A trustee guide to:

Setting objectives for providers of investment consultancy services

July 2019

Contents

Introduction

Purpose of this guidance

This guidance is for trustees of occupational pension schemes and will be of interest to providers of investment consultancy services and employers.

The law requires trustees to set strategic objectives for providers of investment consultancy services as defined in part 2 of The Investment Consultancy and Fiduciary Management Market Investigation Order 2019[1]. We recognise that the range of advice and services provided by investment consultants is broader than those subject to the legal requirements and we would encourage trustees, as a matter of good governance, to set objectives even where the legal requirement may not directly apply. This guidance therefore aims to provide you with practical information and key matters to consider when:

- setting objectives for your provider of investment consultancy services, and
- deciding on the services you want to obtain from your investment consultant.

We use phrases such as the ‘law requires’ and ‘you must’ to indicate legal duties. We use ‘you should’ to indicate good practice approaches to setting objectives for your investment consultancy services provider.

1 https://assets.publishing.service.gov.uk/media/5cfdfa86e5274a090f9eef8e/Order_investment_consultants.pdf

This guidance has been produced in response to the Competition and Markets Authority (CMA) investigation into the investment consultancy market.[2]

The CMA found problems with the way the fiduciary management and investment consultancy market worked. For investment consultancy, they found low levels of trustee engagement when choosing and monitoring their investment consultant. They also found it was difficult for trustees to access and assess the information needed to evaluate the quality of their existing investment consultant and to identify if they would be better off switching adviser. For fiduciary management, they found low levels of tendering when first moving into fiduciary management, some investment consultants steering trustees towards their own fiduciary management service and a lack of access to clear information on performance and fees.

The costs of switching out of fiduciary management were found to be high and it was difficult for many trustees of occupational pension schemes to access and assess the information they needed on the fees and charges within their existing fiduciary manager agreement to work out if they would be able to receive better terms from another provider. These features were considered to result in substantial detriment to scheme and member outcomes.

The CMA found that, in cases where trustees were engaged in activities such as tendering for services, or switching and periodically reviewing performance, they were more likely to obtain better terms from their service providers and pay lower fees and charges, compared to less engaged trustees.

In its final report[3], the CMA set out a number of remedies and recommendations. Remedy 3 recommended that we provide guidance to trustees on running competitive tenders for fiduciary management and investment consultancy services. This guidance has therefore been produced in response to this remedy.

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2 https://www.gov.uk/cma-cases/investment-consultants-market-investigation
3 https://assets.publishing.service.gov.uk/media/5c0fee5740f0b60c8d6019a6/ICMI_Final_Report.pdf

On 10 June 2019, the CMA introduced new duties for trustees via an Order:

- Mandatory tendering for fiduciary management – prohibition on trustees entering into or continuing a Fiduciary Management Agreement without carrying out a competitive tender process.
- Requirement for trustees to set strategic objectives for their investment consultants.

See our **guide to tendering for fiduciary management services** for more information.

These duties take effect from 10 December 2019.

The CMA has recommended the Department for Work and Pensions (DWP) legislates to bring the requirements of the Order into pensions legislation. The DWP is consulting on amendments to regulations and this guidance will be updated to reflect the final regulations.

See **https://www.gov.uk/government/consultations/trustee-oversight-of investment-consultants-and-fiduciary-managers** for the consultation.

The Order also included several new requirements on fiduciary managers and investment consultants designed to improve the quality and accessibility of information on charges, fees and performance from fiduciary managers and investment consultants with the aim to make it easier for trustees to compare providers and assess value for money.

Potential benefits of setting objectives

Setting objectives for advisers is an important part of an effective system of governance. We expect that by putting objectives in place, trustees will be better positioned to assess the quality of the service they receive and to deliver better outcomes for their members.

The CMA's 2018 Investment Consultancy Market Investigation found that trustees had difficulty in monitoring the quality of investment consultancy services due to the limited information available to them. By increasing trustee engagement in the adviser appointment process and by setting objectives and monitoring performance against those objectives, we expect that trustees will achieve better outcomes for their schemes and better value for money. We also expect that by monitoring the investment adviser's performance against their objectives will enable trustees to better identify and manage areas of poor performance and to consider switching to an alternate service provider where appropriate.

We would expect trustees, as a matter of good practice, to consider setting objectives for all their providers of advisory services. For more information on working well with advisers, please visit our guide to scheme management skills. While that guidance is intended for trustees of defined contribution (DC) schemes, it also contains information which will be useful for trustees of defined benefit (DB) schemes.

Terms used in this guidance

Delegation

The transfer of responsibility for exercise of one or more of the trustees' powers to a third party. For example, where trustees delegate day to day investment decisions to an investment manager or fiduciary manager but retain overall responsibility for the investment strategy. Pensions law permits delegation of investment decisions to fund managers on this basis, but trustees should note that they remain liable for defaults or acts of the manager unless they have taken all reasonable steps to satisfy themselves that the manager has the appropriate knowledge and experience and is carrying out their work competently in compliance with relevant legislation.

Investment beliefs

An agreed and documented trustee board view in respect of investments, based on knowledge, understanding and experience.

Investment consultant

A person or firm that provides investment consultancy services.

Investment consultancy services

This term is generally used (including in this guidance) to describe the provision of advice to the trustee board to support decisions on matters such as investment strategy, strategic asset allocation and manager selection. However, for the purposes of the legal requirement to set strategic objectives, this is defined in Part 2 of The Investment Consultancy and Fiduciary Management Market Investigation Order 2019 as advice to trustees on one or more of the following:

- Investments that may be made or retained by or on behalf of the pension scheme trustees.
- Any matters in respect of which the pension scheme trustees are required by law to seek advice in relation to the preparation or revision of the statement of investment principles.
- Strategic asset allocation.
- Manager selection.

Understanding your legal duties

Duties in relation to mandatory tendering for fiduciary management appointments and setting strategic objectives for investment consultants have been introduced by the CMA investment consultancy and Fiduciary Management Market Investigation Order 2019.

For information relating to the requirement to run a competitive tender exercise for fiduciary management services, see our **guidance**.

In relation to the requirement to set objectives for providers of investment consultancy services, unless an exemption applies, the trustees must not:

- enter a new contract, or
- continue to obtain investment consultancy services unless the trustees have set objectives in relation to the services they are going to or are already receiving.

This prohibition is effective from 10 December 2019 and will apply to new and existing contracts for investment consultancy services.

For the purposes of identifying if you need to set objectives, you will need to consider whether you are receiving investment consultancy services as defined in Part 2 of the Order. You should be aware that other types of advisers, who may not identify themselves as investment consultants, could be providing you with investment consultancy services. For example, you might be receiving advice that amounts to ‘investment consultancy services’ from an independent financial adviser, or wealth manager or advice from your scheme actuary on whether the scheme’s strategic asset allocation is appropriate for the scheme’s liabilities. If you are receiving investment consultancy services from a provider that does not identify as an investment consultant, you are still required by law to set objectives for that provider.

As trustee, you remain ultimately responsible for your scheme. You should:

- carry out checks that the provider is suitably qualified to provide these services (and has specific knowledge of the requirements that apply to trust-based occupational pension schemes), and
- monitor the activities and performance of service providers to ensure they are operating in accordance with the trustees’ legal obligations and are helping to deliver good scheme and member outcomes.

It is possible that the trustee board has chosen to delegate investment decisions.

For more information on investment governance models where there is delegation please refer to our **guide to choosing an investment governance model**.

Please be aware that some advice elements of fiduciary management services may be subject to the requirement to set objectives, and you may wish to consider seeking professional advice as to whether this applies in light of services you receive.

Trustees will ultimately be responsible for investment matters, and for further information trustees should refer to our **DB investment guidance** and our **DC guide to investment governance**.

Documenting compliance

As a matter of good practice, you should consider documenting any key decisions and, where relevant, processes undertaken in coming to those key decisions. While minutes of trustee meetings could be used to record key decisions or objectives set for investment consultancy services, it could be helpful to have a separate, standalone document which sets out clearly what the objectives are, how they will be measured, when they will be measured and when actions arising from any review will be addressed by.

Investment consultancy services

A wide range of investment consultancy services are available to trustees of occupational pension schemes. Depending on whether your scheme is DC or DB and the circumstances of your scheme, these services will differ.

In order to set strategic objectives for your adviser, you will first need to understand the services to which the objectives relate. As outlined in the introduction, only those areas that come within the legal definition[4] of investment consultancy services trigger the requirement for you to set strategic objectives, but as a matter of good governance we would encourage you to consider setting objectives for any additional services you receive.

Below we have listed some examples of investment consultancy services that trustees can receive for DB and DC schemes, together with a brief explanation of what these typically involve. These lists are not exhaustive and the requirements for the level of service provided will vary between schemes, trustee boards and the individual governance and support arrangements for those schemes.

Typical services available for DB schemes

Defining investment beliefs

This often involves a review of the trustee's investment preferences, informed by appropriate evidence and knowledge such as whether the trustee(s) prefer active or passive fund management, illiquid investments over liquid investment etc, and using these findings to agree a set of core investment beliefs that represent the trustee(s) preferences.

Investment strategy review

This involves a review of the nature and term structure of the pension scheme liabilities and advice on an appropriate asset allocation to adopt in order to best meet those liabilities, in light of objectives set by the trustees and considering the financial support that is available from the scheme's employer(s).

Risk modelling

This can involve the analysis of risk using a range of different tools and metrics, for example asset liability modelling and scenario/sensitivity analysis. It is frequently included as part of the investment strategy review service but can be tendered for and provided separately. In large schemes, a risk review by an independent third party can be very useful.

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4 The definition of investment consultancy services as set out in the CMA's Investment Consultancy and Fiduciary Management Market Investigation Order 2019.

Typical services available for DB schemes continued...

Setting investment performance and risk targets

This involves taking the output from the investment strategy review and any associated risk modelling to set the performance and risk targets for the scheme.

Portfolio construction

This involves advice on how a portfolio of investments or investment funds could be constructed to best align with the proposed asset allocation strategy and the trustees' investment beliefs, allowing for the investment performance and risk targets set.

Investment manager selection

This process would aim to identify a list of managers, based on research and due diligence completed, that might be appropriate to include within the portfolio, individually or in combination, to meet the performance and risk targets set for all or part of the portfolio. This work would also include preparation and submission of appropriate due diligence materials and could include assistance with the tender process, from drafting the invitation to tender, to reviewing the submissions made and attending manager interviews (and manager site visits).

Appointment of investment manager

The degree of service required is likely to depend to an extent on the type and structure of investment fund offered and the degree of discretion allowed. However, the service could involve advice (in relation to the investment elements) on the structure and terms and conditions of the fund mandates. In addition, it could involve advice in relation to the level and structure of any investment fees, the design of any performance fee elements and advice on the mandate guidelines, tolerances and restrictions to be applied.

Transition management

This would involve advice on any portfolio re-organisation or changes to investment managers to help ensure that the assets can be moved efficiently, with minimum costs and to limit 'out of market' exposure. This service could include advice on the use of derivatives to optimise the transition process.

Risk mitigation and risk transfer

This would involve advice on how different risks the scheme is exposed to could be mitigated, managed and/or transferred to another party.

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Typical services available for DB schemes continued...

Investment risk and performance monitoring

This would often include preparation of regular reports and information in relation to the performance of the investment managers invested in by the scheme and the risk exposures arising. This would also include advice in relation to the ongoing suitability of the investment strategy and the individual investment management arrangements. This could also include periodic reviews of whether the fees being paid continue to be appropriate.

Fiduciary manager selection

This process would aim to identify a list of fiduciary managers, based on research and due diligence completed, that might be appropriate to meet the trustees' requirements for the management and governance of all or part of the scheme's assets. This work would also include preparation and submission of appropriate due diligence materials and could include assistance with the tender process, from drafting the invitation to tender, to reviewing the submissions made and attending fiduciary manager interviews (and fiduciary manager site visits).

Fiduciary management monitoring

This would involve providing oversight of the performance of any fiduciary manager appointed by the trustees and considering their ongoing suitability to meet the requirements of the scheme. This would also include advice on whether any changes in the fiduciary manager or the remit of their mandate were necessary.

Provision of regulated advice

This would include the provision of written advice in relation to investments (as required under s36 of the Pensions Act 1995) and the review and preparation of the scheme's statement of investment principles (required under s35 of the Pensions Act 1995).

Governance structures

This would involve advice on the alternative ways in which investment and risk management might be governed, and the terms of reference and delegated responsibilities that might apply to each element of the governance structure.

Additional investment advice

This could be in relation to the selection and appointment of investment platform providers, custodians or sub-custodians or advice in relation to tactical asset allocation, structured equity or option strategies.

Trustee training

This could include a range of training from basic investment training on investment duties and investment structures through to training on the implementation of complex derivative and risk management strategies.

Typical services available to DC schemes

Defining investment beliefs

This often involves a review of the trustee's investment preferences informed by appropriate evidence and knowledge, such as whether the trustee(s) prefer active or passive fund management, illiquid investments over liquid investments and using these findings to agree a set of core investment beliefs that represent the trustee(s) preferences.

Scheme design and objective

This would involve advice on the design of the default fund(s) and the range of self-select funds that might be made available to meet members' needs. This would also include consideration of how the investment management components could best be structured to allow for the trustees' additional requirements around administration and communications.

Modelling tools

This could involve advice on the range of modelling tools that could be made available (and maintained) to help members assess the impact of different investment options (and contribution levels) on their expected future benefit outcome.

Investment manager selection

This process would aim to identify a list of managers, based on research and due diligence completed, which might be appropriate to include with the portfolio, individually or in combination, to meet the performance and risk targets set for all or part of the portfolio. This work would also include preparation and submission of appropriate due diligence materials and could include assistance with the tender process, from drafting the invitation to tender, to reviewing the submissions made and attending manager interviews (and site visits).

Appointment of investment manager

The degree of service required would depend to an extent on the type and structure of investment fund offered and the degree of discretion allowed. However, the service could involve advice (in relation to the investment elements) on the structure and terms and conditions of the investment mandates. In addition, it could involve advice in relation to the level and structure of any fees, including on the design of any performance fee elements included and advice on the mandate guidelines, tolerances and restrictions to be applied.

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Typical services available for DC schemes continued...

Member engagement

This could involve a range of activities from running engagement programs with members to better understand their needs and requirements (to enable the default fund and range of options to be appropriately designed), to assisting with member communications (for example, following a change of fund manager or investment approach) to assisting with member investment education.

Performance monitoring

This would involve preparing regular reports and information relating to the performance of the investment managers used. It would also include review of the performance of any investment platform provider.

Review of default arrangement or default fund and fund range

This is likely to include a triennial review, or more frequently following any significant change in membership profile, in relation to the ongoing suitability of the default arrangement, the self-select investment fund options and the investment management arrangements.

Fiduciary manager selection

This process would aim to identify a list of fiduciary managers, based on research and due diligence completed, which might be appropriate to meet the trustees' requirements for the management and governance of all or part of the scheme's assets. This work would also include preparation and submission of appropriate due diligence materials and could include assistance with the tender process, from drafting the invitation to tender, to reviewing the submissions made and attending fiduciary manager interviews (and fiduciary manager site visits).

Fiduciary management monitoring

This would involve providing oversight of the performance of any fiduciary manager appointed by the trustees and considering their ongoing suitability to meet the requirements of the scheme. This would also include advice on whether any changes in the fiduciary manager or the remit of their mandate were necessary.

Chair's statement

This would involve analysis and providing investment advice relating to a range of inputs into the annual chair's statement, such as the value for members assessment and the assessment of charges and transaction costs, including in relation to cumulative illustrations.

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Typical services available for DC schemes continued...

Provision of regulated advice

This would include providing written advice relating to investments (as required under s36 of the Pensions Act 1995) and reviewing and preparing the scheme's statement of investment principles (required under s35 of the Pensions Act 1995).

Governance structures

This would involve advice on the alternative ways in which investment and risk management might be governed, and the terms of reference and delegated responsibilities that might apply to each element of those governance structures.

Additional DC investment advice

This could relate to the selection and appointment of investment platform providers or the transitioning of investments between funds or fund managers.

Trustee training

This could include a range of training from basic investment training on investment duties and investment structures, to training on the design and implementation of default arrangements, lifestyle strategies and decumulation options.

Objectives for investment consultancy services

Setting adviser objectives

When in receipt of investment consultancy services, unless exempt, you must set objectives for the provider of this service. When setting these objectives, you should include how these will contribute to achieving the scheme's overall investment objectives.

Where you engage with more than one adviser in respect of investments, you must set objectives for each respective adviser. You are not limited in the number of objectives you may set. It will likely be proportionate to set multiple objectives for your adviser, in accordance with the range of services you receive.

Trustees should also be aware that when they retain a fiduciary manager, they should be aware of the extent of investment services they receive from them as part of the overall engagement and they should set objectives for the investment services provided.

You may also wish to set a combination of short and long-term objectives, ensuring that the objectives are appropriate and achievable for the given time frame.

Adviser objectives can be quantitative and qualitative in their nature, for example these could be set in relation to investment performance delivered relative to the liabilities, adviser performance against service level agreements, communication skills, value for money and performance against specific tasks, such as asset transitions or investment manager selection exercises. Examples of the areas that objectives may cover are outlined in the DB and DC case studies later in this guidance.

In setting objectives for your investment adviser, you will want to receive their input to ensure that the objectives being set are consistent with the service being offered and are realistic. In obtaining your adviser's input, you should be aware of the potential for their input to be subject to conflicts of interest and you should be prepared to challenge their input. You should also consider whether to involve a third party to help you set those objectives.

Once objectives have been agreed, we would expect these to be signed off in accordance with your existing governance framework, ensuring that all members of the trustee board have sight of and, if relevant, agree with the adviser objectives that have been set and the ongoing monitoring process of these.

Monitoring objective progress

When putting in place a set of performance objectives with your adviser, you should also consider the method and regularity for assessing your adviser's performance against these objectives. You should conduct reviews at least triennially and after any significant change to your scheme's investment strategy and objectives. Where you have set multiple objectives for your adviser and the timeframes for meeting them vary, you may also wish to consider ad-hoc reviews when you complete any significant pieces of work.

While you remain ultimately responsible for your scheme's overall investment objectives, it is important to acknowledge and understand the roles that you and your adviser(s) can have in determining whether or not these objectives are met. For example, trustees may decide not to act on advice received or delay acting on advice received, which could result in the value of the investment opportunity presented diminishing. Performance review sessions should be objective and consider evidence of how the adviser is meeting their objectives with appropriate allowances for the impact of trustee decision-making and governance structures and the interaction with the trustees, alongside any other relevant external factors, on the outcome actually achieved.

You may wish to incorporate the review of your investment consultant's performance with the effectiveness review of your board.

For further information, see our **scheme management skills guide**.

Case studies

We have developed the following case studies to assist you in identifying the areas of investment consultancy services you should consider when setting objectives for your adviser.

Investment consultant objectives and performance measurement (DB)

The trustees of the XYZ DB pension scheme had retained ABC Investment Consultants as their investment advisers for many years. XYZ was a full service client of ABC and any investment-related issues the scheme had were dealt with by ABC. Fees were generally charged on a time-cost basis but the fees for more significant items, like manager selection exercises and asset-liability modelling, were based around an agreed fixed fee scale or agreed separately in advance. The trustees acknowledged the following:

- Appropriate investment and risk management advice, in the absence of unlimited employer contributions, was the key driver in ensuring that members received their benefits in full and recognised that the service was of significant value to their scheme.
- The balance between an adviser providing advice and the trustee being the decision-maker added complexity to any assessment of "value added".
- There was a risk that the "potential value" of good advice could be lost due to the trustees being unable to make effective decisions in a timely manner or being unwilling to make a decision to the full extent of the advice provided.
- It was important to distinguish between the difference made by process driven improvements (arising, for example, from the impact on the funding level from employer deficit repair contributions) and value add driven improvements (arising, for example, from recommendation of investment managers that out-performed).
- It was difficult to define an appropriate period to measure and attribute performance given the potential for investment market volatility and general market noise to distort.
- It would be challenging to develop a robust framework that could work in all environments.
- They would also need to consider how the trustees' governance and decision-making structures contributed to (investment) outcomes.
- Changes to their current governance arrangements should also be considered (for example, appointment of a professional trustee, creation of an investment committee or increasing the number and frequency of trustee meetings).

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The trustees agreed to adopt a balanced scorecard approach, where performance against a number of clear objectives set for their investment consultant would be assessed using a combination of quantitative and qualitative measures.

The trustees looked at the services outlined as part of ABC's response to the invitation to tender that they had submitted a number of years previously and decided to group them under six key objectives that they would monitor:

1. Demonstration of value added.
2. Delivery of specialist processes.
3. Proactivity of advice.
4. Support with scheme management and compliance.
5. Relationship and service standards.
6. Support with additional matters arising.

The trustees acknowledged that short-term market movements and the trustees' and employer's business planning cycles could both distort and influence activity undertaken and agreed to monitor performance over both a one and three-year horizon, using different weights against each key objective.

The trustees were mindful that the investment activity required varied from time to time. They set out under each key objective the individual services they felt should be considered in forming a view on the investment adviser's performance against the main objective. The trustees did not assign weightings to the individual services under each objective as they recognised that not all services were required within each monitoring period.

The trustees shared their proposed performance monitoring framework with their investment consultant and included their proposal that the effectiveness of the trustees' governance and decision-making framework over the performance period, would also form part of the assessment. Following discussion and some revisions, the template set out in the table below was agreed.

The investment consultancy firm also outlined an offer to the trustees whereby an element of their fees (10%) would not be paid if their service did not meet a particular level and that a "bonus" fee (5%) would be paid if their service exceeded a particular higher level. The trustees were interested in this concept but were concerned about their ability to apply a consistent approach when assessing objectives qualitatively.

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The trustees asked their consultant to prepare a further version of their template against which they set out what they believed "good" and "bad" service looked like. Following further discussion and some revisions, the trustees agreed the template and the date at which the first assessment would take place.

As part of their ongoing annual assessment cycle, the trustees and the investment adviser also agreed to consider whether any changes to the template or their investment governance structure were necessary.

Example scorecard

Objective	1 year	3 year
1. Demonstration of value added	**30%**	**30%**
• Help the trustees to deliver an investment return of liabilities + x% per annum measured over rolling N- year periods • Help the trustees to stabilise and improve the scheme's funding level over time • Increase the asset value of the scheme through their investment manager selection, research and recommendations and through their portfolio construction • Increase the asset value of the scheme through tactical and medium-term asset allocation • Enable the trustees to implement their scheme's investments on a more competitive fee basis through negotiation on implementation and periodic benchmarking of fees • Help the trustees to transition any assets between investment managers on a cost-effective basis • Help the trustees to implement an investment strategy which adds value through the integration of ESG (including climate change) and stewardship considerations in their investment manager appointments • Enable the trustees to access a wider range of opportunities and portfolios of assets (and/or build portfolios of assets) • Help the trustees to manage their scheme cashflows needs in a more cost-effective manner		

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Objective	1 year	3 year
2. Delivery of specialist services	**20%**	**30%**
• Complete asset liability modelling and scenario/sensitivity modelling using their in-house models (or proprietary modelling tools) • Help the trustees to decide on an appropriate risk and performance objective for the scheme • Help the trustees to develop and define their investment beliefs • Help the trustees to review their investment governance arrangements and terms of reference for any sub-committees or delegated authorities • Help the trustees to develop and maintain an appropriate framework to track progress against strategic objectives		
3. Proactivity of advice	**15%**	**5%**
• Advise the trustees on new investment opportunities or emerging risks • Advise the trustees on market pricing opportunities to mitigate or transfer risk • Deliver training to enable the trustees to engage with new investment opportunities, emerging risks or opportunities to transfer risk • Advise on any changes in the investment governance arrangements or delegated authorities which are necessary to enable the trustees to best access the emerging opportunities		

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Objective	1 year	3 year
4. Support with scheme management and compliance	**20%**	**20%**
• On a regular (quarterly) basis, monitor the performance of the scheme's investments relative to the liabilities and also the performance of the scheme's investment managers and any direct investment • Produce investment reports, briefing papers and investment advice in advance of trustee meetings and on a timely basis • Review and update as appropriate the scheme's statement of investment principles • Provide periodic written advice on direct investments held • Provide trustee training as required • Ensure compliance of the scheme's investment arrangements with developments in regulation and all legislation		
5. Relationship and service standards	**10%**	**10%**
• Agree any changes of (named) investment consultant(s) and meeting cover with the trustees in advance • Maintain fees in line with tender submission • Agree fee budget with trustees for any significant piece of work • Clear understanding of the scheme's goals and objectives • Appropriate quality and quantity of resourcing to meet the needs and requirements of the scheme • Strong positive working relationship with the trustees • Work collaboratively with other advisers and provide effective support to trustees when engaging with other stakeholders • Appropriate management and mitigation of any conflicts of interest		

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Objective	1 year	3 year
6. Support with additional matters arising	**5%**	**5%**
• Provide advice and assistance to the trustees on any other issues arising (for example, following corporate transaction or significant corporate event impacting the pension scheme)		
Scheme's governance and decision-making framework	Y/N	Y/N
• Has the governance structure and the level of engagement by the trustees helped or hindered the delivery of improved investment and funding outcomes?		

Investment consultant objectives and performance measurement (DC)

The trustees of the XYZ pension scheme had recently appointed an investment consultant to help them with their growing DC scheme and decided to put in place a formal objective and performance assessment structure for them. The trustees acknowledged the following:

- Appropriate investment and risk management advice was a key driver in delivering good outcomes for members.
- The balance between an adviser providing advice and the trustees being the decision-maker added complexity to any assessment of "value added".
- There was a risk that the "value" of good advice could be lost due to the trustees being unable to make effective decisions in a timely manner or being unwilling to make a decision to the full extent of the advice provided.
- It was important to distinguish between services based around processes (for example, from running a tender exercise for an investment service provider) and services based around value add (arising, for example, from recommendation of active investment managers that out-performed).
- It was difficult to define an appropriate period to measure and attribute performance given the potential for investment market volatility and general market noise to distort.
- It was difficult to understand how the performance of the investment strategy contributed to outcomes for different segments/age groups of the membership.
- It would be challenging to develop a robust framework that could work in all environments.
- They would also need to consider how the trustees' governance and decision-making structures contributed to (investment) outcomes for members.
- Changes to their current governance arrangements should also be considered (for example, appointment of a professional trustee, creation of an investment committee or increasing the number and frequency of trustee meetings).

The trustees agreed to adopt a balanced scorecard approach, where performance against a number of clear objectives set for their investment consultant would be assessed using a combination of quantitative and qualitative measures.

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The trustees reviewed the range of services outlined as part of the investment consultant's response to the invitation to tender and decided to group the range of services under seven key objectives that they would base their monitoring on:

1. Demonstration of value added.
2. Delivery of specialist processes.
3. Proactivity of advice.
4. Support with member engagement and communication.
5. Support with scheme management and compliance.
6. Relationship and service standards.
7. Support with additional matters arising.

Example scorecard

Objective	1 year	3 year
1. Demonstration of value added	**15%**	**15%**
• Help the trustee to put in place an appropriate default arrangement and range of self-select funds that enable members' needs to be met and improved outcomes to be delivered • Increase the value of the individual member funds through their investment manager selection, research and recommendations • Help the trustee to implement an investment strategy which adds value through the integration of ESG (including climate change) and stewardship considerations in their investment manager appointments • Enable the trustees to implement their scheme's investments on a more competitive fee basis • Help the trustee to transition any assets between investment managers on a cost-effective basis • Enable the trustees to access a wider range of opportunities and portfolios of assets (and/or build portfolios of assets)		

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Objective	1 year	3 year
2. Delivery of specialist services	**20%**	**30%**
• Analyse/model the scheme's membership profile and expected member outcomes and provide recommendations on the appropriate investment strategy and investment manager fund combinations to adopt • Help the trustees to decide on an appropriate risk and performance objective to set for their default arrangement(s) and the range of self-select funds to meet the needs of members • Help the trustees to decide on an appropriate range of decumulation options, in consultation with key stakeholders, to do the following: – enable members to take their benefits in the form they require – to help the trustees to develop and define their investment beliefs – to help the trustees to review their investment governance arrangements and terms of reference for any sub-committees or delegated authorities		
3. Proactivity of advice	**15%**	**5%**
• Advise the trustees on new investment opportunities or emerging risks • Advise the trustees on market pricing opportunities to mitigate or manage risk • Deliver training to enable the trustees to engage with new investment opportunities, emerging risks or opportunities to manage risk • Advise on any changes in the investment governance arrangements or delegated authorities which are necessary to enable the trustees to best access the emerging opportunities		

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Objective	1 year	3 year
4. Support with member engagement and communication	**15%**	**15%**
• Through the use of communication and behavioural techniques, help the trustees effectively engage with their membership to better understand their needs and assess how the default arrangement(s) and range of self-select funds meets their needs.		
5. Support with scheme management and compliance	**20%**	**20%**
• On a regular (quarterly) basis, monitor the performance of the scheme's investment strategies and also the performance of the scheme's investment managers • Produce investment reports, briefing papers and investment advice in advance of trustee meetings and on a timely basis • Assist the trustees with the review and update as appropriate the scheme's statement of investment principles • Provide periodic written advice on any direct investments held • Provide trustee training as required • Provide support in the assessment of value for members and the impact of cost and charges in preparation of the chair's statement • Ensure compliance of the scheme's investment arrangements with the regulations		
6. Relationship and service standards	**10%**	**10%**
• Agree any changes of (named) investment consultant(s) and meeting covers with the trustees in advance • Maintain fees in line with tender submission • Agree fee budget with trustees for any significant piece of work • Clear understanding of the scheme's goals and objectives • Appropriate quality and quantity of resourcing to meet the needs and requirements of the scheme • Strong positive working relationship with the trustees • Appropriate conflicts of interest or management and mitigation of any conflicts		

Objective	1 year	3 year
7. Support with additional matters arising	**5%**	**5%**
• Provide advice and assistance to the trustees on any other investment issues arising (for example, following corporate events, or change in corporate pension policy)		
Scheme's governance and decision-making framework	**Y/N**	**Y/N**
• Has the governance structure and the level of engagement by the trustee helped or hindered the delivery of improved investment and funding outcomes?		

How to contact us

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www.tpr.gov.uk

www.trusteetoolkit.com
Free online learning for trustees

A trustee guide to:
Setting objectives for providers of investment consultancy services