor their fiduciary solution using TPEs.

We asked separately 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.

Those with fiduciary management in place are less likely to use a TPE for quarterly monitoring or one, three and five-year reviews than those without. 23% would use a TPE for quarterly monitoring, compared to 29% of those without fiduciary (and down from 31% in 2017).

38% of those with fiduciary management would use a TPE for or one, three and five-year reviews compared to 63% of those without fiduciary management, and down from 49% in 2017.

Would you use a TPE for ongoing monitoring?



Number of respondents: 72

> 'Provision of excellent advice ensuring trustees plan well for the future.'
>
> Survey respondent quote

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.

Aon perspective

The best way to measure the performance of your fiduciary solution/provider remains one of the more debated areas of fiduciary management. Consistent with previous years, the vast majority of our respondents (79%) 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 specific 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, we believe it is essential that performance is shown net of all 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

There have previously been some calls in the industry for fiduciary performance league tables. While this may work for products with identical investment objectives and investment parameters, it is challenging to do for fiduciary solutions as they are completely bespoke. Due to these differences and the variation in methodologies, the results could be very misleading. Coming up with a consistent and accurate approach could take years.

Would full public disclosure of results, rather than a league table, work? Full disclosure of results, in the right way, is something that we do fully support. Therefore, since October 2017 we have voluntarily published the performance of all our fiduciary clients on our website. This is grouped into clients with common investment objectives and calculated according to the performance standards created by IC Select (and shown in the standard way agreed for ease of comparison). We were one of the first to publish this and still remain one of a relatively small number that do this.

Published performance webpage: http://www.aon.com/unitedkingdom/retirement-investment/investment/investment-transparency-disclosure-in-the-uk.jsp

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. We could then create an industry standard for measuring the performance of all pension schemes.

Trustees responsible for monitoring their provider

Trustees continue to take the lead not only when selecting a fiduciary provider, but also 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 more on the key strategic decisions and overall performance at their quarterly meetings and less on the day-to-day activities and tactical decisions.

Based on our survey results, the use of TPEs for ongoing monitoring or reviews remains limited. This service is still relatively new for most TPEs and it will be interesting to see if this survey statistic increases or remains static percentage-wise as more full fiduciary mandates reach their three and five year milestones.

Our practical 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. We see that 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

Top issues for DB pension schemes

Covenant
is the issue of most concern to our survey respondents

Funding levels
is the issue of second most concern

Returns and **volatility**
are big concerns

2017

Very similar issues to the **2017 survey**

For the fourth year running, we asked respondents to list their two main concerns regarding their UK DB pension scheme. This was a free text 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 include sponsor covenant, returns and funding levels.

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 page 27).

Main DB concerns

*Guaranteed Minimum Pensions

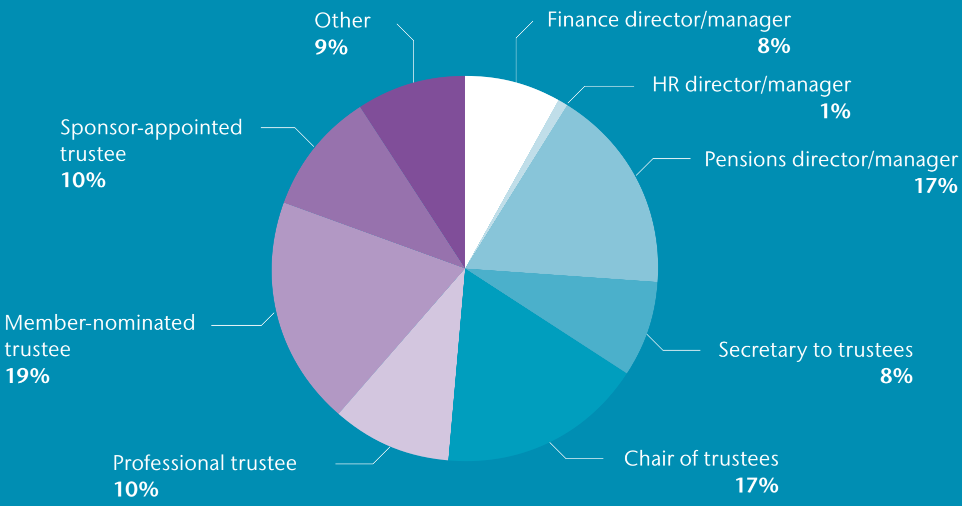
Section 8

About the survey

As in previous years, the survey represents the opinions and status of pension scheme representatives rather than providers. 17% are pensions directors or managers. 29% hold either member-nominated (19%) or sponsor-appointed (10%) trustee positions.

17% are chairs of trustee boards and 8% are secretaries to the trustees. 10% are professional trustees. 8% are finance directors or managers and 1% are HR directors or managers. 9% have 'other' job titles (but are not providers as these have been excluded).

Roles of respondents



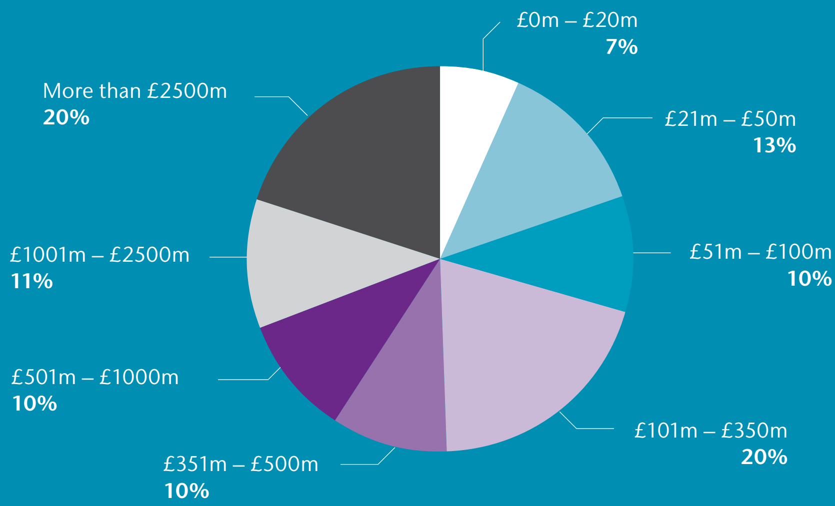
Number of responses: 239 (190 respondents)

In terms of scheme assets and status, the 2018 survey is very similar to those in previous years.

31% of schemes are closed to new entrants and 48% to future accrual.

31% have over £1bn in assets; 40% have between £101m-£1bn and 30% have £100m or less.

Scheme size



Number of respondents: 185

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Working in partnership with our clients

At Aon 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 Consultant or Tim Giles, Head of Investment for UK and Ireland, on **+44 (0)20 7086 9115** or at **tim.giles@aon.com**.

aon.com/delegatedconsultinguk

About Delegated Consulting Services

Aon'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 has won fiduciary manager of the year awards for five years in a row. Our ability to create truly bespoke and innovative 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.

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.

For further information on our capabilities and to learn how we empower results for clients, please visit http://aon.mediaroom.com.

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