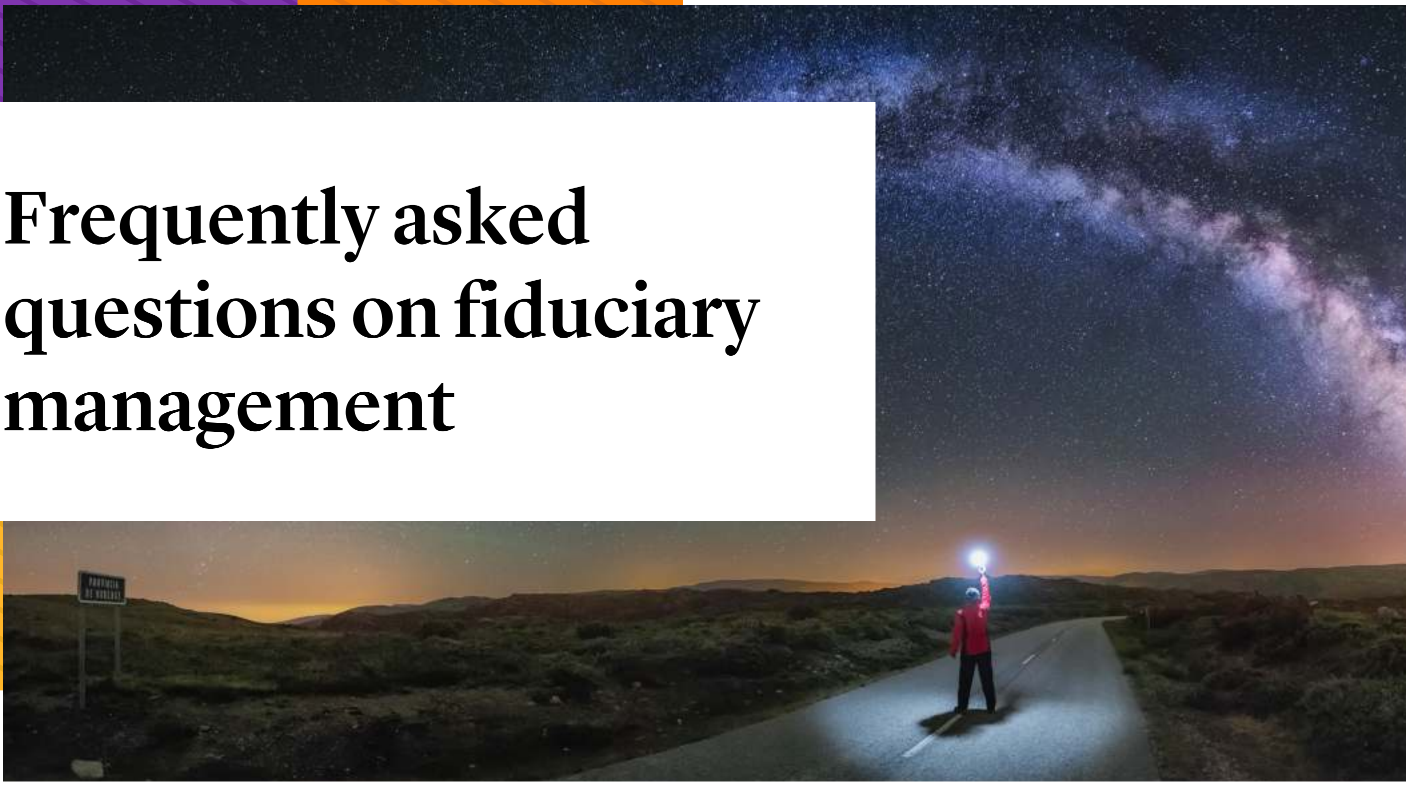
# Frequently asked questions on fiduciary management



**We answer questions on fiduciary management and how it empowers asset owners to achieve their financial goals while navigating the complexities of investment processes with peace of mind.**

### What is Fiduciary Management?

Fiduciary Management (also known as “delegated investment” or appointing an “outsourced chief investment officer”) is a governance model that enables institutional investors to delegate the more detailed aspects of their decision making to a professional management firm. This model is designed to target improved “financial outcomes”, better meet the “time and expertise” requirements of running a portfolio and deliver “value for money”.

### How does Fiduciary Management work?

The fiduciary management contract gives a professional third party the authority to execute an agreed strategic investment policy and report back to the assigned stakeholder(s) tasked with oversight e.g., board, trustees or investment committee. That means the institution can focus more time on the fundamental strategic issues such as setting the long-term goals for the portfolio, establishing key investment policies and constraints, which underpin the fiduciary mandate. The fiduciary manager executes on the agreed mandate and deals with the complexity of day-to-day investment decisions and operational burdens of managing funds.

The monitoring process is streamlined, as the fiduciary manager actively engages with all the asset managers and any other service providers, on behalf of the client, reporting back on any issues as necessary.

In using a fiduciary management framework, the institution gains comfort that the investment strategy is implemented by specialist professionals, in a properly risk-managed manner.

### What is the institution’s oversight role in a fiduciary model?

Instead of making decisions in all the areas below, under a fiduciary model the institution is mainly responsible for making strategic decisions and overseeing the execution, with other decisions beneath strategy level typically delegated to the fiduciary manager.

**Figure 1: Fiduciary Management framework**

| Investment process | Decisions | Institution | Fiduciary Manager |
|---|---|---|---|
| **Strategic decisions** | Investment philosophy, objectives, risk constraints, and governance model | Decide | Advise |
| **Implementation** | Asset allocation, portfolio construction, manager selection and negotiation, legal reviews and operational aspects of implementation | Oversee | Decide |
| **Monitoring** | Monitor performance of various asset managers | Oversee | Decide |
| | Monitor performance of fiduciary manager | Decide | — |

## Fiduciary mandates are designed to be flexible to a client's governance capabilities and objectives, and can be tailored with variations including:

*How much of the assets to delegate*
Typically a fiduciary manager will take responsibility for the whole of the portfolio's assets. In some cases, the fiduciary manager will be responsible for a part of the portfolio, for example all investments within a particular asset class.

*The extent of decision-making authority*
Typically the fiduciary manager will make all the non-strategic decisions described above. However, some institutions may continue to make decisions on the allocation to different asset classes, often following consultation with the fiduciary manager.

**Is Fiduciary Management mainly for institutions targeting a high return?**
It is true that many institutions have appointed a fiduciary manager to help achieve the return they need to improve their financial position. However, institutions with lower return targets have also adopted a fiduciary management approach to alleviate governance constraints, enhance operations and implementation. Taking advantage of cost and scale benefits are additional drivers.

**Can a fiduciary manager help with sustainable investing?**
This will depend to some extent on the fiduciary manager: whether and how sustainable investment is integrated within their investment process, whether their chosen investments meet the sustainability criteria, and the extent to which they can tailor the portfolio to the needs of each client. In particular, sustainability and ESG principles are already part of the core approach/philosophy of some (but not all) fiduciary managers.

**How do fiduciary managers report on performance and how are they held responsible?**
A fiduciary manager will provide regular updates to the institution's assigned oversight committee, board or trustees on the investment performance against the benchmark set by the institution. This will typically include updates on the performance of the various asset classes and underlying managers. In addition, the fiduciary manager may report on progress made against non-financial objectives, such as progress towards net zero goals.

The performance of many fiduciary managers (mainly in relation to the achieved investment returns) are also monitored by third party selection providers.

**Are all fee structures the same?**
In the past, fiduciary managers have set out their fees in a variety of ways. However, greater transparency is expected to come in this area, with a move towards more detailed breakdowns of fees and standardisation in how these are disclosed. When considering the level of fees, the institution should seek to understand:

- Different types of fees — typically these consist of fees for the fiduciary manager, underlying asset managers, and various expenses (such as those for legal and custodial services)
- Cross charges — the fees may be paid directly to each party, or re-routed via the fiduciary manager
- Whether the fiduciary manager can influence their own fees — for example, by generating good returns (a "performance-related fee") or via portfolio construction (e.g. by investing in their own funds)

**A well-structured fiduciary management service should be aligned with the needs and goals of the institution.**

**Full pass-through of manager fee savings negotiated by the fiduciary manager over time**
It is your fiduciary manager's fiduciary obligation to act in your best interests. Any fiduciary manager with scale should be able to negotiate lower fees over time, either for third-party investment management or for any supplemental service providers, as applicable.

When lower fees are negotiated, you should expect the savings to go to you. There's no reason for a fiduciary manager to ever keep any of the negotiated savings for themselves.

**What about conflicts of interest?**
Critics may argue that fiduciary managers can be conflicted because of their position as both advisor and investment implementer, possibly benefiting commercially from the allocation decisions made by their clients following their advice, or the decisions made by the fiduciary manager on behalf of their clients.

A well-structured fiduciary management service should be aligned with the needs and goals of the institution. It is natural for the institution to seek advice from their fiduciary manager on the appropriate risk profile, or strategic asset allocation required to meet long-term savings goals. Establishing a fiduciary management agreement stipulating the operational constraints of the mandate, the use of in-house funds, and services fees is an important step in managing any potential or perceived conflict of interest. The fiduciary manager can then execute the strategy and manage the operations in confidence that there is strong institutional support for the mandate.

Transparency is key to managing any potential or perceived conflict of interest. Institutions should be aware of the fees paid for advisory services, as well as the fees associated with fiduciary management, and it should be transparent and separate from any underlying investment manager or product fees.

A good service will always command a fee. Fiduciary managers will only retain client mandates if they perform their duties and are held accountable.

**Does fiduciary management equate to loss of control?**
A concern among some stakeholders is if you delegate some of your decision making to a specialist, you are no longer in control of your fund and potential investment outcomes. However, delegating investment does not mean giving up control. The board/trustees or assigned investment committees control the objectives and set the constraints within which the fund is managed, such as which asset classes are selected, any hedging requirements, cost budgets and liquidity requirements. If circumstances or needs change, the institution has the power to change the objectives and the constraints within which the fiduciary manager is working.

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