Is your fiduciary manager still getting to know you?

In today's environment, an increased number of schemes are seeking a fiduciary management (FM) partner to help navigate volatile markets and achieve their key investment objectives - to manage liability valuation risk, synchronise cashflows, and achieve required returns. As the fiduciary management landscape continues to develop, it is important to work with the right partner in order to achieve your goals. At Russell Investments, we always put clients' needs first – by recognising that each of our partnerships are unique. This is why we firmly believe in Russell Investments iFM - fiduciary management that is precisely tailored to your scheme's individual circumstances.

Do they understand your unique needs? Do they listen first? It's time to look closer.

The relationship between the client and provider is what we often call the 'human element'. Although sometimes hard to quantify, it is easy to qualify. The FM provider that you partner with should deeply understand your goals, your journey plan and your trustee board culture, in order to decode your scheme's individual fingerprint.

We believe that the most important initial step to building a solid partnership is the provider's ability to listen first. This enables the FM provider to truly understand your unique cashflow and liability fingerprint, and design a strategy fully tailored to you and your scheme's end goals.

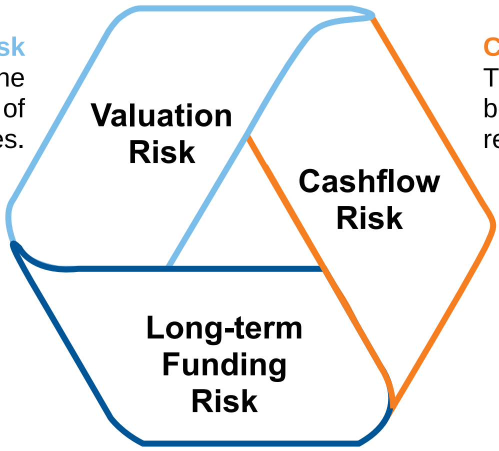
Valuable client interaction also requires an understanding of how the client would like to be communicated with. It is also critical to understand how much information trustees may require in order to make long-term strategic decisions.

Translating your objectives into an investment strategy

We often observe that many schemes tend to be invested in products that fit the provider's standard model - rather than representing a customised solution. The Russell Investments iFM approach means that we seek the feedback of every individual trustee, the company and the actuary. Then we work together to solve the key challenges.

For most schemes, the primary objective is to pay members' pensions as they fall due. This can be achieved by either running off the scheme's assets or completing a buy-out. We translate these overarching goals into strategy by helping schemes manage three key risks, described below:

Valuation Risk
This is the variability of the market to market value of the assets and the liabilities.



Cashflow Risk
This is the ability to meet benefit payments through reliable investment income.

Risk of Insufficient Returns
This is the risk that the portfolio generates insufficient returns over the long-term to meet the benefit payments.

This document contains marketing material about our fiduciary management service. This document does not represent impartial advice on this service. In certain cases, you are required to conduct a competitive tender process prior to appointing a fiduciary manager. Guidance on running a tender process is available from the Pensions Regulator.

The above three risks are interlinked. A strategy that targets a higher return reduces the risk of insufficient returns but may expose the trustee to excessive valuation and cashflow risk. We design your strategy by optimising the portfolio for these risks, taking into account the role that different assets can play.

For example, equities and higher-yielding fixed income play a valuable role in generating returns above liabilities, but do not contribute significantly towards hedging liability valuation risks. Conversely, investment-grade credit can contribute to managing risk across all three dimensions.

We believe that considering a total portfolio holistically will enable your scheme to more efficiently meet all your objectives.

Strategy customisation in practice

Many pension schemes face outgoings that exceed their income. This often forces them to sell assets in order to pay pensions. In a crisis such as we saw in the first quarter of 2020, schemes can find themselves selling growth assets at the bottom of the market and incurring high transaction costs. This is why we help clients invest in assets that generate known future cashflows that have a high likelihood of materialising. These assets produce dependable income that complements sponsor contributions and helps to ensure our clients' cashflow needs are fully met. The income from these investments is not subject to exit spreads, while their 'duration' supports effective management of the valuation risk.

While clearly attractive, high quality corporate bonds yield a relatively small premium over gilts. This means that many schemes can't afford to divert assets from their return seeking portfolios - otherwise, they face the risk of earning insufficient returns. For these clients, we usually advocate investing in private credit. While the income is less predictable than for high quality corporate bonds, private credit can fulfil the dual role of generating returns and earning income, often in the order of 4-5% per annum.

For any investment you make, it is critical to understand how it interacts with other areas of your portfolio. The introduction of private credit can increase illiquidity risk and the credit risk, resulting in the need to adjust the composition of your return seeking assets.

These connections, and the resulting income movements, need to be closely managed at all times and clearly communicated back to Trustees.

Customised governance – one size never fits all

If you wish to retain your current adviser, the fiduciary manager should be flexible enough to accommodate that preference. Your adviser would continue to help you set the high-level strategy, with the fiduciary manager then taking full accountability for implementing that strategy.

Furthermore, your fiduciary manager should also fully understand the Trustee requirements and beliefs around Environmental, Social and Governance (ESG) factors. All trustees are on an ESG journey, as risks and opportunities emerge whilst regulatory and societal obligations change. Your FM provider should be fully committed to supporting the Trustees on this journey.

Fiduciary management should never be a one-size-fits-all product. Done correctly, FM is individualised. Your plan is unique, isn't it? Then it is time to demand an FM solution that is customised to your needs.

For more information

Call Russell Investments at **020 7024 6000** or visit russellinvestments.com/uk/campaigns/ifm

Important information

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Investments in private market securities are generally illiquid as such investments are neither tradable on any exchange or in the secondary market nor would they be transferrable.

Some investments/bonds may not be liquid and therefore may not be sold instantly. If these investments must be sold on short notice, you might suffer a loss.

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