Aon Hewitt
Delegated Consulting Services

Fiduciary Management Survey 2016

Risk. Reinsurance. Human Resources.

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Executive summary

This is Aon Hewitt's seventh 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 seven-year history, large scale and focus on users rather than providers.

This year's survey represents the views of more than 250 respondents. 97% of these are pension scheme representatives such as chairs of trustees, trustees and pensions managers. The survey covers an estimated £270 billion of assets, representing around 20% of the DB pension market in the UK. The survey includes 86 schemes using fiduciary management, with total estimated assets of £80 billion. Importantly, this is a survey of the entire industry and not just Aon clients.

We define fiduciary management as the delegation by trustees of the day-to-day investment decision making and implementation to third parties. Our survey shows that this approach is becoming increasingly commonplace, with many UK pension schemes taking it up or considering it.

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

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

1 Continued growth driven by schemes of all sizes

Since 2011 fiduciary management among small schemes has leapt from 28% to its current position of 49%. Small schemes still have the highest proportion of fiduciary mandates. Almost half (49%) of schemes with less than £100m in assets have appointed a fiduciary provider, up from 43% in 2015.

Medium-sized schemes (those with £101m-£1bn of assets) have seen the largest growth during the period, increasing from 15% having a fiduciary mandate in 2011 to 45% having one today. Fiduciary management among large schemes (£1bn+ in assets) has grown from 17% in 2011 to 40% today.

Nearly half of those surveyed have either a full (32%) or partial (13%) fiduciary mandate in place. Fiduciary mandates are more common among closed schemes. Continuing a trend seen throughout the survey's history, small and medium-sized schemes are more likely to have full fiduciary mandates, with large schemes more likely to have partial mandates.

> "Essential for a small pension scheme or one with limited financial and legal knowledge and/or experience."
>
> Survey respondent quote

2 98% satisfaction with fiduciary management

Confidence in fiduciary management remains very high. As in 2015, 98% say their overall experience is excellent, good or satisfactory. 55% of large schemes rate fiduciary management as excellent.

98% say the same about client service – an increase since 2015 – with 96% saying the same about the impact on their funding level. 95% are satisfied with the impact fiduciary management has had on their risk controls.

"A definite improvement for our trustees over traditional investment consultancy has allowed a more rounded and considered approach."

Survey respondent quote

3 Expertise seen as the key advantage of fiduciary management

Respondents clearly recognise the expertise a fiduciary approach brings to scheme investment. Adding 'expertise in decision-making' is the number one factor for schemes choosing a fiduciary approach. Considered alongside the time pressures trustees continue to face – with 68% of trustees spending five hours or less per quarter on investment matters – and the increasing complexity of investment options available, the need for this expertise is clear.

Respondents cite investment expertise and daily attention to risks and investments top when asked to list fiduciary management's benefits.

4 Transparency is key when choosing an approach and a provider

Choosing the right fiduciary provider is a decision specific to each scheme. The 2016 survey shows, as in previous years, that a face-to-face approach is preferred when selecting a provider. 67% prefer to select a fiduciary manager via a beauty parade and/or site visit.

Due diligence is vital when it comes to provider decisions, and the survey shows that 65% use due diligence to help with the selection process. A provider that is clear and open will do well when under this scrutiny.

5 Scheme-specific performance measures are preferred

The vast majority of survey respondents recognise that the success of fiduciary management is something that is best measured against their own specific aims. 87% choose to measure success against their own bespoke performance objectives.

For the majority of schemes (61%), monitoring is carried out by the trustees.

"A very useful tool to enable investment decisions to be taken and implemented on a timely basis by individuals with the relevant skills and expertise."

Survey respondent quote

In 2016, fiduciary management is becoming 'business as usual' for a large proportion of UK pension schemes. Levels of take-up have grown strongly since the survey started, with schemes of all sizes and types recognising the benefits a fiduciary approach can bring.

Throughout the rest of the survey we show the reasons for this growth. We also look at the ways schemes are selecting, monitoring and working with fiduciary providers, and the results they are seeing. We hope you find the survey interesting and useful.

Sion Cole
Partner and Head of European Distribution
Delegated Consulting Services
Aon Hewitt

"A necessity in today's climate."

Survey respondent quote

Fiduciary management described by respondents

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

Awareness of fiduciary management – what it means, its benefits and its impact – has certainly grown since the survey started. We believe this reflects the extent to which this approach has become an accepted part of the investment solutions available.

This free text answer included not only definitions but also general commentary and thoughts on fiduciary management. We have included a selection of quotes from respondents' descriptions throughout this report.

Key findings

Section 1: Demand for fiduciary management remains strong

- Take-up of fiduciary management has more than doubled since 2011, when 18% of respondents had appointed fiduciary providers, to 45% in 2016.
- The strongest growth during this time has been from schemes with £101 million – £1 billion of assets.
- Full fiduciary management remains more common among pension schemes with assets of £1bn or less, while partial fiduciary management is more frequently found among schemes with assets of £1bn or more.
- Of those that do not yet use fiduciary management, 20% plan to explore or are currently exploring fiduciary management.

Section 2: Drivers of growth: expertise is key

- The need for expertise in pension scheme decision-making is evident. The complexity and number of investment options available has seen schemes increasingly turning to experts for help. ‘Expertise in decision-making’ is the number one factor for schemes choosing a fiduciary approach.
- This need for expertise is particularly understandable when considered alongside the significant time pressures trustees continue to face. 68% of trustees spend five hours or less per quarter on investment matters. Despite increasing complexities, the time spent on investment has not increased over time as you might have expected it to.
- Schemes’ propensity to use complex investments and tools continues to grow. A liability-driven investment (LDI) approach is now routinely employed by 57% of respondents.

Section 3: Benefits of fiduciary management

- Investment expertise and daily attention to risks and investments remain the top two advantages of fiduciary management. Cost, potential conflicts of interest and the difficulty of comparing providers are cited as the main concerns.
- Schemes with fiduciary providers are more likely to feel that investment decisions are taken at the right speed and less likely to think that decisions are taken too slowly, compared to those without. 78% of those with a fiduciary mandate believe scheme investment decisions are taken at the right speed.
- ‘Nimbleness’ is increasingly cited as a key advantage of a fiduciary approach, increasing by 9% since 2015, with 37% citing it as a benefit.
- Across all sizes of schemes, those with fiduciary management enjoy more diversified investment portfolios than those without.

Section 4: Excellent results from fiduciary management

- Levels of satisfaction with fiduciary management continue to be very high. As in our 2015 survey, 98% say their overall experience is excellent, good or satisfactory.
- 98% say the same about client service, 96% about the impact on their funding level and 95% about the impact on their ability to control risk.
- 55% of large schemes rate their overall experience of fiduciary management as excellent – a real vote of confidence in this approach.

Section 5: Fiduciary provider selection process

- First-hand evidence remains the most-valued way of selecting a fiduciary provider. 65% conduct due diligence, with 67% using a face-to-face approach (via a beauty parade and/or site visit); very similar to the 2015 results.
- Advice from third-party evaluators has fallen in popularity, with 34% using this compared to 44% in 2015. 43% of schemes have taken or would take advice from their existing advisers.
- A proven track record remains the most important quality indicator when selecting a provider, closely followed by investment experience.
- 58% of respondents would appoint the fiduciary business of their existing investment consultant or actuarial adviser as their provider.

Section 6: Monitoring and measuring performance of a fiduciary provider

- The vast majority of respondents (87%) like to measure the success of their fiduciary provider in terms of performance relative to their unique investment objective.
- Monitoring is carried out by the trustees in nearly two-thirds of schemes (61%).
- This is particularly evident in large schemes, where 70% said fiduciary provider monitoring is carried out by their trustees – nearly three times as many as would use a third-party evaluator (26%).

Section 7: What are DB pension schemes really concerned about?

- Funding levels; scheme deficits; investment as a whole; returns and low yields; strength of sponsor covenant; risk reduction and market volatility were some of the most common concerns cited by our respondents this year.
- Had this research taken place after the EU referendum (the survey closed in early June 2016), we are sure that ‘Brexit’ would have been one of the most common concerns cited.
- The opportunity for schemes to share their own priorities highlights some common – and some unique – concerns being faced by defined benefit pension sponsors and trustees. You can read the concerns in full in the word cloud on page 38.

1. Demand for fiduciary management remains strong

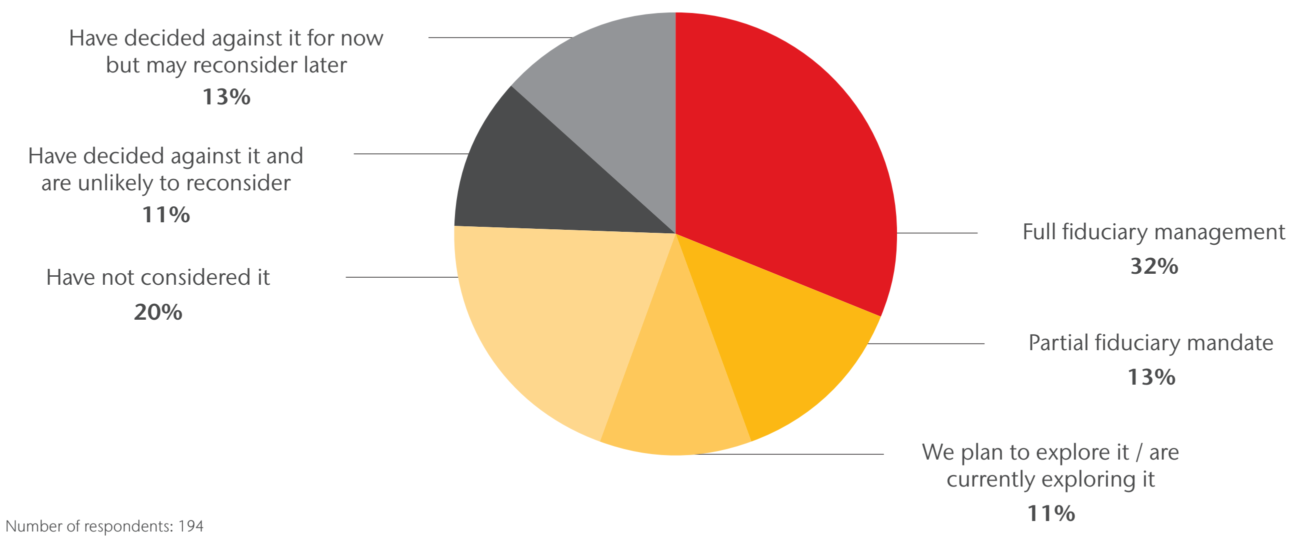
As in the 2015 survey, this year's results show strong take-up of fiduciary management across schemes of all sizes. Nearly half (45%) of respondents have some form of fiduciary solution. A further 11% are currently exploring, or plan to explore, the potential of fiduciary management.

Of those with fiduciary management, two-thirds have full fiduciary mandates (where a provider manages all of the scheme's assets). The remainder have a partial fiduciary mandate (where the provider manages a part of the scheme's assets like a single asset class, for example).

Compared to the 2014 survey, where 37% had a fiduciary solution in place, and to 2011 when only 18% had adopted a fiduciary approach, the findings demonstrate continued strong growth in fiduciary management.

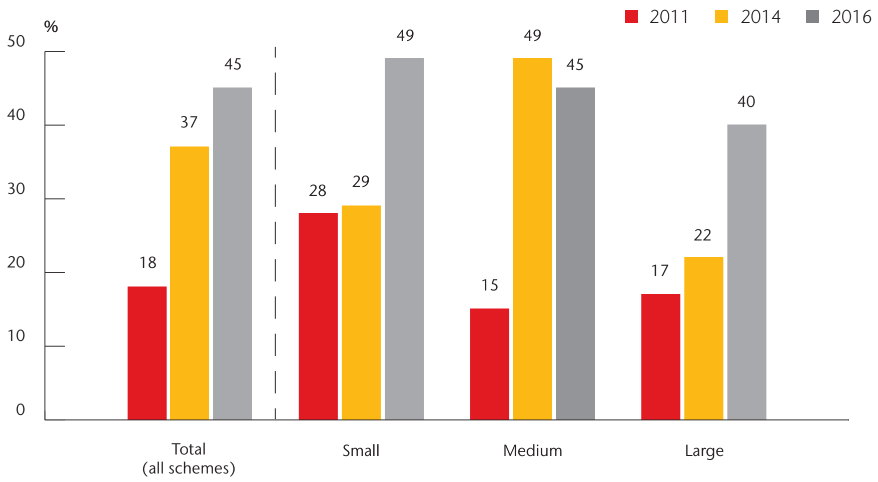
11% of respondents plan to explore, or are currently exploring, fiduciary management. This is up from 8% in 2014. Smaller schemes are more likely to be considering fiduciary management with 16% of schemes under £100m noting this. The number stating that they have 'decided against and are unlikely to reconsider' fiduciary management is falling gradually and is now at 11% in 2016.

Take-up of fiduciary management



Number of respondents: 194

Take-up of fiduciary management by size



Number of respondents: 194 (2016)

Small schemes see strong growth

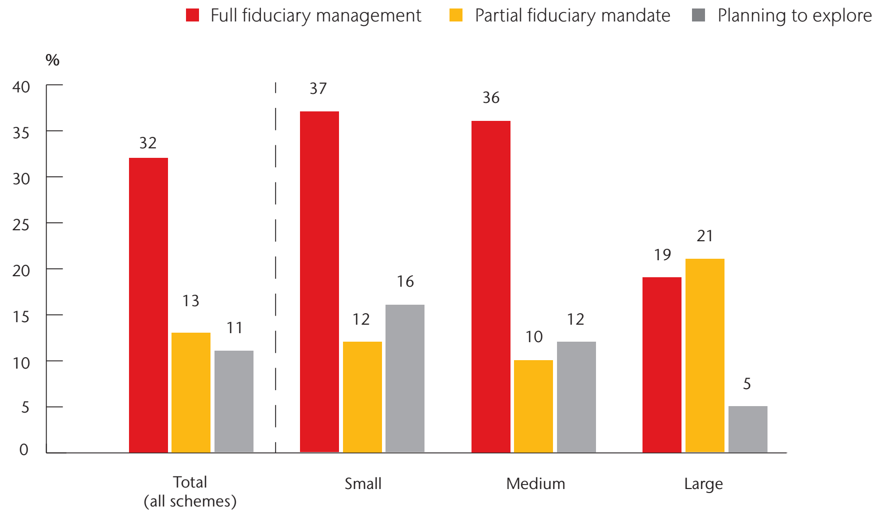
Since the 2015 survey, take-up by smaller schemes has continued to grow. 49% of schemes with £100m or less in assets have some form of fiduciary mandate, up from 43% since last year (and from 29% in 2014).

"Managing and decision-making in the best interest of the scheme members."

Survey respondent quote

As in previous years, smaller and medium-sized schemes are most likely to have a full fiduciary mandate. Of those respondents with full fiduciary, 37% are small and 36% medium-sized; 19% are large schemes.

Fiduciary management take-up by mandate type and size



Number of respondents: 194

Schemes that are closed are more likely than open ones to have adopted a fiduciary management solution. Those closed to both new entrants and future accrual are most likely to have appointed a fiduciary manager. 13% of schemes that are open to new entrants have fiduciary management, with this figure rising to 40% for those closed to new entrants and 56% for those closed to both new entrants and future accrual.

"A logical next step – offering bespoke solution which enables decisions to be made and implemented efficiently."

Survey respondent quote

Key finding

45% of schemes now have some form of fiduciary management, compared to 18% in 2011, showing increasing confidence in the fiduciary market.

Key finding

49% of schemes under £100m have a fiduciary management solution.

Aon Hewitt perspective

Since our last survey was published in September 2015, there has been no respite for pension scheme trustees and sponsors. Regulation continues to change, market uncertainty remains a concern, and the pressures on trustees have increased. It is therefore not surprising that trustees and sponsors are turning to fiduciary management as an investment solution to help them reach their end-goals.

The continued strong growth in the fiduciary management industry reflects what we are also seeing within our own fiduciary management business; which has grown around 50% year-on-year since launching at the end of 2009.

With the majority of DB schemes already closed, this means a finite time for them to reach their end-goal. This, coupled with the ongoing challenges in the market and uncertainty that Brexit has caused, means the reasons that schemes are considering fiduciary management are like to be exacerbated. Of those who do not yet use fiduciary management, our survey said that 20% plan to explore or are currently exploring this approach. We therefore see the take-up of fiduciary management continuing to increase in the future; likely reaching a peak at around 20-25% of schemes using this approach in the next five years. Indeed, some experts think that fiduciary management could be utilised by 50% of all UK DB schemes in the future.

Fiduciary management is suited to schemes of all sizes

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

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

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

We are seeing mid-sized schemes recognising the benefits of delegating the day-to-day decisions and management of their portfolio to investment experts. This allows the trustees to focus on the key strategic decisions that will drive the performance of their scheme toward their end-goals.

Large clients demanding even more tailored solutions

Furthermore, and linked to our own experiences during conversations with clients over the past 12-18 months, the survey results show that the number of large schemes (£1bn and greater) investing in fiduciary solutions (either full or partial) has increased vastly over the last two years. This is perhaps due to a wider range of much more bespoke solutions now being available to large schemes. This includes incorporating their in-house team within the fiduciary solution or decision-making process, and bespoke solutions taking into account investment beliefs or unique restrictions.

Indeed, we have recently seen a number of large schemes looking for tailored alternatives mandates being run under a fiduciary approach. This demand for solutions designed to meet their individual needs is something we see continuing in the future.

2. Drivers of growth: expertise is key

Key finding

Increasing investment complexity is causing increased demand for outside expertise from a fiduciary provider.

It is important to examine some of the drivers behind the continued growth of fiduciary management.

Adding expertise remains the main impetus for a fiduciary approach. 'Flight plan and de-risking challenges' is the second most-cited reason for choosing fiduciary management. In an environment of ongoing volatility, it is not surprising that 'certainty of reaching end-goal' is a driver for 34% of survey respondents.

Investment complexity continues to increase

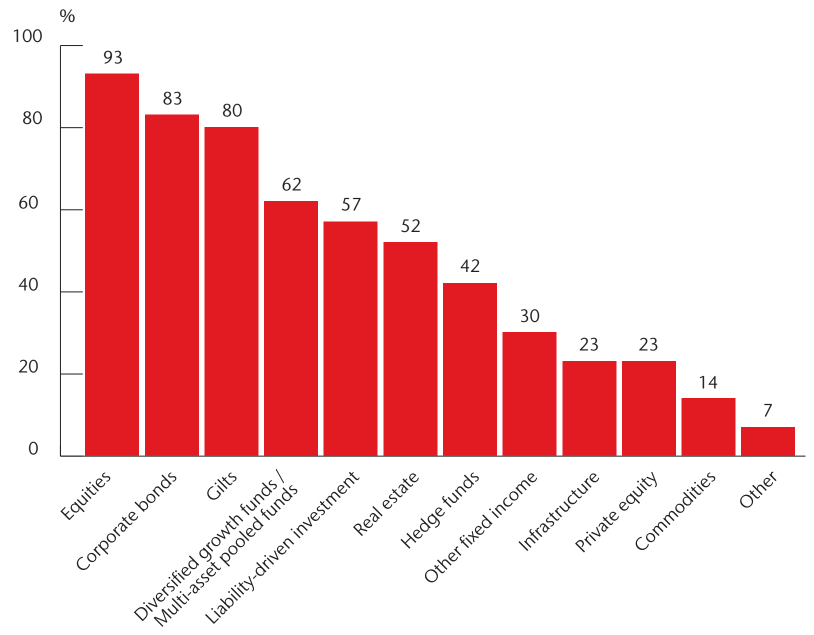
As we have seen throughout previous years' surveys, pension scheme investment is getting more complex. There is a growing range of asset classes and investment solutions, as well as increased complexity among these options.

Liability-driven investment (LDI), for example, is now used by 57% of schemes. Two years ago, in 2014, 47% of schemes said the same; a 20% increase. For schemes that have not previously taken an LDI approach, this route can be time-consuming. It requires expertise and significant time to implement as well as ongoing supervision. This is just one example of a complex investment that is leading to the continuing growth of fiduciary management.

The inclusion of hedge funds, infrastructure and private equity remains at similar levels to last year. These are all complex to understand and require close monitoring. With investments such as hedge funds, it is also important to have diversification within the asset class. This in itself can be a challenge without expert help.

This increasing complexity explains the fact that 78% of respondents with fiduciary management and 52% of those without cite expertise in decision-making as a key reason for choosing a fiduciary approach (see page 17).

Asset classes invested in



Number of responses: 1382 (244 respondents)

Trustees have limited time to spend on investment

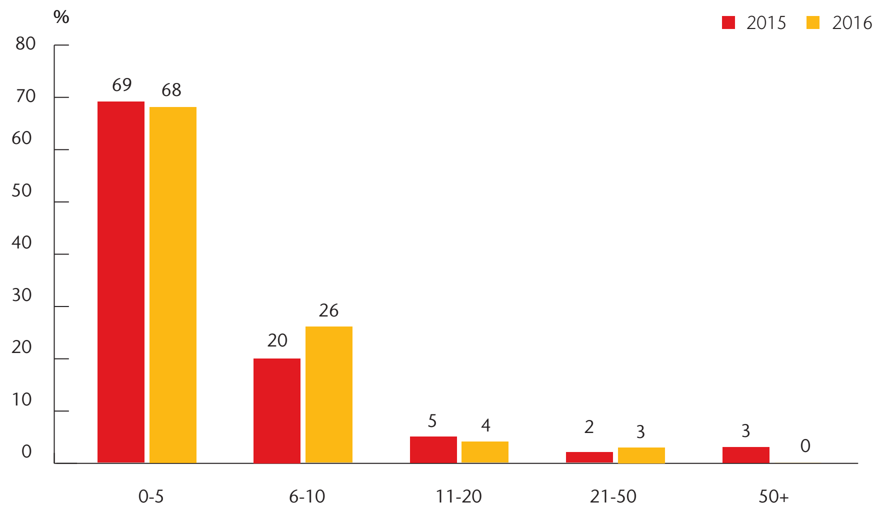
For 68% of respondents, pension scheme trustees spend five hours or less a quarter on investment matters. This is in line with findings over the past two years (69% in 2015 and 73% in 2014). Given the increased complexity mentioned, you would perhaps expect the number of hours spent on investment to increase.

Interestingly, the number of respondents spending more time on investment matters has fallen. In 2014 and 2015, 10% of trustees spent more than 10 hours, however in 2016 this has fallen to 7%. In 2015, 3% of trustees spent more than 50 hours per quarter on investment matters, compared to none in 2016.

Key finding

68% of trustees spend five hours or less per quarter on investment matters.

Trustee time spent on investment matters (hours per quarter)



Number of responses: 235 (2016), 149 (2015)

Fiduciary management allows investment committees to focus on strategy

The survey also asked schemes with investment committees how much time these committees spent on investment matters. 27% spend less than five hours a quarter, with 37% spending between six and 10 hours.

Those with a fiduciary mandate are more likely to spend less time on investment matters, having delegated day-to-day decision-making to their fiduciary manager. 73% of investment committee members with fiduciary management spend 10 hours or less on investment matters, while only 60% of those without can say the same.

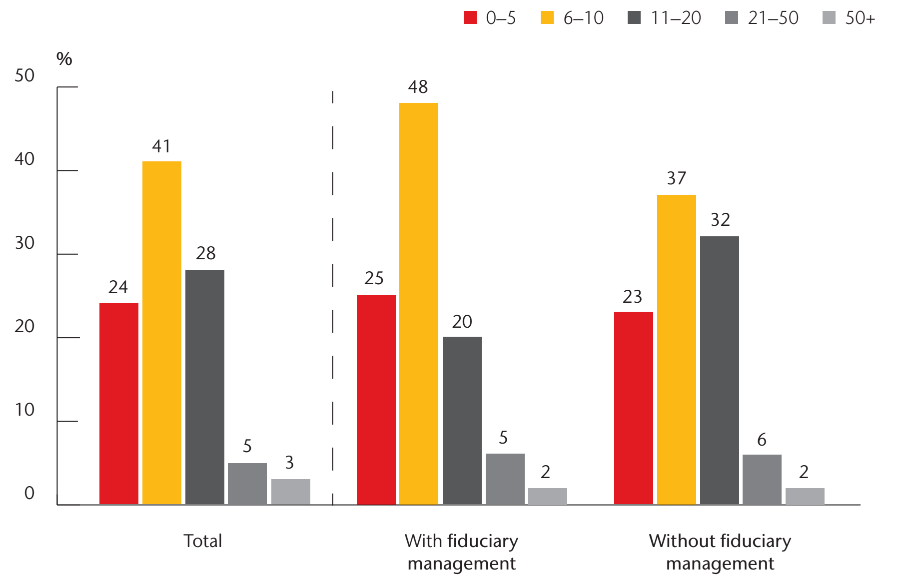
"Delegation of certain aspects of investment management to a third-party to allow the trustees to focus on more strategic issues. Requires clarity of scope and transparency to work well."

Survey respondent quote

Key finding

Confidence in reaching scheme end-goals is seen as a major advantage of fiduciary management.

Investment committee time spent on investment (hours per quarter)



Number of responses: 109

An increasing need for risk reduction and investment agility

In a continuing volatile investment landscape, a desire for increased certainty is driving schemes towards risk reduction and settlement solutions such as buyout. It is not surprising then that 'certainty of reaching end-goal' is the third most-cited option when schemes are asked to identify key factors in the decision to appoint a fiduciary provider. 34% see this as an important factor in their decision.

Similarly, 'speed of implementation' is selected by 33%. If schemes are looking to settle or reduce risk using one of the many products now available, time is of the essence. When conditions are right for a scheme to transact, they need to act swiftly. The daily monitoring and expert investment management achieved through a fiduciary mandate enable schemes to react quickly when they need to.

Flight plans continue to increase 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 fiduciary management surveys, we have seen the use of flight plans increase. This year is no exception, with 57% of schemes now using them.

Schemes with fiduciary management are more likely to have flight plans: 67% of those with fiduciary have flight plans, compared to 47% of those without. Moreover, those with a fiduciary mandate are more likely to have flight plans that include daily monitoring of risks and automatic triggers for investment changes.

Of those without flight plans, 81% are planning to explore them in future. We therefore anticipate further significant growth in this area.

"The ability to act quickly to changed conditions and employ a wider set of investment options."

Survey respondent quote

Key finding

67% of schemes with fiduciary management have a flight plan in place.

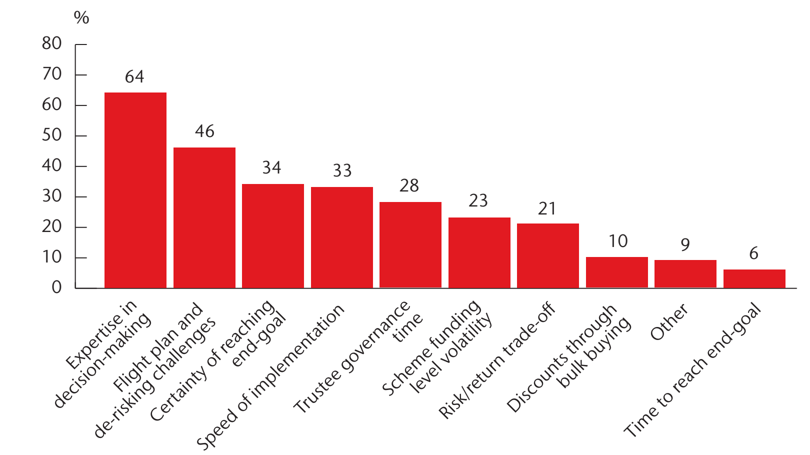
Factors in the decision to appoint a fiduciary provider

We also asked respondents about the key factors in the decision to appoint a fiduciary provider. As covered above, expertise remains the main factor. Flight planning remains second, with certainty of reaching end-goals third – albeit that these two factors actually go hand-in-hand.

Flight planning and a desire to reach specific scheme end-goals have both increased in importance since the survey started; in 2014, flight planning was the fourth-placed option. 'Certainty of reaching end-goal' was placed fifth in 2015 and sixth in 2014, therefore increasing significantly as a factor over the last 12 months.

Speed of implementation has increased in importance since 2015, and is now in fourth place, with 33% of respondents citing this as an important factor. Trustee governance time remains important to 28%, although its relative importance has decreased since the 2015 survey, when it was the third most-cited option.

Factors in decision



Number of responses: 503 (184 respondents)

"A very good method of monitoring our investments."

Survey respondent quote

Key finding

Expertise remains the key factor in the decision to appoint a fiduciary provider. Flight plans continue to be a strong impetus.

Aon Hewitt perspective

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

Increasing investment complexity

As we have already noted, the range of potential solutions available to trustees has never been so great. There is also increased complexity within the asset classes, tools and investment solutions available. More complex investments such as LDI and hedge funds require greater understanding, training, analysis or work by the actuary and/or consultant, selecting managers (including legal advice), and then monitoring and reviewing. This means greater pressure on trustee time and the need for expertise.

Pressures on trustee time

Here is the big surprise; despite the increased complexity and demands of such investments, the time spent by trustees on investment matters has not increased. In fact, it has reduced over the last three years. Trustees have limited time. The changes in pensions regulation and this increasing investment complexity have put additional pressures on that time. This makes fiduciary management even more applicable as it means trustees can focus their time on the strategic investment matters. They then delegate (outsource) the day-to-day management of their portfolio to a fiduciary provider who can dedicate the time to expertly managing the scheme's portfolio on the trustees' behalf.

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

It is for these reasons that expertise remains one of the key factors in the decision to appoint a fiduciary provider. It is also, as discussed in Section 3, seen as the main benefit of such an approach.

It is also not surprising that trustee governance features so highly on the list of reasons for adopting a fiduciary solution.

Flight planning more efficient as part of fiduciary management

Demand for flight plans has continued to increase over the course of our surveys. There is a strong link between the use of fiduciary management and flight plans. Our survey shows that 67% of those with fiduciary management have a flight plan (43% more likely than those without). This is most likely due to the operational complexities and costs associated with implementing flight plans; it is more efficient to do so as part of a fiduciary approach. For many schemes, it would be difficult to identify between trustee meetings if de-risking opportunities had taken place, much less then be able to take the swift action needed to move assets from growth-seeking to liability hedging in order to capture these opportunities. Implementing a flight plan alongside a fiduciary solution can mean quicker implementation of changes so that opportunities to de-risk are not lost and gains are locked in. The use of flight plans therefore remains a key factor when deciding whether or not to appoint a fiduciary provider.

Industry sources suggest that over 80% of UK DB pension schemes are closed. While fiduciary management is not just for closed schemes, it is more common among those schemes closed to new members and/or future accrual. Those schemes have a finite time to reduce any deficits and reach their end-goals; this focuses them on the importance of setting and implementing an appropriate investment strategy that will realistically get them to where they need to be, in time. The vast majority of closed schemes surveyed are targeting specific end-goals, something that has also increased from last year.

3. Benefits of fiduciary management

Key finding
Investment expertise (53%) and daily attention to risk and investments (41%) remain the two key advantages of fiduciary management.

As in previous surveys, the survey asked about the advantages of fiduciary management – both by those without a fiduciary mandate, and by those who have appointed a fiduciary provider.

Respondents were asked to choose up to three advantages of a fiduciary approach. In 2016, 'investment expertise' remains the most recognised advantage; 53% cited this. 'Daily attention to risks/ investments' is the second most-cited (41%) and 'nimbleness' third, cited by 37%.

This top three is the same as the 2015 survey, although fiduciary management's ability to increase scheme's agility has grown in significance; 'nimbleness' was cited by 37% this year, compared to 34% in 2015.

The benefit of a 'bespoke/tailored solution' by fiduciary providers has also increased in importance, with 35% citing this in 2016 (32% in 2015).

There are some interesting nuances between the anticipated advantages, from those without fiduciary, and the actual advantages cited by those with a fiduciary solution.

Many of fiduciary management's perceived advantages are far more beneficial in reality than they are expected to be by those who have not yet gone down a fiduciary route.

A bespoke or tailored solution, for example, is seen as an advantage by just 27% of those without a fiduciary mandate. More of those with fiduciary management noted this in the top three benefits; 54% of those with a partial mandate and 38% with full fiduciary management.

Similarly, only 16% of those without fiduciary perceive 'a better understanding of strategy' to be an advantage, but 54% of those with a partial fiduciary mandate and 43% of those with full fiduciary see this as an advantage in reality. This gap has widened since the 2015 survey, suggesting that those with fiduciary management are enjoying tangible advantages from delegation when it comes to understanding their scheme's strategy.

As in previous years, expertise is the common thread that unites the main advantages of fiduciary management. And as we have stated before, the main reason for deciding to appoint a fiduciary manager (see page 11) is a desire for that expertise in decision-making that is so evidently appreciated by those with a fiduciary mandate.

We pick up on the perceived disadvantages and trends on page 20.

"Fiduciary management allows trustees to set an investment strategy which is then handed to professionals to execute."
Survey respondent quote

Advantages	%	Disadvantages	%
Investment expertise	53	Cost	59
Daily attention to risk/investments	41	Hard to compare providers	46
Nimbleness	37	Conflicts of interest	33
Bespoke/tailored solution	35	Complexity	26
Better understanding of strategy	30	Loss of control by trustees	25
De-risking	25	Governance	18
Freeing up trustees' time	23	Fiduciary responsibilities unclear	14
Diversification	16	It's new	6
Control by trustees	13		

Number of responses: 519 (188 respondents)

Fiduciary management improves 'nimbleness'

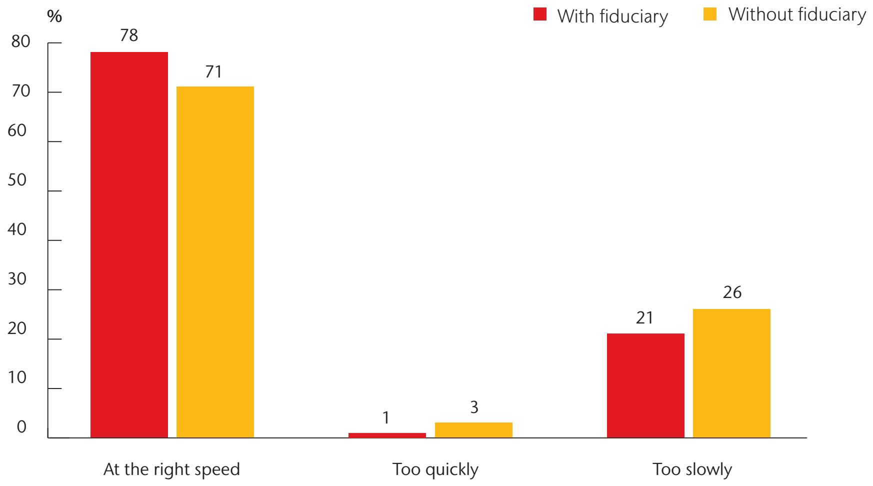
The potential for a delegated approach to enhance schemes' ability to react to the investment landscape is one of its key advantages. As above, 'nimbleness' is the third most cited advantage of fiduciary management. This nimbleness comes in two forms; speed of decision-making and speed of implementation.

Schemes with a fiduciary solution in place are happier than those without, when it comes to the speed at which investment decisions are taken. Those with a fiduciary solution in place are also less likely to believe that decisions are made too slowly: just over a fifth of those with a fiduciary provider think this, compared to a quarter of those without.

Key finding

78% of schemes with fiduciary management are happy with their speed of investment decision-making.

Speed of decision-making



Number of respondents: 230

Investment complexity impacting speed of decision-making

For those that said they felt speed of decision-making within their scheme was too slow, we asked why they felt this was. The vast majority of schemes (68%) cited the increasing complexity of the investment options they are faced with. The time between trustee meetings is second, cited by 66%, with trustee knowledge a reason given by 51% and trustee time by 43%. Respondents could choose as many reasons as were relevant.

In 2015, this question was analysed slightly differently, but the top two answers remain the same year-on-year. Trustee knowledge has increased significantly as an inhibitor of swift decision-making – presumably linked to the increasing number and complexity of the investment choices available as well as the overall uncertainty in markets. Keeping abreast of the latest investment opportunities and the 'best' time to invest is a huge challenge for trustees (who typically are experts in other subject matters as opposed to pensions).

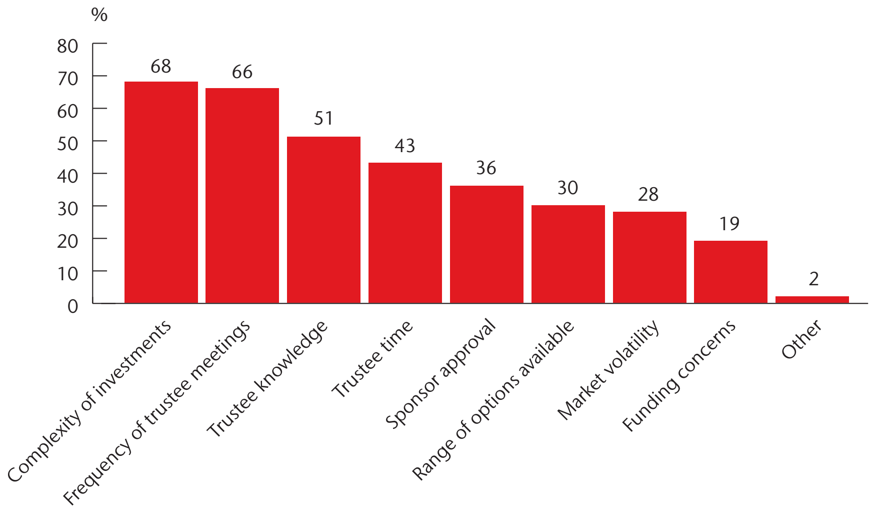
"Investment decisions taken by experienced personnel on a timely basis."
Survey respondent quote

"Gives the trustees time to focus on the big issues such as strategy."
Survey respondent quote

The amount of time that they can dedicate to investment matters, along with the infrequency of their meetings, also negatively impacts trustees' ability to make timely decisions. Trustee knowledge and trustee time have both increased in importance since the 2015 survey, overtaking 'range of options available' as reasons for slow decisions.

"(Fiduciary management is) necessary given the time commitment and speed of reaction required."
Survey respondent quote

Reasons for slow decision-making



Number of respondents: 118

"Handing day-to-day investment decisions, within an agreed set of principles and goals, to a team of experienced investment specialists who can react with more agility to market trends and opportunities, across a wider range of investment types."
Survey respondent quote

Fiduciary management provides greater investment diversification

Diversification of investments is often seen a key advantage of a fiduciary management approach. The reality of this is reflected in the 2016 survey findings, which show that schemes with a fiduciary mandate enjoy a far more diverse portfolio than those without.

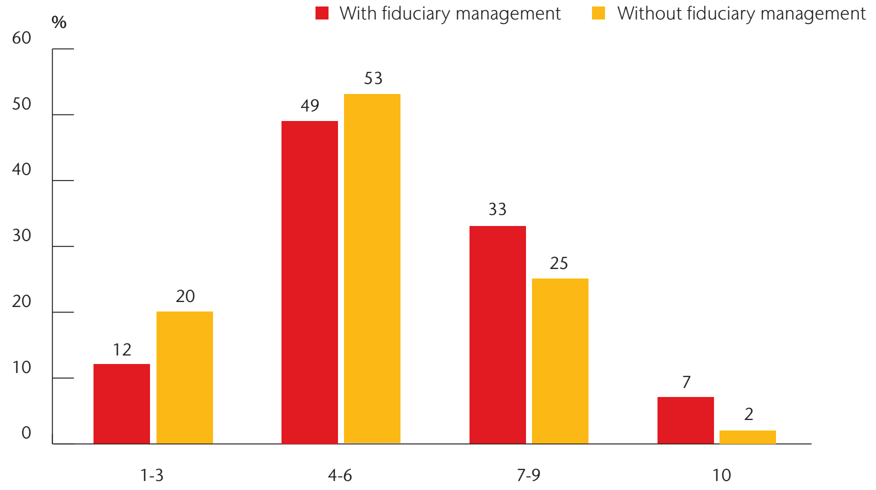
Schemes with a fiduciary manager are more than three times as likely to invest in ten or more asset classes (7% vs 2% of those without). A third (33%) of those with fiduciary management have between seven and nine asset classes in their portfolio, compared to just a quarter (25%) without.

Historically, larger schemes have tended to have more diversified portfolios, as they have had the resource to dedicate to managing a range of asset classes. 9% of large scheme respondents said they invested in ten or more asset classes. Today, fiduciary management makes this diversity of investments available to schemes of all sizes.

Conversely, those without a fiduciary provider are more likely to have a limited spread of investments: 20% of those without a fiduciary manager invest in three or fewer asset classes, while only 12% of those with a fiduciary mandate do the same.

Key finding
Schemes with fiduciary management typically have greater diversification, investing in more asset classes than those without fiduciary.

Diversification: number of asset classes invested in



Number of respondents: 244

Perceived disadvantages or real disadvantages?

Survey responses around the disadvantages of fiduciary management are very similar to those seen in previous years. And as in previous years, they highlight some clear differences between the perceptions of those without fiduciary and the experiences of those with.

For instance, 35% of those without a fiduciary mandate fear loss of trustee control, but only 14% of those with a fiduciary approach see it as a disadvantage. In fact, 13% of all respondents see control by trustees as an advantage of fiduciary management.

Governance is a disadvantage for 25% of those without a fiduciary provider, but only 10% of those with fiduciary have noted it as a concern. Conflict of interest is another issue that shows a clear disparity between those with and without fiduciary management: 44% without anticipate it being an issue, but only 22% of those with a fiduciary manager note this.

The differences between the perception and the reality of fiduciary management are also evident in some of the other potential disadvantages.

Cost is the largest perceived disadvantage of a fiduciary approach, although is a far larger anticipated concern (63%) than one actually experienced by those with fiduciary management (52%). However this is not as clear cut as the other disadvantages.

The largest disadvantage experienced by those with fiduciary management is the difficulty of comparing providers. 56% of those with fiduciary cite this – the only disadvantage that is more pronounced by those with fiduciary management than those without.

All disadvantages – except for the difficulty of comparing providers – have been cited by fewer respondents in the 2016 survey than in 2015.

Aon Hewitt perspective

Significant benefits of fiduciary management

Yet again, expertise is highlighted as the key advantage of fiduciary management. This has been consistently top of the list of advantages for the past few years and reflects that trustees are recognising the benefit of access to investment expertise that this approach offers. Increasing investment complexity and an ever-expanding range of investment solutions, tools and asset classes mean that expertise is effectively a prerequisite for investment success (as discussed in Section 2). Using the expertise that a fiduciary provider can offer will allow the 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. Importantly, they are also future-proofing their scheme as it will evolve over time as new opportunities arise.

Daily attention to risk and investments remains second, which links to the expertise offered by a fiduciary provider. Also connected to this is nimbleness, which moved up to third place last year and remains there. This covers both speed of decision-making and speed of implementation. Because fiduciary providers are looking at the investments and overall portfolio on a daily basis, they can react quickly to any changes and capture opportunities as they occur. Trustees typically look at it on a quarterly basis. A fiduciary approach means trustees avoid the delays in the decision-making process and hence missed opportunities that occur without a fiduciary provider in place. Fiduciary managers' ability to continuously monitor the investment landscape, and to make highly-informed decisions is one of the key advantages they can bring to time-pressed trustees.

Our survey also shows that appointing a fiduciary provider offers the benefits of greater diversification. Schemes with fiduciary management are more likely to hold a greater number of asset classes than those without. At Aon Hewitt, our full fiduciary solutions typically give our clients access to 10-40 different investments, diversified across 10 or more asset types, and further diversified by strategy type within assets. In addition, because we only invest in best-in-class, externally-managed funds, our clients get access to a diverse range of the leading asset managers in the industry.

Perceived disadvantages less prominent this year

Consistent with previous years, the main concern noted by respondents was around cost. This is something that we often hear asked both in terms of 'is it more expensive' and 'is it value for money?' This does not have a straightforward answer. Whether fiduciary management is more or less expensive depends on your starting point (ie, what investment portfolio and services you currently have) and where you are looking to get to (ie, what your aim is and what you want to get from your fiduciary solution). In practice, there are some instances where it could be more expensive, and this could be due to the investment portfolio in place rather than fiduciary management being expensive, and others when it is actually a lower-cost approach. After all, cost is the outcome of the solution put in place and can be adjusted to meet your needs.

To help ease this concern, we are committed to providing all clients with complete fee transparency; all fees are charged separately and are fully broken down so that the client can see how much they are paying and to whom. This is something we would urge all other providers to do. Incidentally, it is also worth mentioning that those with a fiduciary solution in place cite cost as less of an issue; perhaps reflecting that they feel they get value for money and better outcomes.

Again consistent with previous surveys, difficulty in comparing fiduciary providers is second on the list. We believe that fiduciary management is a bespoke solution and therefore tailor the exact offering and portfolio to each client's unique needs. Fiduciary solutions both between and within providers will therefore vary significantly depending on the scheme and the range of solutions and services the fiduciary provider can offer. This makes it challenging to compare solutions and the fees being quoted as there could be significant differences between them (for example, depending on hedge ratios, growth/matching split, asset classes used, active versus passive management, flight planning services etc). The most important thing is to look at the overall solution; does it meet your needs and take into account your investment beliefs or preferences; does it offer added value; and will it deliver the outcomes you need net of all costs and fees.

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

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

Finally, one last point worth touching on is that all the main disadvantages (except comparing providers) had less 'votes' this year. This perhaps reflects a slight shift away from some of the negative perceptions of fiduciary management, as it has become more established and schemes are seeing better results under this approach. We would welcome thoughts from you on how we can help overcome the difficulty of comparing providers.

4. Excellent results from fiduciary management

Examining whether a solution delivers the outcomes and levels of satisfaction clients seek is the best test of its success.

As in previous surveys, we asked respondents with a fiduciary manager to rate their experience. Satisfaction with fiduciary management solutions across the entire industry (not just Aon clients) remains extremely high. 98% rate their overall experience as excellent, good or satisfactory. 55% of large schemes (£1bn+) rated their overall experience of fiduciary management as excellent.

Client service is particularly well received, with 50% rating it as excellent, a significant increase from 2015 when 38% said the same. Overall, 98% rate their client service as excellent, good or satisfactory.

96% say the same about the impact on their funding level, with 95% satisfied with the impact fiduciary management has had on their risk controls.

These figures are broadly in line with the 2015 findings; satisfaction with the overall experience and funding level have remained the same, while satisfaction with client service has increased from 97% to 98%. The question about risk controls was not asked in 2015.

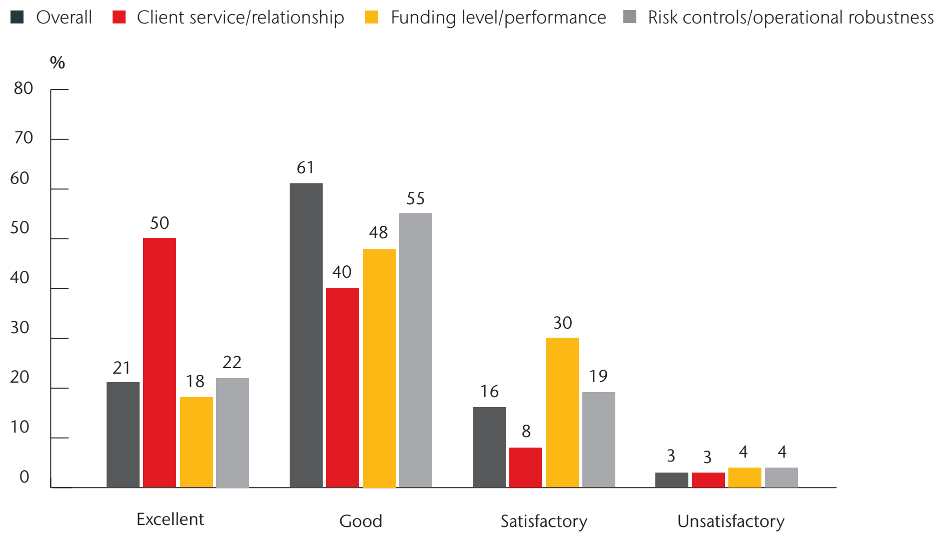
Key finding

98% cite their overall experience as excellent, good or satisfactory; a continued vote of confidence for fiduciary management.

"Security of scheme and sponsor."

Survey respondent quote

Satisfaction with fiduciary management



Number of responses: 85 (excludes 'too early to tell')

"The best solution under the present circumstances for this scheme."

Survey respondent quote

Aon Hewitt perspective

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

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

We believe that fiduciary management is helping many UK DB pension schemes to reach their end-goals, either more quickly or efficiently or with greater certainty, and that it is helping schemes overcome many of the challenges they face. It is therefore very pleasing to see that the survey results, once again, reflect an overwhelming vote of confidence in fiduciary management. Importantly, this is not just in terms of funding level/performance but also their overall view of fiduciary management and the solution in place.

This also corresponds with our own experiences; we regularly receive positive feedback from our fiduciary clients. Particularly during the market turmoil and worries post the EU referendum, our clients have been pleased with the lower volatility that they have experienced versus their previous approach/strategy and also versus the average UK pension scheme.

5. Fiduciary provider selection process

Key finding
Track record and investment experience are the key quality indicators when selecting a fiduciary provider.

Criteria for selecting a provider

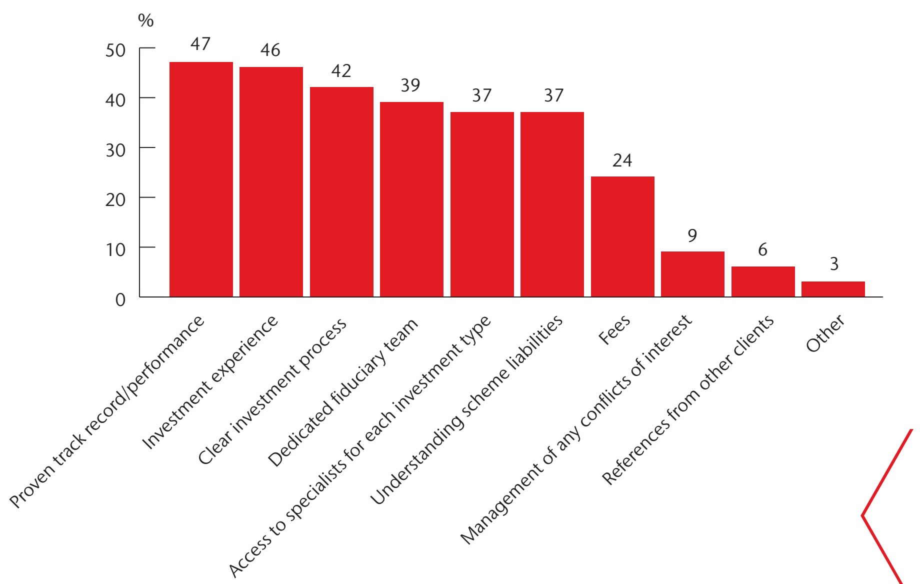
The survey asked what the most important quality indicators are when selecting a fiduciary provider.

A proven track record remains the main criterion; 47% of respondents chose this. This was also top in 2015 and has consistently been the main quality indicator for several years.

Investment experience, with 46%, has overtaken ‘a clear investment process’ since the 2015 survey to take second place. This tallies with responses in other areas of the survey, where fiduciary provider experience – and a contrasting lack of expertise within schemes – is seen as a primary motivator for a move to fiduciary management.

A dedicated fiduciary team and easy access to specialists remain the next most-cited indicators, at 39% and 37% respectively.

Quality indicators



Number of responses: 372

“A way of controlling funding and investment risk.”
Survey respondent quote

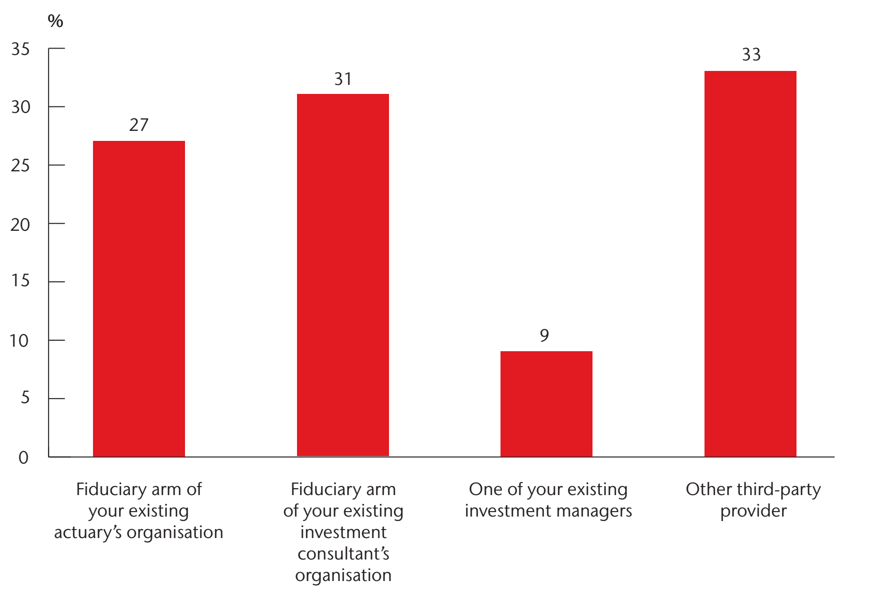
The results vary slightly between different-sized schemes. ‘Access to specialists for each investment type’ is a priority in a fiduciary provider for 39% of large schemes and 42% of medium-sized ones, but just 29% of small schemes. Medium-sized schemes see a proven track record (57%) as a more important quality indicator than do small (43%) or large (37%) ones.

There are also some very interesting distinctions between schemes with a fiduciary provider and those without. Schemes yet to appoint a fiduciary manager see fees (34%) and management of potential conflicts of interest (15%) as key quality indicators, while only 13% and 3%, respectively, of those with fiduciary cite them.

Fiduciary provider preferences

Respondents were asked about the type of organisation they would appoint as a fiduciary provider. 31% would appoint the fiduciary arm of their existing investment consultant, with 27% appointing a fiduciary arm of their existing actuary. 33% would choose another third-party provider, with 9% selecting one of their existing investment managers.

Who did/would you appoint as fiduciary provider?



Number of respondents: 88

Key finding

58% of respondents prefer to use a fiduciary provider linked to their existing actuary or investment consultant.

Aon Hewitt perspective

A proven track record (performance) was once again the leading quality indicator when it comes to selecting a fiduciary provider. Investment experience was rated second, with clear investment process third. Fees remain fairly low down the list in seventh position, and even lower for those that have a fiduciary solution in place. This reflects that while fees are important, there are other more important aspects to consider when selecting a provider.

Although performance has been top of the list for some years, it is not always brought out in practice as part of a fiduciary provider selection process. Linking in with the previous Section and the difficulty of comparing providers, fees are sometimes seen as an easy comparison.

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, and better risk-adjusted returns versus a more traditional portfolio of equities and bonds. Importantly this is all on a net of fees basis.

Relationships are key

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

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

Selection process

A face-to-face approach remains the most popular way to select a fiduciary provider, with 67% using either 'beauty parade' or 'site visit', or both (a calculation based on the responses received). Beauty parades, used by 62% of respondents, remain one of the most-utilised selection processes.

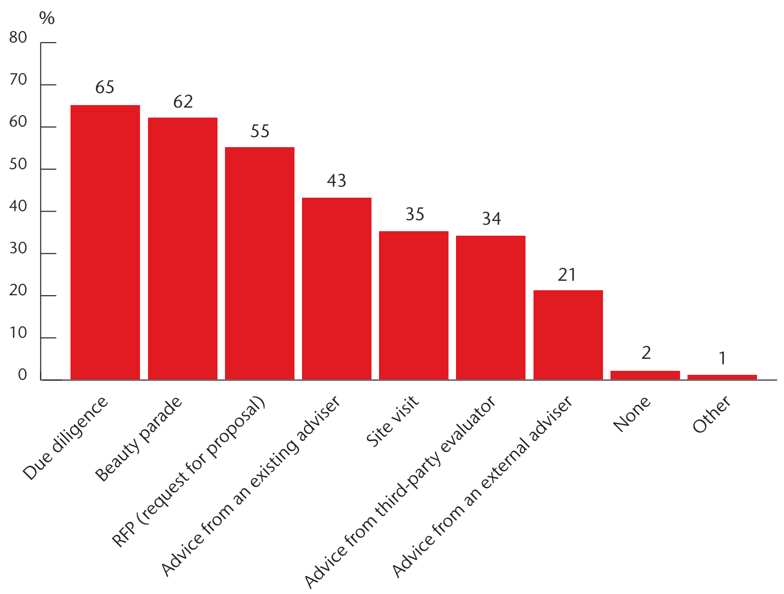
In other areas, the process by which schemes choose a provider has seen some interesting shifts since the 2015 survey. Due diligence (cited by 65%) has overtaken the beauty parade as the most popular way to select a fiduciary manager. With these definitions there is potentially some overlap of interpretation, but what is obvious is the focus on a thorough process.

Schemes are clearly taking the initiative when it comes to provider assessment. While due diligence and requests for proposals (55%) have increased in popularity, schemes are relying less on input from others. 'Advice from a third-party evaluator' has seen a drop from fifth to sixth place in 2016, with 34% (44% in 2015).

Key finding
67% take a face-to-face approach when selecting a fiduciary provider (beauty parade and/or site visit).

"Outsourcing the investment governance and implementation to an agreed level."
Survey respondent quote

Process for selecting a fiduciary provider



Number of responses: 595 (187 respondents)

We separately asked respondents if they would (or did) use a third-party evaluator (TPE) to help them select a fiduciary provider (which differs to the 'advice from' option in the question above). This question shows some interesting results. Of those with a fiduciary provider, 34% said they used a third-party evaluator for the initial selection process. This is the same for small, medium and large-sized schemes.

Of those who are yet to appoint a fiduciary provider, 38% said they definitely would use a third-party evaluator to help them select a provider. 25% of those without, said 'no, never' or 'no, probably not'. Trustees who do not feel confident in undertaking the selection process themselves may take comfort from using a TPE to help them.

This echoes the responses above in endorsing the importance of a hands-on approach to provider selection. Advice from experts is valuable, but cannot replace a scheme's own due diligence research and the need to assess the cultural and personality fit of providers via beauty parades and site visits. This type of first-hand evaluation is unrivalled when it comes to selecting the most appropriate provider.

Investment in external funds preferred to in-house only

The survey asked what investment approach respondents would like their fiduciary provider to take. 73% stated a preference for the use of externally-managed funds or a combination of in-house and external funds. This has increased from 70% in 2015 and 68% in 2014, showing a small but steady increase in the number of schemes who want to avoid investing solely in their fiduciary provider's in-house funds.

Related to this, we asked if there were any conflicts of interest with any of these approaches. 62% of respondents felt that there was potential for conflicts of interest, with the majority citing the use of in-house funds by a fiduciary provider as the area with the greatest potential conflict.

"Close co-operation between trustee and a chosen provider that relieves the trustee of workload whilst not compromising the trustee duties of care and other responsibilities."
Survey respondent quote

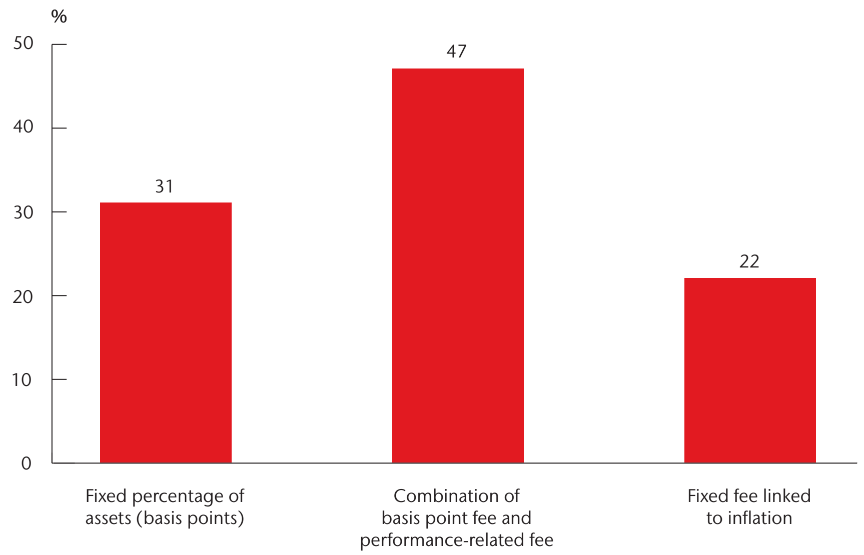
Paying for fiduciary management

As in previous years, when it comes to fiduciary fees, the majority of respondents state a preference for a combination of basis point and performance fees. 47% cite this as their preferred charging structure. This has increased since 2015, when 43% stated the same.

Respondents also state a preference for an unbundled fee structure. This is where all fees related to the fiduciary solution are charged separately, such as the provider and underlying manager fees. 54% prefer an unbundled approach to fees – a marked increase from the 2015 survey, when the figure was 36%.

Still-open schemes and those with partial fiduciary mandates are most likely to be in favour of an unbundled fee structure. 73% of large schemes also prefer to use an unbundled fee structure.

Preferred charging basis



Number of respondents: 116

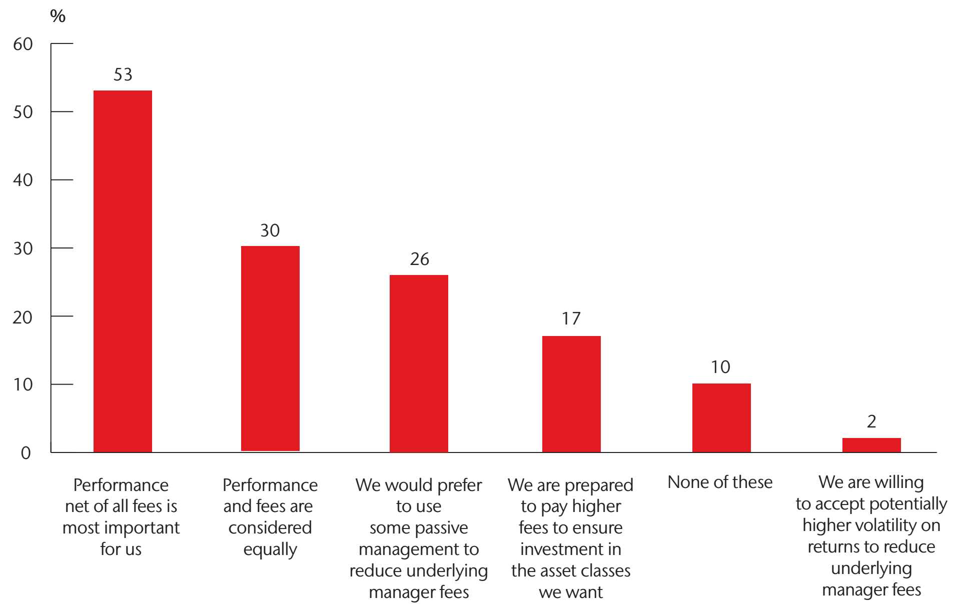
Respondents were also asked how important underlying manager fees are if/when considering fiduciary management. More than half (53%) believe that performance net of all manager fees is the most important thing. Medium-sized schemes feel most strongly about this, with 65% stating a preference for performance net of fees. 44% of small schemes and 49% of large ones say the same.

Key finding

54% prefer an unbundled approach whereby all fees are charged separately. 73% of large schemes prefer this approach.

The largest variation between schemes of different sizes came when they were asked if they were willing to pay higher fees to ensure they were invested in the asset classes they wanted. 23% of large schemes stated this, compared to 17% overall. Of those with fiduciary management in place, 24% agreed with this statement compared to 12% of those that did not yet have a fiduciary solution.

How important are underlying manager fees?



Number of respondents: 206

Aon Hewitt perspective

Rigorous selection process

Fiduciary management continues to gain a lot of attention from the pensions industry for a number of reasons. One of the misconceptions cited is that far too few mandates are being won on a competitive basis, and that clients are being 'flipped' by their investment manager or investment consultant into a fiduciary solution without a full tender process. Both the results of this survey and our own experiences tell us this view is incorrect.

Our survey shows that 62% would/did undertake a beauty parade and that this would be used in combination with at least one other form of selection process. More than half of the respondents would, or did, use an RFP, and there has been a significant increase in the number undertaking formal due diligence. With advice from both external advisers and TPEs falling this year, trustees are clearly undertaking their own rigorous processes, as part of a competitive tender selection exercise.

Trustees are using a combination of processes to make sure that they select both the provider and the solution that is right for them. This makes a lot of sense when considered alongside the concern raised around the difficulty of comparing providers. It is great to see that the vast majority would use face-to-face interaction to help achieve the right result. We are strong advocates of site visits before any decision is made. This gives the trustees a great opportunity to really understand the solution, the systems and risk management. It also gives the chance to meet the people who will actually be responsible for their portfolio, and to get a feel for what it would be like working with the provider. Given that fiduciary management is a trusted and long-term partnership, this is key. At Aon, around 80% of our full fiduciary business wins over the past 24 months have been through a full competitive tender process.

The use of TPEs within fiduciary management is still relatively new and is yet to be fully proven in terms of the value they add (ie does it help generate better outcomes). We are starting to see them being part of more selection processes and this is partly reflected in this survey. For those trustees that do not feel confident running a selection process themselves, using a TPE to help them can give comfort. However, we would urge caution; if appointing a TPE to help with the selection process, we would encourage trustees to remain fully involved and 'hands on'. 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. There are a number of firms entering this area of the market and each has their own challenges to overcome. Just as with fiduciary managers, TPEs need to prove added value, demonstrate transparency and manage their conflicts of interest (which could otherwise prove a barrier for appointment).

Externally-managed funds preferred

In terms of investment approaches, the majority of respondents preferred the use of external, best-in-class funds only, or a combination of in-house and external funds. Consistent with the last few years, respondents deemed investing in in-house funds as having the greatest potential conflict of interest. We believe this is an area that fiduciary providers need to be completely open about. Who is being remunerated and how? 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 if there are any conflicts and, if so, how these are managed or minimised.

Fiduciary management fees

As discussed in Section 3, cost, or fees, is one of the main concerns around fiduciary management. The four component parts of fiduciary management fees that are extremely important to understand and to be comfortable with 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 that you have full clarity on every aspect of these fees.

We offer our clients an 'unbundled' fee structure which means that each of these four component parts are charged, and shown, separately. Clients receive a full breakdown of fees so they know how much they are paying and to whom. 54% of respondents cited this as their preferred charging structure. We also offer our clients flexibility when it comes to the fiduciary provider fee whereby they can choose to have a basis point fee or a combination of basis point and performance/variable fee.

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 a bit more in order to get an even better outcome and be focused on the end result.

As this is an area we have frequently seen debated, in 2015 and 2016 we asked respondents how important underlying manager fees were if/when considering fiduciary management. More than half (53%) said that performance net of all fees was most important. Interestingly, 23% of large schemes said they would pay higher fees to get access to the asset classes they wanted. This is supportive of our view that it is net of fees performance or added value that is most important, and not just at a manager level but the overall cost of the solution. Our experience is that once schemes are comfortable with the solution and understand how the fees are derived, the benefits and added value of a fiduciary solution (net of all fees) mean this is a really attractive option.

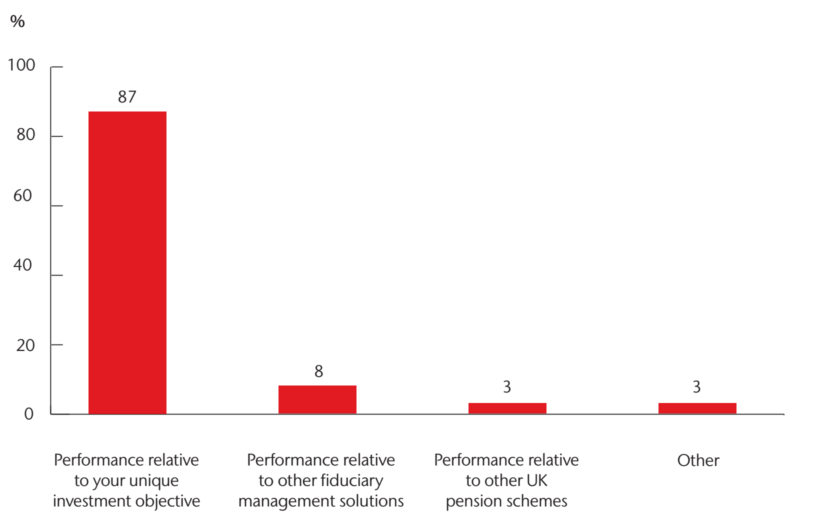
6. Monitoring and measuring performance of a fiduciary provider

Considering performance vs unique objectives

With performance the number one factor when selecting a fiduciary provider, it is interesting to examine respondents' preferences when it comes to measuring their own fiduciary experience.

The vast majority (87%) prefer to measure performance of their fiduciary solution relative to their scheme's unique investment objective. This is rather than in relation to performance of other UK pension schemes or other fiduciary solutions. This has seen a dramatic increase since the 2015 survey, where 69% said the same.

How do you/would you measure the success or failure in performance of your fiduciary provider?



Number of respondents: 120

The preference for measuring performance in this way becomes slightly more pronounced among those who already have a fiduciary solution, where 88% prefer to evaluate success in this way.

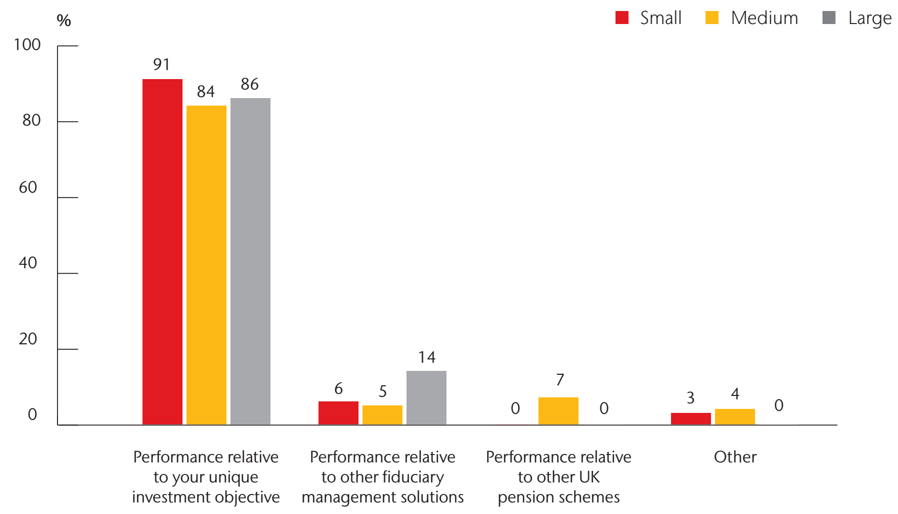
This preference is evident across all scheme sizes and among both open and closed schemes.

> "Ensuring the scheme's assets and liabilities are effectively governed and managed effectively."
> Survey respondent quote

Key finding
87% of schemes prefer to measure the success of a fiduciary provider by comparing performance against their unique investment objectives.

Key finding
91% of small schemes prefer to measure the success of a fiduciary provider by comparing performance against their unique investment objectives.

Measuring performance preferences by scheme size



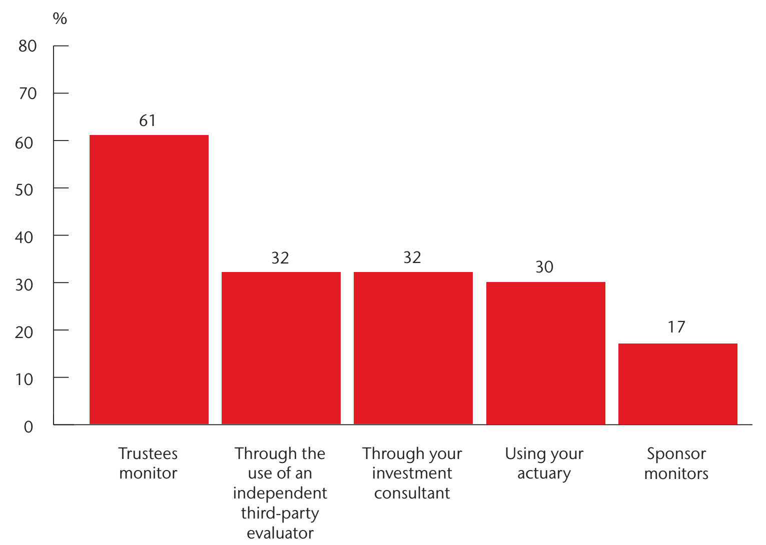
Number of respondents: 120

Monitoring fiduciary management

We asked respondents how they monitor the performance of their existing fiduciary provider (only respondents with fiduciary management in place answered this question).

In the vast majority of cases, monitoring the performance of a fiduciary provider is the responsibility of the trustees (61%). This was also the top answer in 2015. There is general consistency in approach across scheme sizes, although large schemes are most likely to use their trustees to monitor fiduciary manager performance and least likely to use third-party evaluators.

How do you monitor the performance of your fiduciary provider?



Number of responses: 144

Key finding
Nearly two-thirds of schemes use their trustees to monitor fiduciary provider performance.

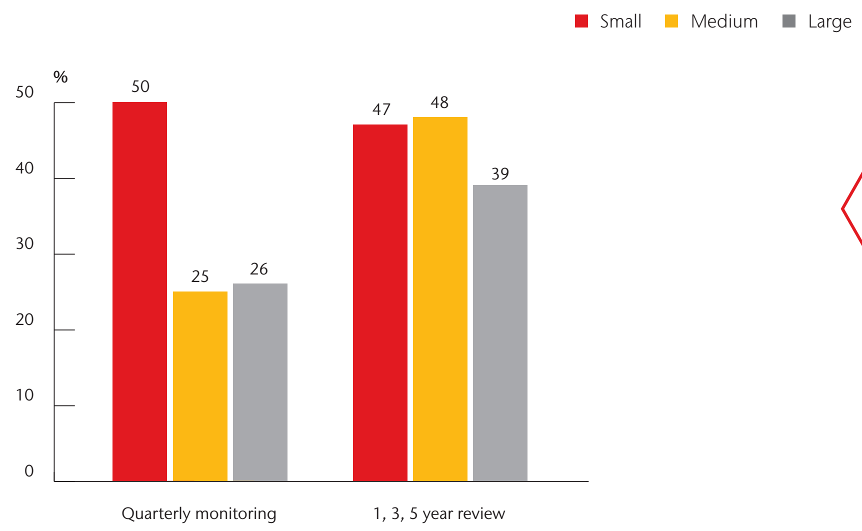
We separately asked about the use of third-party evaluators (commonly known as TPEs) to monitor a fiduciary provider after the initial selection process. We asked how likely schemes were to use a TPE to help with quarterly monitoring and with any future reviews (for example, 1, 3, or 5 year review).

Of those with fiduciary management, 32% said that they use a TPE for quarterly monitoring. 44% said they use one for their 1, 3, or 5 year reviews. Small schemes are most likely to use a TPE for quarterly monitoring: 50% said they would do this, compared to 25% and 26% among medium and large schemes respectively.

Key finding

44% of schemes with fiduciary management would consider using a TPE for longer-term reviews.

Would you use third-party evaluator (schemes with fiduciary management)



Number of respondents: 67

Of those without a fiduciary mandate, only 10% would definitely use a TPE for quarterly monitoring and 28% for their 1, 3 or 5 year reviews. 56% said they would not or would never use a TPE for quarterly monitoring.

Interestingly, among those without fiduciary management, we see the larger schemes more likely to say they would use a TPE for quarterly monitoring. Among those with fiduciary, only 26% are likely to use a TPE to monitor their fiduciary performance.

"Ensuring the scheme is efficiently run for members."

Survey respondent quote

Aon Hewitt perspective

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

When implementing a fiduciary solution, we believe it is important that trustees make sure their provider constructs a benchmark which accurately reflects their precise objectives and their unique liability profile. It is important that performance is shown clearly versus this benchmark and that the trustees have a full breakdown of what is behind that performance. For example, how the performance was achieved in terms of detractors and contributors, the level of risk taken to achieve it and how the risk is broken down. 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.

Performance league tables?

There are some calls in the industry for fiduciary performance league tables of some sort. 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. The proposed methodologies for performance league tables we have seen so far are flawed and so the results could be very misleading. Full disclosure of results, in the right way, is something that we do fully support.

We believe in improved transparency and would therefore suggest taking this a step further. Why limit measuring performance to just those schemes with fiduciary management in place. An industry standard for measuring 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

Not only are trustees taking the lead when selecting a fiduciary provider, they are also taking the lead when it comes it 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. This is without the need to review multiple manager reports with performance versus standard indices. The improved transparency of performance and reporting that many fiduciary providers offer means trustees can focus on the key strategic decisions and overall performance at their quarterly meetings and less on the day-to-day activities.

Based on our survey results, the use of TPEs for ongoing monitoring or reviews seems limited at this point in time. Many TPEs focused their initial efforts on working with trustees as part of a fiduciary provider selection process (see Section 5), and therefore the ongoing monitoring and reviews offered by TPEs are still new and their value yet to be proven. Our experience is that trustees are undertaking detailed reviews of their fiduciary provider typically on a three yearly cycle, with perhaps a light touch review after one year. 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.

7. What are DB pension schemes really concerned about?

For the second year running, we asked respondents to list their two main concerns with regard to their UK defined benefit pension scheme. This was a free text box answer to encourage honest and open views.

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

This survey closed in early June 2016. So while political events and legislation are noted, the seven mentions of 'Brexit' would definitely have been greater had this survey taken place after the EU referendum on 23 June 2016.

Unsurprisingly, many of the concerns and challenges listed correlate closely to the drivers of growth within fiduciary management (see Section 2, page 11) and the key factors in deciding to appoint a fiduciary provider (see page 25).

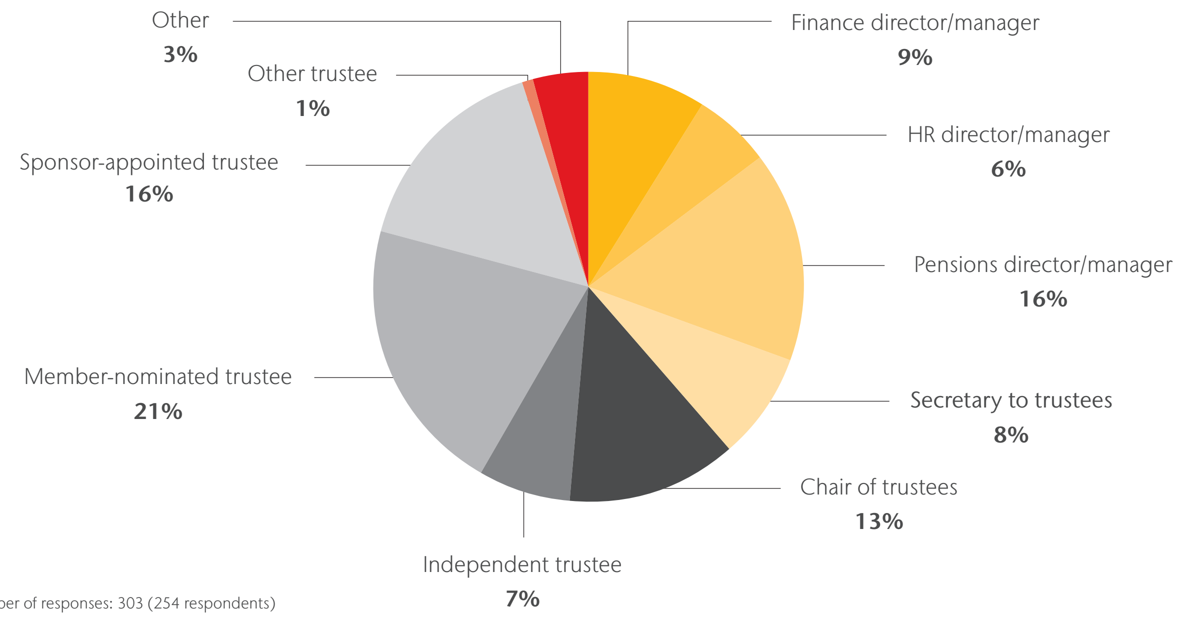
8. About the survey

Roles of respondents

As in the previous surveys, the vast majority of respondents (97%) are pension scheme representatives (as opposed to providers). 16% are pensions directors or managers. 37% hold either member-nominated (21%) or sponsor-appointed (16%) trustee positions.

13% of the respondents are chairs of trustee boards and a further 9% act as secretary to the trustees. 7% are independent trustees. 9% are finance directors or managers and 6% are HR directors or managers.

Roles of respondents

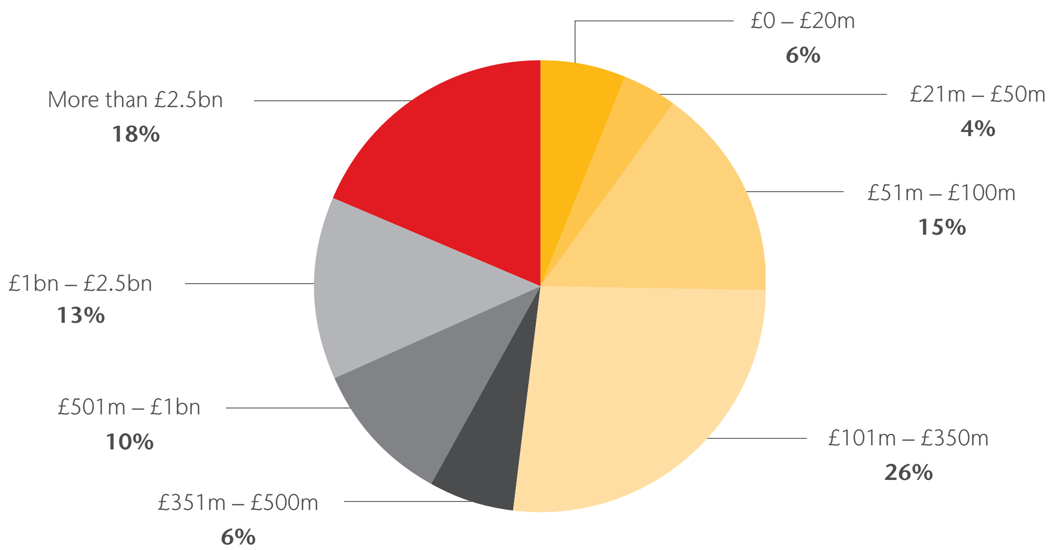


Number of responses: 303 (254 respondents)

Size of scheme

The representatives taking part in the 2016 survey are very similar in terms of scheme size to those participating in previous years. The very largest schemes are more strongly represented in 2016: 31% of respondents have over £1bn in assets, compared to 24% in 2015. Schemes with between £101m-350m in assets make up the single largest cohort: 26% of respondents fall into this category.

Size of scheme



Number of respondents: 303 (254 respondents). Figures may not total 100% due to rounding.

Contact

Sion Cole
Partner and Head of European Distribution
Delegated Consulting Services

020 7086 9432
sion.cole.2@aonhewitt.com

Follow me on Twitter
@PensionsSion

Working in partnership with our clients

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

To talk to us about any of the points we have raised in this survey or to find out more information about our delegated offering, please do not hesitate to contact your Aon Hewitt Consultant or Sion Cole on **020 7086 9432** or at **sion.cole.2@aonhewitt.com**.

aonhewitt.com/delegatedconsulting

About Delegated Consulting Services

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

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

About Aon Hewitt

Aon Hewitt empowers organisations and individuals to secure a better future through innovative talent, retirement and health solutions. We advise, design and execute a wide range of solutions that enable clients to cultivate talent to drive organisational and personal performance and growth, navigate risk while providing new levels of financial security, and redefine health solutions for greater choice, affordability and wellness. Aon Hewitt is a global leader in human resource solutions, with over 35,000 professionals in 90 countries serving more than 20,000 clients worldwide. For more information on Aon Hewitt, please visit: **aonhewitt.com**

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Registered Office:
The Aon Centre
The Leadenhall Building
122 Leadenhall Street
London EC3V 4AN

aonhewitt.co.uk/delegatedconsulting

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