

# It's not about size of assets; it's about size of skill set!

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## Pension myth – fiduciary management is not suitable for large schemes

It is commonly believed that fiduciary management is suited to only small-to-medium pension schemes, because it offers the resource and expertise that larger schemes can have internally. But that's not always the case ...

British Airways Pensions recently announced the appointment of BlackRock as the fiduciary manager for their £21.5bn pension schemes<sup>1</sup>. The pension schemes' assets were previously managed by their in-house team. We've also seen a UK superfund, Clara-Pensions, appoint Kempen Capital Management as its fiduciary manager<sup>2</sup>. Although superfunds have not yet been authorised by The Pensions Regulator (TPR), hence no assets are currently managed by Clara, this mandate is indicative of the direction that large institutional investors are taking in relation to delegation of investment decision-making.

The most common reasons for schemes to appoint a fiduciary manager, in EY's experience, have historically been:

- ▶ Gaining access to investment expertise (particularly to improve diversity)
- ▶ Implementing a robust and professional operational framework for managing money
- ▶ Benefitting from the scale of fiduciary managers to negotiate investment management fees

Large schemes can achieve these objectives through an internal team, and many have done so very effectively.

### So, what does a fiduciary manager help with?

In EY's experience of working with a number of large schemes that have adopted fiduciary management, it is the change in the required skill set and need for greater risk management that has led to the appointment of a fiduciary manager.

- ▶ Schemes with large deficits have sought more expertise to diversify and access alpha
- ▶ Schemes approaching their funding targets have sought more help with cash flow driven investment
- ▶ For all large schemes, the ability to improve the robustness of the operational framework for managing investments has been of key importance

As pension schemes needs change, it is possible to hire the required talent, but it can be difficult to find this talent, particularly recognising that some roles may only be needed for a short time period. Even with the right skill sets in place, we often see in-house investment teams facing key-man risks, especially in relation to the management and completion of all required documentation; outsourcing even a proportion of assets reduces this risk and introduces a business continuity plan.

The critical point is that these large schemes (some of which have achieved good progress on their journey plans over the last few years) have considered their governance and skill needs, and identified the value from delegating investment decision-making – in some cases, only for a part of their scheme's assets. Some self-reflection has helped to define their future requirements and pick a governance model that fits with that future aspiration. Of course, such a skills assessment would be equally valid for smaller schemes too.

The trend of large schemes using fiduciary management has arrived and will only accelerate ... watch this space!

1. <https://www.blackrock.com/corporate/newsroom/press-releases/article/corporate-one/press-releases/british-airways-pensions>

2. <https://www.kempen.com/en/news-and-knowledge/persberichten-2021/clara-pensions-appoints-kempen-capital-management-as-fiduciary-manager>

## Contacts

EY would welcome the opportunity to discuss how we can support you in your governance ambitions. Please contact us if you would like to know more.



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[Fiduciary management and investment governance](#)

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