



2016 KPMG UK Fiduciary Management Survey

Investment Advisory



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Fiduciary growth and its impact

Another year of growth reflects continued appetite for Fiduciary Management services from pension schemes. But for UK pension schemes as a whole there are positive and negative sides to this success story.

Increasingly the decisions Fiduciary Managers make will make a difference not just to their clients but to everybody else too.

Using data collected for this survey, we estimate that in aggregate Fiduciary Managers have implemented over £50bn of interest rate hedging on behalf of their clients. As more schemes move to Fiduciary Management this number will continue to grow, potentially creating more demand for hedging assets such as gilts, even as prices reach record highs. This matters for all pension schemes.

Another aspect to consider is concentration risk. A Fiduciary Manager's ability to move fast is often valued by their clients: when it works well money can be moved away from a struggling fund before poor performance sets in. However in some cases this ability to move lots of money out of a fund quickly can have a destabilising effect on the fund, particularly in less liquid asset classes. This can cause problems for other investors.

These investment dynamics are not new but the continued success of Fiduciary Management may exacerbate them.

Tough questions. But we think that a well-structured Fiduciary Management mandate – with independent oversight – can meet the challenge.

Background

The survey results presented are based on the responses we received from 13 of the more established Fiduciary Managers operating in the UK market, with data as at 30 June 2016

Aon Hewitt	Mercer
BlackRock	Kempfen
Cambridge Associates	P-Solve
Cardano	Russell Investments
Charles Stanley Pan Asset	SEI
Goldman Sachs Asset Management	Willis Towers Watson
JLT	

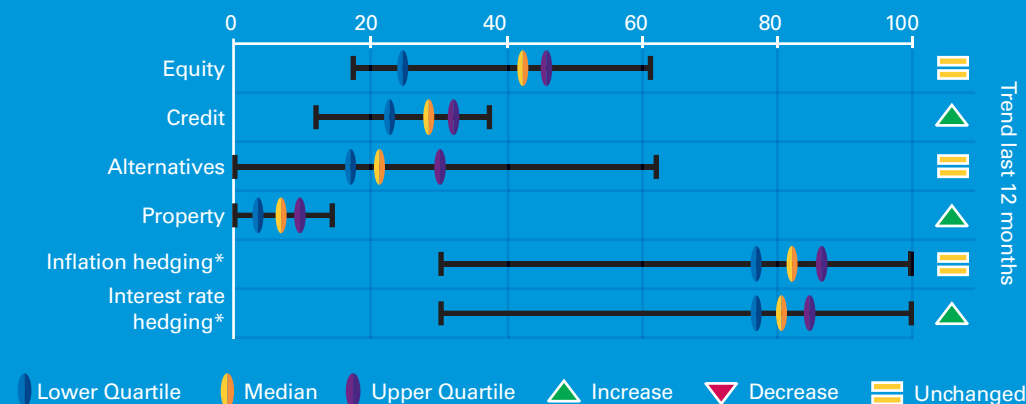
We thank each provider for their input in this exercise. We have relied on the information provided to us by the Fiduciary Managers as being correct.

What are Fiduciary Managers investing in?

We asked each of the fiduciary providers to put forward their central strategic asset allocation for a pension scheme targeting a reasonable return (but with no other constraints on investment strategy).

We have summarised the median and range of responses below, and also the trends in median over the past 12 months.

Central strategic asset allocation



Three things strike us most forcefully:

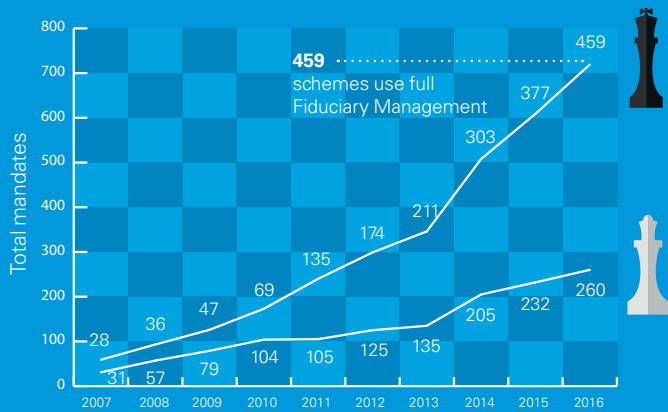
- 1) Most are using equity to drive investment returns. This implies that a majority are reasonably optimistic about the prospects for financial markets over the longer term.
- 2) There is a wide range in the way that providers have suggested achieving the target return, reflecting the difference in areas they believe are attractive. This demonstrates how, for the same client, the asset allocation could look very different depending on the provider selected.
- 3) Almost all advocate a high level of interest rate and inflation hedging. This may mean a greater demand for UK government bonds from pension schemes, even at historically low yield levels, as Fiduciary Management grows.

Note: *Expressed as a percentage of assets – all Fiduciary Managers propose the use of leverage to hedge a higher amount with fewer assets.

2016 Highlights

Market size

Continued growth in the number of mandates

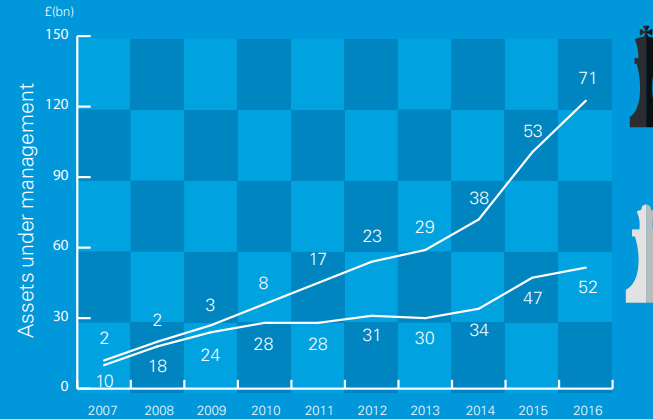


Note: Some providers restated 2015 figures

719

Total mandates in the UK

Continued growth in assets under management



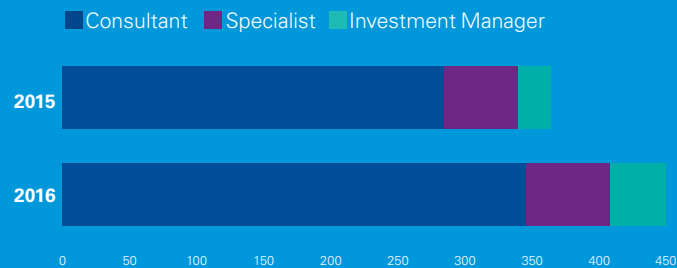
Note: Some providers restated 2015 figures

£123 billion

Assets under Fiduciary Management

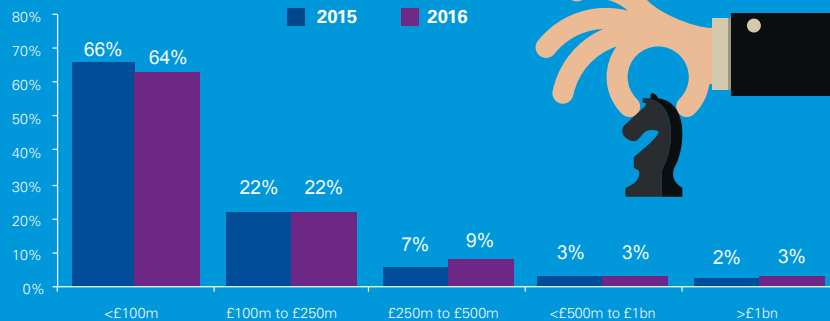
Number of mandates by type

"Consultants" continue to provide the majority of mandates

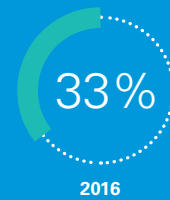
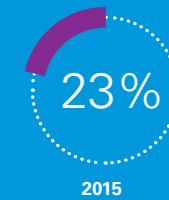


Market breakdown

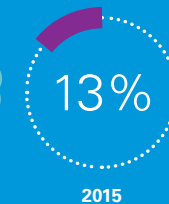
Proportion of Full FM Mandates by Size



Independent advice



of new appointments this year were advised by an independent third party



of schemes use an independent provider to monitor their FM mandate

We believe all schemes would benefit from independent oversight of their Fiduciary mandate

Source: Fiduciary providers and KPMG calculations.

Additional Notes: Unless labelled for full or partial mandates, data/comments are shown for full FM mandates only. Where data was not available for a specific question from a fiduciary manager, this manager was excluded from that part of our analysis. This is not expected to have a material impact on the figures.

Is Fiduciary Management right for me?

We have put together six simple questions which Trustees can ask themselves in considering whether or not Fiduciary Management is right for their schemes:

1. If you had more **time**, would your portfolio look different?
2. Has recent investment **performance** been below expectations?
3. Does your investment strategy feel too **simplistic**?
4. Do you feel like you are missing out on new **investment ideas**?
5. Do you feel you lack **control** of your scheme's investments?
6. Do you feel uncomfortable with the investment **decisions** you are being asked to make?

If you answered "yes" to any of these questions, this can indicate that your investment decision making structure is not working as well as it could do. Here at KPMG we can help you determine whether Fiduciary Management – or another lighter touch option – is the right solution.

KPMG Fiduciary Management Services – where does KPMG fit in?

KPMG are experts in the provision of independent advice on a wide range of aspects of Fiduciary Management, including:

Governance Assessment

Helping Trustees decide whether or not FM is appropriate, and if so which governance structure is right for them

Fiduciary Manager Selection

Providing advice throughout the process, from setting criteria to assisting with selection exercises.

Mandate & Guidelines Set-up

Setting up a mandate correctly is crucial to agree what the FM provider can and cannot do. We help Trustees design the framework against which to measure their provider.

Ongoing Monitoring & Reporting

Help Trustees get the most out of their manager by independently checking its progress against objectives, providing independent challenge where necessary.

One-Off Reviews

Assess the manager's progress since inception, and provide insight into its capabilities.



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