IC SELECT
Focused on Investment Governance

September 2021

Fiduciary Manager Survey

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Executive Summary

Welcome to the latest survey of the UK's fiduciary management market conducted by IC Select. This is the first time we've published findings from our annual surveys, and we hope they contain useful insights into unfolding trends in the sector. This report draws on analysis contained in previous surveys as well as our most recent survey to give a broader picture of the fiduciary management market extending over five years, and in some instances longer.

For this survey, we set out to deepen our understanding in four main areas. We looked at changes in the size and composition of the market over the last five years; we analysed the retendering process for fiduciary management contracts following the reforms introduced by the Competition and Markets Authority (CMA); we assessed how strategic advice is provided for fiduciary management clients; and we looked at the provision of oversight by size of scheme.

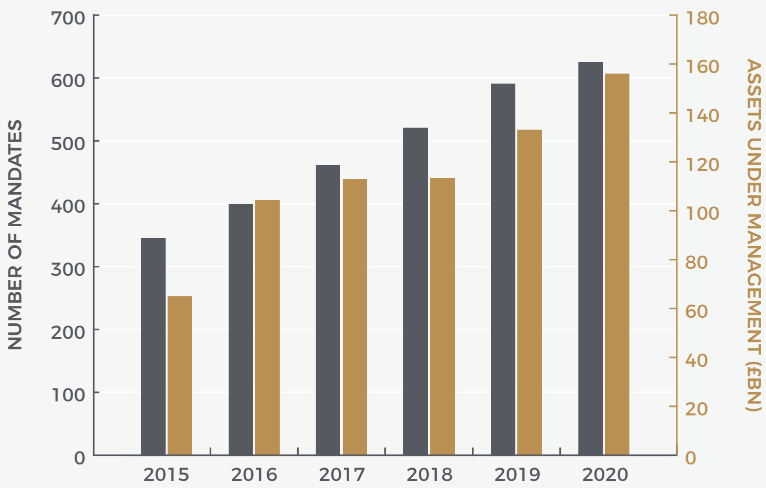
Our main findings were:

- The UK fiduciary management market has almost doubled in size (+96%) by number of funds over five years; by assets under management the market has grown by 170%;
- The vast majority (78%) of CMA contract retenders were won by incumbent providers;
- Relatively few (10%) schemes that use fiduciary managers receive strategic advice from a third party;
- Only a minority of schemes (31%) commission independent oversight, despite encouragement from The Pensions Regulator.

Methodology

Participants in the survey were sent detailed questionnaires. The data are based on their responses as at 31st December 2020 and updated to 30th June 2021. Data from annual surveys dating back to 2015 were also incorporated. Some 17 fiduciary managers took part in the survey. We would like to thank the following for their participation: Aon, BlackRock, BMO, Cambridge Associates, Cardano, Charles Stanley Asset Management, Goldman Sachs Asset Management, Kempen, Legal & General Investment Management, LGT Vestra, Mercer, River and Mercantile, Russell Investments, Schroders, SEI, State Street Global Advisors and Willis Towers Watson.

Total Fiduciary Manager Mandates



Source: IC Select FM Research Universe

96%

growth over five years in UK fiduciary management market by number of funds

170%

growth in five years by assets under management

The UK fiduciary management market has grown by 14% per year by number of clients over the last five years and by 22% per year by assets under management over the same period.

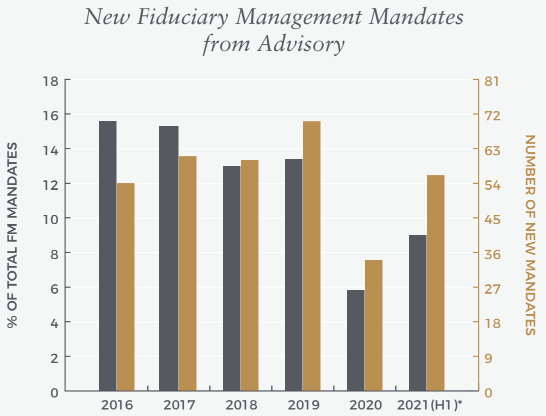
Two factors have driven the growth in the value of assets under management overseen by fiduciary managers:

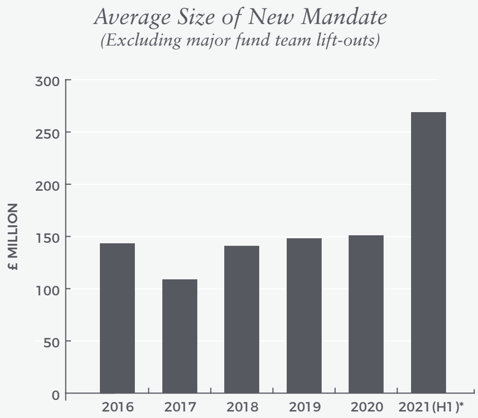
1. An increase in the number of schemes converting from advisory to fiduciary management;

2. A rise in asset values over the five-year period. For schemes with a full liability hedge, asset values could have grown by between 5% and 10% per year; growth at schemes with long-dated liabilities is likely to have been significantly higher.

Note: The historic data does not include any clients of JLT Group, now part of Marsh & McLennan Companies. Our view was that the company's client base did not represent true delegated fiduciary management services.

Growth in Fiduciary Management Mandates





*2021(H1) is annualised | Source: IC Select FM Research Universe

Over the five years to 2019, the number of pension schemes converting to fiduciary management remained broadly stable at around 60 schemes per year. Due to the increasing number of schemes using fiduciary managers, that led to a slight fall in the comparable growth rate of new schemes.

However, with the onset of Covid-19, the number of schemes making the change to fiduciary management declined significantly in 2020, as trustees had to adjust to new ways of working while responding to the issues raised by the pandemic.

The rate of schemes converting largely recovered during the first half of 2021 as the workloads of trustees began to return to more normal levels. This was despite the considerable strain placed on fiduciary managers as a result of having to respond to the CMA's new guidelines on retendering. It might also be a reflection of the Covid crisis, as trustees reviewed their governance arrangements to make them more robust against future crises.

There has been a dramatic increase in the size of schemes converting to fiduciary management. During the first half of 2021, the average size of a converting scheme increased by £120 million, or 79%, to £270 million. This follows several years where the figure was relatively stable at around £150 million.*

45%

fall in the number of schemes converting from advisory to fiduciary management in 2020

79%

increase in the average mandate size of schemes converting to fiduciary management in 1H 2021

*We have excluded from our figures for average scheme size the funds of two large schemes that have recently transferred to fiduciary management from management by an in-house team. Had their combined assets been included in the analysis, then the average scheme size would have increased to more than £1.3 billion.

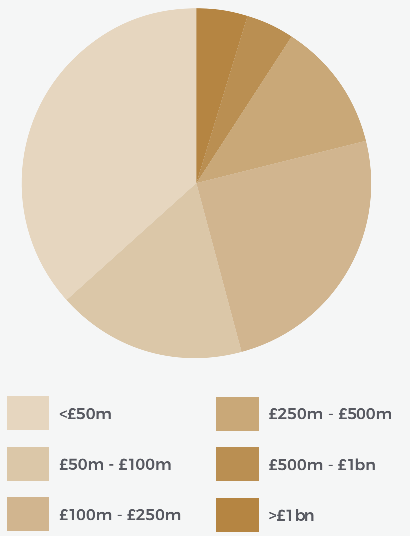
Fiduciary Management Mandates by Size

The fiduciary management market remains dominated by smaller schemes. Just over half, or 54%, of schemes by number have assets of less than £100 million and more than a third, or 37%, have assets below £50 million.

However, assessed by assets, more than half, or 58%, are in schemes with more than £500 million in funds under management. Schemes with more than £1 billion in assets under management represent 46% of the total for the fiduciary management sector. By contrast, schemes with less than £50 million in assets contribute less than 4% of the total.

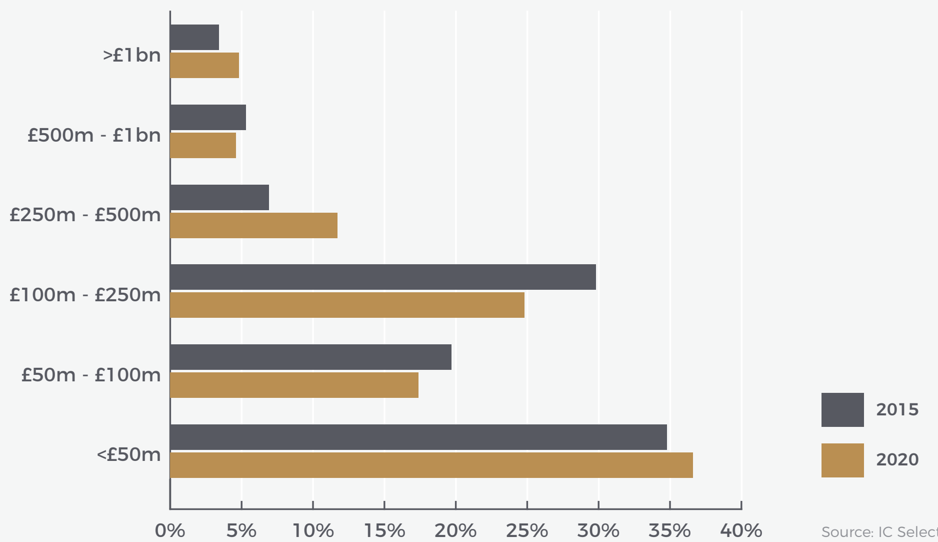
Despite a near doubling in the number of schemes using fiduciary management in the last five years, there has been little material change in the structure of the market when these schemes are grouped by size.

2020 Mandates by Size



Source: IC Select FM Research Universe

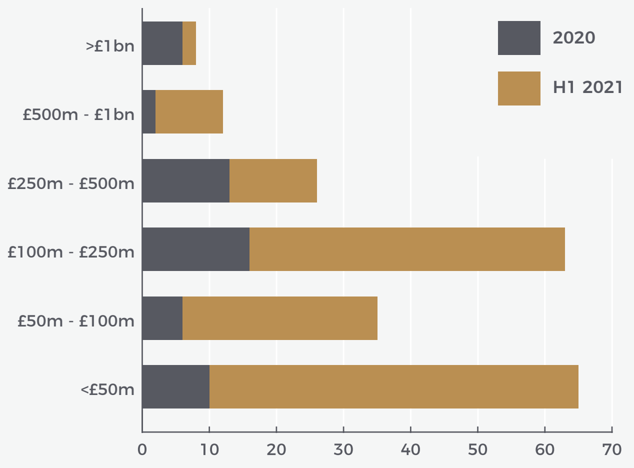
% of Fiduciary Management Mandates by Size 2015 vs. 2020



Source: IC Select FM Research Universe

CMA Retendering

Number of CMA Retenders by Size



Source: IC Select FM Research Universe

209

CMA retenders have been completed as of June 2021

78%

of CMA retenders have been retained by incumbent firms

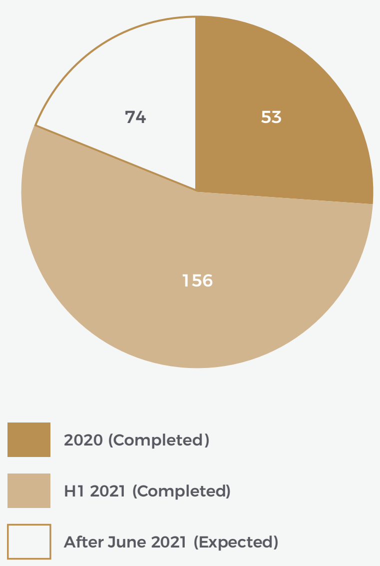
Schemes that had entered into a fiduciary management agreement without conducting a competitive tender were required by the CMA to complete a competitive tender process by the later of 9th June 2021 or five years from the date of entering into the arrangement.

Most of these retenders were for schemes with less than £250 million in assets under management. Only 22% had assets that were higher.

Of the CMA retenders completed by 30th June 2021, the vast majority, or 78%, were retained by the incumbent provider.

Having completed 209 retenders in the last 18 months, it is now estimated that there are a further 74 CMA retenders that will have to be completed in the coming years. As these will all have to take place within five years of the original agreement, the timing of these tenders will be spread over the next few years. This suggests a run rate of CMA tenders of approximately four per month on average. This is well within the capacity of the fiduciary management sector to absorb without a strain on resources.

Number of CMA Tenders



Source: IC Select FM Research Universe

In addition to the CMA-led process, there were a further 28 fiduciary management retenders during the period that were not required by the regulator. It seems reasonable to assume that these retenders were driven by trustee dissatisfaction, with either the service or performance of their fiduciary manager. In this context, it is not surprising that the majority of these were won by competitor firms.

28

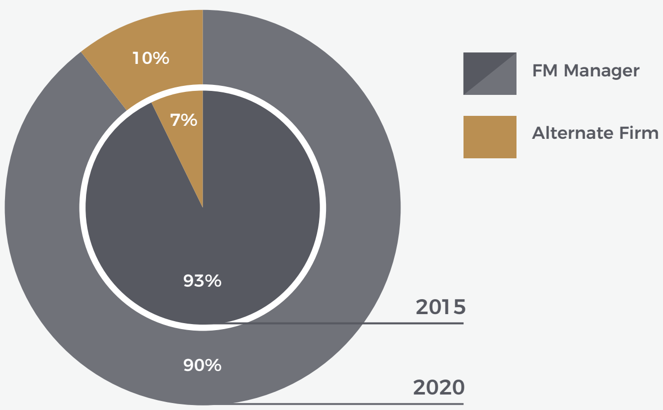
non-CMA FM retenders were completed in the 18 months to June 2021

93%

of these non-CMA FM retenders were lost

Provision of Strategic Advice

Change in Provision of Strategic Advice 2015-2020



Source: IC Select FM Research Universe

10%

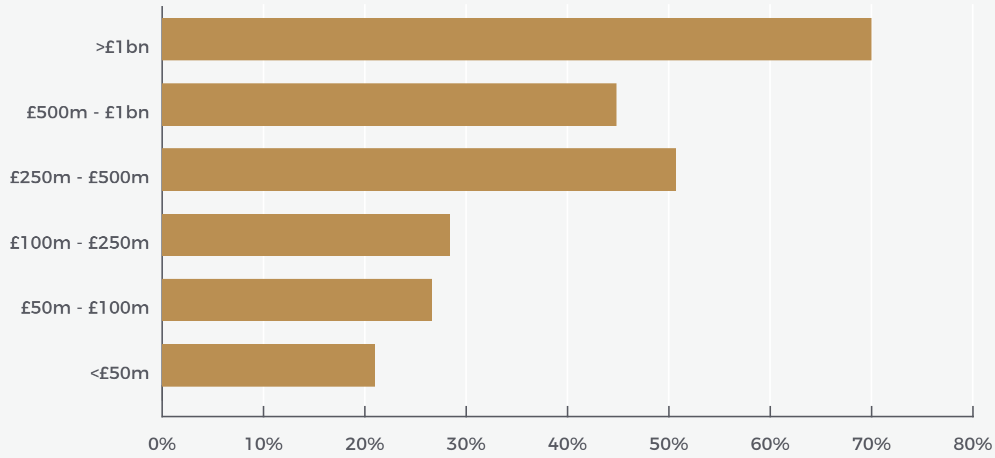
of schemes with fiduciary management have a different strategic adviser

By far the majority, or 90%, of schemes using a fiduciary manager receive their strategic advice from the same provider, while just 10% of schemes had turned to a different firm for the service as at the end of last year. Receiving strategic advice from the fiduciary manager is to be expected at smaller schemes, where there are significant economies to be gained from this approach.

The number of schemes using a different firm for strategic advice rose slightly last year, from 7% in 2015. We expect this trend to continue as more large schemes adopt fiduciary management.

Independent Oversight

Proportion with Oversight by Size



Source: IC Select FM Research Universe

Despite encouragement from The Pensions Regulator, only a minority of schemes have independent oversight of their fiduciary manager.

Where it exists, independent oversight is more prevalent in larger schemes. Some 70% of schemes with assets of more than £1 billion have independent oversight, while the figure for schemes with assets greater than £250 million but less than £1 billion is just under 50%. Only around 25% of schemes with assets of less than £250 million have independent oversight.

31%

of pension schemes have oversight provided by an independent firm

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