The rise, role, risks and rewards of the sole trustee
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The number of schemes using a professional trustee continues to gain momentum; and in this paper we explore the rapid growth in the sole trustee market. Whilst today the appointment of a sole trustee is biased towards smaller schemes, there is evidence that larger schemes are also adopting the sole trustee model.

A sole trustee brings nimbleness to decision-making, and this has been particularly beneficial through the COVID-19 pandemic. However, the role of a sole trustee and their wide remit of responsibilities brings some concerns. Around diversity, willingness to partner with other professional advisors, and/or the selection and ongoing monitoring of a sole trustee appointment.

We consider the benefits of a sole trustee appointment and suggest how the concerns and/or perception of a sole trustee could be enhanced.

Like professional trustees, we see sole trustees as a governance benefit for certain schemes and one which we suspect will see continued growth into the future.

We also see continued growth for fiduciary management, another tool that can enhance the governance framework for a scheme. We look with interest as to whether there will be an increased use of sole trustees and fiduciary management in tandem as trustees and sponsors strive for the ultimate governance solution.

Introduction

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The ever-changing pensions landscape keeps growing in complexity; be it through increased regulatory requirements, economic curveballs like COVID-19 or maybe final salary pension schemes becoming ‘legacy schemes’ for sponsors.

This complexity can perhaps be compared to the wider world of business where companies often tire from facing seemingly impossible complexity. Studies by Birkinshaw and Heywood1,2 focus in on such organisational complexity and the authors sympathise with how this challenge can make it hard to get things done effectively, or indeed efficiently.

But crucially they go on to identify that when companies step back to assess complexity that they can take some key actions:

1) retain complexity that adds value;
2) remove complexity that does not add value; and
3) channel the complexity to employees who can handle it effectively.

This is akin to a pension scheme looking to improve their governance structure so they can manage complexity with the appropriate resource and expertise.

The search for the holy grail of governance improvement is not new; in 2018 we produced a report3 focused on scheme governance and the health of the UK Pensions Industry. Whilst ‘good governance’ itself was seemingly hard to define there were aspects which were readily attributable to positive outcomes; including suitable controls, effective leadership, relevant training and interestingly a need for flexibility – so as to be able to respond swiftly to market events.

Respondents to our 2018 survey identified “speed of decision making” – which one could describe as “flexibility” – as a key aspect of scheme governance. Whilst we acknowledged that the quality of the ultimate decision made would drive success, structures and tools to aid this decision making were paramount. Two years ago, these structures and tools included, amongst other things:

1) the use of independent (now coined professional) trustees; and
2) fiduciary management, particularly for schemes that lacked sufficient internal resources.
As we roll forward to today, we are in one of the most challenging economic periods since the 2007/2008 financial crisis. Being 12 years on, this period has created different challenges for pension schemes. Namely because they themselves are 12 years older!

So relatively speaking, schemes are less able to weather the storm and get back on track, and the same could be said for their sponsors.

Therefore, in this report we want to delve deeper into the evolving world of enhanced governance and consider whether professional trusteeship, and the rapidly growing sole trustee model, is helping schemes face their governance challenge with increased success. We will also touch on whether fiduciary management can add a second layer of governance finesse to a scheme.

To do this we undertook a range of interviews supplementing a larger survey that asked and answered the following primary questions:

- What is a sole trustee appointment?
- Why and when are sole trustees appointed?
- What are the benefits or drawbacks of this governance model?
- What tools could be used to address the identified drawbacks of a sole trustee?
- Whether fiduciary management could be used in combination with sole trusteeship to enhance governance and address these drawbacks.
- Whether schemes have governed the COVID-19 situation and faced the CMA requirements with greater success if a sole trustee is in place.

We surveyed 42 trustees and conducted detailed interviews with half of this group to further explore their response. This group represented 18 different professional trustee firms, as well as those who operate independently from a firm.

Our survey group represented a diverse range of individuals; some new to professional trusteeship, and others whom are more seasoned trustees; around a third of respondents were women. The key features of the group were:

**58%** HAVE SCHEMES THAT CONSIDERED FIDUCIARY IN THE PAST YEAR

**407** SCHEMES REPRESENTED BETWEEN THEM

**78%** HAVE SOLE TRUSTEE APPOINTMENTS

**71%** WORK WITH A FIDUCIARY MANAGER

**42%** HAVE SCHEMES THAT CONSIDERED SOLE TRUSTEESHIP IN THE PAST YEAR

**42 Trustees across 18 firms**

Additionally, nine firms who could provide specific information about their client and trustee composition had these key features.

**1,345** SCHEMES REPRESENTED BETWEEN THEM

**32%** OF THESE SCHEMES USE A SOLE TRUSTEE

**223** TRUSTEES EMPLOYED ACROSS THESE FIRMS

**73%** OF THESE TRUSTEES HAVE SOLE TRUSTEE APPOINTMENTS

**9 firms**
Across these two data sets we were able to identify that sole trusteeship appears to be a core area of growth in the market today, and there is an expectation this growth will continue for the foreseeable future.

Sole trusteeship appointments are felt to be, perhaps unsurprisingly, driven by:

1) a growing difficulty in finding trustees for boards;
2) a need to ease complexity and tackle regulatory requirements; and
3) sponsor preference.

As shown, these are quite different to typical motivations for appointing a fiduciary manager which, unsurprisingly, is dominated by a desire to seek a more sophisticated investment strategy.
There was also clear consensus regarding the benefits of sole trusteeship, with the nimbleness and proactivity sole trusteeship can bring to decision-making identified most strongly, accompanied with the expertise and professionalisation such an appointment often brings to a board alongside improved governance.

Interestingly, the top picks show far more commonality with the benefits fiduciary management is deemed to provide.

<table>
<thead>
<tr>
<th>Sole Trusteeship (%)</th>
<th>Fiduciary Management (%)</th>
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<tbody>
<tr>
<td>24</td>
<td>1</td>
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<td>24</td>
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<td>1</td>
<td>6</td>
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<td>31</td>
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<td>3</td>
</tr>
</tbody>
</table>

- Best practice for smaller schemes
- Better results with delegation
- Cost savings (incl. access to economies of scale)
- Efficiency
- Endgame solution
- Expertise & professionalisation
- Frees up time
- Improves governance
- Increased control
- Proactive, real-time decision-making
- Satisfies sponsor
- Stability
- Trustee focus

Key findings (continued)
Areas for improvement

Evidently trustees champion the sole trustee model, but a few points of ‘finesse’ were identified by many participants that could further enhance its use and extend its application to a wider cohort of schemes.

These included:

1. **Acknowledgement that sole trusteeship can make diversity more difficult to achieve;**

2. **A concern in some situations that sole trustees were reluctant to always take comprehensive advice when making decisions as the perception on appointment was they were the expert;**

3. **A belief that improved transparency and understanding the sole trustee market could aid the appropriate selection of a sole trustee firm (or more widely) a professional trustee to a scheme.**

To aid decision-makers in addressing these areas of improvement we suggest a soft framework in this report. This list of considerations could be used both pre- and during the appointment of a sole trustee to achieve better governance.

Furthermore, both the sole trustee model and use of fiduciary management are intended to improve not impede governance, our results indicate they are not frequently used concurrently. We explore why this may be, and suggest as each continues to grow, there could be a logic in some situations to using them in tandem to mutually facilitate and enhance governance.
Growth of sole trusteeship

The CMA Report of December 2018 into the investment consultancy industry drew on various research pieces, indicating that professional trustees can enhance decision-making and increase the level of ‘knowledge and understanding’ around the table. Therefore, there is seemingly momentum in the industry, and one could suggest from the CMA Report of a growing need for the increased use of professional trustees going forward.

HOW SOLE TRUSTEESHIP DIFFERS FROM OTHER GOVERNANCE MODELS

Professional trustees can sit as a co-trustee alongside a larger group; which is usually comprised of company nominated trustees, member nominated trustees, or in some situations other professional trustees. The professional trustee may, or may not, assume the role of Chair.

In comparison a sole trustee is when a single entity (typically a company) acts as trustee which is appointed by the scheme sponsor.

INCREASED APPETITE FOR SOLE TRUSTEES

It is hard to find industry-wide data collated more recently than 2015 on the use of single trustee appointments, but all firms we spoke to as part of this study indicated an increased momentum to sole trusteeship in recent months.

One firm told us that three years ago only 5% of Request for Proposal (‘RFPs’) referred to ‘sole trustee’, but last year this had risen to 25% and this year is already at 50%, with further growth expected post-pandemic.

Another firm said based on their chats with employee benefit consultants, they expect that “over next 3-5 years, at least 35% of our book will be sole trustee” and as one trustee put it, “in the last 6-12 months, sole trusteeship is not a phrase that is missing from tenders.”

RFPs referencing ‘sole trustee’ increased from 5% to 50%+ within three years at one firm
Several interviewees also noted the explicit desire from some boards or employers to initially hire a professional trustee with the aim to transition to sole trustee within a defined timeframe. Of the nine firms that indicated the pace of growth, all have seen a steady or rapid increase.

**PREVALENCE OF SOLE TRUSTEESHIP ALREADY**

The extent to which sole trusteeship is already established is evident in both how many trustees have at least one sole trustee appointment and what proportion overall of each firms’ client base is governed in this matter. Of seven firms able to provide this data, the percentage of trustees that have a sole trustee appointment is illustrated as shown.

This contrasts with the prevalence across these firms’ client schemes using a sole trustee model (albeit we note some of these sole trustee appointments includes schemes in PPF territory).
HOW PROFESSIONAL TRUSTEE FIRMS APPROACH
SOLE TRUSTEESHIP GOVERNANCE

The Professional Trustee standards have introduced guidance for individuals and firms who act in a sole trustee capacity, to increased standards of care and ensure no “key man risk” occurs. These standards prohibit sole traders taking on such appointments, but despite this our interviewees sense the term “sole trustee” unfortunately still conjures up a perception of “single person” decision making. To underline this all firms we spoke to emphasised their support structure for sole trustees, and some examples are shown below.

FIRM 1  “Our model of sole trusteeship means you don’t have a ‘rogue’ trustee with limited governance and ensures the lead trustee must bounce ideas off other people.”

FIRM 2  “Our model is never one person, this is a misconception – we have at least a lead and support consultant in place for every scheme.”

FIRM 3  “One-man bands do exist but less of an issue with professional firms… we have seven people involved on every scheme internally.”

FIRM 4  “...access to specialist expertise and additional resources and with an effective stewardship structure to support it.”

FIRM 5  “The distinction lies in whether it’s a sole practitioner (e.g. no backup or oversight). Corporate sole trustee models can vary depending on team structure, trustee experience... but all firms have these fundamentals.”

Most firms concur regarding the motives and catalysts for pursuing sole trusteeship, as corroborated by the individual survey data on page 13.

However, there is a marked difference in the operating models of those firms providing sole trusteeship. Such as; those focused on only offering trusteeship and others offering a range of integrated services; those with ‘house views’ and those without; the nature of the contract trustees have with the firm as employer; those who have a regional and those with national coverage and are geographically dispersed.

The combination of these characteristics can have an impact on the approach of the firm (and their employees) to their provision of sole trusteeship we believe can impact on the robustness of its governance. This is further explored on pages 15-16.
WHICH SCHEMES USE A PROFESSIONAL TRUSTEE?

Professional trustees are used across schemes of all sizes; albeit there is a bias for professional trustee representation on DB schemes versus DC schemes – which may reflect the relative immaturity of the latter.

The CMA Report indicated that smaller schemes tended to have poorer governance structures or capacity to monitor their (investment) advisors sufficiently – perhaps linked to a less frequent meeting cycle or the lack of support of an in-house pension scheme.

Our research revealed smaller schemes are far more likely than larger schemes to use a sole trustee. That said, schemes with £1bn+ AUM adopting a sole trustee is not unheard of; five firms confirmed they have sole trustee clients in this size bracket now (although not all provided survey data). This reflects the key governance influence it is believed this ‘person’ can play, and the need for the governance budget to be spread more widely on such schemes.

Five firms we spoke to were able to provide a breakdown of their sole trustee client base by scheme size to support these findings.

<table>
<thead>
<tr>
<th>Prevalence of sole trusteeship by scheme size</th>
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<tbody>
<tr>
<td>Number of schemes</td>
</tr>
<tr>
<td>0</td>
</tr>
<tr>
<td>&lt;£50m</td>
</tr>
<tr>
<td>&gt;£50-100m</td>
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<tr>
<td>&gt;£100-250m</td>
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<tr>
<td>&gt;£250-500m</td>
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<tr>
<td>&gt;£500-1bn</td>
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<tr>
<td>&gt;£1bn+</td>
</tr>
<tr>
<td>0</td>
</tr>
<tr>
<td>25</td>
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<tr>
<td>50</td>
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<tr>
<td>75</td>
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<td>100</td>
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<tr>
<td>125</td>
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<td>150</td>
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FUTURE TRENDS FOR SOLE TRUSTEESHIP

1. There is a belief the number of trustees taking on both professional and sole trustee appointments will continue to increase.

2. As schemes of all sizes look for a more efficient governance model, sole trusteeship will likely increase across a range of schemes. Whilst smaller schemes dominate appointments today, new requests are being received for larger schemes (including those over £1bn) – perhaps also driven by the increasingly harder situation forming comprehensive succession planning on trustee boards.

3. There is also evidence sole trustees are often sought to help manage key projects for a scheme. This could include an insurance transaction, or liability management exercise for example. As schemes mature and funding levels improve, the increased need for these capabilities would support more focus on sole trustees in implementing and, ultimately, executing such projects.
Benefits of sole trusteeship

With the sole trusteeship model growing in popularity, we were interested to consider why this may be.

If we consider first the top reasons why sole trustees are appointed, we show the primary driver was the increasing difficulty schemes are having in finding new trustees – which we can conclude is a growing challenge as schemes mature and they perhaps become the ‘legacy’ scheme of a company.

Secondly, there is also an overwhelming belief that appointing a sole trustee can help solve the complexity of the pensions problem; this is supported qualitatively in the CMA review where the experience of the professional trustee was identified as valuable. A PensionChair 2019 survey of 115 Chair of Trustees validates this, with ‘regulatory demands and legislative environment’ identified as both the top priority and top challenge.7

Reasons to appoint a sole trustee

<table>
<thead>
<tr>
<th>Reason</th>
<th>Rank 1</th>
<th>Rank 2</th>
<th>Rank 3</th>
</tr>
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<tbody>
<tr>
<td>Difficulty finding trustees</td>
<td>7</td>
<td>9</td>
<td>9</td>
</tr>
<tr>
<td>Ease complexity</td>
<td>9</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Sponsor preference</td>
<td>6</td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td>Weak governance</td>
<td>6</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>End game activity planned</td>
<td>3</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>Time constraints</td>
<td>4</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>More sophisticated investment solution</td>
<td>1</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Small sized scheme</td>
<td>2</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Other</td>
<td>4</td>
<td>4</td>
<td>0</td>
</tr>
<tr>
<td>Maturity of scheme</td>
<td>3</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Cost pressures</td>
<td>3</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Poor funding level</td>
<td>3</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Challenging market conditions</td>
<td>3</td>
<td>3</td>
<td>3</td>
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</table>
Proponents of sole trusteeship were also quick to identify the governance boost and knowledge of a professional trustee who can act nimbly (without a large co-trustee model) to debate their questions with is invaluable.

**Top benefits of sole trusteeship**

- **Proactive, real time decision making**
- **Expertise and professionalisation**
- **Improves governance**
- **Efficiency**
- **Endgame solution**
- **Satisfies sponsor**
- **Stability**
- **Best practice for smaller schemes**
- **Better results with delegation**
- **Frees up time**
- **Other**
- **Increased control**
- **Trustee focus**
- **Cost savings (inc. economies of scale)**

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**COVID-19**

A clear majority surveyed believed the sole trustee model was beneficial in response to COVID-19. The impact however tended to depend on the respondent’s client profile; some schemes have naturally been more exposed or insulated depending on the employer’s industry. Even where schemes have been less sensitive, the impact on covenant needs close attention, as depending on the contribution schedule the squeeze might not be felt until later.

Trustees have therefore been mindful of what contingency assets or plans are in place to provide security.

It was also noted that given traditional boards are no longer travelling and ‘zoom’ meetings are shorter and more focused, video conferencing may have eroded ‘speedy decision making’ as a key advantage claimed chiefly by sole trusteeship during the pandemic.

But it remains true that a sole trustee is able to react more quickly during this uncertain time as due to their depth and breadth of experience they require less deliberation time and are able to act quicker as advisors spend less time needing to educate.
Evolution of sole trusteeship

While sole trusteeship has rapidly become increasingly common, through our interviews it became apparent that some soft concerns have arisen over its use.

These include:

1. Loss of member knowledge and experience;
2. Loss of scheme experience;
3. Sponsor bias;
4. Lack of diversity;
5. Sole trustees taking on too wide a range of specialist roles;
6. Lack of transparency and understanding on trustee firm differentiators.

The regulator has consulted on this and will be commissioning research on sole trustees to assess conflicts of interest and saver engagement. For now, they do not propose regulatory changes for schemes using sole trustees.

CONCERNS 1 AND 2

It was recognised there are simple steps that can be used to allay concerns 1 and 2; by using an overlap period where a transition of a professional trustee to sole trustee over time can reduce the loss of legacy knowledge. This ‘phased approach’ can give the professional trustee time to understand scheme objectives and build up knowledge and relationships to facilitate a collaborative and seamless handover, for example in advance of an incumbent Chair’s retirement. Also practiced is the use of a ‘consultation committee’ where previous trustees can comment on meetings, albeit hold no formal responsibilities.

CONCERN 3

On point 3, the worry a sole trustee may act as ‘the stooge of the sponsor’ is not new; this could still be a possibility with a traditional board stacked with selected employer nominated trustees and a professional trustee. Integrity and accountability in respect of the sole trustee, and the firm they represent, should address this. However some firms’ business models lend themselves better to openly identifying and managing conflicts of interest where and when they arise.

Also practiced is the use of a ‘consultation committee’ where previous trustees can comment on meetings.
CONCERN 4

Diversity, point 4, remains very topical\(^{9,10,11,12}\). Indeed only a few months ago the PLSA explored the need to improve ‘Diversity and Inclusion’ on trustee boards, which echoed a report from the regulator a year earlier\(^{13,14}\); and our interviewees likewise acknowledged achieving ‘true diversity’ to be a difficult feat – perhaps more so with sole trustee appointments.

Some respondents were candid in reflecting on their firms’ shortcomings; “Whilst we do use the wider firm, I believe this probably only really ticks the diversity through numbers box and maybe gender. But not other attributes. I believe diversity still needs work by the industry”. There was also the challenge that a sole trustee is no less diverse than a typical lay trustee board, “especially those suffering from male, pale, stale [composition].”

Others believe “lack of diversity is a genuine problem” but claim their structure was “diverse by design” whether that was viewed from the perspective of gender, race, experience or thought. And it was admitted that without risk controls and a focus on governance oversight, very different decisions could be taken by schemes depending on which individuals were involved, despite support teams and alternates.

CONCERN 5

Considering specialist roles, and point 5, a belief held by some is that sole trustees need to show their value, and with an appropriately resourced firm standing behind them perhaps specialist advice e.g. investment advice or covenant advice may be side-stepped or slim lined as the sole trustee looks to act fully in that capacity – bar regulatory needs. Taking less advice, perhaps to contain costs, could in our view lead to a poorer governance outcome for scheme members. This seems to be one area where either the perception and understanding around how firm-wide decision making is brought to the table is enhanced or that sole trustees (and firms) need to reconsider which tasks do, or don’t warrant specialist attention.

Regarding their expertise for investment decisions specifically, one trustee argues “a sole trustee is not a portfolio manager, if your aspiration is managing lots of money, get a different job”. This appeared to be the area where views were quite divergent.

CONCERN 6

And finally, point 6 and sole trustee appointment processes. There was some concern, albeit perhaps intangible, that the best fit firm was not always being selected for the role, with “word of mouth” or preferential placing by third parties occurring in some cases. If either or both situations were true this could hinder the ability for the true best fit of firm and individual to an appointment, and our conversations drew analogies to the CMA investigation of the consultancy market and ensuring that third party firms acting in “placement agent” roles are transparent about conflicts and support an open, honest and robust appointment process.

There was some pessimism about how to improve this, as while adherence to defined guidance was viewed as being potentially helpful “realistically we won’t get it”. One trustee suggested it would be “more helpful to make sure sole trustees are up to scratch rather than questioning the appointment process”.

Evolution of sole trusteeship
Proposals for evaluating sole trustees

The survey data was telling, but the interviews we conducted to supplement this even more revealing. As we pressed for clarity from each firm on their approach, and implementation of it, a number of key considerations for schemes preparing to shift to sole trusteeship emerged.

While there were many commonalities between each firm’s application of sole trusteeship, some seem to have evolved quicker than others (irrespective of how long they have been providing sole trusteeship to market).

To address concerns around sole trustee governance, a range of remedies can be considered, and most firms identified similar things to bear in mind. However, across this range, there was a spectrum of conviction; again, certain firms seem to be leading the pack and have advanced their processes to set a higher bar. For example, all firms say they collaborate and share extemporaneous requests and feedback over email where pooled knowledge can benefit the wider client base.

Where this remains informal and ad hoc, we think there is room for improvement and a guidance tool for individuals who select, or oversee sole trustees, to be of worth.

This was supported by several trustees suggesting that to fully assess suitability, governance measures ought to have an explicit framework, or mimic how a portfolio would be monitored, perhaps even with triggers or ranges in place. This enables the firm to manage complexity and be accountable, particularly where impacts for one area can have unforeseen consequences on another.

...all firms say they collaborate and share extemporaneous requests and feedback over email where pooled knowledge can benefit the wider client base
We have consolidated and condensed these considerations into a proposed checklist and grouped them thematically. For each item given consideration, the answer supplied could be assessed according to the governance strength it attains; low, medium or high depending on how robust and satisfactory it’s deemed. We also believe most of these can and should be addressed prior to kicking off a formal appointment process.

This framework could provide transparency over both a selection process, and the ongoing oversight of a sole trustee, and in this help to alleviate some of the ‘weaknesses’ of sole trusteeship that we discussed on pages 15-16.

**CONSIDERATIONS**

**C** What intensity of engagement with the sole trustee will be necessary?

**K** Has potential loss of member knowledge been addressed?
   Will nuanced scheme history be retained?

**C** What level of sponsor control exists over sole trustee?

**R** Have the resources the firm has to support the sole trustee been reviewed?
   How are these resources deployed to support the sole trustee?

**D** How is diversity represented through the sole trustee?
   Who else is a trustee at this firm?
   Do they have different backgrounds etc?
   Is there a specific number of people required to ratify a sole trustee’s decision?
   When and how is external advice sought?

**I** Is it clear how risks are identified and mitigated, and is this uniform across sole trustees?
   Are the sole trustee’s investment beliefs in line with the scheme?
   Have the beliefs of those selecting the sole trustee been examined pre-selection?

**C** Is the selection process for choosing the sole trustee sufficiently transparent?
   When the sole trustee joins, will there be a transition period with the outgoing board?

**K** Has a consultation committee been established to facilitate this transition?

**V** What are the evaluation criteria for the sole trustee?
   How is the value delivered by the sole trustee measured?
   When is this assessment of value being conducted?
   How has communication with the sponsor changed?
Going back to our original consideration, fiduciary management can be a core governance tool for schemes; and therefore, also looked as part of this survey to its growing use in the UK.

As is commonly accepted, fiduciary management is growing in popularity, with just under 20% of schemes we surveyed investing in this model today. This is in line with broader market surveys; indeed, Isio’s annual survey estimates that 17% of schemes today use a fiduciary manager and showed a 10% growth in the market for 2019 despite the CMA market investigation coming to its conclusion. One potential and qualitative damper on growth could be the additional fee impact of using an oversight for fiduciary, which was viewed as developing into a “must have” whereas previously seen as “nice to have”. However the nine firms who indicated the pace of growth, for c.65% (over the past year) enquires have been increasing.
The primary driver for appointing a fiduciary manager was identified as an overwhelming desire for schemes to seek “more sophisticated investment solutions”. This is closely followed by time constraints the trustee board face and being able to better react to challenging market conditions.

The attraction of fiduciary management seems to be driven in part by a scheme’s funding position.

Several trustees pointed out that fiduciary management was unlikely to be considered if they have inherited a well-funded scheme with a short journey plan on the path to buy out. However, if the scheme is “in it for the long haul” then it can in some circumstances be advantageous; one trustee felt “if really needed to make good ground, fiduciary management pays for itself 10x over.”

In our experience fiduciary management is not only for underfunded schemes, but quite often the primary driver is governance rather than funding. The last stage of a scheme’s funding journey needs to be carefully managed and avoid unnecessary risk. A fiduciary manager is well placed to support trustees and their schemes in this situation.
The perceived benefits of fiduciary management embody the desires motivating schemes to adopt it, with 64% of respondents ranking “proactive, real time decision making” as the key benefit of fiduciary management and allowing trustees to focus on core responsibilities not far behind.
Furthermore, the recent market turmoil of COVID-19, has been a real test for fiduciary managers and 77% of respondents saw fiduciary management as a strength in these times. This is corroborated by Pensions Expert in their June 2020 article, where data gathered combined with interviews they conducted showed fiduciary managers to have outperformed ‘traditionally advised’ schemes.\(^{16}\)

This is especially interesting when considered in parallel with the analysis of sole trusteeship, as both are asserted to provide agility, aid proactivity, and add expertise and professionalisation to the table. Since each can be considered key governance tools for a scheme, might they therefore used in combination to reach an enhanced governance standard? However, we saw limited overlap in their use; of the seven firms able to provide data for these metrics, it appears only 10% of the schemes using a sole trustee or fiduciary do so simultaneously (similarly, this figure is 9% for the individuals surveyed).

This is in our eyes driven by a number of factors, including:

- Sole trusteeship being relatively immature relative to the fiduciary management model. Therefore, conversations on improved governance structures, which can include fiduciary management perhaps not making it to the agenda yet;
- Sole trusteeship is biased towards smaller schemes, which is similar in fiduciary management\(^ {11} \); this itself reflects UK pension scheme distribution by size. However, it is perceived only a small group of fiduciary managers can offer economically viable solutions at small scheme size, and this naturally hinders the extent of overlap.
- A belief by some that the role of a specialist investment advisor (such as a fiduciary manager) is redundant once a sole trustee is “at the table”;
- A concern over the cost, and value add, of a fiduciary manager over a traditional advisory model once a sole trustee is at the helm and can drive decision making;
- An active decision by the sole trustee not to implement a fiduciary arrangement, as the traditional consulting arrangement remains fit for purpose.
The role of fiduciary management

Fiduciary management can be used effectively in combination with a sole trustee model, indeed going further on this it can alleviate some of the concerns which exist on diversity and around sole trustees not always taking full professional advice when required.

This view was supported by several trustees whom we interviewed who believed the blend of sole trusteeship and fiduciary management to be useful: “a sole trustee consolidates the trustee board and leverages their firm’s processes and skills across appointments and accessing economies of scale; similarly, fiduciary managers leverage economies of scale... in a sense it’s a DIY consolidator.”

One trustee extended on this further to say “I work as part of a sole trustee team on multiple schemes. Some use a fiduciary manager and others do not. Where we have a fiduciary manager, I feel closer to the underlying assets and better informed about their performance. The direct relationship with the fiduciary manager is often stronger than the relationship with an investment consultant or other intermediary.”

Several trustees whom we interviewed, believed the blend of sole trusteeship and fiduciary management to be useful.
In conclusion

What next from here

- Our evidence shows that a professional trustee can enhance the knowledge and therefore governance of a pension scheme.
- There is evidence to support both co-trustee or sole-trustee appointments, and the use of each influenced by an individual scheme situation. The professional trustee can bring a level of expertise to a scheme that was previously inaccessible or provide an external voice of reason to an in-house team.
- The sole trustee model is one consideration, and in this report, we have revealed the increased demand for sole trustees in particular over the last 6-12 months. This is naturally biased to schemes at the smaller end of the spectrum, but as it evolves larger schemes are also adopting the sole trusteeship model. We note this embryonic growth is not dissimilar to the growth of the FM market about 5 to 10 years ago.
- There is limited evidence of both sole trusteeship and fiduciary management being used in combination on schemes, and this could be driven by various factors. These include sole trusteeship being “newer on the block” relative to fiduciary management. We look with interest as to how this dual sector of the market may evolve in the coming months; as both are increasingly used by schemes with larger AUM, we anticipate a natural increase in their concurrent use.
- However, the role of the sole trustee, and their responsibilities is under the spotlight. There is some concern, or perception, that some sole trusteeships may lack elements including:
  - True diversity – be it through numbers, gender, experience or any other attribute;
  - Experience – sole trustees acting as the expert in all fields of pension scheme management, and negating the need for specialist advice; and
  - Understanding of trustee firm differentiators and therefore effective selection exercises.

Whilst the sole trustee market continues to grow, there needs to be deeper consideration into how this sector functions.

A higher level of governance over sole trustee activity and decision-making, and transparency demanded in the same way it was for investment consultants and fiduciary managers could prove useful and, in this report, we suggest a framework to drive these discussions forward.
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Click the links above to view the documents


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THE RISE, ROLE, RISKS AND REWARDS OF THE SOLE TRUSTEE

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