Aon
Delegated Consulting Services

For professional clients only

European Investment Management Survey 2018

Empower Results®

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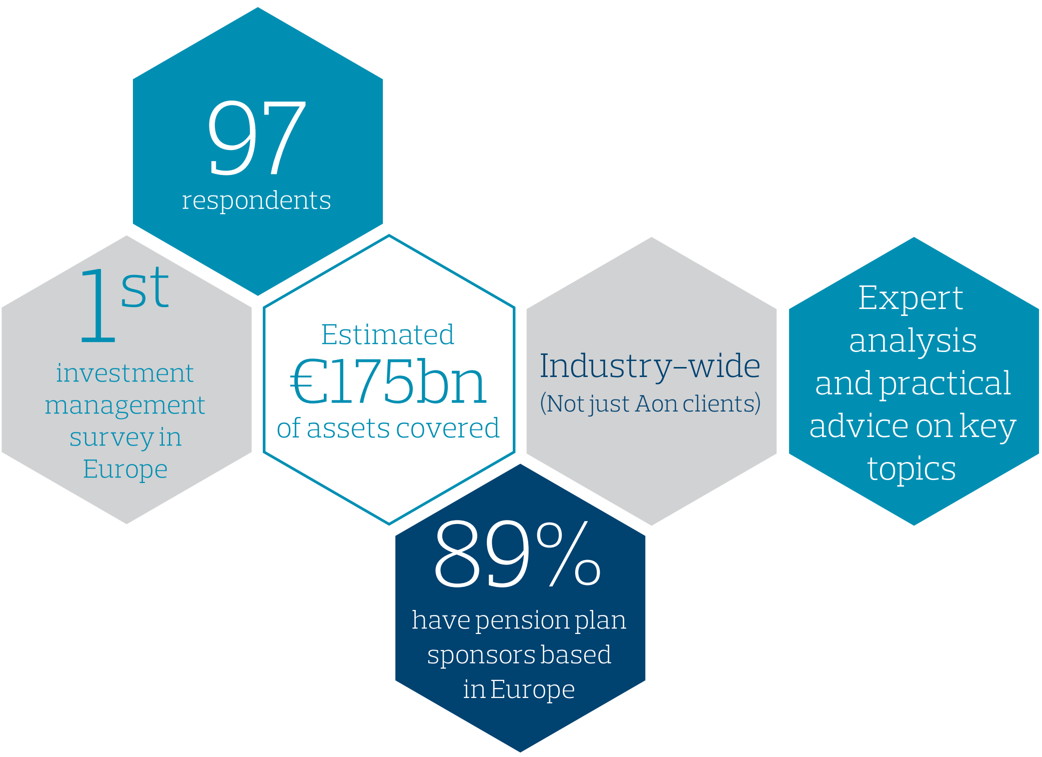
Executive summary

This is Aon's first investment management survey in Europe. This survey represents the views of 97 respondents from across Europe. All of these are pension plan representatives in some form, 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.

Two-thirds of respondents (64%) were from multinational organisations and 89% have pension plan sponsors based in Europe. While 97 respondents is clearly a relatively small sample, nevertheless it is possible to draw some patterns from the data provided.

The survey examines trends and developments in pension plans' investments, as well as looking at the prevalence of delegating investment activities, commonly known as fiduciary management. It provides expert analysis and practical advice on key topics, including plans' biggest concerns and the features most valued when selecting providers.



Unless otherwise stated, all sources are from the Aon European Investment Survey 2018

We draw out some of the main highlights from the survey below. Within the rest of the survey we show the full analysis and key findings within each of these, and other, areas.

1. Many pension plans are open; multinational plans are typically decentralised

The vast majority of plans in the survey (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.

2. Investment options are increasing in number and complexity

The number of investment options available for plans to utilise is growing all the time. Within these options, the complexity of the solutions available is also increasing.

The most popular asset classes are equities (63% of those surveyed include equities in their portfolio), eurozone government bonds (57%) and cash funds (51%).

A significant number of plans, though, are also using more complex options like liability driven investment (24%) and hedge funds (20%). These require more regular and detailed monitoring if plans are to get the best from them.

3. Respondents' biggest concerns

We gave respondents a free rein to state their biggest concerns for their defined benefit (DB) plans over the next 12-18 months. These free-text answers give an insight into the 'top of mind' issues for pension plans across Europe.

The biggest concern was the impact of low interest rates/yields – 28% of respondents mentioned this. 22% are concerned about funding and valuations, with 12% worried about regulation and governance.

4. Strong appetite for delegation

65% of plans have delegated some aspect of plan management and a further 6% plan to explore delegation. This echoes a trend we have seen in our work.

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%).

As you might expect, delegation is most prevalent in the Netherlands, where there is a strong historical tradition of investment delegation. Across our survey sample, Ireland is the country where plans are least likely to delegate or outsource, although in our work, we are seeing a change in this mindset.

5. Drivers of delegation

Having sufficient time to tackle all the issues a pension plan faces is a major challenge, particularly when considered alongside the increasingly complex investment environment and growing governance expectations that plans face.

50% of respondents to the survey report that their trustee body (or equivalent) spends five hours or less on investment matters per quarter. 13% of respondents believe that investment decisions are taken too slowly – thus impacting plans' ability to capitalise on market opportunities or mitigate risks.

This lack of time, in tandem with an ever-growing range of increasingly complex investment solutions, is a key driver of delegation.

6. Advantages of delegation

Investment expertise is seen as the biggest advantage of delegation.

Some of the advantages of delegation and outsourcing are far more beneficial in reality than is expected by those who have not yet delegated. For example, just 17% of those yet to outsource anticipate daily attention to risk and investments to be an advantage, but 45% experience this as an advantage in practice.

7. Process for selecting a delegated/fiduciary provider

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'.

Expertise in manager/fund research and selection is second (89% ticked as a 4 or 5), followed by proven track record/performance, chosen by 86%, and the cost of the overall solution, a high consideration for 77%.

8. High levels of satisfaction with delegation and outsourcing

Of those who have outsourced an element of their pension plan, 98% are satisfied or better with the client service they receive.

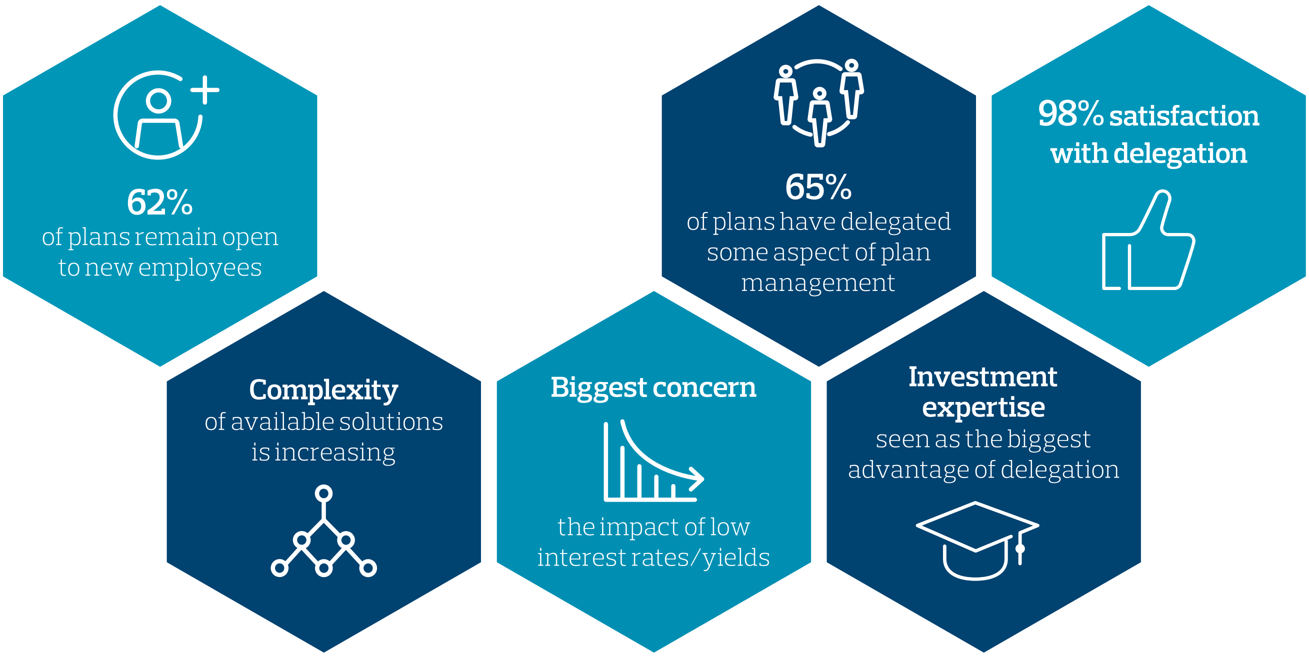
98% are also satisfied or better with the funding level/performance, 97% with risk controls/ operational robustness and 96% with the experience overall.

This reflects what we have seen in our UK surveys, where the 2017 Fiduciary Survey showed satisfaction rates of 96% or more, with 98% satisfied or better with their overall experience.

The results of the survey show that plans across Europe are moving to more complex investment options; facing a lack of time to dedicate to investment issues; and looking to outside experts to help them deliver on their objectives.

Throughout the rest of this report, we explore in greater detail the investment strategies plans are adopting, the factors driving the move to delegation, and the advantages of doing so. We look at the features plans are looking for in an outsourced provider and levels of satisfaction among those who have delegated. We hope you find the survey interesting and useful.

Sion Cole
Senior Partner and Head of European Distribution
Delegated Consulting Services



Section 1

Many pension plans are open; multinational plans are typically decentralised

Responses to the survey show that across Europe, the majority of pension arrangements (62%) remain open. Respondents from Switzerland report the highest number of open plans (78% are still open), whereas only a quarter (25%) of Irish plans remain open.

Pension provision is fairly evenly distributed between DB, DC and hybrid plans, with 39% of respondents offering a DC plan, 33% providing a DB arrangement and 28% a hybrid plan. Respondents could choose as many of these options as were relevant.

DB is most prevalent in Germany, where 41% of respondents have a DB plan, and least common in Ireland, where only 10% reported having a DB arrangement.

Conversely, as you would expect from the low levels of DB, Irish respondents are most likely to run a DC arrangement; 50% of those surveyed have a DC plan, with 40% providing a hybrid plan. Hybrid arrangements have the highest uptake in the Netherlands (42%).

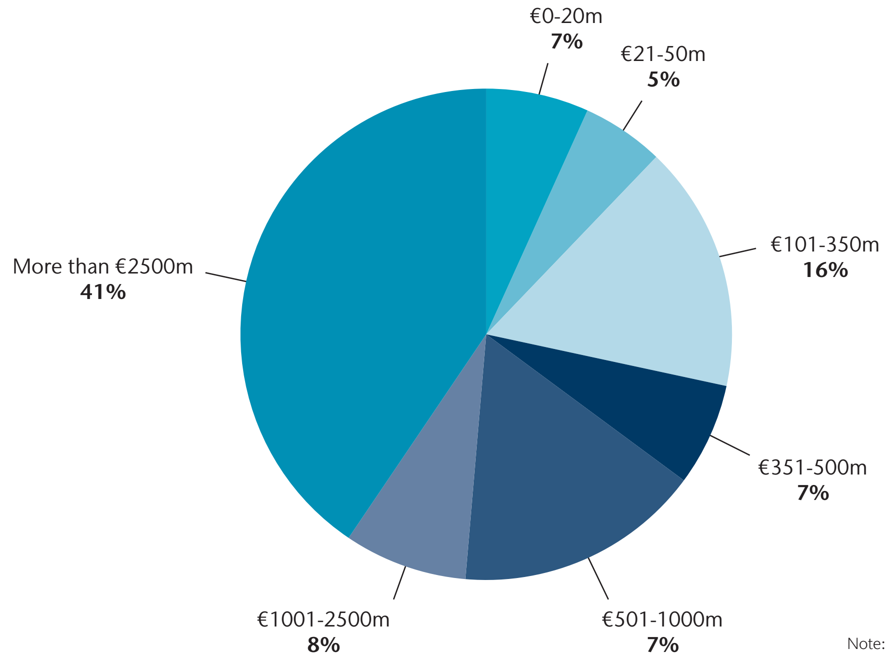
Turning to multinationals, 64% of responses came from firms with a multinational footprint and 12% of participants are responsible for pension plans across five or more countries. 85% of multinational respondents reported that pension plan arrangements were not consistent across the globe.

41% of respondents manage pension assets in excess of €2.5bn; 93% manage assets of €20 million or more. 28% report assets of more than €2.5bn in their home country.

Key finding

85% of multinational firms do not operate consistent pension arrangements worldwide.

Total pension assets globally



Respondents: 74

Note: Nil responses for €51-100m assets

Aon perspective

The global retirement landscape is evolving at a rapid pace. Combinations of legislative, political and economic change pose significant threats and simultaneously create significant opportunities for DB and DC pension plans.

Setting and executing a successful global retirement strategy is therefore essential to managing potential risks – from effective benefit design to the governance of financial and operational decision-making on a local, regional and multinational scale.

Developing strategic plan design and making financial and operational decisions globally is complex. It is all too easy for global pension and benefits directors to get bogged down in the detail – which prevents them from focusing on the strategic aspects of managing their retirement programmes.

Multinational challenges

Multinational companies often run several complex pension plans across multiple jurisdictions with different tax and benefit rules in each of these countries. With an ever-changing pension landscape, it can be difficult for multinational corporates to keep track of developments in all countries where they operate, as well as keeping up with wider global initiatives.

Where multinational companies have delegated responsibility for their pension to their local subsidiaries, there is reluctance to use cross-border solutions due to high initial costs, extensive governance and complicated and unknown regulation – even if those cross border solutions might be beneficial to the multinational in achieving lower costs, operational efficiency, stronger governance and global consistency in strategy and reporting.

Institutions for Occupational Retirement Provision

One option for multinational companies is the Institutions for Occupational Retirement Provision (IORP) Directive that was introduced in 2004, allowing different cross-border plans to be in the same vehicle. For pension plans operating in Europe, the IORP II Directive was developed and came into force in early 2017, with member states having until January 2019 to incorporate it into national legislation. The aim is to enable the provision of a cross-border pan-European pension arrangement with more flexibility and centralised (therefore more efficient) governance. IORP vehicles can deliver both DB and DC pensions.

Pooling assets in an IORP vehicle can help provide a consistent investment strategy with a streamlined implementation and governance process.

This vehicle provides pension plans with economies of scale and tax efficiency, allowing multi-country plans to be managed within one single entity, enhancing governance and investment performance.

Setting up a European pension fund is a costly business. European pension funds are usually set up by large multinationals that want to consolidate the financing and governance of their pension arrangements in several countries into a single fund. For smaller businesses, the costs of setting up their own funds are too high compared with the benefits.

A multiple-employer cross-border European Pension vehicle allows pension benefits to be delivered across the EU in an affordable and sustainable manner. There are real benefits to be gained from a multinational IORP II arrangement such as:

Operational efficiency

- Allows multiple-employer vehicles economies of scale
- Ability to create ring-fenced sections within overall pension fund
- Favourable tax framework and extensive double tax agreements
- Streamlined implementation process

Simple governance

- Separate legal entity with dual board governance structure
- Greater flexibility in the governance structure
- Ability to meet governance needs of different host countries
- Less time-consuming for companies

Risk management

- Delivers retirement benefits at specified level of risk
- Strong control processes with strict supervision
- Pension committees with participant/pensioner representation to comply with local regulations

These elements highlight the importance of having a consistent global retirement policy that is adaptable to multiple locations and can be tailored towards local needs. Maintaining broad consistency of pension benefits is crucial to managing all of the aspects above. However, 'one size does not fit all', and many different elements need to be taken into account when trying to provide a consistent investment strategy and benefits package across multiple countries.

Section 2

Investment options are increasing in number and complexity

The number of investment options available for plans to utilise is growing all the time. Within these options, the complexity of the solutions available is also increasing.

The most popular asset classes remain equities (63% of those surveyed include equities in their portfolio), eurozone government bonds (57%) and cash funds (51%).

A significant number of plans, though, are using more complex options, like liability driven investment (LDI), which demand expert advice and help with implementation. Plans in the Netherlands are most likely to include LDI in their portfolio, with 54% doing so, followed by Ireland at 30%.

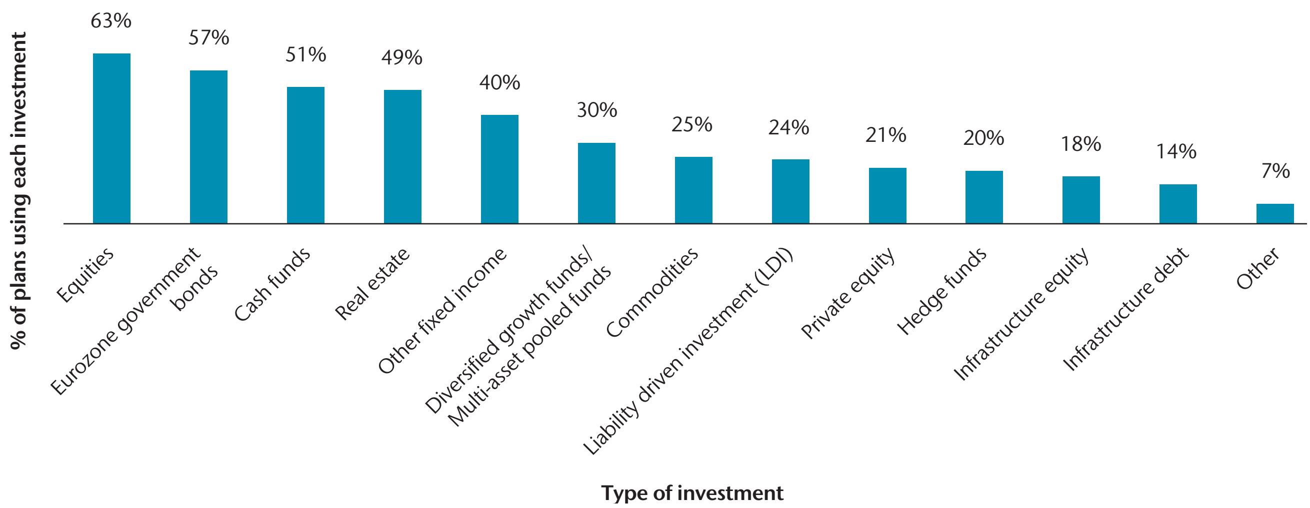
This move to more complex investments is also shown in the findings of Aon's 2017 Global Pension Risk Survey, which saw a net increase in UK LDI investments of 42% from 2015 to 2017.

Hedge funds are most likely to be used in Ireland (30%) and Switzerland (24%).

Key finding

The number and complexity of asset classes plans use are increasing.

Types of investment



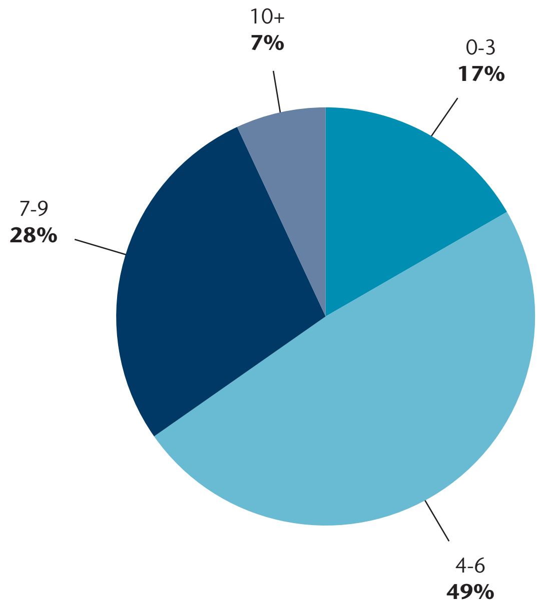
Responses: 139

These more complex types of asset class demand close monitoring, as well as an understanding of the need for diversification within the asset class (for instance within hedge funds). Without the requisite expert input, or sufficient time, this presents a huge challenge for plans.

The number of asset classes in a plan's portfolio also impacts the time and expertise required to manage plan investments. While the majority of respondents (49%) have between four and six asset classes in their portfolio, 28% have between seven and nine classes and 7% have more than 10.

Plans based in Switzerland are likely to employ the most asset classes, with 47% having seven or more in their portfolio. Ireland is most likely to have between one and three asset classes among their investments; a quarter (25%) report this.

Number of asset classes



Responses: 72

Aon perspective

In the current global environment, where financial markets are showing modest growth and tepid inflation, pension plans face significant challenges in delivering investment performance. With elevated valuations, high volatility and low bond yields, plans need to find different strategies that deliver returns to meet funding levels and provide for their members.

When implementing and monitoring new strategies within a portfolio, a high level of investment expertise and skill is required. It is not surprising then that fiduciary management is an increasingly popular investment solution across Europe.

The continued growth in fiduciary management reflects what we are seeing within our own fiduciary management business at Aon, which has grown around 40% year-on-year since launching in 2009.

Increasing investment complexity

The range of investment solutions available has never been greater, and with this comes increased complexity. For example, more complex investments such as LDI and hedge funds require greater understanding, analysis when selecting managers (including legal advice), monitoring and reviewing.

Alternative asset classes are growing in popularity across plans in Europe. As you can see from our survey, 49% of respondents invest in real estate, 21% use private equity, 20% use hedge funds and 18% use infrastructure in their portfolios. Use of these more complex asset classes is something that we see constantly increasing in the search for yield and diversification opportunities.

This means greater pressure on trustee time and a growing need for expertise. Help with implementing LDI and alternative asset classes is one of the main reasons we hear when plans explain why they have or are considering fiduciary management.

Time pressures

Pension boards have limited time and a huge array of topics to cover at meetings. This makes fiduciary management even more applicable as it enables trustees to focus the time they do have for investment on the strategic matters and monitoring of the fiduciary manager (rather than monitoring multiple managers and reviewing asset allocation). They can delegate the day-to-day management of their portfolio to a fiduciary provider who can dedicate the time to expertly managing the plan's portfolio on the pension board's behalf.

The survey also shows a difference in the time investment committees spend on investment matters; those with fiduciary management can spend less time, as the fiduciary provider relieves some of this governance burden.

Section 3

Plans' biggest concerns

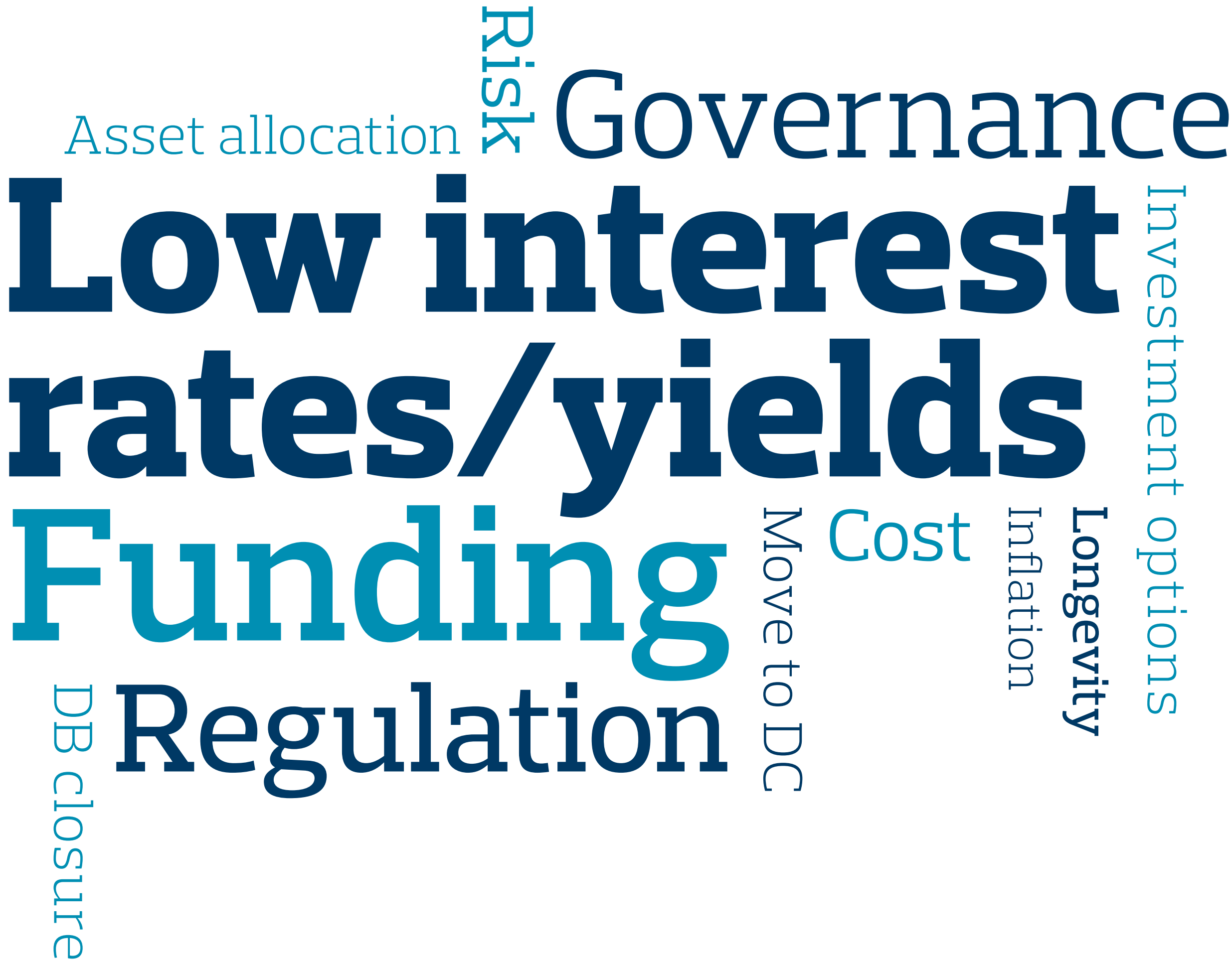
We gave respondents a free rein to state their biggest concerns for their DB plan over the next 12-18 months. These free-text answers give an insight into the 'top of mind' issues for pension plans across Europe.

The biggest concern was the impact of low interest rates/yields – 28% of respondents mentioned this. 22% are concerned about funding and valuations, with 12% worried about regulatory change and requirements.

Other reported concerns include risk/de-risking and costs, both cited by 9%, and plan closure and investment options/asset allocation, both cited by 6%.

Key finding

The impact of low interest rates/returns is the biggest concern for plans across EMEA.



Section 4

A strong appetite for delegation

71% of plans either already delegate some aspect of their main DB pension plan arrangements (65%) or plan to explore delegation (6%).

This echoes a trend we have seen in our work and across other recent surveys. The multinationals' report from our 2017 Global Pension Risk Survey notes that:

> "Most countries are also reporting an increase in the degree to which execution of investment strategy is delegated to third party specialists... most countries now report that in over 20% of cases execution of the entire strategy is delegated, with 10% or more reporting an expectation to do so in the future."

Key finding

71% of pension plans either already delegate or plan to explore delegation.

Administration is the most commonly-outsourced area; of those with some element of delegation, 76% outsource their plan administration

Managing day-to-day portfolio management/investments is the next most popular area to delegate; 71% do this, with reporting third (64%)

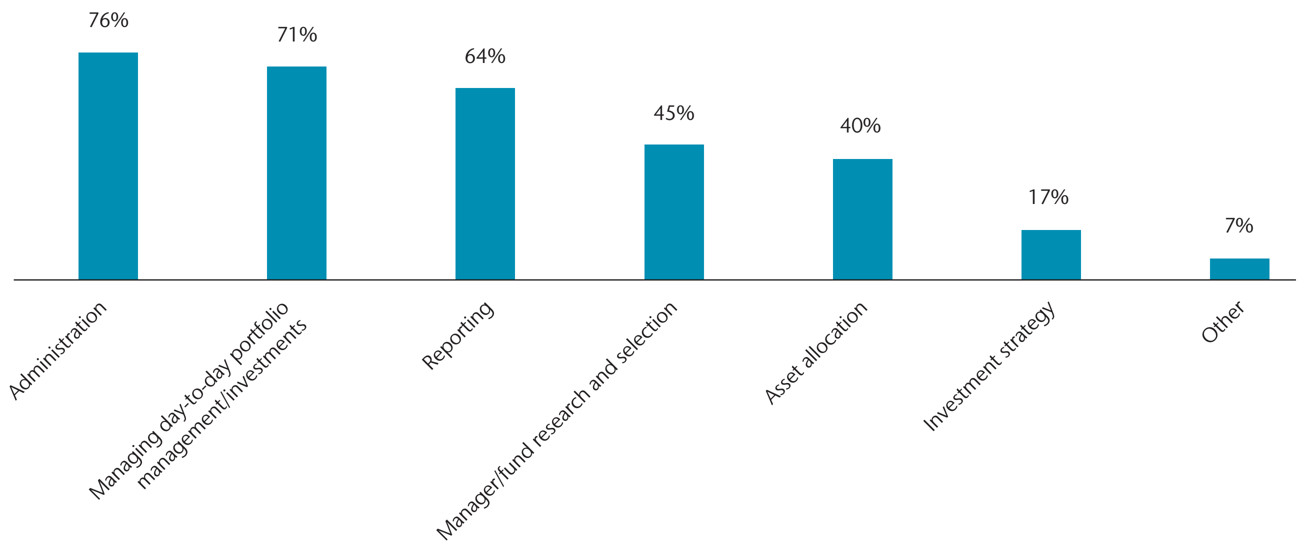
Manager/fund research and selection is outsourced by 45%, asset allocation by 40% and investment strategy by 17%

Closed plans are slightly more likely to delegate (71% do so) than those still open to accrual (68%) or to new members (64%)

We have seen before that plans often start their outsourcing journey with administration, moving to investment and other areas of delegation as they grow more comfortable with the concept.

The pattern of delegation we see here – where investment strategy remains in-house but day-to-day management is increasingly outsourced – allows plans to retain strategic decision-making, while delegating the routine portfolio management and asset allocation that can be time-consuming and hard to reconcile with trustees' time and expertise.

Which elements of your main DB pension arrangements are delegated or outsourced?



Responses: 135

Country approaches to delegation vary

There are some nuances in the way that different countries approach delegation, due to the maturity of the respective markets, legislative restrictions around delegation, and the established practices within the country.

Plans covering the Netherlands, where fiduciary management has its foundations, are most likely to have introduced some form of delegation; 84% have done so, with a further 5% planning to explore it. Only 11% of plans have no intention of investigating delegation.

If we look globally, the US is shown to be an early adopter of delegation, with 80% of US plans having delegated some aspect of their pension management. Plans in Ireland are least likely to delegate, with only half of those surveyed having outsourced any aspect of plan management.

The biggest cohort (45%) of those who have outsourced an element of their pension plan have been with their provider for five years or more.

Aon perspective

Each European market that we surveyed is at a different stage in its fiduciary journey. Dutch pension funds were the first to introduce fiduciary management as a pension model, largely driven by tight regulation, so the Netherlands is the most mature fiduciary market globally, while German pension funds have greater confidence in their own ability to meet the challenges they face and use outsourcing less. Ireland and Switzerland, on the other hand, are in the initial stages of adopting fiduciary solutions for their pension arrangements.

In all markets, we continue to see growth in fiduciary management. This reflects what we are seeing within our own EMEA fiduciary management business, which has grown around 40% year-on-year since launching at the end of 2009.

The majority of DB schemes are already closed or closing, giving them a finite time to reach their end goal. This, coupled with the ongoing challenges in the market and uncertainty surrounding Brexit, exacerbates the drivers for schemes considering fiduciary management.

What size scheme is most suited to fiduciary management?

There is no set answer to this question. Fiduciary management is a bespoke solution, designed to meet each scheme's unique needs and is therefore suited to pension plans of all sizes.

Fiduciary management is often thought of as being used only by smaller plans, which are able to benefit from the greater diversification, access to managers and implementation within a low governance framework. Today, we see schemes of all sizes implementing and seeing the benefits of a delegated approach.

Highly tailored solutions

The capability to tailor a pension plan with fiduciary solutions is a large benefit. There is a wider range of solutions and far greater tailoring available. This tailoring can include incorporating a company's in-house team within the fiduciary solution or decision-making process, and bespoke solutions taking into account investment beliefs or unique restrictions.

For example, plans can adopt part of the infrastructure and operational set-up of fiduciary managers to help improve their own investment decision making and speed of implementation. We are also seeing some interesting conversations from larger pension schemes that want to be involved in all the decisions but want to utilise a fiduciary manager's expertise in manager research or idea generation. The list of possibilities is endless and this level of tailoring is something we anticipate increasing demand for in the future.

Section 5

Time-pressed plans are turning to outside expertise

With delegation growing across Europe, it is worth examining the reasons for this shift.

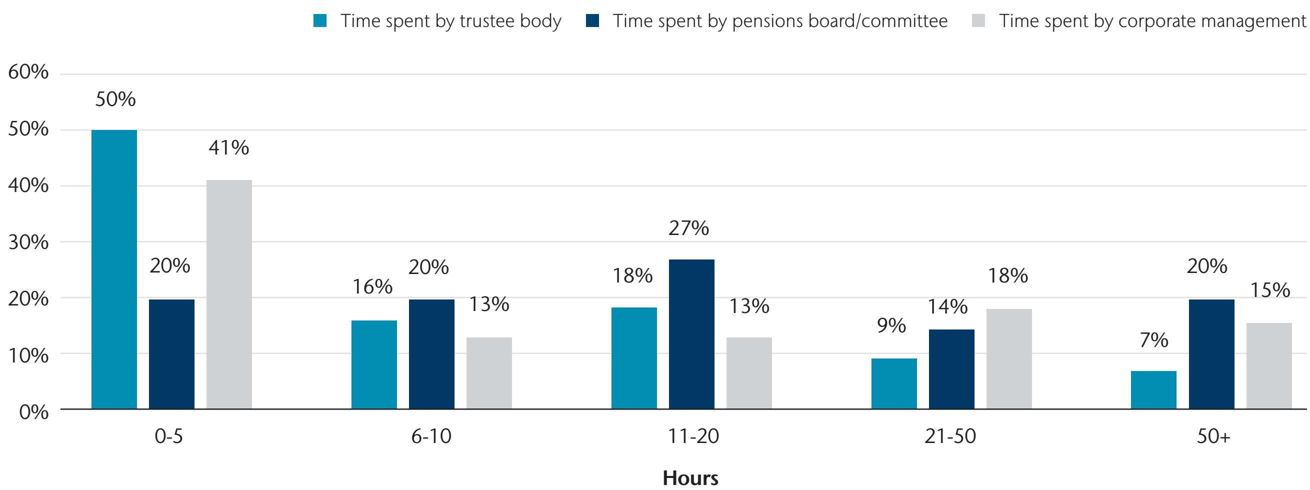
Finding sufficient time to tackle their most pressing issues is a major challenge for pension plans. 50% of respondents report that their trustee body spends five hours or fewer on investment matters per quarter. 41% say the same is true of their corporate sponsor and 20% of their pensions board or committee.

This lack of time is a particular problem when considered alongside the increasingly complex investment environment and growing governance expectations that plans face.

Key finding

Half of trustee bodies spend five hours or less on investment matters each quarter.

Time spent per quarter



Responses: 139

While the majority of respondents (84%) are happy with the speed at which investment decisions are made, 13% believe that investment decisions are taken too slowly.

Aon perspective

With 13% of respondents saying that investment decisions are taken too slowly and half of trustee bodies spending five hours or less on investment matters each quarter, this can mean that investment opportunities are missed. Some of the key reasons for slow decision making are time and knowledge issues.

Time pressures on trustee bodies?

Trustees are expected to keep a close eye on their investment strategy — something that can be difficult to achieve in the time pension boards have available. For many plans, it would be difficult to identify that an opportunity to de-risk had arisen between quarterly board meetings, and to take swift action in moving assets from a growth-seeking focus to a liability hedging focus.

The increasing investment complexity plans face could affect a plan's ability to deliver good governance. This is where delegating some or all responsibility to a fiduciary manager can add enormous value, improving governance and investment performance.

Outsourcing the answer?

The outcomes that are delivered by fiduciary management demonstrate whether it is successful or not. Overall client satisfaction — specifically client service, the relationship with the provider and improvement of funding levels — is a key measure of outsourcing's success.

Our experience of fiduciary management indicates that pension plans employing it can reach their end goals more quickly and with greater certainty, and that it can help plans overcome many of the challenges and barriers they face.

Section 6

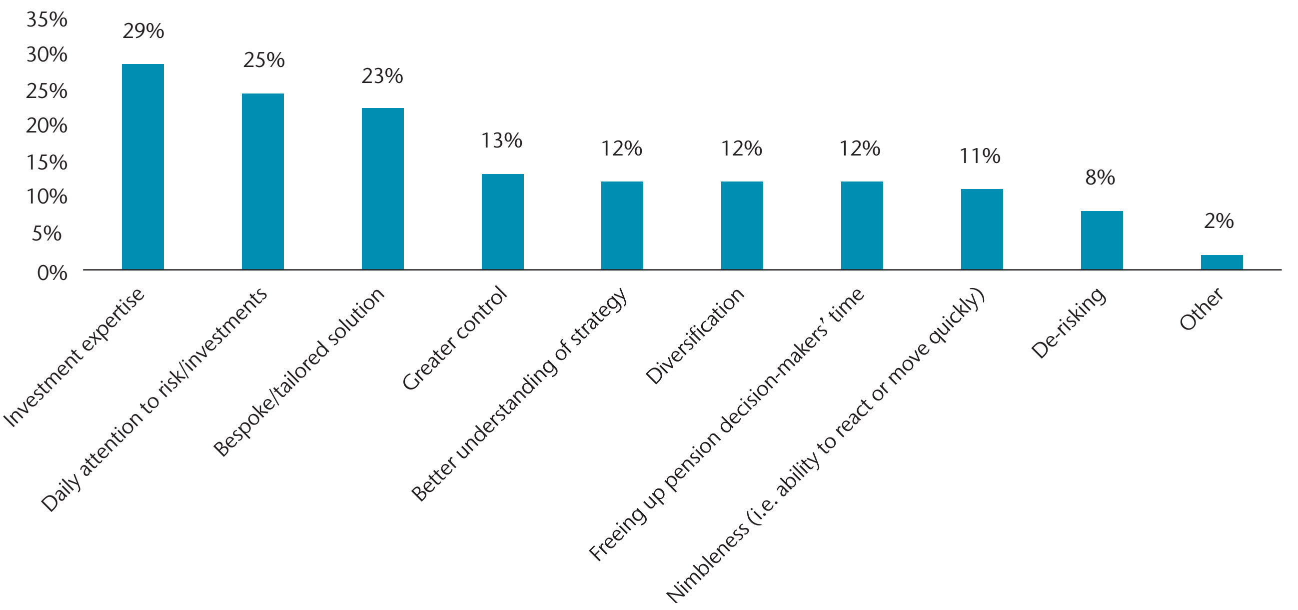
Advantages of delegation

The survey asked what respondents view as the main advantages of delegation. The biggest group of respondents (29%) see investment expertise as the main benefit of a delegated approach. 25% believe daily attention to risk/investments is the key advantage, and 23% cite the ability to deliver a bespoke or tailored solution.

Key finding

The advantages of delegation are bigger in reality than plans expect them to be.

Main advantages of outsourcing/delegating



Responses: 144

Large (€1bn plus) plans are more likely to see investment expertise as an advantage (47%) while medium-sized ones (€101m-€1bn) cite daily attention to risk/investments (41%).

There are some differences between the advantages cited by those with DB, DC and hybrid plans. In DB, daily attention (28%) is followed by investment expertise (22%) and the ability to free up decision-makers' time (19%).

For DC plans, the potential for a bespoke solution is the top advantage (26% choose this), followed by investment expertise (24%) and daily attention (21%).

Hybrid arrangements put investment expertise first by some way (44%), with a bespoke solution and daily attention both cited by 26%.

There are also some interesting differences between the answers of those who have and have not outsourced aspects of their pension plan.

Investment expertise is the main advantage for plans that have delegated or outsourced (48% select this), followed by daily attention (45%) and a bespoke solution (29%).

The potential for a tailored solution is the top perceived advantage for those yet to delegate (35%), followed by investment expertise (26%) and nimbleness (22%).

Some advantages of delegation are far more pronounced in practice than they are anticipated to be by those yet to go down a delegated route.

Investment expertise, for example, is expected to be an advantage by 26% of respondents who have not delegated – but for those who have, their experience leads 48% to view it as a benefit.

Similarly, daily attention to risk/investments (45% vs 17%) and diversification in investments (24% vs 4%) are also far bigger benefits in reality than in perception.

This is something we have also seen in our long-standing UK fiduciary survey, where the advantages of delegation are far more evident than they are expected to be. There can be a marked difference between the perceived and actual benefits of delegation or outsourcing.

Cost and potential conflicts of interest are viewed as the main potential disadvantages.

Advantages

1.	**Investment expertise**	29%
2.	**Daily attention to risk/investments**	25%
3.	**Bespoke/tailored solution**	23%
4.	**Greater control**	13%
5.	**Better understanding of strategy**	12%
6.	**Diversification**	12%
7.	**Freeing up trustees' time**	12%
8.	**Nimbleness (ie, ability to react or move quickly)**	11%
9.	**De-risking**	8%

Responses: 144

Disadvantages

1.	**Cost**	33%
2.	**Conflicts of interest**	26%
3.	**Loss of control**	19%
4.	**Hard to compare providers**	15%
5.	**Complexity**	12%
6.	**Governance**	10%
7.	**Fiduciary responsibilities unclear**	9%
8.	**It's new**	1%

Responses: 125

Aon perspective

The top advantages of using fiduciary management from our survey respondents were investment expertise, daily attention to risk/investments and having a bespoke solution. Here we look at each of these advantages.

Investment expertise

As products become more complex and less transparent, they become increasingly challenging for plans to understand, even for those with good investment knowledge. With market volatility the norm, there is a greater focus on liability management, de-risking and the ability to move quickly.

When using a fiduciary provider, accountability for the investment strategy (overall risk and return) remains with the pension board, who will agree the key parameters such as time horizon, return and risk. The fiduciary manager is then responsible for implementing the investment strategy within the agreed framework.

Using the expertise of a fiduciary provider can offer plans use of the full range of return-seeking and liability-matching solutions to achieve the results they need. By appointing a fiduciary manager, plans can ensure that their investment strategy is appropriate now and in the future, effectively future-proofing their plan.

Daily attention to risk and investments

Nimbleness in terms of speed of decision making and speed of implementation has increased in importance. Pensions committees and boards may review their investments on a quarterly or less frequent basis. Consequently, there can be delays in the decision-making process, leading to missed opportunities.

With a fiduciary provider in place, this can be negated, as the provider has the ability to continuously monitor the investment landscape and make highly informed decisions. This ability is a key advantage for time-pressured boards and committees.

Bespoke/tailored solution

Plans that use fiduciary management have a wide range of solutions available to them, and a tailored solution designed to meet their plan's objectives and requirements. They are able to have a greater number of asset classes than those that do not use fiduciary.

Aon's full fiduciary solutions give clients access to 15–50 different investments, diversified across asset classes, strategies and managers. Aon's externally managed, buy-rated funds give clients access to high conviction ideas and managers, providing the best chance of delivering the excess returns needed over the long term.

Selecting a fiduciary manager

For those plans yet to outsource some or all of their pension plan, what should they look for when choosing a fiduciary provider?

A rigorous selection process is key and should be undertaken when selecting a fiduciary provider. Pension boards need to ensure that they carry out extensive due diligence in order to understand the fiduciary manager's business model, its operations, the processes it employs when selecting investment managers, and how it monitors managers and performance.

The key task for the pension board will then be monitoring the fiduciary manager to ensure it is assessed against the plan's objectives and investment performance.

Section 7

The process for selecting a delegated/fiduciary provider

The survey asked respondents to rank the importance of certain features when selecting an outsourced investment management provider.

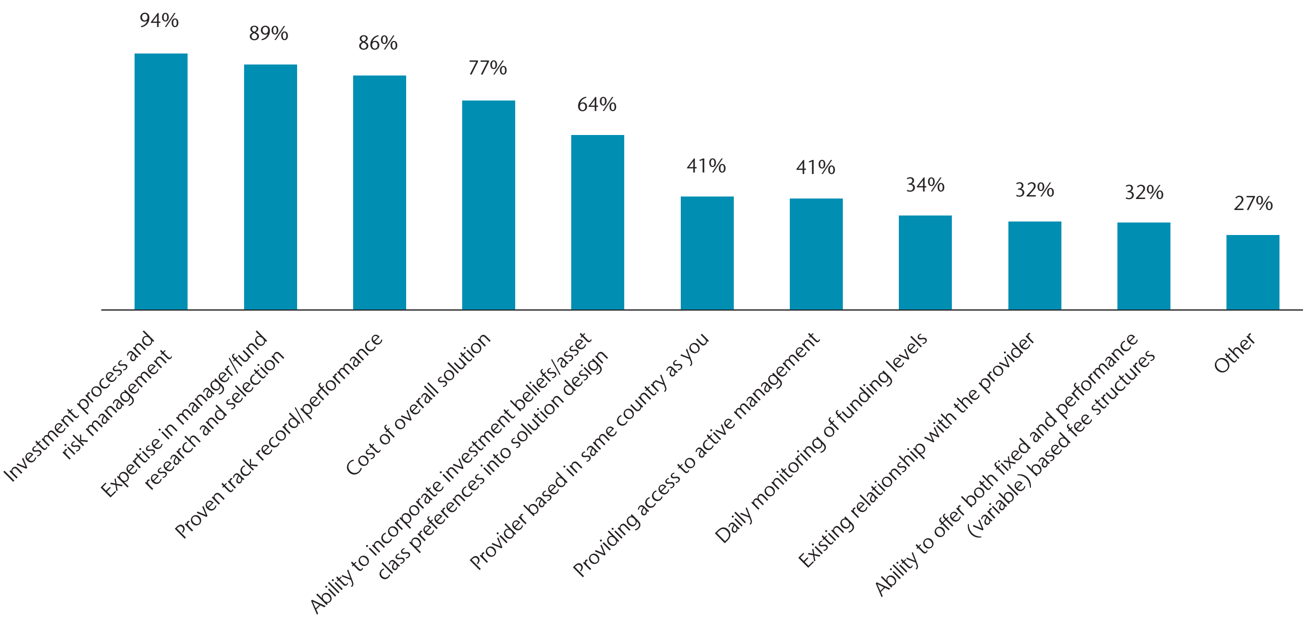
A provider's investment process and risk management capability is the feature most valued in a potential delegated/fiduciary provider; 94% of respondents ticked this as a 4 or 5 where 5 is 'essential'.

Expertise in manager/fund research and selection is second (89% tick as a 4 or 5), followed by proven track record/performance, chosen by 86%, and cost of overall solution, a high consideration for 77%.

Key finding

A provider's investment process and risk management capability is the feature most valued in a potential delegated/fiduciary provider.

Importance of features when selecting a fiduciary manager or other delegated provider – % answering 4/5



Responses: 270

When we look at the attributes marked 'essential', investment process/risk management remains top, with 66% ranking it as such. Proven track record (59%) overtakes expertise in manager/fund research and selection (58%).

There are some interesting differences between the features of most importance to different countries. Proven track record/performance is more important to respondents covering pensions in Switzerland (68% of whom cite it as essential) than it is to other countries.

Irish and Swiss plans are most concerned about investment process and risk management (71% from each country rank it as essential). Providing access to active management is essential to 43% of Irish plans, but is not ranked essential by any from the Netherlands.

The Netherlands and Ireland are particularly concerned about expertise in fund manager research/selection, with 68% and 71% respectively marking it as essential.

The ability to incorporate investment beliefs/asset class preferences into solution design is essential for 44% of Swiss plans and 43% of Irish ones.

Aon perspective

The fiduciary management market can be complex and unknown. It is therefore important that trustees consider their options in order to select a fiduciary manager that is the right fit for them.

Open and competitive tenders are the most effective way of enabling trustees to understand the various models and make the selection that most closely meets their needs and objectives. This process allows a pension plan to ensure they are on the appropriate path in terms of the style of solutions and having the right cultural fit with the fiduciary manager.

During the selection process, pension plans can often change their focus as they develop a deeper understanding of the solutions, the implementation process and what it means for the scheme members. Some plans may start out by looking at only delegating one element of their scheme (for example, administration) and end up choosing a high level of delegation, while some let their approach evolve over time and others who may have looked at full delegation only outsource one element of their plan. Whatever the approach, there is no 'one size fits all'.

Rigorous selection process

Trustees are using a combination of processes to make sure that they select both the provider and the solution that is right for them. Comparing providers can be a difficult task, so face-to-face interaction is important, as are site visits. These give trustees a great opportunity to really understand the solution, the systems and the provider's risk management approach. It also offers the chance to meet the people who will be responsible for their portfolio and to get a feel for what it would be like working with the provider. Fiduciary management is a trusted and long-term partnership; this is therefore key.

At Aon, our experience is that the vast majority of fiduciary mandates are going out to a full competitive tender process. We have seen a mix of approaches being taken, with some trustees using their in-house expertise, procurement department or paid trustees to help support the process, which may include RFPs, site visits and formal presentations.

Introducing third-party evaluators to the process

The use of third-party evaluators (TPEs) within fiduciary management is a relatively new concept compared to the provider side and yet to be fully proven in terms of the value they add. However, as their offerings have developed and they have increased their understanding of all the fiduciary providers in the market, we are seeing them being part of more selection processes. For trustees that do not feel confident running a selection process themselves, using a TPE to help them can give comfort. However, we encourage trustees to remain fully involved and hands on, for example speaking with the providers to outline views and needs – providing key criteria, reviewing RFPs and understanding any differences between providers.

Appointing a fiduciary provider is a big decision and requires work and input from the trustees at the outset to make sure that you put in place both a solution and a provider that is right for your pension plan. Not being 'hands on' during the process could have a negative impact and result in future issues of misalignment or misunderstanding. This part of the industry is still evolving and it is unclear exactly what form/presence it will take in the future and how prominent it will be.

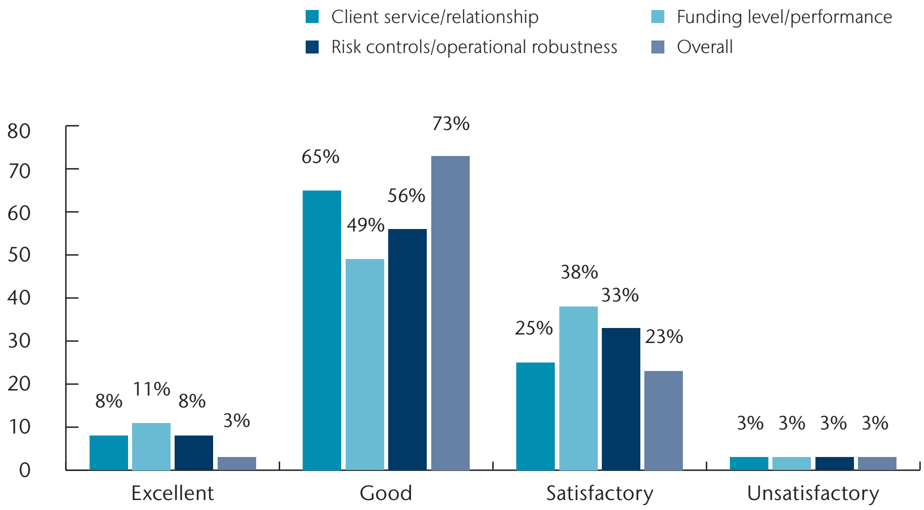
Section 8

Satisfaction with delegation

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.

Experience of outsourcing



Responses: 156

Key finding

98% are satisfied with funding levels and investment performance of an outsourced solution

Aon perspective

High satisfaction levels

The aim of fiduciary management is to help pension plans achieve their long-term goals and objectives. Therefore, the real tests of whether fiduciary management is a success or not are the results delivered and the views of the clients who have adopted this approach.

One of the best ways to measure the success of delegation is to look at the outcomes and client satisfaction levels across key areas – funding levels, performance, reporting, cost and fee transparency, risk control, operations and client service.

Our survey results show that there is a high level of satisfaction overall from plans who have outsourced.

These strong satisfaction levels in performance and funding levels are not surprising given our own experiences and results for clients. As at 31 December 2018, our longest-standing full fiduciary client outperformed their bespoke liability benchmark by +2.3% p.a. net of all fees (since inception date of 1 January 2010).

Client service

Ongoing client service and the relationship with a provider is a key. With the maturity of the fiduciary market in certain countries like the Netherlands and growing maturity in other markets like Ireland, plans are able to check a fiduciary provider's performance track record easily. At Aon we are focused not only on investment performance, but the added value we can deliver for clients over and above this. We provide a range of added services including:

- Transparent, consistent quarterly reporting
- Quarterly meetings with our investment specialists
- Annual strategic reviews
- Fiduciary surveys providing insights into markets in each region where we operate
- Conferences and seminars to educate pension plans and boards
- Thought leadership on topical investment areas

The client service we provide to our clients means to date we have not lost a full fiduciary client since 2009, when our fiduciary business first started.

Cost and transparency

Good value is clearly important to plans and pension boards want to be able to compare fees across multiple providers. In this respect, fully unbundled fees and pricing structures are a huge enabler for plans to make informed decisions. Aon has long supported this approach and we are pleased to see that pension boards are increasingly pushing their providers for complete transparency in this matter.

Best practice is for fees and costs to be disclosed to prospective/current clients in an agreed standard format broken down by management fees, additional expenses and ongoing transaction costs, at both the fiduciary manager and overall underlying manager level. Standardisation of fiduciary fees and costs will enable easier comparison. For those considering a fiduciary approach, it is important that they look at the total fees and costs of their current arrangements on the same basis as the fiduciary management solution.

We believe that all pension plans (not just those with fiduciary management) should be encouraged to maximise the quality of their reports and transparency of all their fees and costs so they can readily compare fees and performance across different plans.

Across Europe, respondents continue to recognise that to manage their portfolios effectively, expertise is needed to allow swift and incisive investment decisions. With satisfaction levels so high, we believe that fiduciary management will continue to grow in popularity, whether this is by delegating only one element of a pension plan's requirements or by opting for full delegation.

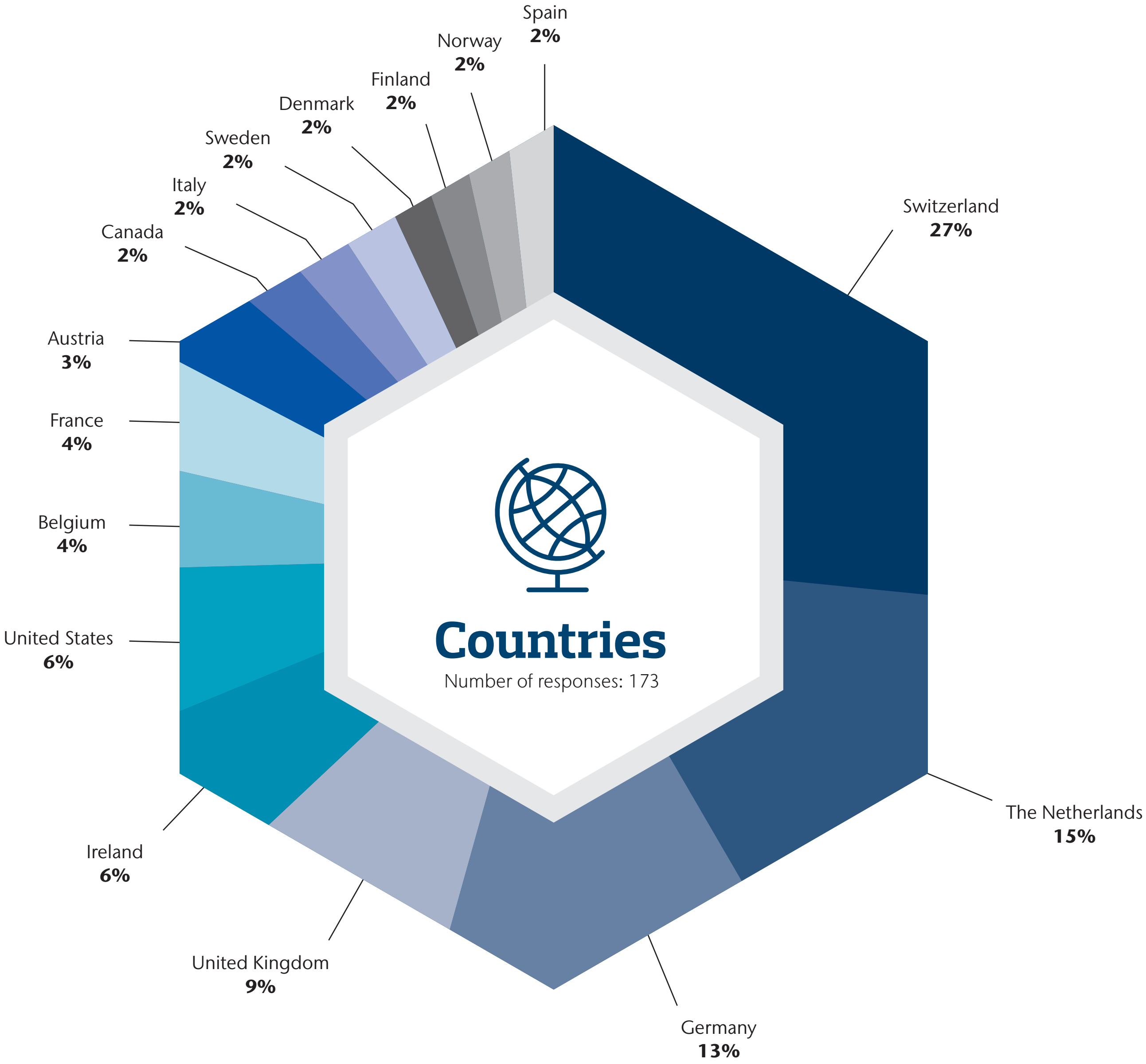
Section 9

About the survey

Countries represented

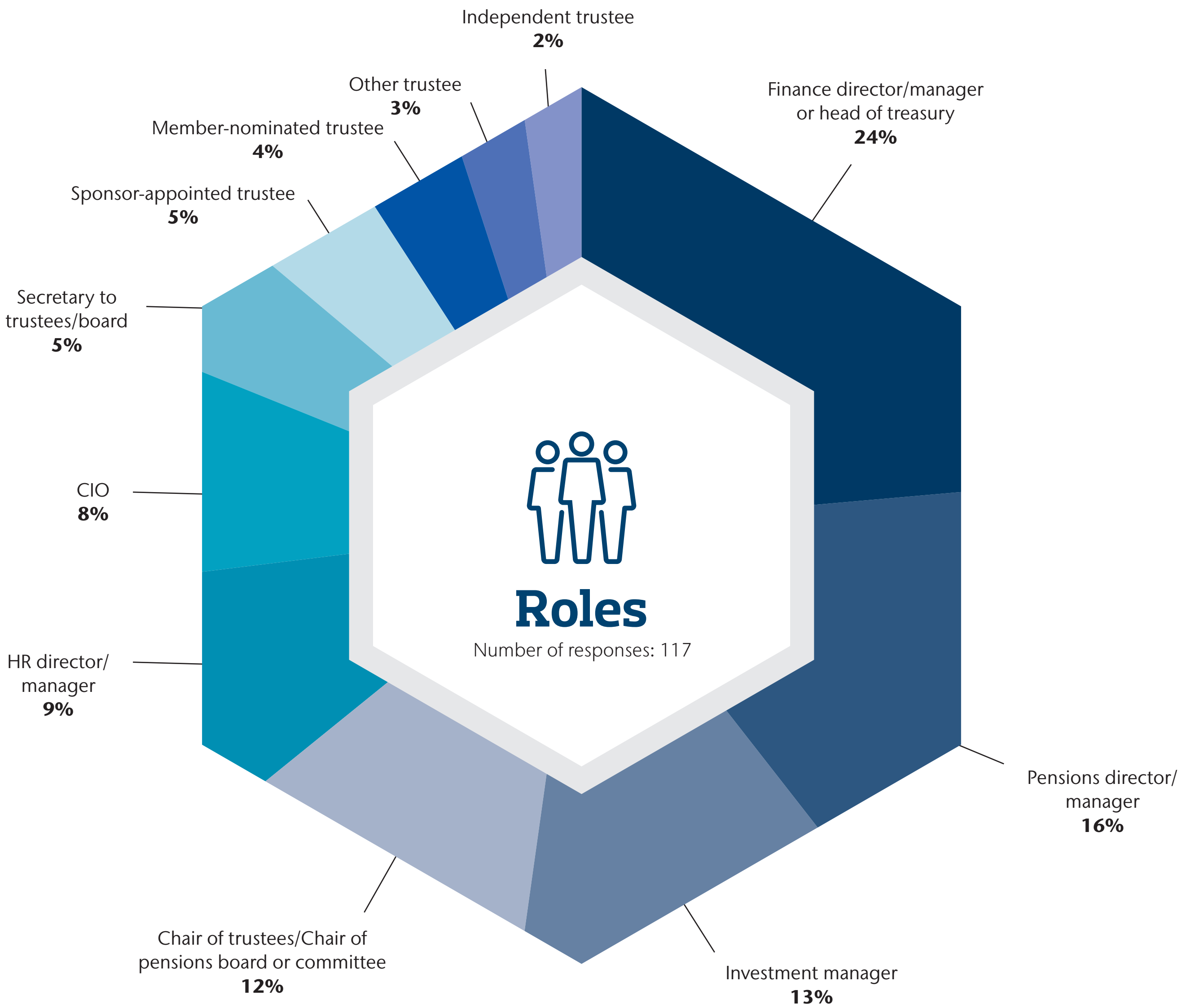
Plans included in the survey cover 16 different countries. More than a quarter of respondents (27%) are responsible for plans covering Switzerland, with the Netherlands (15%) and Germany (13%) also strongly represented.

For 89% of respondents, the plan sponsor is based in Europe. 4% have sponsors based in the US and 3% in the UK.



Roles of respondents

Among respondents to the survey, the largest number work in finance roles; 24% have finance director/manager or head of treasury roles. 16% are pensions directors or managers and 13% are investment managers. 12% are trustees (with a further 2% being independent trustees). Another 12% are chairs of trustees or of a pensions board or committee. Some respondents have more than one role – for example, as both finance director and trustee – hence the number of responses to this question is higher than the number of survey respondents.



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PROFESSIONAL PENSIONS UK PENSIONS AWARDS 2018
WINNER
DB Investment Innovation of the Year

European Pensions AWARDS 2017
WINNER
Fiduciary Management

PENSIONSAge AWARDS 2017 WINNER
FIDUCIARY MANAGEMENT FIRM OF THE YEAR

PENSIONSAge AWARDS 2015 WINNER
FIDUCIARY MANAGEMENT FIRM OF THE YEAR

PROFESSIONAL PENSIONS UK PENSIONS AWARDS 2016 WINNER
Fiduciary Manager of the Year

PROFESSIONAL PENSIONS UK PENSIONS AWARDS 2015 WINNER
Fiduciary Manager of the Year

Pensions expert PENSION AND INVESTMENT PROVIDER AWARDS 2018
Winner
FIDUCIARY MANAGER
Aon

Pensions expert PENSION AND INVESTMENT PROVIDER AWARDS 2016
Winner
Fiduciary manager
Aon Hewitt

Pensions expert PENSION AND INVESTMENT PROVIDER AWARDS 2014
Winner
Fiduciary manager
Aon Hewitt

Working in partnership with our clients

At Aon we believe in working closely with our clients from the very outset to understand the challenges they face and their individual needs. Working in partnership with the trustees and sponsor, we create a bespoke solution to help address these issues and help them to meet their long term goals. No two clients of ours are the same and each has their own bespoke liability benchmarks, reflecting our truly tailored delegated offering.

To talk to us about any of the points we have raised in this survey or to find out more information about our delegated offering, please do not hesitate to contact your Aon consultant or Sion Cole, Senior Partner and Head of European Distribution, Delegated Consulting Services, on **+44 (0)20 7086 9432** or at **sion.cole.2@aon.com**.

aon.com/delegatedconsultinguk

About Delegated Consulting Services

Aon's fiduciary offering (Delegated Consulting Services) is focused on helping trustees and sponsors work towards better outcomes for their scheme members. We do this through helping you meet your unique long term objectives and, importantly, through improving your scheme's funding level. What makes us different? Only we ask the best questions and then really listen to exactly what our clients tell us. By working in partnership in this way we can then create a truly bespoke solution that is designed to meet your unique requirements. We don't just say bespoke, we live by it.

Aon has won fiduciary manager of the year awards for five years in a row. Our ability to create truly bespoke solutions has been cited as part of these award wins and is one of the reasons why our clients vary significantly in size and how we work with them. Examples of some of the solutions we can offer clients include full fiduciary with bespoke growth and liability matching portfolios and daily monitoring of triggers. We also offer single solutions (partial fiduciary mandates) such as hedge funds, alternatives mandates and flight planning with dynamic de-risking.

About Aon

Aon plc (NYSE:AON) is a leading global professional services firm providing a broad range of risk, retirement and health solutions. Our 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance.

For further information on our capabilities and to learn how we empower results for clients, please visit http://aon.mediaroom.com.

aon.com/delegatedconsultinguk

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