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Fiduciary Management and Transparency



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Transparency is important – not just within pension schemes but in all areas of business and the professional world. Only when there is full transparency can trust be built and this is key when selecting suppliers/providers for your business and for your pension scheme. It is particularly important when looking to appoint a provider to partner with you for the long term, such as is the case with **fiduciary management**.

Transparency is an area that is talked about a lot within the context of fiduciary investment management (or delegated investment) whereby trustees delegate the day-to-day investment decision making, and implementation of the investment solution, to an expert third party.

What do we mean by transparency?

We believe this is more than just being open and honest in conversations. There are a number of different elements to transparency. In this article we summarise some of the key areas where trustees and sponsors should make sure they get full transparency when selecting and monitoring a fiduciary provider. These can equally be applied when selecting all advisers or providers.

Fees and Charges

This is one of the most important areas when it comes to transparency. What fee structure (bundled or unbundled) and fee approach is being offered (base fee or base and variable element)? Are you able to

see clearly a full breakdown of each fee element; the fiduciary provider's fee, investment consultancy fees, underlying manager fees, any administration or custody or fund expenses?

Critically, who is being paid for each element and what is included? How is the fiduciary provider being remunerated? For example, is it just the fiduciary fee itself or do they earn money from in-house funds being offered, or using preferential investment managers? Are there any additional fees not being shown, such as investment charges or disinvestment penalties?

Fees are an extremely important aspect of fiduciary management to understand and to be comfortable with. Clearly, there are many different aspects that need to be discussed and questions asked until trustees have the full picture.

We strongly believe that full transparency on all aspects of fees is vital, and encourage all providers to offer this up front as part of any initial proposals.

Performance – More than a Headline Number

How to measure the performance of your fiduciary solution/provider is one of the more topical areas of fiduciary management. In the context of transparency, the important thing is to have a clear benchmark and investment objective that is linked to your unique end-goals.

Full transparency means not just showing the headline number but also a breakdown of what is behind that performance. For example, what has detracted from or contributed to performance?

What level of risk has been taken to achieve those results? How have the underlying funds or managers performed? How closely are they being monitored by the fiduciary provider, and are they adding 'alpha' on a net of fees basis?

This level of transparency will help the trustees to assess whether or not the fiduciary provider is delivering what they promised, and in the way they said they would do it.

Reporting

Performance can only truly be transparent if reporting is clear and comprehensive.

All trustees should make sure that the reports they receive from any investment manager or fiduciary provider are clear and easy to understand. As well as containing the full breakdown of information (such as that described above), they need to be well written and structured. Key aspects such as performance versus the agreed objectives and benchmark should be up front, along with anything else that the trustees have identified as important.

If you are unsure about any aspect of your reports, then ask for it to be explained and/or changed. In order to feel confident in any of your providers, it is important to make sure you are comfortable with what you are receiving, the clarity of messages and the frequency.

Underlying Investments

Fiduciary providers differ in their approach to investing assets on behalf of the trustees. Some will invest in in-house/internally managed funds, others in externally managed funds, and some will do a combination of these approaches.

How is the fiduciary provider deciding which managers/funds to invest in? Are there any potential conflicts of interest and, if so, how are they being managed or minimised? Does the fiduciary provider have full transparency on the portfolios of the funds they are investing in? This type of transparency helps the provider to see what is right and wrong so that situations like fraud can be avoided. It also allows them to see where value is being added or subtracted so that sensible decisions can be made around investments.

We believe it is important that the trustees not only have transparency of what their provider is investing in on their behalf, but that the provider also demands full transparency from the underlying funds/managers themselves. This will make sure that decision-making is more informed, and trustees can have greater confidence in both their provider and their individual solution.

Other Key Areas

Other areas to consider concern the operations and solution itself. Do you understand how your scheme is being managed and are you comfortable it is in safe hands? Have there been any errors, and if there were to be any in the future, would you be told? Are your investment guidelines being adhered to?

The credentials and experience of any provider or adviser is equally important so that trust can be established and grow over time. What experience does the provider have with schemes like yours (in terms of the proposed solution, size and objectives)? How big is the team behind the solution, and what are the backgrounds of the key individuals? Is the provider winning or losing business, and is their offering to you a high focus area?

Building a full picture by delving into these areas will help to build confidence and a strong partnership. A 'hands on' approach to selecting a provider will help to make sure that the right provider is chosen and will maximise the chances of success over the long term.

Transparency and Success go Hand in Hand

Delegating the day-to-day management of your pension scheme assets to a fiduciary provider requires trust. Clear and accurate information with full disclosures facilitates this and is crucial to building a successful long-term partnership between the scheme and the provider.

Aon believe in full transparency, and that improving this across the industry, both within fiduciary management and more widely, can only be a benefit. So please do challenge all your providers and advisers, make sure nothing is hidden from you, and that you are seeing the full picture. For further information, please contact betty.oreilly@aon.com



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Helping you find

YOUR OWN PATH

through the complexities
of pension investment



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To talk to us about your scheme's investment requirements, please contact your local Aon office:

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