Independent Trustees

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Delegated investment consulting: friend or foe?

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We are hearing of and seeing more trustees handing over responsibility for investment to third parties as they struggle to find adequate governance time and to get to grips with the ever-increasing complexity of investment. Demand for this relatively new approach appears to be increasing and you might even say in recent years that **delegated consulting**, or fiduciary management, **has become a mainstream alternative to traditional fund management**.

Delegated solutions are about outsourcing aspects of the trustees' investment decisions. They vary from full delegation – where the consultant has responsibility for delivering investment advice, risk management, choosing and monitoring the fund managers employed and implementation – down to a lighter approach, where the trustees retain responsibility for one or more of these areas.

Another option again is implemented consulting, where the trustees retain all decision making responsibility but their consultant 'makes it happen'. **With all this variety available, no wonder trustees can find it confusing**.

Of course, a trustee cannot delegate their fiduciary responsibility so strategic decisions will always continue to be taken by them. However, a delegated solution can appear compelling for schemes where governance time and trustee availability is restricted, and where investment expertise across the trustee board is perhaps limited.

> **Even the best structured trustee board may find it difficult to** meet regularly and quickly enough to hear about new investment ideas, fully understand them, **agree an approach and implement it in a timely way before the value of using new ideas is lost**. So the main advantage for trustees is that, by delegating to investment professionals, they are ensuring decisions can be made and implemented on a daily basis if needed.

One argument often made against delegated consulting is that the trustees are giving up control to a third party. In reality, trustees actually retain control of the big strategic decisions and keep a close watching brief on key aspects, such as scheme liabilities and risk-v-return objectives, to evolve that strategy as needed in the future.

Having **more time to focus on the bigger issues** can be a distinct advantage and can ensure quality time with their delegated manager **without the distraction of worrying over performance of individual managers or asset classes**.

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Monitoring the investment portfolio and performance is, of course, still very important. Trustees will agree and set out clearly defined funding parameters and objectives, most commonly linked to de-risking leading to full funding. Shorter term objectives and benchmarks can also be devised, although the longer term objective should always remain in sight. Questions will still need to be asked about the underlying managers and assets, their performance and reasons for any changes.

What is essential is having confidence in your chosen delegated manager and approach taken. This is best built by regular transparent reporting, meetings and reviews. Paying yet another third party to review and monitor your delegated manager is rarely cost effective!

If you are thinking about whether delegated consulting, fiduciary management or implemented consulting might be right for your scheme, it is important to **consider your existing governance structure and investment expertise**, as well as the pros and cons of each approach **and the other alternatives available**.

What's most important is that you are able to make a fully informed decision and are not simply drawn to the next big idea.

What do you think?

Share your thoughts with us, email **mark.homer@psitl.com**