

# 2019 Fiduciary management fees survey

4th edition

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The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow diagonal line is positioned behind the 'Y', extending from the top right towards the bottom left.

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# Survey highlights

## Continued fee pressure

Median levels of fiduciary management (FM) fees have fallen for larger schemes. There continues to be a very wide range of fees proposed by fiduciary managers; we believe this to be a function of the larger number of FM offerings in the market as well as significant variation among these offerings.

## Fees are highly dependent on the portfolio content

The FM industry caters for an increasingly wide range of investment beliefs. This results in significant differences in the content of FM portfolios, which has a knock-on effect on the total fees. High allocations to alternative asset classes and active management results in higher fees, and so a straight comparison of fees does not, in itself, provide an indication of value for money.

## Expenses are not trivial

The focus on fees has historically been on FM fees and investment management (IM) fees. Portfolio expenses, which can be incurred at both the fiduciary manager level as well as the investment manager level, can be as much as 28% of the total costs, and should not be ignored.

# Introduction

## **Better cost transparency aids assessment of value**

Over time, we have seen an improvement in the disclosure of fees and expenses, and this survey aims to help trustees and sponsors assess whether their fiduciary management arrangements provide value for money. With increasing demand for fiduciary management services, there continues to be evolution in the fiduciary managers' offerings, which also impacts the total costs.

Indeed, over 2017 and 2018, the Competition & Markets Authority (CMA) carried out an extensive market investigation into the investment consultancy and fiduciary management market. This investigation was concluded in June 2019 and one of the outcomes of the review was the requirement for fiduciary managers to provide detailed disclosures of all of their fees and costs associated with their fiduciary management services.

## Survey respondents

The information in this survey is based on responses received from 15 fiduciary managers (listed below) who collectively manage the majority of assets in the UK DB fiduciary management industry. Of these 15 fiduciary managers, four provided two fiduciary solutions and one provided three fiduciary solutions. Therefore, the survey is based on 21 different UK solutions. We would like to extend our gratitude to these firms for their participation.

- ▶ Aon Hewitt
- ▶ BlackRock
- ▶ BMO
- ▶ Cambridge Associates
- ▶ Cardano
- ▶ Charles Stanley
- ▶ Gatemore
- ▶ Goldman Sachs Asset Management
- ▶ Kempen
- ▶ Legal & General
- ▶ Mercer
- ▶ River & Mercantile
- ▶ Russell Investments
- ▶ SEI
- ▶ Willis Towers Watson

## Using this survey

Where the information in this survey is referenced in any form, EY and “EY’s 2019 Fiduciary management fees survey – 4th edition” should be disclosed as the source of the material.

## Hypothetical DB pension schemes

There are a number of providers of fiduciary management services, whose solutions can also differ depending on scheme size and objectives. In order to obtain comparable results across the providers and for consistency with previous surveys, we based this survey on the following hypothetical DB pension schemes:

### UK DB schemes:

- ▶ Small – £50m
- ▶ Medium – £250m
- ▶ Large – £750m
- ▶ Very large – £1.5b

In all cases, we have assumed the trustees require the fiduciary manager to manage 100% of their assets and for the full range of advisory, implementation and communication services to be provided by their fiduciary manager.

We are seeing more mandate whereby trustees give the fiduciary manager the freedom to allocate assets in line with their best ideas, provided that they expect to generate the required return and operate in line with the pension scheme’s journey plan. As per our previous surveys, we have specified the following characteristics for all hypothetical schemes:

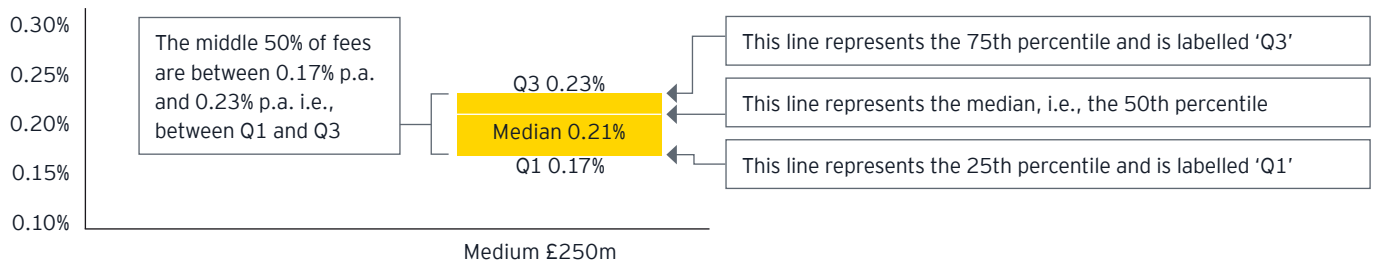
- ▶ A liability duration of 20 years, with a 50:50 split between nominal and inflation-linked liabilities
- ▶ A target return of liabilities +2.5% p.a.



## How to read a box plot

We have used several box plots throughout this document to illustrate the spread of survey responses. In particular, the box plots show the range of the middle 50% of responses. The example below explains how to interpret the graphs.

### Example: Fiduciary management fees (2019)



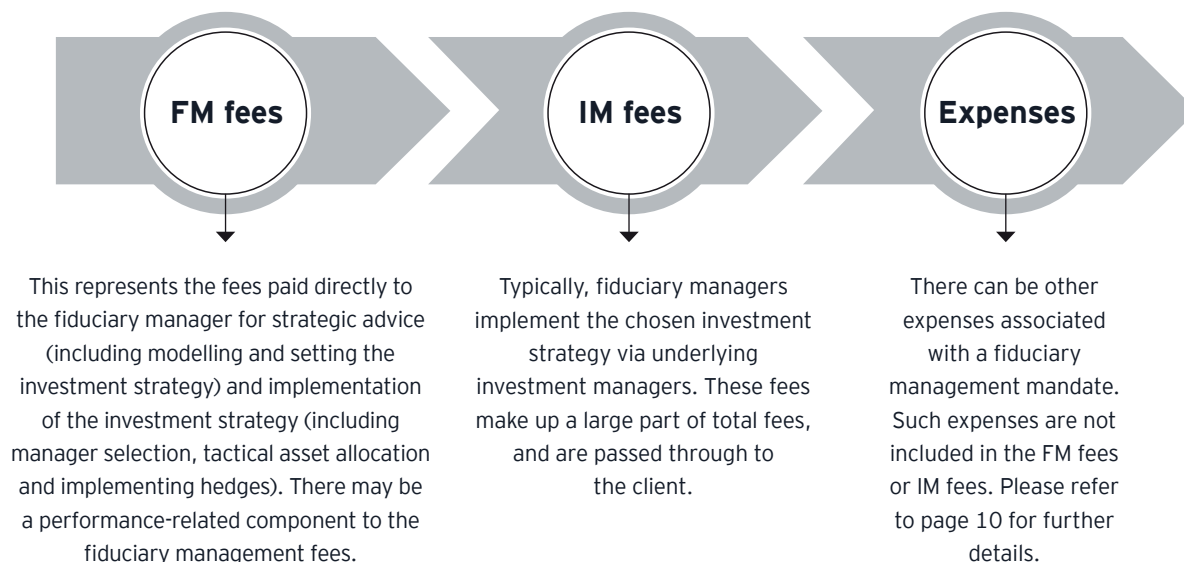
# Components of costs in a fiduciary management mandate for DB pension schemes





## Components of costs

The costs in a fiduciary management mandate can be separated into three components:



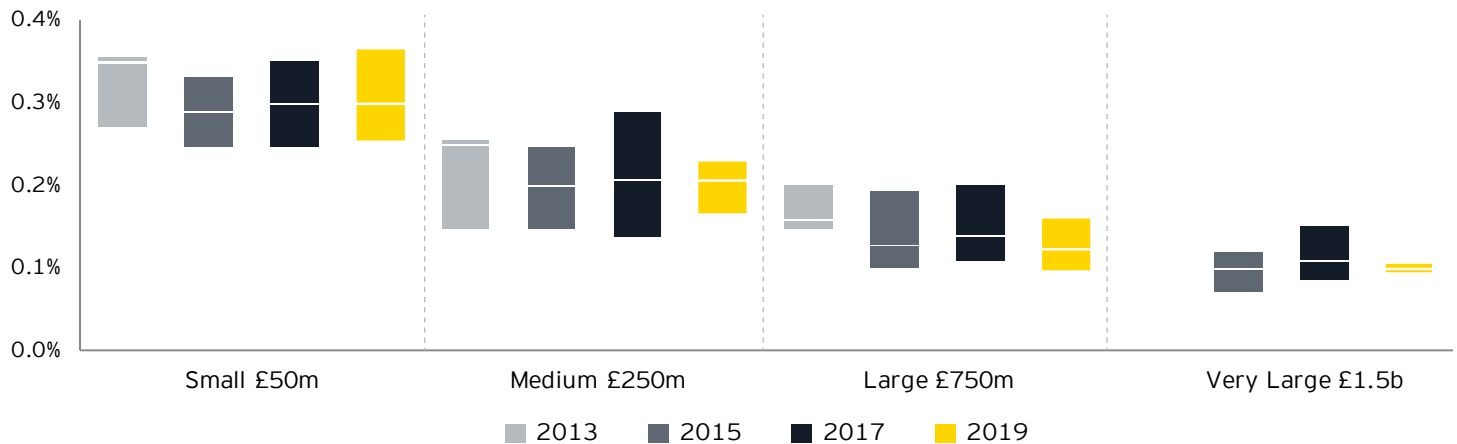
## Services provided by fiduciary managers

Fiduciary management typically covers the full range of investment services that a pension fund needs. This includes provision of advice on the investment strategy, implementation of the investment strategy and reporting of performance. As pension schemes mature and get closer to their end-game, the nature of fiduciary managers' offerings are expanding to cover advice on settlement solutions, and managing run-off portfolios. The fee arrangement that each scheme has with their fiduciary manager, therefore, needs to take account of the trustees' specific requirements including any constraints on the portfolio.

Fiduciary management fees have typically been charged as a percentage of assets, however there are variations of fee structures available, including fixed nominal fees, which may increase annually in line with an index, such as inflation. For comparison purposes, we have shown fees as a percentage of assets within the results of our surveys.

## How have fiduciary management fees for UK DB pension schemes changed since 2013?

**Figure 1: Inter-quartile range (the middle 50% of values) of fiduciary management fees in 2013, 2015, 2017 and 2019**



### EY Insight:

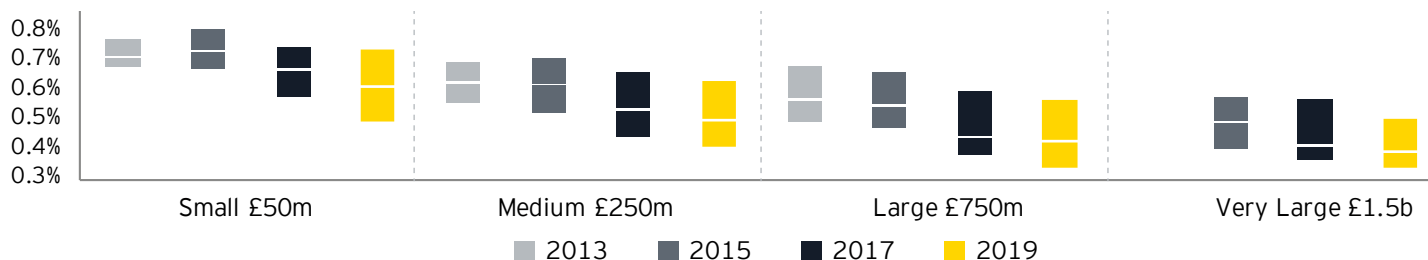
As in our previous surveys, the 2019 results show that fiduciary management fees (as the percentage of assets) reduce as scheme assets under management increase. This is a natural outcome of the cost of strategic advice and implementation, which do not vary materially with size of assets, being spread over a larger asset base.

For most scheme sizes, the interquartile range of fees has narrowed since our previous surveys. That said, the full range of fees (including providers whose fees fall outside the interquartile range) continues to be very wide. The interquartile range for very large schemes is tight; in reality, we find that these schemes tend to have more bespoke requirements, and the level of fees vary much more depending on the details of the mandate.

## Fiduciary management fees plus investment management fees

Our view is that it is important to consider the total fees when evaluating a fiduciary management fee proposal. As in our previous surveys, 2019's survey shows that the total of fiduciary management and investment management fees has continued to fall.

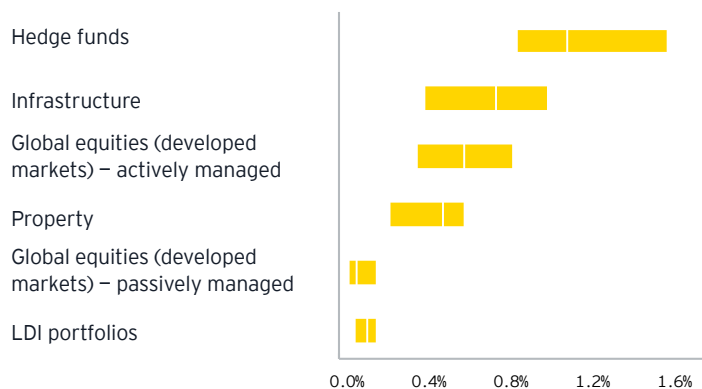
**Figure 2 – Inter-quartile range (the middle 50% of values) of fiduciary management fees plus investment management fees (excluding expenses)**



### EY Insight:

Fees have a high dependency on the asset classes included within the mandate. Alternative asset classes have a higher fee compared to more traditional asset classes, and active management costs more than passive management. When comparing the fees of different fiduciary managers, it is important to assess the fees relative to the construction of the portfolio, as well as the content of the overall fiduciary service. The lowest fee may not be aligned with the trustees' requirements or investment beliefs, and so a deeper understanding of the breakdown of fees is crucial to be able to make an informed decision around value for money.

**Figure 3 – Inter-quartile range (the middle 50% of values) of investment management fees for selected asset classes for a £250m scheme**



# Total costs (FM fees, IM fees and expenses)



The final component of costs within an investment mandate is expenses. Expenses incurred by the fiduciary manager, as well as expenses incurred by the underlying investment managers, are all ultimately paid by pension schemes.

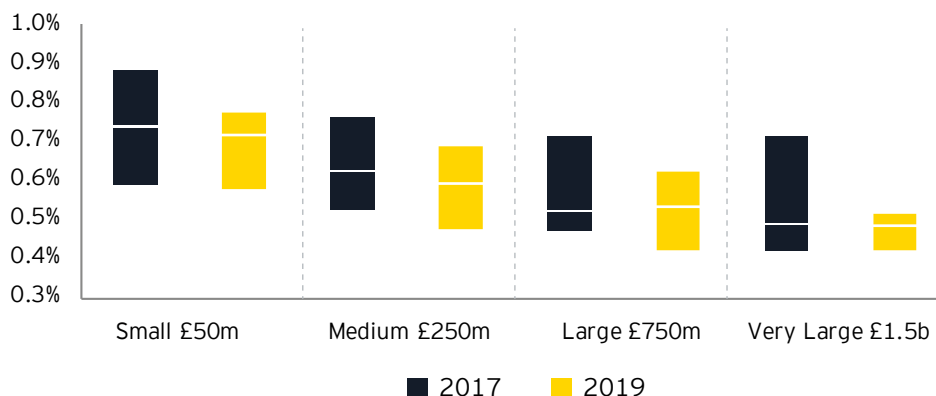
Expenses are often overlooked when evaluating providers' fee arrangements, sometimes due to less transparency, but often simply ignored. We believe trustees should also consider these expenses. There are various explicit and implicit expenses which ought to be considered as part of this total fee, including:

- Custody fees
- Administration fees

- Performance measurement fees
- Fees for legal reviews of documentation
- Fiduciary manager pooled fund expenses
- Investment manager pooled fund expenses
- Transition management fees

The chart below shows the distribution of the sum of fiduciary management fees, investment management fees and expenses.


**Figure 7 – Inter-quartile range of total costs including expenses for UK DB fiduciary management services**



## EY Insight:

This year's survey shows that up to 28% of total costs paid may be on expenses. Expenses can create a non-trivial drag on returns, and therefore should be considered as part of the evaluation of a fee proposal.





## How EY teams can help you

This survey focuses on the fees and expenses for a fiduciary management mandate, which we believe can provide useful benchmarking for trustees and sponsors considering fiduciary management. However, it is important for pension schemes to assess the fees and expenses in relation to the value that a fiduciary management mandate can offer, particularly around management of investment and operational risks, and the resulting impact on risk and return.

EY provides a wide range of investment governance services, including evaluation of schemes' current governance structures, and assisting with the selection and oversight of fiduciary managers.

For further information, please visit our website, or contact one of the EY team.

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