



A trustee guide to:

Tendering for fiduciary management services

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Contents

Introduction	page 3
Potential benefits of tendering	page 6
Terms used in this guidance	page 7
Understanding your legal duties	page 9
Types of fiduciary management	page 11
Conflicts of interest	page 13
Using independent evaluators	page 14
Key principles of a competitive tender	page 15
Applying the key principles of tendering to fiduciary management	page 17
Invitations to tender	page 19
Reviewing fiduciary manager submissions	page 20
Appendix A: Examples of third party evaluators	page 25
Appendix B: Scheme example applying the principles of tendering for fiduciary management	page 27
Appendix C: Example topics to consider as part of a fiduciary management tender exercise	page 32

Introduction

Purpose of this guidance

This guidance is for trustees of occupational pension schemes considering appointing a fiduciary manager. It is also for trustees of occupational pension schemes who already have a fiduciary manager and are currently considering a re-tendering exercise. It will also be of interest to advisers and employers.

This guidance aims to provide you with practical information and key matters to consider when putting together a competitive tender exercise to appoint a fiduciary manager. This is intended to assist trustees subject to the legal requirement to carry out a competitive tendering process when appointing fiduciary managers in relation to 20% or more of scheme assets. In addition, even where the new requirement might not apply, we consider the principles outlined in this guidance to be relevant to the governance of the scheme and trustees may consider it appropriate to carry out competitive tender exercises even when not legally required to do so. It has therefore been written with those parties in mind.

We use phrases such as the 'law requires' and 'you must' to indicate legal duties, and 'you should' to indicate good practice approaches to meeting the requirement to run a competitive tender.

This guidance has been produced in response to the Competition and Markets Authority (CMA) investigation into the investment consultancy market.¹

The CMA found problems with the way in which the fiduciary management and investment consultancy market worked. For investment consultancy, they found low levels of engagement by trustees when choosing and monitoring their investment consultant. They also found that 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 identified that 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 consider 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, switching and periodically reviewing performance, they were more likely to obtain better terms from their service providers and pay lower fees and charges when compared to less engaged trustees.

In its final report², 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. We have therefore produced this guidance in response to this remedy.

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1 <https://www.gov.uk/cma-cases/investment-consultants-market-investigation>

2 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 on setting objectives for providers of investment consultancy 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 tendering

Running a tender exercise is part of good governance. It can enable you to get value for money from service providers and help you understand the models and services available in the market. The CMA found in its 2018 Investment Consultancy Market Investigation³ that trustees who tendered for fiduciary management services were more likely to pay less and receive better quality service.

Duties to carry out a competitive tender for fiduciary management appointment were introduced following the Competition and Markets Authority Investment Consultancy and Fiduciary Management Market Investigation Order 2019⁴ (the CMA Order). These are described further in the section **Understanding your legal duties** on page 9.

Even if you are not subject to the legal requirement, you should consider whether it would be in the best interests of the scheme to run a tender exercise when considering fiduciary management.

Even once you have appointed a fiduciary manager as part of a competitive tender process, you should periodically review the market and consider the need to run a re-tender exercise. The investment industry continues to develop and innovate and running a re-tender exercise will enable you to check if you are still receiving good value for money and gain an awareness of new models and services available in the market. This can support an informed decision to either stay with your existing provider on current terms, negotiate improved terms or switch.

³ <https://www.gov.uk/cma-cases/investment-consultants-market-investigation#final-report>

⁴ https://assets.publishing.service.gov.uk/media/5cfdfa86e5274a090f9eef8e/Order_investment_consultants.pdf

Terms used in this guidance

Competitive tender process

This is defined in Part 2 of The Investment Consultancy and Fiduciary Management Market Investigation Order 2019 as a process by which trustees, or a person appointed by them to act on their behalf, have invited and used reasonable endeavours to obtain bids for the provision of fiduciary management services from three or more unrelated fiduciary managers and have evaluated the bids received.

Delegation

The transfer of responsibility for the exercise of one or more of the trustees' powers to a third party. For example, often trustees delegate day-to-day investment decisions to an investment manager but retain overall responsibility for the investment strategy. Pensions law permits delegation of investment decisions to a fund manager 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.

Fiduciary management services

This term is generally used to describe a governance model through which trustees delegate the day-to-day implementation of their investment strategy to a fiduciary manager. However, where the term is used in the context of the requirement to run a competitive tender exercise, this is defined in Part 2 of The Investment Consultancy and Fiduciary Management Market Investigation Order 2019. In addition to day-to-day implementation, the fiduciary management provider also provides advice on one or more of the following:

- investment strategy
- investments that may be made, or
- the services of making investment decisions on behalf of the pension scheme trustees on an ongoing basis in respect of all or some of the scheme's assets.

Fiduciary manager

A person or firm that provides fiduciary management services.

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Investment consultancy services

This term is generally used 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.

The CMA explanatory note says this may include advice on investment strategy and/or on the appointment of a fiduciary manager.

Investment beliefs

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

Investment consultant

A person or firm that provides investment consultancy services.

Third party evaluators

Individuals or firms who offer a range of services and advice to trustees on running tender processes, selecting and reviewing the performance of advisers and service providers.

Understanding your legal duties

The legal requirements to carry out a competitive tender when appointing a fiduciary manager are as follows, unless an exemption applies:

Requirement to tender for new mandates

From 10 December 2019, for any agreement(s) with a fiduciary manager that would result in 20% or more of scheme assets being delegated (as at the date of the proposed agreement) you must:

- not enter into the agreement without carrying out a competitive tender process.
- provide the fiduciary manager with confirmation in writing that they have been selected as a result of a competitive tender process before entering into the agreement. Fiduciary managers are also prohibited from entering into the agreement without this confirmation.

For these purposes the 20% will include all agreements with fiduciary managers including existing agreements.

Existing mandates

If you have existing fiduciary management agreements which collectively account for 20% or more of scheme assets, entered into one or more of those agreements before 10 June 2019 and did not select the fiduciary manager(s) for some or all of those agreements via a competitive tender process, you must carry out a competitive re-tender process for all delegations where there has been no competitive tendering within five years from the commencement of the first agreement for any assets delegated.

Where the five year period expires before, on, or within two years of 10 June 2019, you must complete a competitive re-tender no later than 9 June 2021.

Reasonable endeavours

The law requires you to use reasonable endeavours to obtain bids from at least three unrelated fiduciary managers and must evaluate the bids received. The number of providers you invite to formally tender should be proportionate to the size and complexity of your scheme. However, you should invite as many providers as is reasonable. It is likely to be prudent to approach more than three providers to ensure that you obtain the best deal for your scheme and to ensure that you obtain at least three bids.

Documenting compliance

You should document the tender process you have followed, the decisions you made and the reasons why. This may include, for example, your criteria for selection, details of the process you followed to reach a shortlist of providers, key decisions made and your reasons for making them. Maintaining an audit trail will support you in demonstrating compliance with the requirement to run a competitive tender process. Even if you are unsuccessful in receiving three independent bids, you should still document the process you followed to demonstrate that you used reasonable endeavours.

Small schemes

Trustees of smaller schemes seeking fiduciary management services should be aware that the number of providers willing to respond to invitations to tender from a small scheme may be more limited. You may wish to consider speaking to or issuing an expression of interest request to a number of providers in advance of issuing full invitations to tender, to gauge the providers' appetite to respond.

This can reduce time and resource spent on issuing invitations to tender (and potentially reviewing responses to tenders) from providers who are unlikely to respond with competitive bids and can increase your success rate in receiving bids. If you intend to use a third party evaluator, they can support you in identifying which providers are more likely to offer fiduciary management services and competitive terms to smaller schemes.

Types of fiduciary management

When considering using a delegated fiduciary management service you should have a clear understanding of how services might be delivered, their respective strengths and weaknesses and how the service model may differ between different providers.

There are a number of different approaches to fiduciary management which are reflected in the range of services currently offered in the market by providers. The main providers of fiduciary management services are:

- specialist/boutique firms whose sole business is based on fiduciary management services
- firms linked to investment consultants/advisory firms, and
- fund managers who offer fiduciary management as part of their broad product range.

While fiduciary managers provide similar services, there can be significant differences in approach between firms in different market segments and within the same market segment. For example, one fiduciary management firm which is linked with an investment consultancy firm will not necessarily operate and deliver fiduciary management in the same way as another firm linked with an investment consultancy. These differences can include, for example:

- the way in which portfolios are constructed and risk is managed
- the range and management style of investments that might be included, for example some fiduciary managers may focus on actively managed alternative investments and illiquid opportunities, while others may favour a passive approach
- the holding structure for the investments, for example some structures would allow the investments to be assigned to the new fiduciary manager where the existing fiduciary manager was replaced, whereas others would require them to be 'cash or stock in specie' settled
- the level of resource invested in fiduciary management
- the approach taken to operational risk management
- the level of ongoing strategic investment advice and training provided and the extent to which investment decisions are delegated
- the market segment and scheme scale that is targeted, and
- the approach taken to the integration of environmental, social and governance (ESG) and climate impact within the investment and risk management strategies.

Fiduciary management has developed in the UK over the last 15 years and the range of services offered are continuing to develop in defined benefit (DB) and defined contribution (DC) schemes. As the market has developed, opportunities for improved mandate structuring, improved fee terms and better mandate terms and conditions have arisen. When preparing to tender for a fiduciary manager provider or when reviewing your current fiduciary manager provider, you should have a good understanding of the current range of options available in the market and, if required, seek independent advice.



For further information, see our **guide to choosing an investment governance model**.

Investment services provided under fiduciary management mandates

The range and extent of investment services provided under a fiduciary management mandate can vary significantly, depending on the scheme governance structure, the level of assets delegated and the extent to which other advisers support the trustees. The investment service provided by the fiduciary manager may be provided under a discretionary fiduciary management agreement or it may be provided separately as part of an investment advisory services agreement which is also entered into with the fiduciary manager. The investment service may also be split between these two types of agreement, depending on individual fiduciary manager structures and terms and conditions.

When you are receiving an investment service from an investment consultant you are obliged to set strategic investment objectives for that adviser.



See our **guide on setting objectives for providers of investment consultancy services**.

Where you are receiving investment advice as part of your fiduciary management arrangements, you should also set objectives for that investment service.

Conflicts of interest

In appointing a fiduciary manager, you should be aware of the potential for a wide range of conflicts of interest to arise. The scale of conflicts will vary and may apply to a wide range of parties that might be involved in choosing a fiduciary manager. For example:

- The existing investment consultant may be linked directly with a firm that offers fiduciary management service or offers fiduciary management services within their firm.
- The existing investment consultant, who has no links with a firm that offers fiduciary management services, but who is retained on an advisory basis, will have a commercial interest in an advisory relationship continuing.
- Some third party evaluators will have a commercial interest in trustees choosing fiduciary management to generate business, for example where they offer an ongoing oversight role.
- Other third parties will have a commercial interest in assisting with the tender exercise but may not have the necessary knowledge of the fiduciary management and investment consultancy markets within the occupational pension scheme markets to advise appropriately.

Conflicts of interests should not be a barrier to appointments or decisions being made. However, you should ensure that appropriate measures are in place to identify, mitigate and manage those conflicts. If your existing investment consultant or fiduciary manager is involved in the tendering process, you should ask them to provide, in writing, details of how the conflicts will be mitigated and managed.



Further information about managing conflicts of interest can be found in our **conflicts of interest guidance** and **guide on scheme management skills**.

Using independent third party evaluators

Once you have decided to appoint a fiduciary manager, you may wish to consider using a third party with knowledge of the fiduciary management and investment consulting markets and specific expertise in relation to evaluation of fiduciary management services and providers. The range of parties that can provide you with support on selecting an appropriate provider and running a competitive tender process is wide and there may be significant differences in the level of their existing market knowledge, research and due diligence. A third party, with appropriate expertise, should also support the mitigation of conflicts of interest.

While third party evaluators will add an additional cost, you may consider it a worthwhile investment, particularly if you do not have an in-house support team and if it will save you time and resources and lead to a better procurement outcome. It will also help ensure that a robust process has been followed in the selection of your provider and that a clear audit trail of decisions made (and the reasons why) is prepared.

Example

The trustees of a scheme with c£150million assets under management appointed a third party to run a formal tender process to appoint a fiduciary manager. The third party considered the range of fiduciary management products and services available in the market and ran a tender process. They also helped the trustees to negotiate the fees and contract terms which resulted in an improvement in the contract terms and conditions offered. After allowing for the fees charged by the third party and the general expenses of running the tender exercise, this resulted in fee savings for the trustees, which were significant when considered over the expected future term of the contract.

When choosing a third party evaluator, you should be aware of their level of knowledge and understanding of the market and the services they provide. See **Appendix A** on page 25 for examples of the main types of third party evaluators that may offer support in tendering for a fiduciary manager.

When using a third party evaluator, you should be aware of the potential for conflicts of interest to arise. You should therefore ensure that appropriate measures are in place to identify, mitigate and manage those conflicts.



For more information, see our **conflicts of interest guidance** and **scheme management skills guide**.

In running any tender process, you should also consider what additional help the in-house pension team or the procurement team within the employer may be able to offer. You should be mindful of the need for specialist investment market knowledge to inform an effective tender process but may still find an in-house team are able to offer valuable support in running an effective exercise.

Key principles of a competitive tender

When selecting any adviser or service provider, you should consider running a competitive tender exercise to ensure that you obtain an appropriate service that best meets the needs of your scheme and delivers value for money. However, when selecting a fiduciary manager, unless you are exempt, you must run a competitive tender process.

When designing a tender exercise, it is good practice to consider the following key principles:

- 1. Set objectives for the tender exercise:** Understand what you want from a provider and how this will meet the objectives for your scheme. Make sure you have re-assessed your scheme objectives – they should be based on current analysis, relevant to your scheme circumstances and enable your longer-term objectives for the scheme to be delivered.
- 2. Seek advice and consider appointing a third party to assist you:** You may wish to consider using a third party to provide advice on the selection process. This will help manage conflicts of interest, provide in-depth insight into the current market and save time and resource in putting together a tender exercise. This will allow you to focus on the key decisions.
- 3. Seek to understand the full range of market opportunities:** Understand the different options in the market and create a list of potential providers based on your objectives and criteria for selection. If you are using a third party, they will be able to support you in developing a longlist based on their market knowledge, research and due diligence.
- 4. Select longlist of potential providers:** Based on your review of the market, select a sub-set of providers and create a longlist to invite to tender. If you are not using a third party, you may find it useful to send an expression of interest inquiry to potential providers, setting out some high level details of your scheme, your potential mandate requirements and including a number of preliminary questions to gather relevant information to enable you to develop your longlist to invite to tender.
- 5. Agree criteria for selection:** Be clear on what you are looking for in a bid and decide in advance how you will assess providers. Consider putting together a scorecard, weighting matters based on their level of importance in meeting the objectives you set for the tender exercise.
- 6. Issue invitations to tender:** Invitations to tender should focus on requesting a bespoke offering from providers that will support you in meeting the objectives you have set for the tender exercise. The invitation to tender should include a brief overview of your scheme's current arrangements and set out the requirements for the service you are seeking.

When designing a tender exercise, it is good practice to consider the following key principles continued...

7. **Assess bids and select a shortlist:** Compare the bids based on your agreed criteria, using your scorecard and select a shortlist of candidates to consider in more detail.
8. **Invite shortlisted providers to present their proposals:** The shortlisted providers should be invited to present to the trustees. This will provide you with the opportunity to interview the candidates and to discuss the services they proposed to offer in their bids in greater depth.
9. **Site visits:** Conduct site visits with the final two to three providers as part of your overall due diligence or with your preferred provider, before confirming any appointment.

Running a tender process will require commitment of significant time and resource from the trustees. You should make an allowance for any upcoming tender exercises in your business plan and consider what skills, resources and training you may need to achieve the best outcome. You may wish to set up a sub-committee to carry out the day-to-day activities of the tender process or to oversee a third party you commission to carry out the tender process. However, there will be points in the process where involvement from the full trustee board may be required, particularly where a significant decision is to be made. For example, agreeing selection criteria (which may be prepared by the sub-committee and submitted for review) and/or attending interviews with shortlisted providers.

Applying the key principles of tendering to fiduciary management

In this section, we provide guidance on how to apply the key principles of a tendering exercise to fiduciary management. To illustrate how this can be applied in practice see the illustrative example in **Appendix B** on page 27 how a scheme approached the tender exercise.

Setting objectives for the exercise

Before inviting potential providers to tender you should agree and document your objectives for the exercise, setting out what you are trying to achieve by appointing a fiduciary manager and why. This could include to:

- improve the efficiency and timeliness with which investment management decisions are made and implemented
- increase the ability to access more specialist and governance intensive asset classes and risk management opportunities to improve the risk/return profile of the scheme's investments, and/or
- enable scheme liabilities to be hedged efficiently and portfolio gearing and collateral requirements to be efficiently managed.

These will be influenced by your overall objective for the scheme. For example:

DB considerations	DC considerations
<ul style="list-style-type: none">• To reach full funding on the technical provisions basis by [date]• To reach full funding on a low dependency basis by [date]	<ul style="list-style-type: none">• (Within the default fund) to generate returns significantly above inflation while members are a long way from retirement and switch gradually into lower risk investments as members near retirement

Agree governance and level of delegation

You should understand and document the level of decision-making you want to delegate to a fiduciary manager. You should agree and set this out before tendering as it will enable you to decide which providers' offerings are more suited to the level of delegation you are comfortable with.

As a trustee of the pension scheme, you retain ultimate accountability for the scheme investments. Therefore, it is vital that you fully understand the roles and responsibilities being delegated and maintain appropriate oversight of the decision-making and activities of the fiduciary manager.

There are certain decisions you must retain ownership of, although a fiduciary manager may provide advice on these matters. For example, in relation to a DB scheme these decisions should include the following:

- The strategic asset allocation to adopt for the scheme as the scheme develops.
- The level of expected return and risk to be targeted at different time horizons (these may be set relative to the liabilities).
- The degree of flexibility in the mandate, for example, in relation to level and range of investment in (and between) asset classes and the risk tolerances.
- Strategic decisions on liability management, such as buy-ins of tranches of benefits and longevity hedging.
- The decision to replace the scheme's fiduciary manager, say, due to poor performance, an alternative, lower cost, scheme governance model being adopted, or once the scheme funding level has reached full funding.
- Decisions in relation to the extent to which ESG including climate change should be reflected in the investment strategy and investment implementation of the scheme.

Deciding who to invite to tender

Before inviting providers to tender, you should seek to understand the range of fiduciary management services and providers available. If you choose to run the exercise yourself, you may find it useful to send an expression of interest inquiry, with some high level information on your scheme and requirements, and a number of preliminary questions to a selection of providers to gather relevant information to enable you to develop your longlist to invite to tender.

If you are using an independent third party evaluator, they will conduct research on the market and will advise you on which providers might be appropriate to include on your longlist.

Invitations to tender

An invitation to tender should focus on asking providers to recommend a bespoke investment and risk management solution based on your scheme's needs and objectives. Your invitation to tender should include some background information on your scheme and your requirements. This might include, for example, details of the following:

- **Your scheme:** The current asset allocation, the nature and duration of the scheme's liabilities, the scheme scale and the level of scheme cashflows.
- **Your objectives:** Providers should demonstrate how the portfolio will support you in meeting your objectives.
- **Your agreed governance structure:** Providers will want to understand the level of delegation and decision-making you are seeking.
- **Key investment beliefs:** It is sensible to understand the extent to which the fiduciary manager's proposal for the mandate would be consistent with your key investment beliefs.
- **Exclusions:** It is also useful for providers to understand if there are any particular 'red lines' in terms of asset classes or manager selection, for example if you do not wish the fiduciary manager to use their in-house pooled funds for investing in alternative or illiquid investments. This might be due, for example, to concerns over conflicts of interests, a requirement for 'best of breed' opportunities to be considered at all times, the potential difficulties in transferring the funds at a later date.

The invitation to tender should also include a number of key questions which, when combined with their answers to your requirements above, will enable you to determine which provider might be most suitable and best meet your requirements. For example, these questions could include a request to provide details of the following:

- Their firm, their areas of expertise and relevant experience of similar arrangements.
- Their ability to successfully identify and select investment opportunities, together with supporting evidence.
- Their views on the current investment arrangements and the proposed fiduciary management mandate and how that might be modified or developed to enable an improved outcome to be delivered.
- Their proposed fee structure (including any performance fee structures) and level of fees and expenses that they would expect to apply to the fund. It is important that this information is reporting consistently to enable you to compare bids. See the section on **fees and costs** on page 21.
- The potential costs of transitioning into the proposed arrangement and the costs that might be incurred on future exit, if that was deemed necessary.

For further matters to consider in an invitation to tender, see **Appendix C** on page 32.

Reviewing fiduciary manager submissions

You should design a process that will enable you to assess each submission consistently to identify the potential fiduciary management providers that can meet your requirements. You may wish to consider designing a scorecard and applying weights to each criterion based on the level of importance of those issues in meeting your requirements.

An example of a scorecard that could be used when assessing fiduciary managers is outlined in Table 1 below. The details and weightings applied above are for illustration only and should not be taken as being representative of what might be appropriate in any particular case.

Each of the individual submissions are graded between 1 and 5 (1 = poor, 5 = excellent) and then weights are applied to each item to establish an overall score.

Table 1: Example of a scorecard that can be used when assessing fiduciary managers

Requirements based on:	Weighting	Score (1-5)
Firm, scale resources	10%	
Responsible individuals	10%	
Proposed interaction	10%	
Manager selection/asset allocation	40%	
Monitoring reports	10%	
Investment/strategic views	10%	
Fees, implementation, references	10%	
Total	100%	

Fees and costs

It is important that you can compare the estimated costs and charges of each fiduciary manager in a consistent way to make a fair assessment of the value for money in appointing that provider.

Fiduciary management providers who are subject to the CMA Order, must report the total annual costs and charges relating to the service they are proposing, and this should be expressed as both a percentage of assets under management and as a cash amount. This should also be supported by an itemisation of all costs and charges likely to be incurred over a 12-month period, such as the cost of advice and implementation, asset management fees, transaction costs, and any one-off costs likely to be incurred. You should also expect providers to outline the expected cost of transitioning into and out of the fiduciary management service. It should also make clear which costs would be deducted directly from assets and those which would be invoiced separately. To enable you to compare bids, you should consider adding a table to your invitation to tender so that providers report the information in a consistent way and can include all the services you require. You should also allow for the impact of any tax charges that might apply in addition.

It is particularly important to understand any costs that might be incurred if a decision was made in the future to exit from the fiduciary management agreement. Depending on the proposed underlying investments and the holding structure for those investments, significant costs and exit charges could be incurred, particularly in relation to illiquid and alternative investment funds. This transition process can also be lengthy, particularly in relation to certain types of investments and fund structures, and it could take some time to fully transition the whole portfolio to another provider. It is therefore important that you are aware and understand the potential costs and restrictions that might apply if you decided to exit the agreement, before you select a preferred provider and enter the fiduciary management agreement.

You should understand which services are included in the itemised statement and which services are not. If there are additional charges for ad-hoc services, such as advice on refining the investment portfolio or legal fees which are not accounted for in the overall estimate of costs, you should ask the provider for an estimate of the extent of ad-hoc services that are likely to be required each year so that you obtain a fair view of the likely total annual cost. This will also help you make a fair comparison between potential providers.

Example breakdown of indicative fees

- Illustration of indicative total fees to be charged for the service each year to include a breakdown of the following:
 - Fee for core fiduciary management service including advice and implementation. Any performance management fees must be separated out from the fiduciary management fee.
 - Asset management fees covering funds or fund-of-funds provided by the fiduciary management provider, and those provided by third party asset managers. These costs and charges must include any costs associated with execution such as transactions costs and performance-related payments.
 - Other investment costs such as custodian fees, administration charges or charges for ancillary services.
- Any one-off fees likely to be charged to include the following:
 - Estimated transaction costs likely to be incurred in moving assets into the proposed portfolio.
 - One-off fees for advice.
 - Any other one-off charges such as legal fees or costs of onboarding services.
- Potential exit fees and costs to include the following:
 - Any explicit costs and charges that would be incurred as a result of a change of fiduciary management provider or ceasing to obtain fiduciary management services, such as exit charges or 'lock in' fees in the contract that would be incurred if you changed fiduciary manager.
 - A statement that transaction costs might be incurred in switching provider or ceasing to obtain fiduciary management and that such costs may be similar in magnitude to those disclosed. This statement must also include any features of the proposed portfolio which might increase such transaction costs.

To support you in receiving fee information in a consistent way, the Cost Transparency Initiative (CTI) has produced a suite of voluntary templates and guidance designed to help trustees understand and compare the costs of their investment services by using a standardised reporting format.



These templates can be used to request charges information and are available here: <https://www.plsa.co.uk/Policy-and-Research-Investment-Cost-Transparency-Initiative>

Performance

The CMA found that fiduciary managers presented their historic performance information using different approaches. This has meant that it has not been easy for trustees to assess and compare the track records of fiduciary managers.

Part 6 of the Investment Consultancy and Fiduciary Management Market Investigation Order 2019 requires, by 10 December 2019, industry to put in place a standardised methodology and template for reporting past performance and achieve approval from the CMA. Providers of Fiduciary Management Services as defined in Part 2 of the Order, must use this standard in tender submissions and marketing communications to provide information of their historic performance.

Currently, there is a voluntary fiduciary management performance standard which was developed by IC Select with input from an industry steering group. The CFA Institute and IC Select are working on the formal transfer of the intellectual property to this standard with the intention of submitting this to the CMA for approval.



Full details for the current industry performance standard can be found here: <https://www.ic-select.co.uk/fm-performance-standard.html#industrystandard>

This guidance will be updated once this standard has been approved by the CMA.

Engage with shortlisted providers

Once you have reviewed and assessed the tender submissions, you may wish to eliminate a number of the managers who do not adequately meet your tender criteria. As you will be expecting to work with the fiduciary manager for a considerable period of time and the costs involved are significant, you will want to meet with the potential providers to understand how they might work with you and meet your requirements. You will want to invite your shortlisted providers to present to your board or a sub-committee responsible for the exercise and answer any questions you may have about their proposal for your scheme and any questions that may have arisen as part of their tender submissions.

Once the shortlisted candidates have presented to the board, you may have identified a clear preferred provider or you may have narrowed your selection to a final two or three providers with whom you may seek to negotiate improved fee and service terms. You may also find it useful to go on site visits to their offices to better understand the structure of their organisation and to meet the key individuals who would be responsible for looking after your scheme.

Documentation of process

When the tender process is complete, you should prepare a summary of your reasons for appointing the fiduciary manager(s) and the objectives and service standards that you expect the fiduciary manager to deliver against.

Oversight

As trustee, you remain responsible for the scheme, including setting the overall investment strategy and monitoring the activities and performance of your fiduciary management service provider. Once you have appointed your fiduciary manager, you should ensure that you regularly review their performance and their ongoing suitability as a fiduciary manager to be retained by the scheme.

The objectives you set for your fiduciary manager should be linked to your investment objectives for the scheme so that reporting of performance will allow you to review the value added by appointing a fiduciary manager.

You should be aware of the potential for organisations to change and factors that influenced your decision to appoint the fiduciary manager initially can change significantly over time. For example, the loss of key staff or key mandates, the demotion of fiduciary management as a line of service within a group organisation (with consequent impact on resourcing etc), a change in investment approach, with less focus on a preferred style of asset management or a preferred asset class, or a change in risk controls. Given the significance of the fiduciary management appointment to your future scheme outcomes, you may wish to consider using an independent third party to provide oversight of your fiduciary manager's performance and their ongoing suitability to meet the requirements of your scheme. That third party will also be able to help you decide whether any changes in the fiduciary manager or their mandate remit are necessary.

Appendix A: Examples of third party evaluators

Pros	
Investment consultants	<p>Most investment consultancy firms that offer services to occupational pension schemes will offer a third party selection service to support you in running a tender. They will also offer advice on investment governance structures. They will have knowledge of the fiduciary management market, though the level of knowledge will vary between firms.</p> <p>Some investment consultants will have teams that specialise in the selection and oversight of fiduciary managers. These firms will have specialist knowledge and will have researched the market to support the shortlisting of providers for tender.</p>
Professional trustees	<p>Some professional trustees may offer advice on governance structures. They may also support the board in running an effective tender process. They may bring experience and knowledge of using fiduciary management on other schemes.</p>
Dedicated selection and evaluation firms	<p>There are a number of independent third party selection firms that can support you in putting a competitive tender process together.</p> <p>Some firms also specialise in governance and therefore can provide advice on governance models.</p> <p>There are also some firms that specialise in the selection and oversight of fiduciary managers. These firms will have specialist knowledge and will have researched the market to support the shortlisting of providers for tender.</p>

Cons	
Investment consultants	<p>If your investment consultant only offers advisory services, there may be an inherent bias in their advice on governance towards the advisory model.</p> <p>If your investment consultant also offers their own fiduciary management service, there is a risk of bias towards their own fiduciary management firm and/or the style of their own fiduciary management service offering either when providing information on governance models or supporting a tender exercise.</p>
Professional trustees	<p>They are less likely to have detailed knowledge of the whole of market and market developments.</p> <p>They may not have sufficient resource and expertise to conduct regular research and due diligence on providers in the market.</p> <p>Recommendations based largely on previous experience of working with providers would not be sufficient either for shortlisting or appointing providers and would not meet the competitive tender requirements.</p> <p>Decisions that should be made by the trustee board may be unduly driven by the views of the professional trustee or their firm.</p>
Dedicated selection and evaluation firms	<p>There are significant differences between third party selection firms, their scale, structure and experience. These can vary from sole traders to dedicated governance teams within large multi-disciplinary practices.</p> <p>It is important to understand the extent of the service they can offer you. Some may be able to help run a competitive tender process, but they may not have specialist knowledge of the market to advise you appropriately and you may not achieve the best outcome for your members.</p> <p>In the case of a firm that specialises in fiduciary oversight, there may be an inherent bias in their advice on governance towards the fiduciary model.</p>

Appendix B: Scheme example, applying the principles of tendering for fiduciary management

Scheme background

This is a DB scheme with an employer that has limited affordability to pay contributions for a period of years due to the business operating in a declining sector. Despite contributions being paid, the funding level has not improved since the last formal actuarial valuation. The trustees have some investment experience but rely heavily on one trustee when making decisions based on the advice of their investment consultant. The trustees periodically considered hedging the scheme's liabilities but had never felt comfortable in implementing a significant level of hedging.

The employer asked the trustees to consider exploring whether fiduciary management could improve the scheme funding level over time and agreed to pay reasonable costs incurred from appointing a third party evaluator (TPE) to assist them with a review of their investment governance.

Reviewing investment governance capability

The TPE worked with the trustees to review their existing scheme governance, which included roles and responsibilities, how the trustee board functioned and how board membership might evolve in the future. With the help of the existing investment consultant, the TPE also arranged a workshop to help the trustees:

- define their investment beliefs
- define their objectives for the scheme over different horizons (with participation from the employer)
- understand different investment governance models
- understand how their existing investment advisory governance model may be improved, and
- understand how either a full or partial fiduciary solution could be implemented to benefit the scheme.

Following the review, the trustees and employer agreed to invest 50% of the scheme's assets in a fiduciary management mandate.

Preparing the specification

Based on the work the TPE did with the trustees to review their governance capability, they put together a high-level specification for the fiduciary mandate selection which captured the trustees' beliefs, objectives and risk tolerances for the mandate and the trustees' general requirements for the appointment. For example, these included the following:

- That the investment strategy put in place should target an investment return of Liabilities+2.5% pa, tapering to Liabilities+1.5% after 10 years and to Liabilities+0.5% after 20 years, with a funding level volatility of 8%-10% initially tapering to 6%-8% after 10 years and 4%-6% after 20 years.
- That over the medium to longer-term, as the funding level was expected to recover, the fiduciary manager should be able to explore opportunities to effect a liability risk transfer for segments of the membership by way of an insurance company buy-in.
- That active management and investment in illiquid and alternative investments could add value, if the manager selection (and rotation) was done by individuals with the expertise, skills and resources necessary to be able to effect decisions on a timely basis.
- That unrewarded risks should be hedged, diversified or transferred.
- That the assets should be invested in funds in the name of the trustees, which could be assigned to the new fiduciary manager (rather than sold for 'cash') if the trustees ever decided to terminate the fiduciary management contract.

Deciding who to invite to tender

The TPE mapped the trustees' high-level requirements against the full range of fiduciary management opportunities in the market, allowing for the scheme scale and characteristics, and their market knowledge of the firms (eg their size of firm, any loss of staff, loss of mandates, underperformance etc).

The TPE produced a brief report for the trustees on a longlist of nine potential fiduciary managers, with a brief outline of the firms and their fiduciary management products. This list included the trustees' existing investment consultant who had their own fiduciary management arm as they met the trustees' high-level requirements. They also explained which fiduciary managers they discounted and why.

The TPE and trustees discussed the differences, similarities, strengths and weaknesses of the nine fiduciary managers on the longlist and agreed to invite six of the fiduciary managers to formally tender.

The tender process

The TPE was able to rely on their existing research and ratings of fiduciary managers to provide some of the inputs into the trustee briefing papers. To supplement this, they prepared an invitation to tender, which included:

- the scheme background and the trustees' reason for tendering
- the trustees' high-level requirements for the tender
- the expected timeline for the tender and implementation
- the contact details for the chair of the trustees (to enable an introductory conversation), and
- the TPE contact details for specific queries relating to the tender submission.

They included a series of questions which would require firms to provide details on matters such as:

- their firm, areas of expertise and relevant experience of similar DB arrangements
- the individuals who would be directly responsible for their scheme
- how they proposed to interact with the trustee, frequency of meetings, level of trustee training
- their ability to successfully identify and select investment opportunities, together with supporting evidence as required by the fiduciary management performance standards
- the investment and risk monitoring reports they would produce for the trustees
- their views on the current investment arrangements and the proposed fiduciary management mandate, and how that might be modified or developed to enable an improved outcome to be delivered
- the timeline they proposed to on-board and implement the fiduciary management strategy if appointed
- the potential transition costs that would be involved in on-boarding and how those costs would be managed
- their proposed fee structure (including any performance fee structures) and level of fees and expenses that they would expect to apply to the fund, and
- trustees they have worked with, that would be prepared to provide references.

The six fiduciary managers were given four weeks to respond to the invitation to tender and five responses were received. The other fiduciary manager declined to tender following an introductory call with the trustee chair, recognising that given the timescales involved and their current project on-boarding pipeline, they would have been unable to meet the trustees' timeline and expectations.

Reviewing bids and making a decision

With the help of the TPE, the trustees assessed and graded the individual submissions between 1 and 5 (1 = poor, 5 = excellent) against a weighted scorecard agreed with the trustees. This was broadly based on the following in Table 2 below:

Table 2: Example of a scorecard that can be used when assessing tender submissions

Requirements based on:	Weighting	Score (1-5)
Firm, scale resources	10%	
Responsible individuals	10%	
Proposed interaction	10%	
Manager selection/asset allocation	40%	
Monitoring reports	10%	
Investment/strategic views	10%	
Fees, implementation, references	10%	
Total	100%	

Following assessment of the written submissions, there was a clear leader and one firm which did not meet the requirements. The difference between the third and fourth ranked managers was marginal. The trustees wanted to invite three managers to present to them and decided that the fourth placed manager should be offered the opportunity to present as they offered a different proposition to the third placed manager (who offered a very similar proposition to the first two managers).

The TPE invited the three managers shortlisted to present to the trustees and the trustees were also given time to ask questions. Following the presentations, the trustees identified their preferred provider but felt that given their scheme's scale, they might not get the level of support and service that a larger scheme might get. They also wanted to validate the bid in relation to operational due diligence and investment selection.

The trustees decided to do site visits to both their preferred provider and the provider ranked second. Following the site visits, the trustees concluded that, while their preferred provider would deliver the service required, the second ranked provider offered the best overall service proposition for their scheme.

The selected firm was asked to review their fees and terms and conditions and the TPE and the trustees' legal advisers provided views on the fees and contractual terms offered. Following advice, the trustees negotiated a further reduction in annual fees.

The TPE prepared a brief document setting out the process the trustees had gone through, which included the key decisions and the main reasons why those decisions were made.

The trustees subsequently agreed to appoint the TPE to provide independent oversight on the performance of the fiduciary manager appointment on an ongoing basis.

Role of existing investment consultant

The trustees were mindful of conflicts that could arise due to their existing investment consultant being part of a firm whose fiduciary management arm was involved in the tender process. Their existing adviser agreed to stay at arm's length in relation to designing and running the tender exercise but was engaged where possible to provide input on the scheme's current circumstances. Both the existing investment adviser and the trustees agreed that this was essential to manage conflicts of interest. It also provided comfort to some fiduciary managers who were considering tendering but were concerned about the potential for commercial conflicts to arise due to the existing investment consultant's connection with a competitor firm.

Appendix C: Example topics to consider as part of a fiduciary management tender exercise

The examples below provide some topics you may wish to consider when deciding your criteria for selecting a provider and designing an invitation to tender.

Corporate profile: To understand the organisational structure and their long term commitment to fiduciary management

- Basic organisational details, eg registered address, contact details, type of organisation.
- Company background.
- Ownership structure.
- Length of time providing fiduciary management services/commitment to market.

Operational effectiveness: To understand how effective the business is likely to be at delivering the expected service

- Organisational structure – key roles and team resources, how the team(s) are structured and resources to deliver the proposal.
- Key person risk.
- Recent (relevant) staff losses/details of unfilled (relevant) vacancies.
- Training and development policies.
- Current client base and experience of working with schemes of similar nature.
- Fiduciary management experience.
- Transition management capabilities.
- Details of recent mandates/gains.
- Details of operational risk controls and management.
- Client references.

Governance: To understand how key decisions are made and key risks are controlled

- Highlight any conflicts of interest.
- Risk management and controls.
- Assurance reports (AAF 02/07 etc).
- Complaints.
- Compliance breaches.

Investment manager resources and selection: To understand how investment managers are selected, the structure of the portfolio and its suitability

- Resources available.
- Range of asset classes and investment opportunities covered.
- Details of research process.
- Performance history and attribution of performance.
- How portfolios are constructed.
- Manager appointments.
- The level of investment fee and investment transaction costs and how these are managed.

Environmental, social and governance (ESG), including climate change and stewardship: To understand how these issues are integrated into the firm's investment approach

- How ESG and climate change factors are considered as part of investment manager implementation and portfolio construction.
- How ESG ratings are established and updated for individual investment opportunities.
- How they engage with employers in relation to fair employee pay, terms and conditions.
- How they seek to understand investee company operations and supply chains and engage to improve conditions, such as fair pay, gender equality and the protection of vulnerable labour.
- How they engage on executive remuneration policies.
- How they engage with companies to ensure their boards and staff are diverse and properly represent their communities.
- How they engage in relation to corporate tax policies and the payment of fair jurisdictional taxes in accordance with societal expectations.
- The extent to which voting rights are exercised.

Reporting: To understand how performance will be reported and the quality of those reports

- Responsibility for reporting.
- Frequency and content of reporting.
- Historic investment performance of the provider's full fiduciary management clients
This is covered in the section on **performance** on page 23.
- Sample reports.

Fees and costs: To understand how fees and costs are reported, disclosed and managed

See the section on **fees and costs** on page 21 of this guidance.

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Free online learning for trustees



A trustee guide to:

Tendering for fiduciary management services

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