

# IRISH PENSIONS

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# The Rise of Fiduciary Management



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## What is Fiduciary Management?

Fiduciary management (or Delegated Investment Management) is a solution which enables pension scheme trustees to execute their long term strategies efficiently and target better outcomes through a more effective governance structure.

Fiduciary management provides the ability to react quickly to changes in market conditions and capture opportunities, without the need to wait for quarterly trustee meetings or trustee education.

For many trustee boards, fiduciary management is about having access to a level of expertise that might otherwise be missing on a day-to-day basis. It involves investment experts who understand the complexity of investment markets, managing a scheme's portfolio on a day to day basis, while also taking into account

the unique needs of the trustees and their objectives. Ultimately it is about trying to help Trustees achieve their objectives of closing scheme deficits and meeting their liabilities in the quickest or most efficient way.

## Aon European Investment Management Survey

Aon recently facilitated a European Investment Management Survey which collated the views on all investment matters of 97 respondents from across the continent. The respondents held various roles including; finance directors, pensions directors and investment managers, as well as trustees and chairs of trustee boards. The survey covers an estimated €175 billion of assets. Importantly, this is a survey of the entire industry and not just Aon clients.

When asked what the biggest concerns were for the next 12-18 months, 28% of the respondents said it was the impact of low interest rates/yields, while 22% were concerned about funding and valuations. 12% said that regulation and governance was a worry.

Worryingly, finding sufficient time to tackle their most pressing issues is a major challenge to pension plans across the region. 50% of respondents reported that they spend five hours or fewer on investment matters per quarter and 13% believed that investment decisions are taken too slowly.

It is therefore no surprise that respondents showed a strong appetite for delegation, with 65% of plans having delegated some aspect of plan management and a further 6% planning to explore delegation. The survey highlights that those with delegated investment activities start their outsourcing journey with administration, moving to investment and other areas of delegation as they grow more comfortable with the concept. Administration is most likely to be outsourced (76% of those who have delegated have outsourced this), followed by day-to-day portfolio and

investment management (71%) and reporting (64%).

Respondents offered differing views when discussing the key advantages of a delegated solution. The biggest group (29%) saw investment expertise as the main benefit. This was followed by those who see daily attention to risk/investments as the key advantage (25%), while 23% cited the ability to deliver a bespoke or tailored solution.

### **Country approaches to delegation vary**

There are also some differences in the way that countries approach delegation. This appears to be due to factors such as the maturity of their market, legislative restrictions around delegation and the established practices within a particular country.

For example, plans covering the Netherlands are the most likely to have introduced some form of delegation, with 84% having done so. However, plans in Ireland are the least likely to delegate, with only half of those surveyed having outsourced any aspect of plan management.

*Other key findings of the European Investment Management Survey include:*

- Of those who have outsourced an element of their pension plan, 98% are satisfied or better with the client service they receive. 98% are also satisfied or better with the funding level/performance, 97% with risk controls/operational robustness and 96% with the experience overall.
- The vast majority of plans surveyed (62%) remain open to new employees. 26% of plans in this survey are closed to new entrants, with 11% closed to all future accrual.
- Where respondents represent multinational pension plan arrangements, these tend to be managed in a decentralised way; 85% of those from multinational organisations report that pension plans are not consistent worldwide.
- The most popular asset classes are equities (63% of those surveyed include equities in their portfolio), Eurozone governments bonds (57%) and cash funds (51%).
- A provider's investment process and risk management capability is the feature most valued in a potential delegated/fiduciary

provider; 94% of respondents ticked this as a 4 or 5, where 5 is 'essential'.



### So what does this mean for pension schemes in Ireland?

Pension plans in Ireland are having to deal with more complex investment options, and are facing an increased regulation and governance burden - and with limited time to dedicate to investment issues.

At Aon, we believe that a delegated approach where the investment strategy remains in-house but day-

to-day management is outsourced will yield strong value for schemes.

A strong delegated investment service brings together the best of investment expertise, to position trust-based schemes for investment success and to drive better outcomes. It does this by providing pension schemes with strong governance structures; a broader range of investment options; and greater access to investment expertise than trustees normally have time to provide.

It is Aon's firm belief that a good delegated investment manager should also offer full transparency at all times and offer competitive investment fees, and market-competitive charges for the services.

Of those in our survey who have outsourced an element of their pension plan, 98% are satisfied or better with the funding level performance. This astonishing figure of satisfaction is a further indication of the value that Irish schemes could achieve by outsourcing the day to day running of their investment allocation to a third party provider.

In addition to this, those respondents who have outsourced, 98% are satisfied or better with the client service they receive, 97% with risk controls/operational robustness and 96% with the experience overall.

At Aon we will be delighted to discuss further any aspect of outsourcing. If you would like to view the full report from our 2018 European Investment Management Survey, please click [here](#). ■



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Helping you find

# YOUR OWN PATH

through the complexities  
of pension investment



Trustees need a partner to provide bespoke investment solutions for today and tomorrow. And with us, it's always personal. As a market leader, we use our size to benefit clients by delivering advice with a personal touch = rooted by a thorough knowledge of our clients' individual needs and preferences, we help schemes to find their own path through the complexities of pension scheme investment.

To talk to us about your scheme's investment requirements, please contact your local Aon Hewitt office:

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