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# Fiduciary Management

Helping UK DB pension schemes achieve their  
investment objectives



[abrdrn.com](http://abrdrn.com)

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# Introduction to Fiduciary Management

The Pensions Regulator (tPR) provide guidance to help Trustees choose the right investment governance model - "Choosing an appropriate investment governance model is important to ensure you can make timely investment decisions, access appropriate advice and implement your investment strategy efficiently."

Traditionally, Trustees have taken advice from an independent investment consultant on key areas of investment strategy and manager selection, with execution and day-to-day underlying portfolio management performed by the chosen asset managers. Over time some schemes have switched to a Fiduciary Management approach, where the advice and execution is performed by one party i.e. the Fiduciary Manager. Under a Fiduciary Management agreement, certain investment decisions are delegated to the manager, which can provide Trustees with more time to focus on areas that can add most value such as high level strategic issues. Based on the participants in our abrdn DB consolidation survey 2022, 50% of schemes have or are considering some form of Fiduciary Management.

Following the 'gilt crisis' in September 2022, many Trustees are exploring Fiduciary Management to improve governance and allow their scheme to adapt more quickly in times of market stress.

For schemes considering buyout with an insurer, the Fiduciary Manager can help efficiently evolve the investment portfolio over time towards fixed income assets that provide a hedge against buyout pricing and ultimately facilitate a smooth transition of assets to the insurer at the point of transaction.

# 50%

Around 50% of schemes have or are considering some form of Fiduciary Management



# abrdrn's Fiduciary Management offering

abrdrn's Fiduciary Management offering formalises our delivery of investment advice to UK DB pensions schemes, building on our long-history of partnering with clients to design bespoke solutions to meet their specific challenges. As an appointed Fiduciary Manager, we can work with clients to develop strategic investment plans specific to their needs and execute using our extensive in-house asset management capabilities.

abrdrn has been working with and managing assets for UK DB pension schemes for over 25 years, with over 350 UK DB pension schemes invested.<sup>1</sup> A dedicated Fiduciary Management team sits within our wider Pension Solutions team. The team has built up a unique skillset with members having experience across both pensions consultancy and asset management including direct portfolio management responsibilities. With this blend of consultancy and asset management experience, abrdrn is well placed to understand the client need and build tailored fiduciary solutions. With our insurance heritage we are particularly well placed to help schemes looking to achieve ultimate buyout with an insurer.

As a large global asset manager, we have the benefits of scale and deep expertise across key asset classes and strategies. Supported by portfolio management and dedicated risk teams, this allows our Fiduciary Managers to build well-diversified bespoke portfolios to meet schemes' long-term objectives with in-house investment componentry. We have a strong track record of adding value for our clients over many years, including taking a **£5bn UK DB scheme from a material deficit into a healthy surplus in a very measured fashion** over a 17-year period.



Market presence and experience to deliver a sophisticated but transparent, solution tailored to your needs

<sup>1</sup> As at 31 December 2022.





# Why choose abrdn?



## Partnership approach

Our experienced team of pension specialists are well placed to provide advice and innovative solutions to the evolving challenges faced by our pension scheme clients.



## Full suite of investment componentry

We use a full suite of investment componentry including a comprehensive range of public and private markets assets, liability matching and purpose-built CDI solutions.



## Driving returns to deliver your objectives

By bringing together our fiduciary management team and investment specialists with deep on-desk asset class expertise, we create solutions which deliver the steady investment returns you need.



## Tailored solution to your needs and preferences

All schemes are different, whether that is your cashflows, funding level, long-term objectives or investment beliefs including ESG commitments. We spend time talking to you to understand your needs and build the bespoke solution that fits.



## Strong risk management to smooth the journey

Risk management and sustainable investing is at the heart of our portfolio construction process. A common investment language across our business ensures a truly integrated approach to risk management.



## Value for money

As a large asset manager, our scale creates efficient implementation and by taking a single-manager approach we generate additional savings which we pass on to you.

# A unique mix of pensions and asset management expertise

The UK DB pension landscape continues to evolve as more schemes close and mature over time. A more explicit long-term journey plan is expected to be required under the new funding code, with a requirement to be fully funded on a low-risk basis by the time the scheme is significantly mature. Investment strategy is a key part of any journey plan, and therefore it is likely that the Fiduciary Manager will need to be involved in helping the Trustees review their existing plans to align with new regulation, guidance and documentation requirements. Therefore, it is important the Fiduciary Manager has strong DB pension expertise, with the ability to work together with other parties such as the Scheme Actuary.

At abrdrn our Pension Solutions team have a unique mix of direct asset management experience plus previous experience working across a number of leading pensions consultancy firms, providing both actuarial and regulated investment advice. This skillset allows our team to provide tailored investment advice under a one-stop-shop Fiduciary Management solution to meet specific needs of UK DB schemes.



**Owen McCrossan**  
Fiduciary Manager  
25 years' experience



**Brian Denyer**  
Fiduciary Manager  
20 years' experience



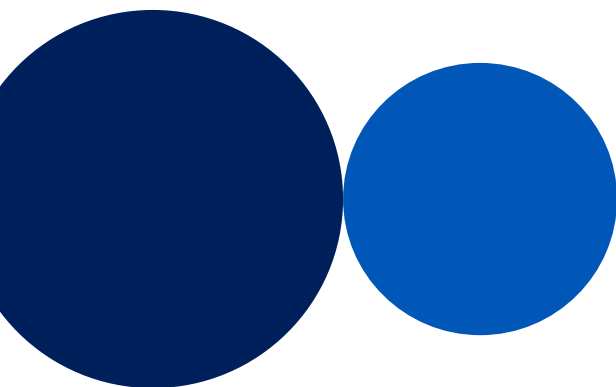
**Keith McNally**  
Fiduciary Manager  
13 years' experience



**Timea Varga**  
Solutions Manager  
14 years' experience



**Leigh Sanderson**  
Solutions Manager  
6 years' experience



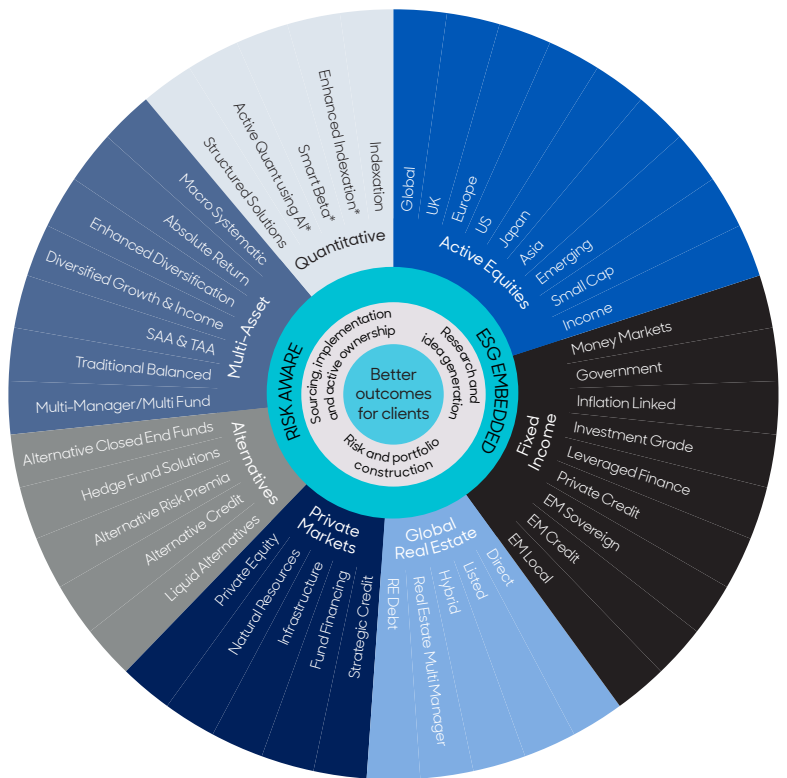
# Full set of investment componentry

Our Fiduciary offering harnesses the full breadth of investment componentry to design holistic bespoke investment solutions for each client. This includes active and passive liquid markets, access to a diverse range of actively managed Private Assets to help drive returns, as well as bespoke credit-based CDI solutions to maximise yield, all leading to better outcomes for clients.

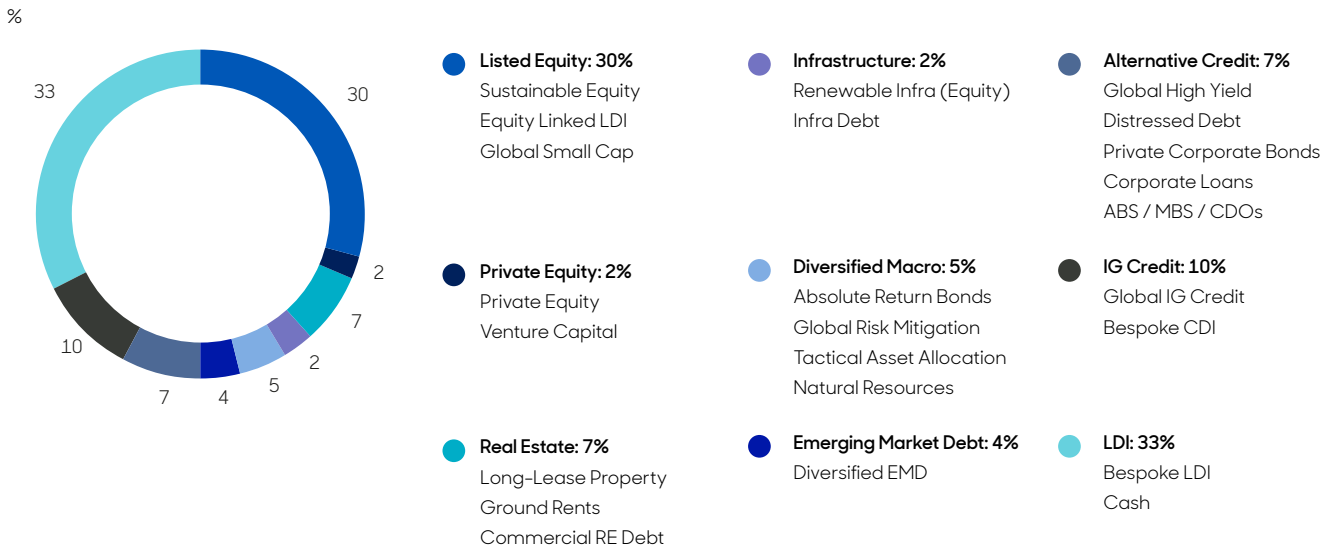
Our Liability Aware fund range plays a crucial role in our portfolios for small to medium sized schemes, allowing us to build very efficient tailored liability hedging solutions irrespective of client size.

For our larger clients, as a large asset manager, we can offer bespoke segregated solutions across a wide range of strategies including liability hedging, credit, equity and bespoke risk mitigation strategies to provide additional downside protection.

The chart opposite details an example portfolio for a client with a return objective of **gilts + 2% p.a.** The solution combines a broad range of strategies across public and private markets, together with a bespoke CDI and LDI strategy. Having all the components in-house allows us to provide clients with a sophisticated investment strategy in a very efficient and simple way, with full transparency and clear accountability.



## Illustrative FM portfolio targeting gilts + 2% p.a.



# Bespoke journey plans

Aligned with guidance from the regulator, we believe all schemes should have a clear long-term funding objective and journey plan to get there. The path will be client specific and level of risk within the investment strategy today and over the journey should be influenced by the sponsor covenant. For a scheme with a strong sponsor covenant, in principle we are supportive of a strategy that seeks to target high return (and therefore higher risk) in the short-term while there is good visibility of the sponsor, with a plan to de-risk the portfolio gradually as the funding level improves. However, this approach will need to be considered carefully in light of impending new regulation such as the fast-track regime.

In terms of the de-risking framework, we can be flexible and accommodate client preference. We have all the tools and experience to monitor and run very strict, automatic de-risking frameworks. One of our client's went through five de-risking triggers over a twelve month period as their funding position improved. The portfolio was automatically de-risked as each trigger was breached with no input required from the Trustees.

## Automated De-risking Journey

Funding Level - low risk basis %



Source: abrdn, 30 June 2022.



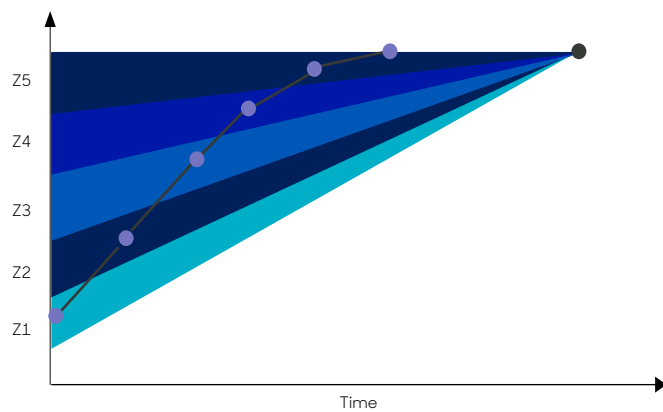
As an alternative, we also have the flexibility to work with clients that want a more pragmatic de-risking framework based on funding level zones as opposed to strict trigger points. The zones can help inform decisions to de-risk but are not automatic triggers.

There are several factors that can influence a decision to de-risk the portfolio, not just the funding level. In addition, any monitoring framework will be approximate (typically based on a liability benchmark) and therefore being overly precise on de-risking triggers with automatic implementation can lead to unintended consequences.

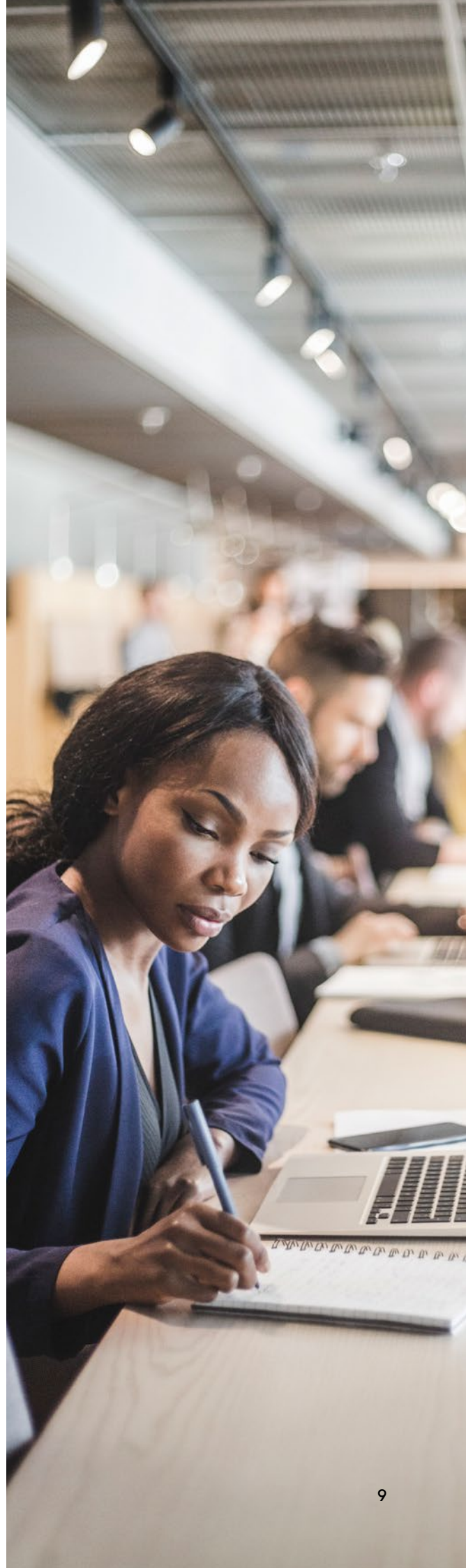
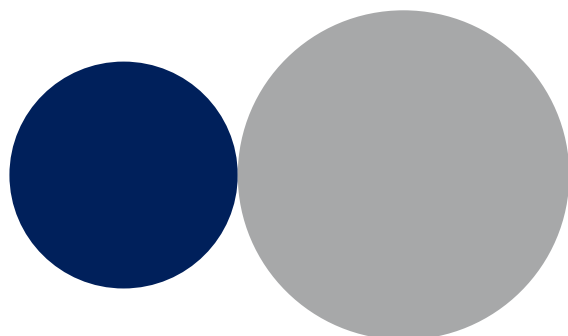
Being an asset manager, we have a deep understand of markets and the drivers of any improvement in funding level, which can help influence decision making.

### De-risking Framework

An approach using Funding level zones



Source: abrdn, 31 December 2022.



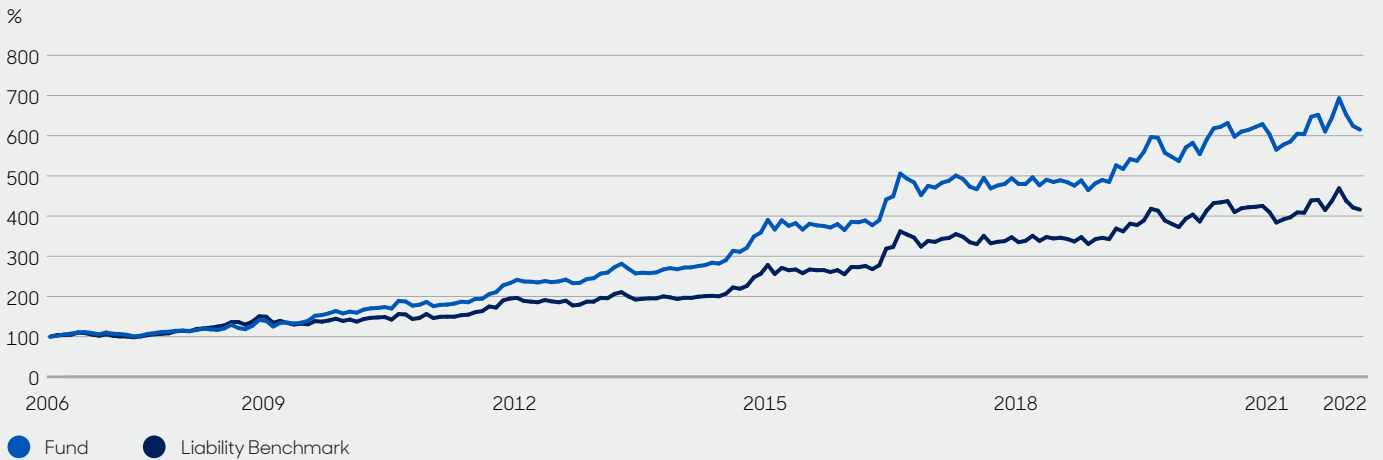
# From a material deficit to a healthy surplus

**In 2005 the Standard Life Staff Pension Scheme (SLSPS) re-structured its investment mandate under the guidance of Standard Life Investments. From a traditional balanced portfolio, we created a 'liabilities plus' framework whereby the interest rate and inflation sensitivity of the liability cashflows were hedged and a highly diversified portfolio was built to deliver the return seeking element.**

Investment decisions were outsourced to Standard Life Investments with detailed discussions with the Trustees on return target/ risk budget and other appropriate constraints. This framework has been largely untouched over the 17 years and has turned a material deficit into a healthy surplus in a very measured fashion. Whilst not formally a fiduciary mandate, given the relationship between the scheme and the sponsor, we would consider this to be a fiduciary relationship in the majority of aspects.

The portfolio is currently circa £5bn in size and uses a wide range of abrdn investment componentry across a number of capabilities. Owen McCrossan, who sits within the Pensions Solutions Team, is the lead portfolio manager for the scheme.

## Fund performance vs Liability Benchmark



Source: XX.

## Important Information

**Investment involves risk. The value of investments, and the income from them, can go down as well as up and an investor may get back less than the amount invested.**

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