Is your fiduciary manager telling you the whole picture?

Communication that evolves with your needs

Pension trustees have faced significant challenges in 2020. In a volatile and unpredictable environment, they were asked to continue to be effective stewards of their pension schemes.

An old phrase tells us that 'a workman is only as good as his tools'. In this article we discuss what tools trustees needed during 2020 to help them navigate through the uncertain market environment. Whilst those schemes who have adopted a fiduciary management approach will likely have fared pretty well, we believe that within the wider industry many trustee boards will have felt like they were flying in low visibility conditions without adequate controls to get them back on track.

In order to make effective decisions, we believe all trustees should have access to accurate and fresh data about their investments. At Russell Investments, our fiduciary management team monitors funding levels in real time, with full transparency of all the underlying holdings and associated risks.

Russell Investments' unique iFM approach helps pension schemes in two ways: firstly, it facilitates proactive client service, with timely and tailored updates to trustees. Secondly, it enables trustees to use real time data to make better decisions.

Does your provider have access to the relevant data?

The majority of trustees will receive a quarterly report from their fiduciary / investment managers. Some trustees even have access to online tools that estimate their current funding level.

However, not many pension schemes realise that these calculations are often based on stale data, using their custodian's valuation as at the end of the previous quarter. For example, for a trustee update on 17 November, many fiduciary providers will use data as of 30 September, rolled forward using six weeks of index performance.

To avoid this issue, we hire investment managers through segregated accounts and only work with LDI managers who price their funds each day. This daily feed into our proprietary systems enables the fiduciary management team to make more timely and informed decisions on:

- When to de-risk
- What to de-risk into – considering growth portfolio exposures and valuations of all permissible asset classes
- The optimal level of LDI leverage at any point in time – considering interest rate exposure across the entire portfolio

From data to proactive service

Once live, the data needs to feed into tools and systems that are custom-made for pension funds as unique as your own.

Your fiduciary manager should start each day by checking how your individual circumstances are developing: your funding level position, leverage, asset allocation of the growth portfolio, as well as considering any upcoming pension payments or scheme specific events.

When financial markets encounter a volatile period, similar to what we saw in the first half of 2020, our fiduciary management team use this daily data to manage your risks. Furthermore, clear communication between the fiduciary manager and trustee is integral.

Keeping clients fully updated is part of our culture, our DNA. During the first half of 2020, we had on average 15 touch points with our clients. This included calls, webinars, regular market updates and individually tailored emails and reports. As we previously mentioned, during high levels of market disruption, some trustees have been flying with low visibility. We believe that the right fiduciary partner should have the cockpit controls to enable effective navigation through any turbulence that may occur.

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.

CASE STUDY: Client perspective proactivity

Clients place high value on open lines of communication. We wanted to illustrate this with a couple of unsolicited client quotes about their experiences during the challenging market environment in early 2020.

“Thank you very much for the update. I just wanted to express my delight (and heart-felt relief) at how well the asset position appears to have held up, no doubt due to the investment strategy that you have devised for us. Given the turmoil in the markets, I couldn’t possibly wish for a better outcome and feel much better about the likely position for the rest of this on-going trauma. A huge number of brownie points for the work of you and all of your colleagues at Russell Investments”. *Trustee, Health Care Sector Pension Scheme*.

“We all participated in the webinar and were encouraged to hear all the moves made in advance [of the market downturn], Japanese yen and reduced equity exposure, then the move to Aussie bonds and buying/selling of risk etc. These are the sort of tactics we hoped for when moving to fiduciary management. Thanks for taking the initiative, with a customised rather than a generic update. Yesterday we had a trustee call and whilst not exactly celebrating the situation, we were very happy that we engaged with Russell Investments last year to deal with volatility like this.” *Trustee, Manufacturing Sector Pension Scheme*.

What is the right level of reporting?

This could have easily been the final question on ‘Who Wants to Be a Millionaire’. And the correct answer would have been E – it depends.

We believe that no pension scheme is the same. Trustees have their own way of viewing the world, preferences and way of working. The reporting has to be tailored to each board’s unique culture.

What does this mean in practice?

Most trustees prefer to receive a high-level summary of key points. It is often a one-page dashboard that summarises the change in the funding level, and the drivers of that change. The next level of detail usually involves the breakdown of the return at the total portfolio level – how well the liabilities were tracked, what the return-seeking assets delivered, and a summary of pension payments being made.

From here, the detail can easily become overbearing. Your fiduciary partner should not send you a 50-page report full of jargon that then requires a five-page glossary of terms.

The fiduciary partner should instead work together with trustees to agree the optimal level and frequency of reports that the trustee board can understand and, when necessary, act upon. We customise each client report based on their exact requirements.

Adapting to the new normal

We have observed that the move to digital meetings has changed how many trustee boards operate. The once rigid and exhausting dynamic of full-day meetings has now evolved to be much more flexible and accommodating.

Meetings are becoming more focused, broken down into digestible topics and spread out through the quarter as opposed to all on one day. Your fiduciary manager needs to adapt to this new world by offering you accurate and timely updates in a succinct and informative way.

How important is fee transparency?

We are often surprised by the number of pension professionals that do not have a quick answer to what should be a simple question – ‘what fees do you currently pay?’

Maybe we expect too much. In our mind, every fiduciary manager should send their clients a quarterly update with two key figures – the cost of hiring investment managers (who are tasked with buying securities on the client’s behalf), and the fiduciary manager’s fee. Two figures that should be easily accessible and simple to report.

Why is this not always the case? There is no clear explanation. Some fiduciary managers select themselves as an active manager or choose their in-house team to manage the clients’ LDI portfolios. That can make the fees unnecessarily opaque.

At Russell Investments, clients receive a quarterly report that specifies a very simple breakdown of fees. We hope our peers will follow suit to help clients check that the fees they are paying are not only competitive but provide good value for money.

Bringing it all together

We often hear that what gets measured, gets managed. That statement rings very true when applied to pension scheme management.

At Russell Investments, we know that having access to accurate daily data feeds is the only way to truly understand what risks our clients are facing.

With this visibility, we can manage those risks and keep clients up to date. In the new world of more frequent digital trustee meetings, we are enabling clients to make quality decisions and to review our actions with full transparency.

This is why we designed Russell Investments iFM – fiduciary management that is precisely tailored to your individual scheme’s communication and reporting preferences.

For more information

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

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