XPS Group

Fiduciary Manager Review 2025

Analysis of 17 UK fiduciary management growth portfolios

April 2025

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Executive summary

2024 was another strong year for equity markets providing opportunities for FM growth portfolios to deliver large returns for pension schemes. As many well-funded schemes consider their long-term objectives, many will review what levels of expected return they require from growth portfolios to help them reach their goals.

Covering more than 90% of the UK fiduciary management market, this survey analyses 17 growth portfolios managed by 14 FMs over 2024 and assesses which fiduciary management solutions delivered the strongest performance.

Key findings

1	All FMs provided positive absolute returns over the year of 2024, with a range of 7.3% between the highest and lowest FM growth portfolio return. ➢ The range of returns was largest in Q1 and Q4 2024 which saw the greatest resurgence of equity markets, especially in tech stocks.
2	Generally across FMs, there was a strong correlation between larger equity allocations and greater positive absolute returns.
3	Most FMs outperformed their stated target return with two having more than 3% in excess returns above target.
4	Equities, credit, hedge funds and real assets contributed to the positive absolute returns whereas manager selection was varied.
5	The majority of FMs outperformed diversified growth funds ('DGFs') on a risk-adjusted basis over the 1 and 5 year periods to 31 December 2024.
6	Many actual scheme growth portfolio returns are lower than the model growth portfolios that represent their FM.

As defined benefit schemes continue to mature and decide upon their long-term funding objectives, we expect that schemes' requirements will fundamentally change and the fiduciary management governance model will need to evolve to meet these requirements.

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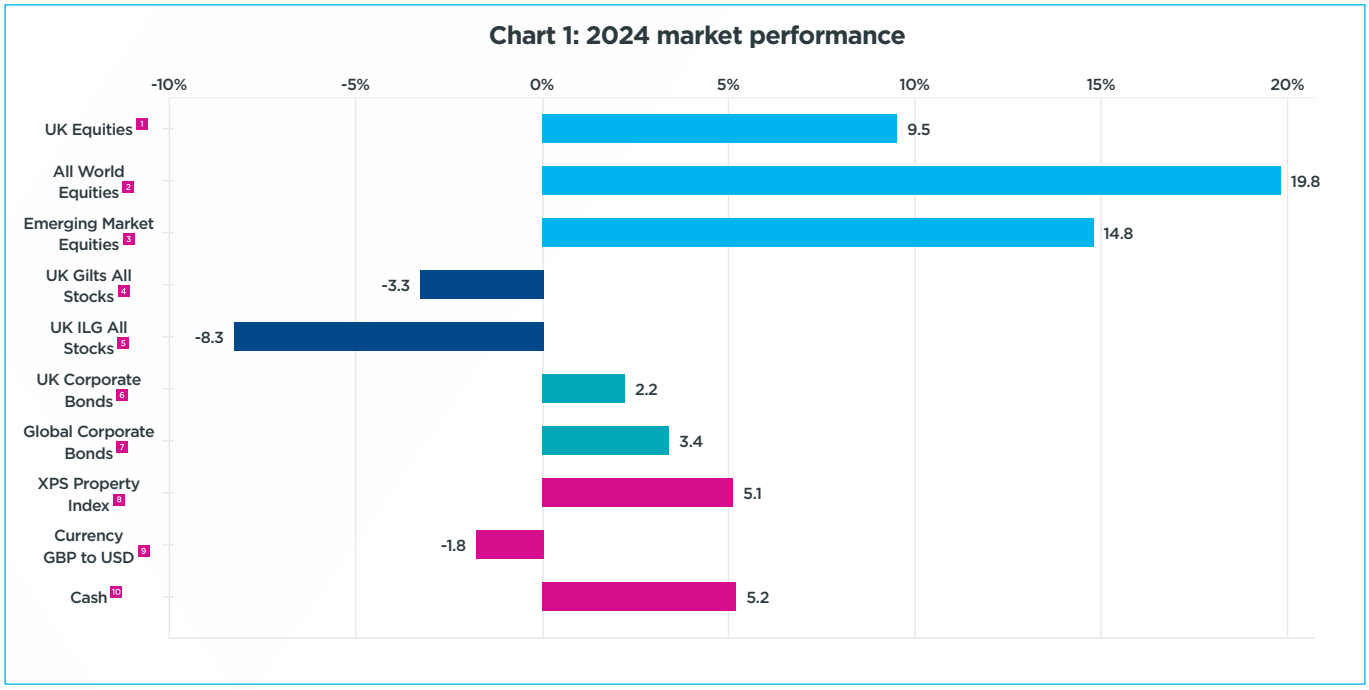
2024 market backdrop



Source: Refinitiv, XPS Investment

Key

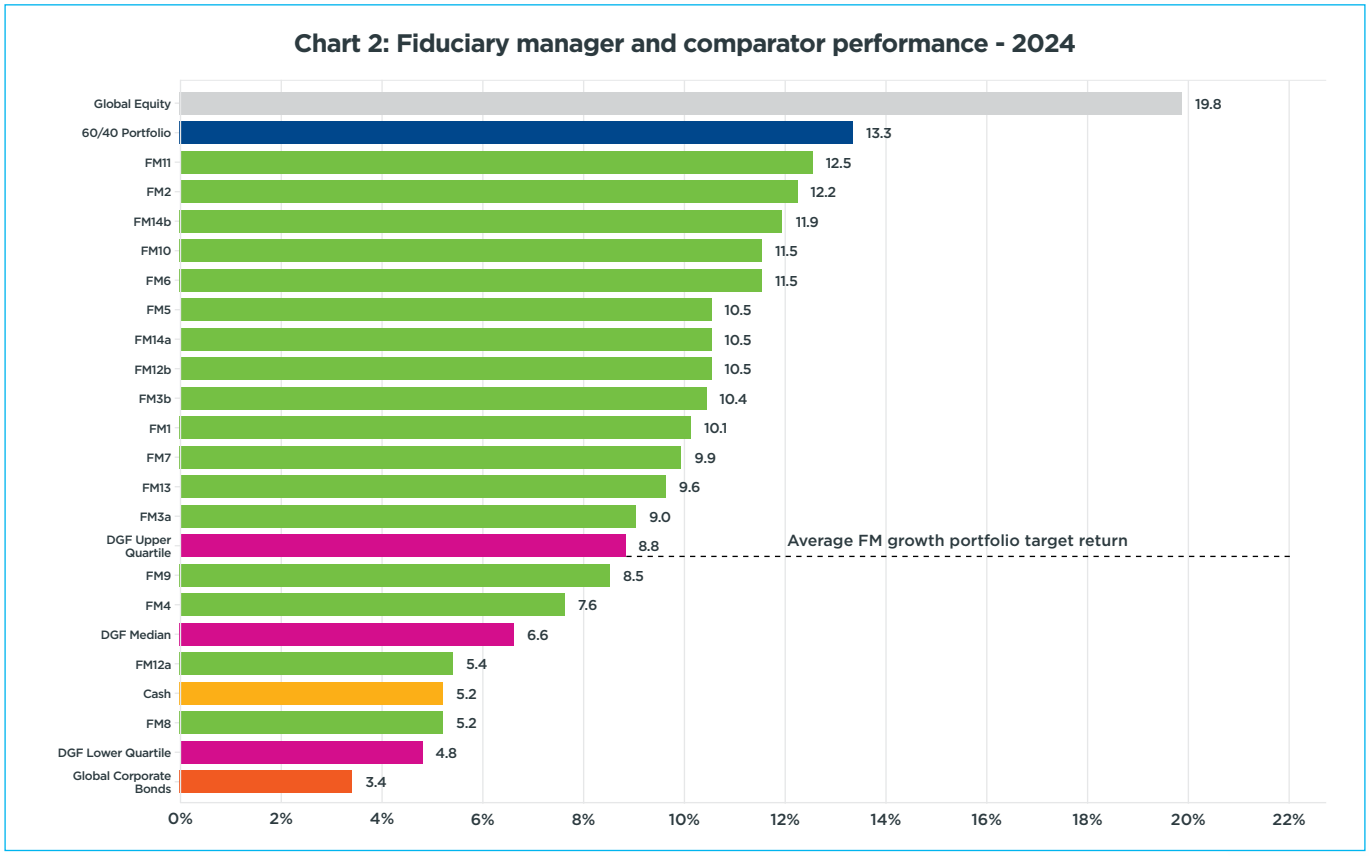
1	FTSE All Share Total Return Index	6	iBoxx £ Non-Gilts Total Return Index
2	FTSE All World £ Total Return Index	7	ICE BofA Global Corporate Index – Total Return Index Value
3	FTSE Emerging £ Total Return Index	8	XPS Property Index
4	FTSE British Government Fixed All Stocks Total Return Index	9	US ($) to UK (£) (WMR) exchange rate
5	FTSE British Government Index-Linked All Maturity Total Return Index	10	UK SONIA

Chart 1 provides 2024 market performance for the key asset classes that pension schemes would typically have exposure to. Over the course of 2024 and following on from the previous year, equities provided strong returns in most regions, particularly the US, which was driven by strong growth from tech stocks.

Over the year, gilt performance was negative resulting in a rise in yields driven by persistent inflation and central banks acting perhaps more cautiously in cutting rates than had been anticipated by markets going into 2024.

In combination with positive growth portfolio returns, any schemes with less than 100% hedging in their matching portfolio will have benefitted from a rise in yields and therefore could have experienced large increases in funding levels.

Fiduciary manager performance comparisons



Source: Refinitiv, XPS Investment

Chart 2 shows the 2024 absolute performance for 17 FM growth portfolios, with 3 FMs providing alternative low-cost portfolios which are typically provided to schemes on the lower end of the assets under management spectrum, indicated with a "b". Each FM provided monthly net-of-all-fees and further details including total amount of assets managed and number of clients invested in the representative portfolios. We also compared those performance figures against; cash, global equities, global corporate bonds, a low-cost tracking "60/40" index (60% equity/40% bonds) and the diversified growth fund ('DGF') universe.

Similarly to the previous year, 2024 proved to be very positive year for all FMs, with each FM posting positive absolute returns over the calendar year. However, compared to previous years, there was a smaller range of returns (7.3%) in 2024 between the highest performing FM (12.5%, FM11) and the lowest performing FM (5.2%, FM8). This is in comparison to a range of 12.9% in 2023 and 13.0% in 2022.

As has been the case in previous years, a number of FMs outperformed DGFs and 13 FM growth portfolios outperformed the upper quartile DGF. Only 2 FM portfolios underperformed the median. Such was the strength of global equity returns, no FMs were able provide returns higher than a 60/40 portfolio, however, there was one FM growth portfolio that marginally underperformed cash.

Given the very strong performance of equity markets, it would be reasonable to assume that the FM growth portfolios with the largest exposure to equities will have provided the highest returns. However, this was not necessarily the case as FM11, which had the highest returning growth portfolio, had an average equity allocation of 42% for 2024, just below the FM growth portfolio average of 43%. Whereas FM1 and FM9 had some of the highest average equity allocations (56% and 50% respectively). For other FMs however, low allocations to equities combined with relatively more exposure to return-seeking and investment grade credit meant they struggled to keep pace with the high level of returns and this was the case for FM8 which had amongst the lowest average allocation to equities (35%) and the highest average allocation to credit (48% vs a peer group average of 26%).

Fiduciary manager performance comparisons continued

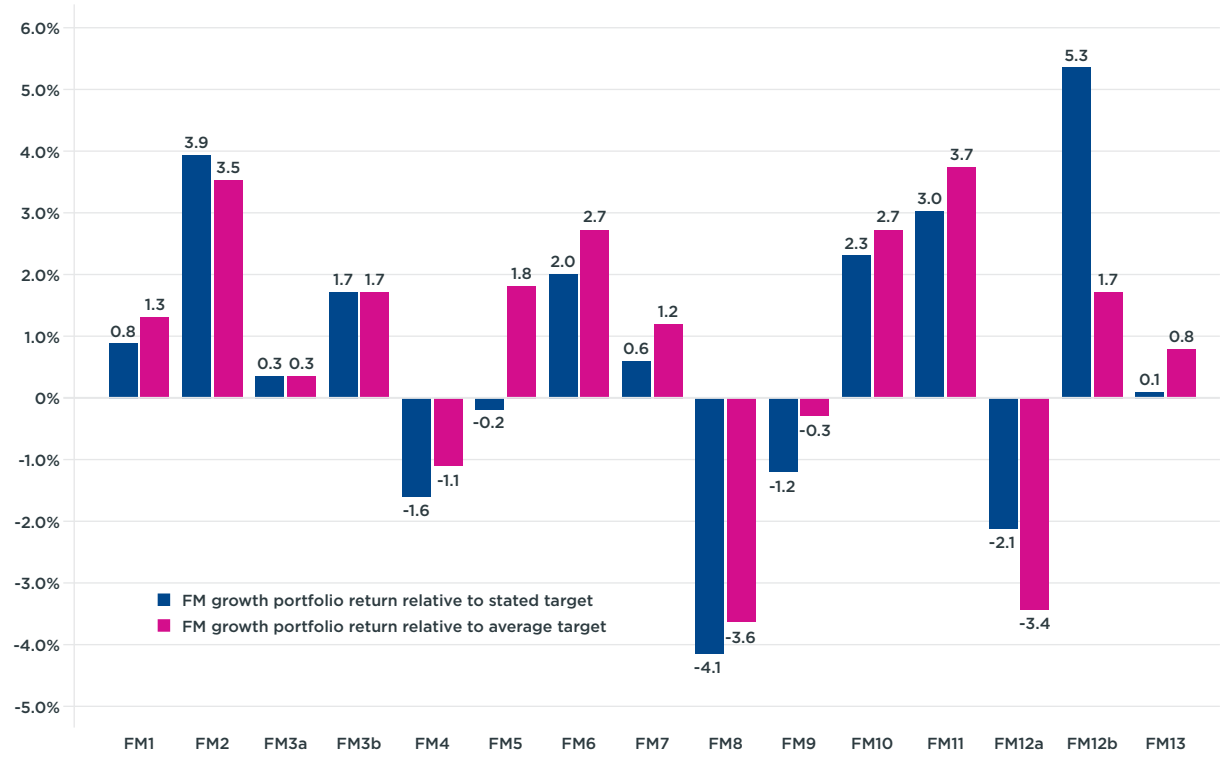
We have also shown the average absolute target return for the FM growth portfolios which was equivalent to cash +3.6% p.a. When comparing the FM growth portfolios against this, 4 underperformed, despite 3 of these having relatively higher target returns, with one portfolio failing to beat the cash return itself.

Looking beyond absolute returns, FM growth portfolios should be assessed against their stated targets as these can indicate intended return that is being sought after and thus determines the broadly different asset allocations that portfolios are exposed to. Each FM has provided different stated target returns (gilts, cash and CPI) and anywhere between 0% and 5.5% per annum outperformance against these.

For 2024, relative performance against these targets was varied, with 4 FMs underperforming their stated target and conversely 10 FMs outperforming their stated target. With the range between the highest outperforming portfolio (5.3%) and lowest underperforming portfolio (-4.1%) being greater than the range of absolute returns (10.4% vs 7.3%) this highlights the wide range of target returns in place across FM mandates. Whilst different target returns are welcomed, we are always of the view that growth portfolios should be measured against their own objectives that are appropriate for the types of assets they are invested in and therefore trustees should ensure that a fair and appropriate growth portfolio target is in place for their scheme.

We have also shown the relative performance against the average target return of FM growth portfolios for 2024, cash +3.6% p.a. Quite a few FM growth portfolios' relative returns are close to the average target, which suggests those FMs are in broad agreement as to what an appropriate target return should be. However, there are few that are significantly different from the average target return (FM8, FM11 and FM12a). These differences, whether the relative performance vs own target is better or worse than when compared to the average target, raises the question as to whether the growth portfolio target is appropriate. It could well be that the target return set is appropriate for the assets the growth portfolio is investing in. Or, that the target return set is too easy or too hard to realistically achieve. Either way, this reinforces the need for trustees to check the target return they are measuring their FM growth portfolio against.

Chart 3: FM growth portfolio relative return vs. target return - 2024

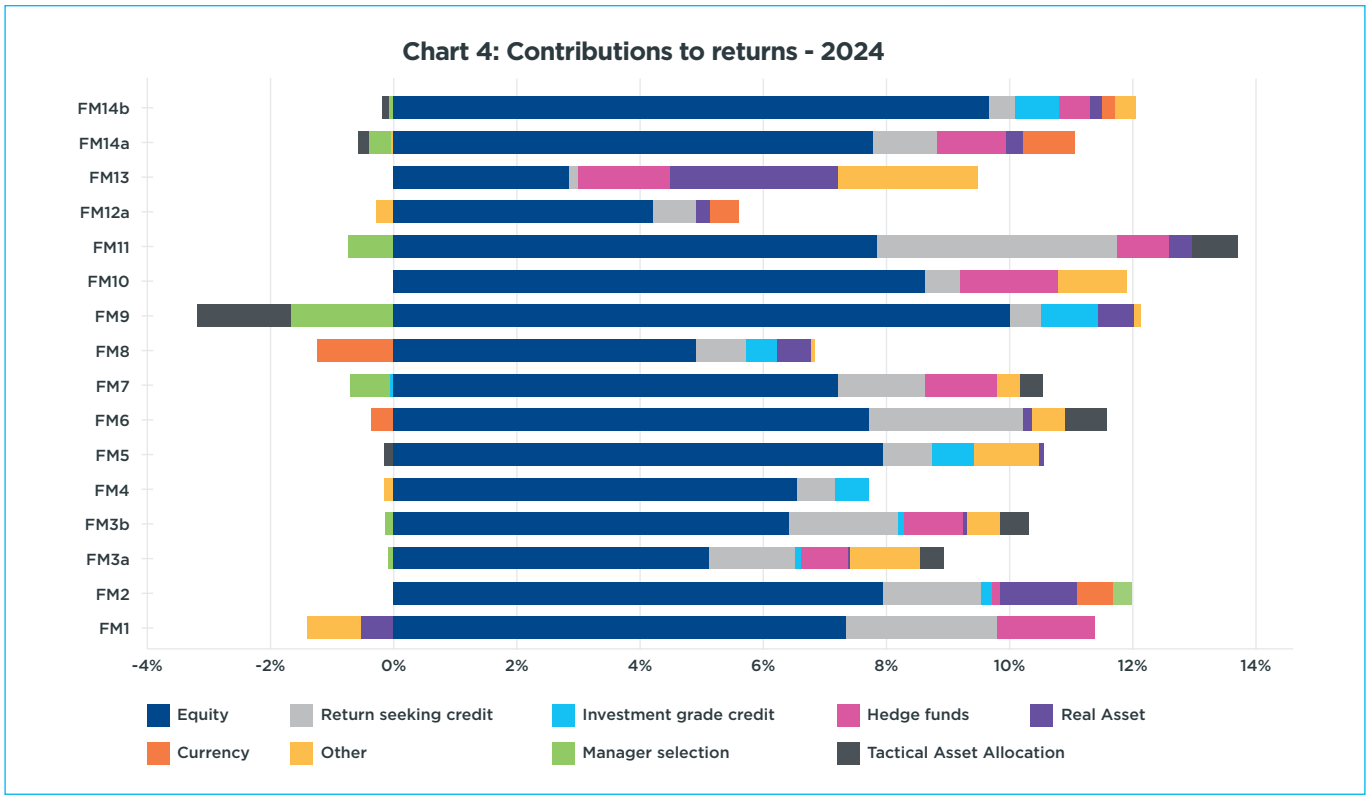


Source: Refinitiv, XPS Investment, fiduciary managers

Contribution to returns

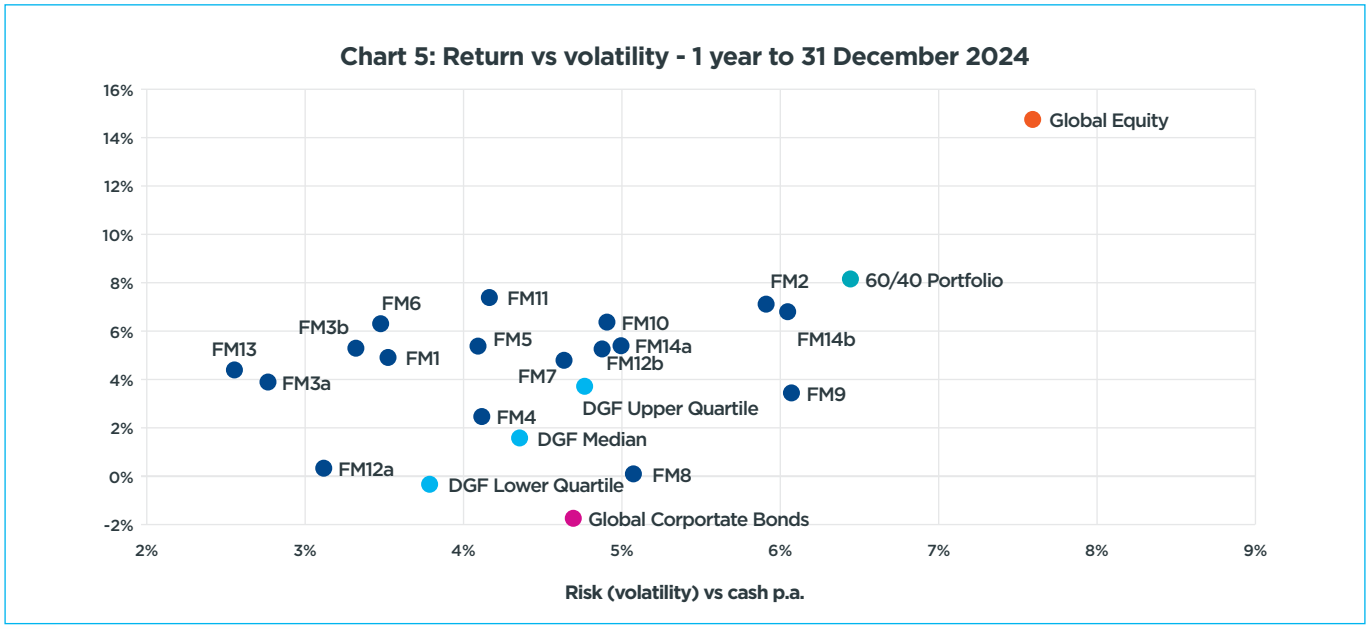
Chart 4 illustrates the contributors of each asset class, as defined and where provided by the FMs, to the overall returns achieved by each FM growth portfolio in 2024. Whilst there was evidence of a strong correlation between the level of equity exposure and the resulting contribution from equities to overall return, this was not necessarily the case with every FM. For example, FM1 had the highest average asset allocation to equities, yet eight FMs achieved a higher contribution to returns from their equity exposure demonstrating differences in approaches, such as the split between active and passive management, and the impact this can have.

Where provided by the FMs, we have also shown contributions to returns from manager selection and tactical asset allocation decisions. This can be quite varied between FMs as to whether it adds or detracts from the overall returns, however, can be quite substantial, as was the case from FM9 over 2024. Given the value that can be added or removed from overall returns, trustees should always assess whether active management, manager selection and tactical asset allocation is worth the associated higher fees.



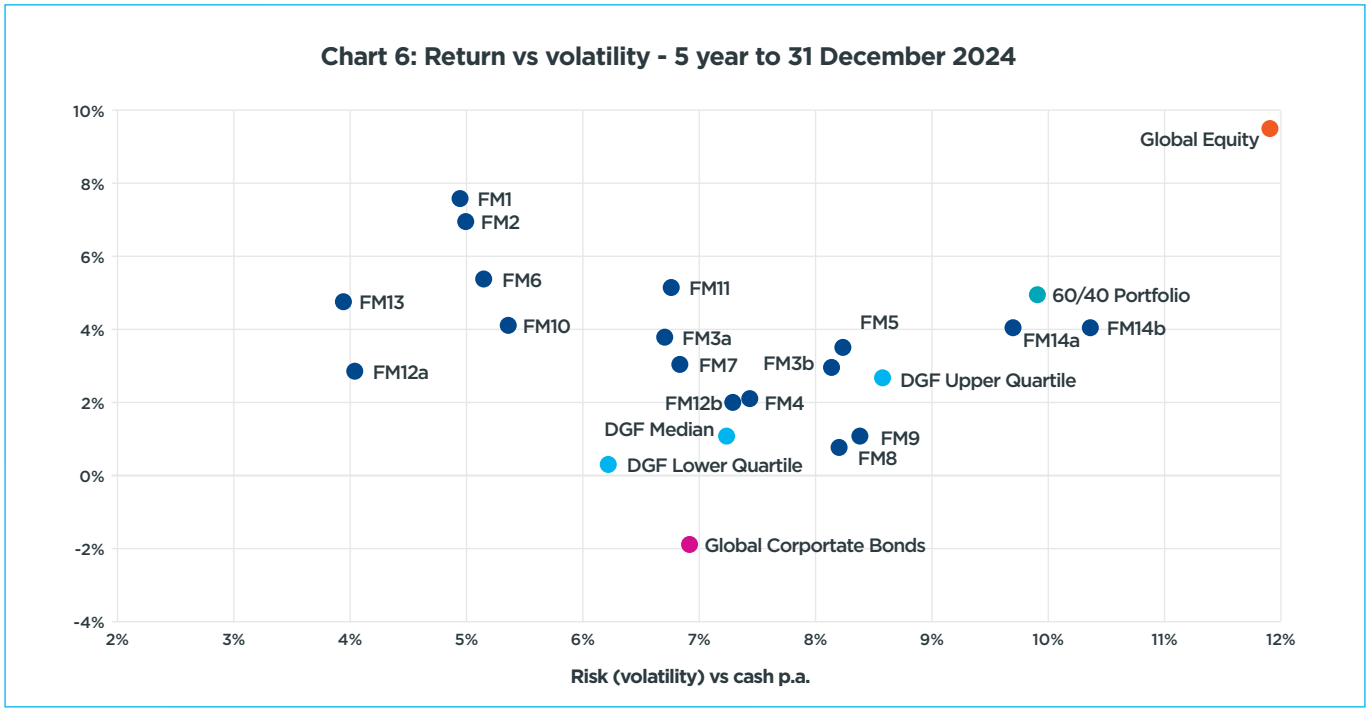
Source: Fiduciary managers

Volatility-adjusted growth portfolio performance



Source: Refinitiv, XPS Investment, fiduciary managers

Trustees should always consider returns on a risk-adjusted basis when reviewing the performance of FM growth portfolios. Chart 5 illustrates the FMs' growth portfolio returns against the monthly volatility of returns over 2024, based on calculations by XPS and using monthly return data provided by each FM. With regards to growth portfolios, excess returns are what matters most and so we have plotted the return and volatility of the FM growth portfolios relative to cash. For 2024, most FM growth portfolios outperformed DGFs on a risk-adjusted basis, however there were some (FM8 and FM9) that performed worse.



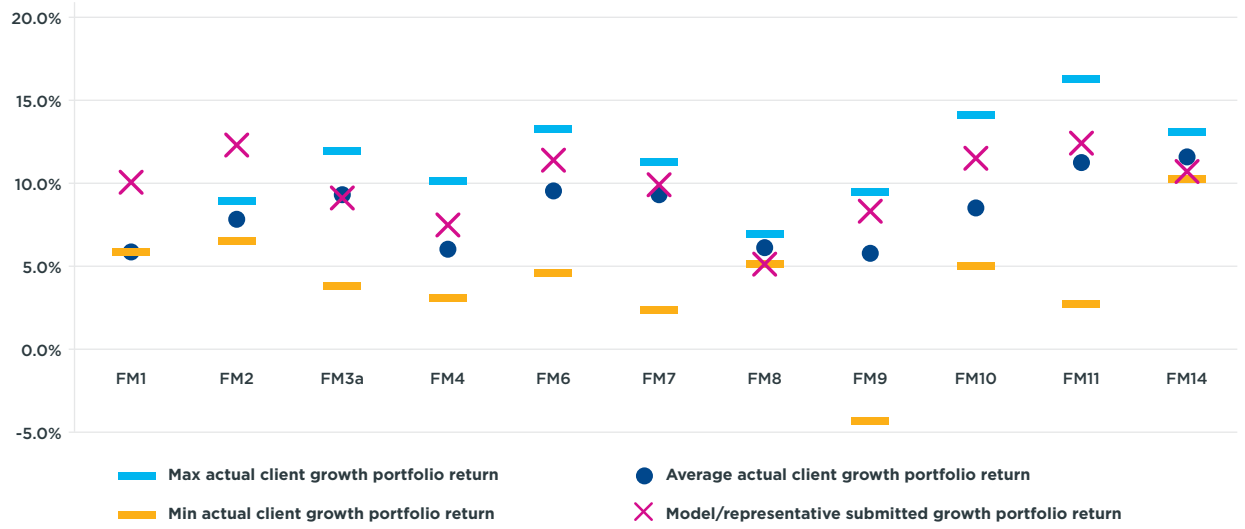
Source: Refinitiv, XPS Investment, fiduciary managers

Over the 5 year period, which can be considered to cover a full market cycle, FM1, FM2, FM6 and FM13 in particular have demonstrated much better returns per unit of risk versus cheaper less complex multi-asset funds across various market conditions. Whilst there are also others, and similarly to 2024, (FM8 and FM9) that have not provided additional value.

Model portfolio returns vs. actual scheme growth portfolio performance

For this FM Performance Watch, we obtained anonymised actual scheme growth portfolio returns for full UK fiduciary schemes. Whilst this was not provided by every FM, it was interesting to note that the average actual growth portfolio relative return was negative compared to the submitted growth portfolios for the vast majority of FMs. For two FMs, the model growth portfolio return was higher than any actual client growth portfolio return. Some of these were substantial and it indicates that schemes' growth portfolios can be materially different from the FMs model growth portfolio approach. It should be taken into account that actual scheme growth portfolios can be different from a model growth portfolio in terms of asset allocation, levels of liquidity, return and risk targets.

Chart 7: Max, min and average actual client growth portfolio returns vs. model growth portfolio return - 2024



Source: Fiduciary managers

Conclusion

In 2024, equities, especially US tech stocks, drove strong market performance, while gilt performance dropped due to persistent inflation and cautious central bank actions. Growth portfolios generally saw positive returns, with a narrower range of outcomes compared to previous years, and most fiduciary managers outperformed diversified growth funds. Equity exposure was not the sole factor for high returns. Active management and tactical asset allocation varied in their contribution to returns, emphasizing the need for trustees to assess the value of these strategies against higher fees. Risk-adjusted returns also varied, with most FMs outperforming DGFs over a 5-year market cycle, but not all adding value. Actual scheme growth portfolio returns often underperformed materially relative to the FMs' model portfolios.

Key observations

- There was a narrower range of FM absolute growth portfolio returns compared to previous years which may reflect portfolios de-risking and becoming more homogenous.
- Across FM portfolios, there was a mixed outcome as to whether manager selection and tactical asset allocation added value.
- Dependent on the FM, actual client growth portfolio returns can significantly differ from the model and/or representative growth portfolio return.

Actions for trustees

1	Understand if your FM added value capturing strong equity market returns and the impact this has had on your funding level.
2	Assess your growth portfolio's return over the longer term against peers in the FM market.
3	Consider your stated outperformance target of the growth portfolio, whether it is right for your scheme and agree with your FM and/or third party evaluator how to assess performance against the target.
4	Consider your solution's FM management fees and underlying manager costs against the market benchmark and whether higher costs lead to added value.

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Find out more

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