Delegating the Implementation of the Decision

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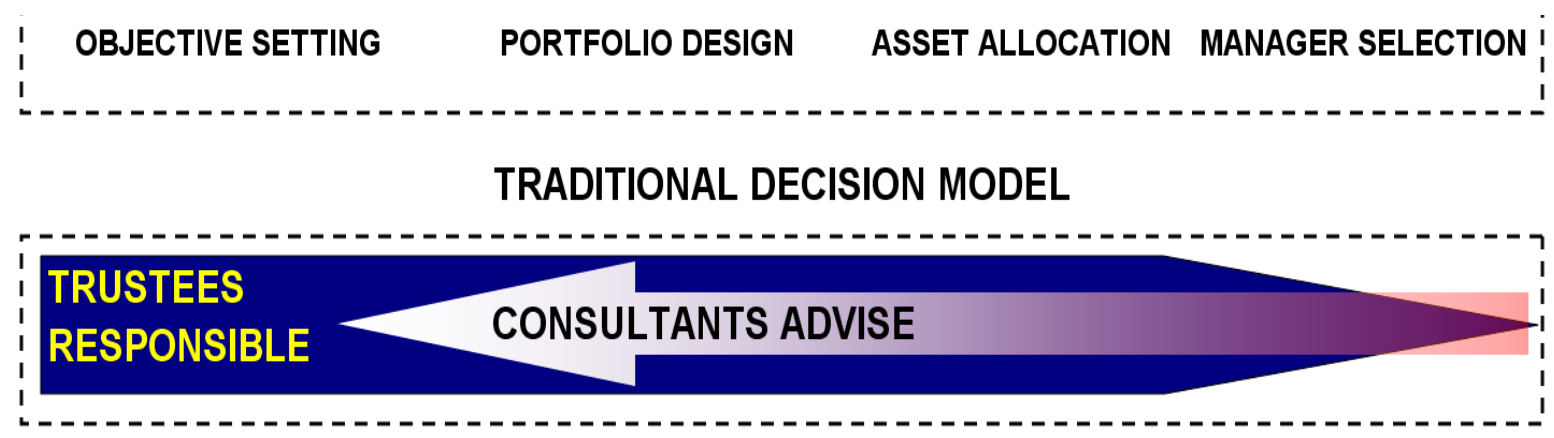
A broken model?



- Accountability for decisions often unclear
- Hard to access new techniques and asset classes

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The appeal of outsourcing

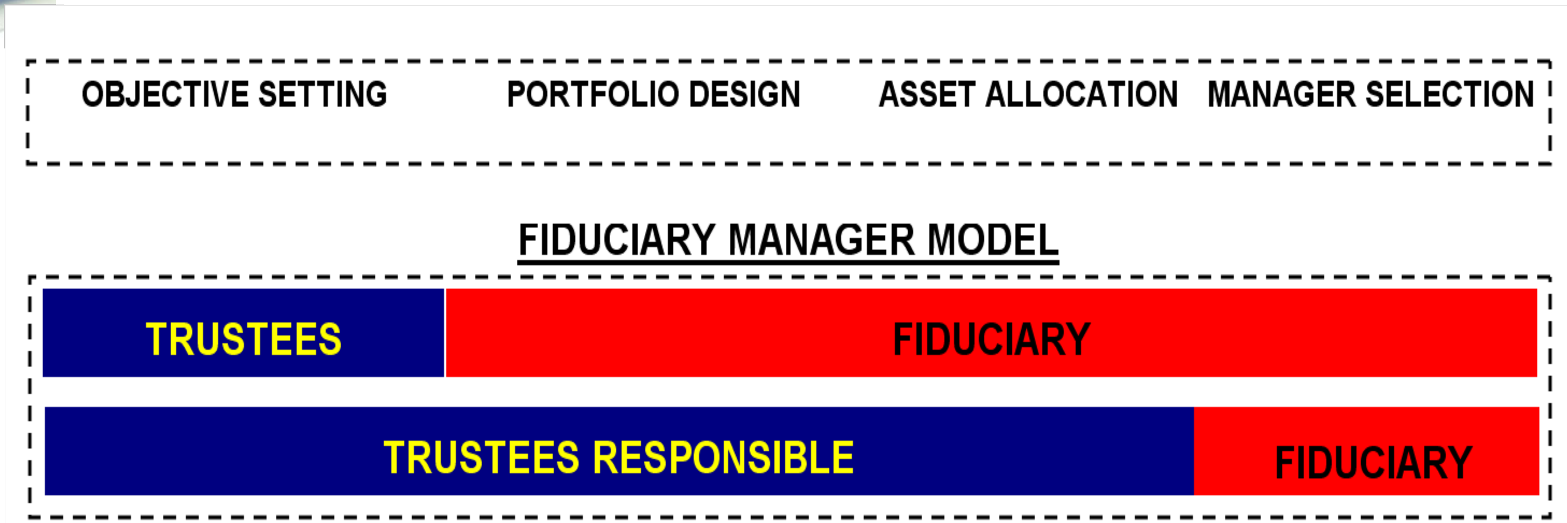
- Address the governance problem
- Overcome the inertia of the current model
- Experts make real time decisions
- Trustees fulfil function through delegation

This sounds great!

Some surprises

- Risk and strategy decisions ***cannot*** be outsourced
- The ‘agency problem’ is not solved
- Terminology - and offerings - are diverse and confusing
- Not all solutions truly ‘outsource’ anything
- Time commitment may not be reduced

A better model?



- Neither a fiduciary nor an implemented approach covers a standard *range* of decisions
- But the lines of accountability are clearer

Convergence

Traditional Consultant

Manager of Manager

New / Other Models

Asset Managers

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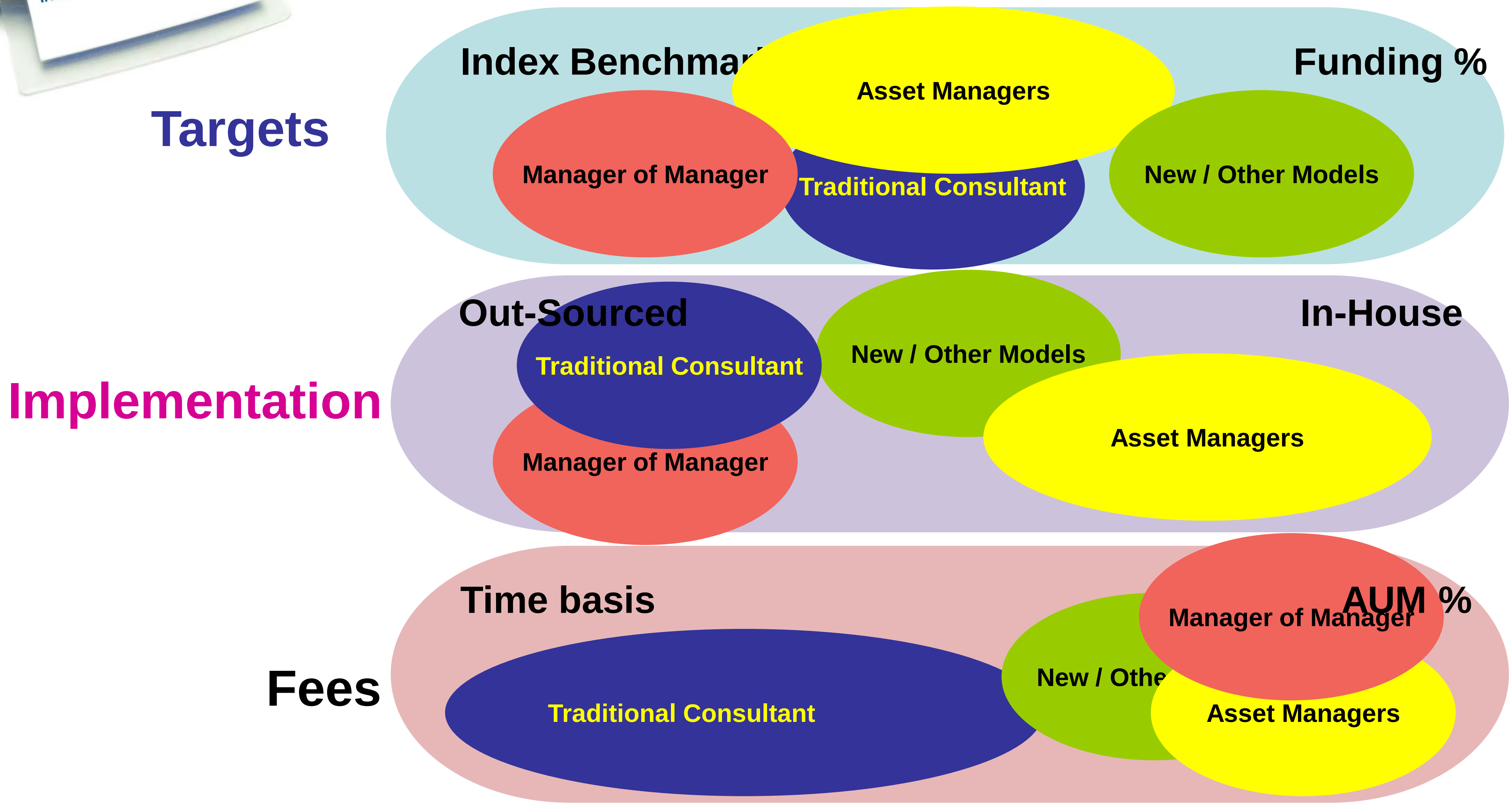
An array of choices



Fiduciary vs Implemented

In theory, an agreement with a fiduciary manager is more clearly ‘delegated’, ***but***

- At least one ‘fiduciary’ offer is actually implemented consulting
- Another offers a choice between a single legal contract or contracts with each manager
- Trustees generally retain a veto on managers with *both* approaches (except for in-house products)
- *Either* may be offered on only *part* of a fund

Confused?

- Fiduciary and Implemented approaches help to focus on the core issues
- In effect they force trustees to set clear objectives and sort out priorities
- They can both be measured against solvency objectives
- For most funds they broaden the practical universe of instruments and techniques

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What should we worry about?

- The ***'usual suspects'***
  - Do we fully understand what is on offer?
  - How will we measure success?
  - Do we understand the fees properly?
  - Who are we contracting with?
  - What is the manager incentivised to do?

- ***A new one: What is required from us?***

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Final thoughts

- What happens when advisers become managers, and vice versa?
- Are there new risks?
- Do we still need advice?
  - To select a fiduciary/implemented manager
  - To monitor the manager once appointed

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THANK YOU

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