

In a world of high funding levels, who is grading your Fiduciary?

The case for independent evaluation - five reasons why trustees should have oversight of their fiduciary managers

Despite clear regulatory signals, only around one third of UK pension schemes using fiduciary management commission ongoing independent oversight — this has remained stubbornly low despite the emphasis The Pensions Regulator (TPR) and the Competition & Markets Authority (CMA) place on strong governance and independent assessment. Without independent oversight, clients are reliant on their fiduciary to provide information on how they are performing, often without challenge or wider sight of what others are doing. Most people wouldn't let students mark their own homework, but it appears the industry is comfortable to let fiduciary managers do it.

So why is the use of independent oversight so low? Typical objections and challenges to third party oversight include cost, perceived lack of value, reliance on independent trustees, reduced perceived need for low risk portfolios, and confidence that the fiduciary manager is “doing a good job.” This briefing note addresses these points — and argues that oversight providers themselves are part of the solution, and must improve accessibility, impact and outcomes.

The five common objections to third party oversight — and why they don't stack up

1. “Oversight is too expensive.”

Cost of oversight should be viewed against the potential downside of weak governance: misaligned strategies, uncompetitive fee structures, or unchallenged performance claims. TPR's General Code expects governing bodies to have an **effective system of governance**, including appropriate oversight of **delegated bodies** and clear **conflict management** — areas where independent FM oversight directly contributes to risk control and value for money.

Good fiduciary manager oversight offerings enhance understanding by giving more transparency, benchmarking outcomes, and ensuring the mandate remains appropriate. All of which can prevent cost leakage over time, lead to performance that is aligned to scheme needs and ultimately reduce the time the trustees spend on reviewing investment reports. Fiduciary manager investment reports can be difficult to decipher, and for smaller schemes there can also be a reluctance to tailor the reports to the needs of the trustee.

2. “It doesn't add value.”

Oversight isn't, and shouldn't be, about chasing basis points of additional performance; it's about **assurance**, **accountability** and **market context** by testing aspects such as benchmark performance (including against targets and peers), implementation quality and fee fairness. Oversight providers can also highlight conflicts (e.g., seeding new funds, preferential terms negotiated by the fiduciary manager that may benefit the manager's broader client base) and ensure decisions align with your scheme's interests, not just the provider's business model.

Ultimately, oversight assesses whether performance of the fiduciary manager is aligned to the needs of the scheme and testing whether they are doing a good job for you and against their peers. Given the imbalance between the information the fiduciary manager has versus that of trustees, it is difficult for trustees to answer this important and critical question.

When done poorly, fiduciary manager oversight will fail to add value or challenge the fiduciary manager in the right way, or fail to propose changes that lead to better outcomes. This is a fair rebuttable for the argument to use third party oversight for their fiduciary manager. This is why fiduciary manager oversight needs to be done by a specialist firm that can demonstrate how they will add value if appointed. To use an everyday example, most people aren't able to challenge the mechanic on the work needed when their car needs fixing, only another mechanic could do this.

3. “We have an independent trustee; we don’t need oversight.”

There is no doubt that the appointment of independent trustees strengthens governance, but as highlighted in the point above, fiduciary manager oversight is a **specialist function** requiring deep market coverage, data frameworks, and technical evaluation of complex investment decisions. TPR’s General Code separates board governance from the need for **oversight of delegated activity**; having an independent trustee doesn’t remove this need, as good oversight will enhance the governance arrangements, not replace or replicate it. Whilst some independent trustees may be able to provide comments on an individual fiduciary manager’s performance, it is much harder to put it into context and compare it to the wider market. Importantly they cannot give formal advice on actions to improve the delegated arrangements. These are the areas that move fiduciary manager oversight from box ticking to value add.

4. “Our portfolio is low return/low risk, so oversight adds little.”

Low risk does not mean no risk. Liability aware portfolios still entail counterparty, liquidity, collateral and operational risks. The industry has seen how rapidly exposures can bite (e.g., the gilt market stress of 2022) with knock on impacts on governance and implementation decisions. In many ways it can be harder and more complex to monitor the performance of buy and maintain credit portfolios or LDI arrangements as it is easy to mask or influence any individual performance metric at the cost of other less visible performance measures, with any mismatch or drift ultimately having a significant impact on the scheme funding level.

Independent oversight validates whether the risk/return profile, hedging levels, liquidity and implementation are **fit for purpose** and **cost effective** over time. The need for oversight of a low-risk portfolio could be considered even more important, as more FMs are allocating to internal funds as schemes de-risk. In the case of running-on, we are seeing FMs having differing capabilities in this area too.

5. “We think our fiduciary manager is doing a good job.”

Confidence isn’t a governance framework. The very essence of the TPR General Code is that governing bodies should **not rely on self assessment by conflicted parties**. Even when performance is perceived to be good, it is important to understand what is driving that performance: is it market returns or is the fiduciary manager adding value?



I have seen numerous cases of the performance being good despite the FM, not because of them. It is important to be able to tell the difference.

André Kerr, Head of Fiduciary Management Oversight

It is very tricky to understand how your fiduciary management arrangement might compare to others without a broader market insight. There may also be areas not explored simply because they have not been raised.

The CMA Order: Oversight is already embedded in UK governance

Since **December 2019**, the CMA Order has required trustees to **set strategic objectives** for their **investment consultants** and to **assess performance annually**; those duties were integrated into pensions legislation on **1 October 2022** with oversight moving from the CMA to TPR via the Scheme Administration Regulations. Fiduciary management carries greater delegated authority than investment consultancy, which strengthens the case that **ongoing, independent oversight** should be a norm rather than an exception.



This creates a telling precedent: if independent objective setting and annual review are mandatory for *advice*, why would they be optional for *execution* under fiduciary management?

André Kerr, Head of Fiduciary Management Oversight



Oversight providers: Time to raise the bar

In order to increase the appeal of fiduciary management oversight, it is important that providers of third party oversight are able to demonstrate value add, with providers ensuring their offering is accessible, insightful, outcome focused and transparent.

► Make cost scalable for smaller schemes.

Pricing can deter smaller schemes. Oversight has to be designed so **cost isn't a barrier** to good governance. The industry needs to be more flexible on how oversight can be cost effective, especially for schemes with assets sub £100m.

► Deliver reports that add real value.

Go beyond tick box compliance. Provide **clear KPIs** (e.g., target vs. realised returns, tracking error, liquidity metrics, implementation quality), peer **benchmarking**, **fee/terms diagnostics** and **actionable recommendations** with timelines and ownership.

► Prove impact through outcomes.

Close the loop: track **decisions taken** off the back of reports (fee renegotiations, mandate refinements, risk mitigations) and **member outcome metrics** (funding level resilience, volatility management, cost savings). Oversight should demonstrably improve governance quality and performance discipline, not just produce pages or replicate the report from the FM.

► Be transparent about conflicts and methodology.


Publish coverage, data sources, and **calculation standards** and state any potential conflicts in the oversight business model. The CMA reforms sought **clarity on fees and performance standards** so trustees could compare and judge value; oversight providers should meet — and exceed — that bar in their own practices

In general we don't let students mark their own homework. Not because we distrust them, but because **independent assessment** ensures fairness, accuracy, and improvement. The same principle applies here: fiduciary managers **shouldn't grade their own performance** in part as they are not best placed to do this. Independent oversight is the mechanism that turns delegated investment authority into accountable execution.

Find out more

If you wish to discuss these issues in more detail please contact **André Kerr** or your usual XPS Group contact.



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