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Special Report Europe's Pension Consultants

New wine in old bottles?

Brendan Maton asks whether fiduciary management is really a new advisory structure, or just a new charging structure

Fiduciary Management

In his essay of 1644, The Areopagitica, the English poet and philosopher John Milton made clear that Man's burden after the Fall was to know both good and evil. "Good and evil we know in the field of this world grow up together almost inseparably". He mused that Adam's loss of innocence, or 'doom', was actually to know good by evil.

The charge levelled at modern-day investment consultants is that they still exist in a kind of state in which they provide sound advice to clients but can't deal with the 'evil reality' of asset management.

This does not matter for the likes of Hymans Robertson, Lane Clark & Peacock, PPC Metrics or Mangusta Risk. These consultancies in Europe have no pretensions to run assets (years ago LCP consultants keenly distanced themselves from fund of funds manager Investment Solutions, an associate company via parent Alexander Forbes). It is an accusation levelled, however, against AonHewitt, Mercer and Towers Watson, the three largest fiduciary consultancies.

Fiduciary (or delegated or implemented) management means taking contractual duty for how clients' assets are managed. To follow a metaphor first introduced by Don Ezra and Keith Ambachtsheer in their 1998 book 'Pension Fund Excellence', the fiduciary is akin to a company's management, running the day-to-day business. The trustees can be identified in a more natural role as the supervisory board, responsible for oversight of the management four to six times a year.

The claim against fiduciary managers housed in consultancies, however, is that they have few employees with day-to-day knowledge of running an asset management business. Thus, an adviser might currently oversee a transition management – but there is a world of difference between devising a shortlist of managers and actually conducting post-trade execution analysis in-house. Consultants are not renowned for liaising with brokers directly (one ex-employee of a Big Three firm famously remarked that he didn't even have a Bloomberg screen during his employment at that firm).

Likewise, consultants have no history of establishing and running private equity vehicles. How could they compete in fiduciary management with a business like Russell, which has decades of experience here due to the interests of George Russell himself, plus key acquisitions like Pantheon Ventures to draw upon?

It is widely accepted that asset allocation explains the majority of returns. That would