

Unique Challenges Facing Mid-Market Plans



Trust and Confidence:
**Addressing The Fiduciary
Burden Of Mid-size Plans**

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Addressing The Fiduciary Burden Of Mid-size Plans



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A fiduciary duty is the highest standard of care at either equity or law. An individual placing their utmost trust and confidence in you to manage and protect property or money makes you that fiduciary.

For plan sponsors, investment committees or boards of trustees, this relationship is all too real. You have accepted the confidence of your plan members to protect their pension, but the game is changing, and suddenly that fiduciary responsibility might seem like a heavy burden. New pressures exist today that were not present twenty years ago. And those pressures increase for fiduciaries of mid-sized pension plans.

All investors face the continuation of a low interest rate environment, on-going market volatility and ever more complex market risks to manage, yet the need to find appropriate investment return has never been higher. Investors must make the assets work harder, while still controlling risk effectively.

There exists an increasingly complex array of asset management tools and products, yet mid-sized plans are likely also facing an increased emphasis on cost management. Many organizations face cost constraints and administrative cut-backs, while others have to retool after staff retirements and organizational change through mergers and acquisition. Experience, staff and history leave the building not always to be replaced.

Unlike large pension plans that have full departments dedicated to the management of the pension plan, fiduciaries in mid-sized plans likely also have a day job. With some knowledge of pension law, pension plan funding, setting an investment policy, choosing and monitoring an investment manager, plus an awareness of regulatory changes and complex investment opportunities, these plan sponsors are being asked to do more with less in increasingly demanding times.

The increasing range of options available for invest-

ment and risk management, increasing regulatory complexity and oversight makes it virtually impossible to for a lay plan fiduciary to keep on top of all things at all times.

Understanding the issues, taking the appropriate actions in a timely manner, balancing the needs of all the stakeholders and accruing a level of technical knowledge is becoming an ever-increasing challenge. Indeed, delivering a pension promise has never been more difficult for plans that do not have large teams of dedicated resources. As a result, more sponsors of mid-sized pension plans understand that there are better ways to run their core business, while delegating those areas where internal resources and knowledge are strained. One solution that is gaining in popularity is to hire a fiduciary management partner, otherwise known as an OCIO ("Outsourced Chief Investment Officer").

Many sponsors perhaps, see outsourcing as a giant leap. But unless you are already picking individual stocks on behalf of the company's pension plan, you are likely using an investment manager and, in fact, already outsourcing. The concept of a fiduciary management solution simply takes this a little further.

Thoughts of losing control, higher costs, diminished internal responsibility and quality of product are common objections to "outsourcing". However, with the right approach and right provider, such concerns are rarely justified. Remember that effective out-sourcing, is merely re-assigning a task and a delegation of some of your day-to-day duties.

In practice, a fiduciary burden can be shared with a fully aligned co-fiduciary, costs are managed, control increased and expertise imported into the sponsor's team. Fiduciary management helps organizations by providing an integrated holistic solution. The solution incorporates advice on the setting of an appropriate investment strategy, the construction and dynamic management of a well-diversified portfolio built around the plan's goals, objectives and risk tolerance, as well as the implementation of that portfolio. Such implementation would typically include the selection, appointment and implementation of third party asset managers, continuous oversight and management of the asset managers. The provider would also help maintain documentation and regulatory filings such as an investment policy statement, revisiting each component of program as needed through the continuous management and liaison with the plan sponsor.

It is important to note, that the plan sponsor is not

ceding all control to the OCIO provider. The OCIO, or fiduciary manager, will act as an advisor to the plan in strategic matters, but the over-all control in those strategic decisions often stays with the client. For example, an OCIO will perform an asset-liability consulting exercise based on the sponsor and plan's goals and objectives, but the ultimate approval of any investment policy recommendations from the study remains with the client.

Typically, the pension committee will refocus its efforts on more strategic issues, rather than spending a periodic committee meeting on the minutia of the portfolio. By retaining control of the strategic elements and delegating the day-to-day control to a provider who monitors in real-time, the committee enhances control over its investments by using a full time fiduciary manager.

Because a fiduciary manager acts in similar capacities on behalf of many clients, its ability to negotiate better manager fees on a larger pool of combined assets should allow the mid-sized pension plan to participate in economies of scale. This pooling also benefits in terms of product. An OCIO provider can provide access to many different asset classes, allowing the plan the implementation of a more sophisticated and risk controlled solution than would otherwise be available on a stand-alone basis.

As ever, selecting any advisor or partner can be daunting. Sponsors should ensure that their provider can fulfill

its claims and promises. Does the potential partner have qualified and experienced personnel to provide strategic advice? Does each candidate have proven investment consulting and portfolio implementation capabilities? Does the firm have global and local resources & understanding? Is the firm's core focus on investment structure, research and implementation? Is the fiduciary manager / OCIO offering core to their business and their beliefs?

Because the pension plan sponsor is outsourcing functions that are not core to their business, they need to ensure that these functions are core to the ultimate provider (e.g. high proportion of total revenues from OCIO sources). Does the provider fully acknowledge and accept its role as a legal co-fiduciary partner?

An appropriate provider will learn about the nuances of the pension plan, your needs as a sponsor and your beliefs as a firm. They will be a trusted advisor and partner, who can both advise on strategic matters, relieve the day-to-day headaches of implementation, maintenance and oversight, while providing real-time control.

Cost efficiency, risk control, sophisticated implementation, operational efficiency and an increased ready access to intellectual capital are the some of the benefits a mid-sized pension plan can find in an OCIO implementation. The result is a co-fiduciary partner fully aligned to your mission. ♦



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