

Opportunities for employers to save money on investment manager fees

At a glance

Funding positions of most defined benefit (DB) pension schemes have materially improved in recent years.

As a result, many schemes are adjusting their investment portfolios to target buyout or adopt safe run-on strategies. The previous need to chase returns to close funding deficits has largely disappeared, making investment strategies more straightforward.

Although scheme trustees remain responsible for setting investment strategy, they may delegate decisions to Fiduciary Managers, who charge additional fees for this service. These higher fees may no longer be justified where funding has improved and less investment risk is required.

Employers have a greater role in defining the scheme's long-term strategy under the new Funding and Investment (FIS) regulations. A key part of shaping that strategy is understanding the current investment governance model.

Reducing Fiduciary Manager and investment manager fees can accelerate the implementation of an insurance transaction or reduce ongoing expenses for schemes that run on, increasing surplus available.

Evolution of funding vs fees

When DB scheme deficits were large, dynamic investment strategies were key to helping to plug funding gaps, justifying higher investment manager fees.

Now that funding positions have improved, a proportionate reduction in these expenses may be expected. XPS research suggests that **for a £500m scheme, savings of £700k pa could be achieved** after de-risking, by moving to an alternative investment governance arrangement.

Funding position vs investment fees (both Fiduciary Manager and investment manager) from an example FM client

	2025 (FM)	2025 (advisory)
Assets	£480m	£480m
Liabilities	£500m	£500m
Deficit	£20m	£20m
Funding level	96%	96%
Investment return	Gilts + 1.0%	Gilts + 1.0%
Investment fees	£1.7m pa	£1.0m



Conducting an investment governance review

If your scheme uses Fiduciary Management (FM), undertaking an investment governance review could lead to:

1. Concluding that your FM strategy and manager are appropriate
2. Staying with FM but changing strategy or manager
3. Staying with FM but appointing an independent oversight advisor
4. Moving away from FM to an advisory approach



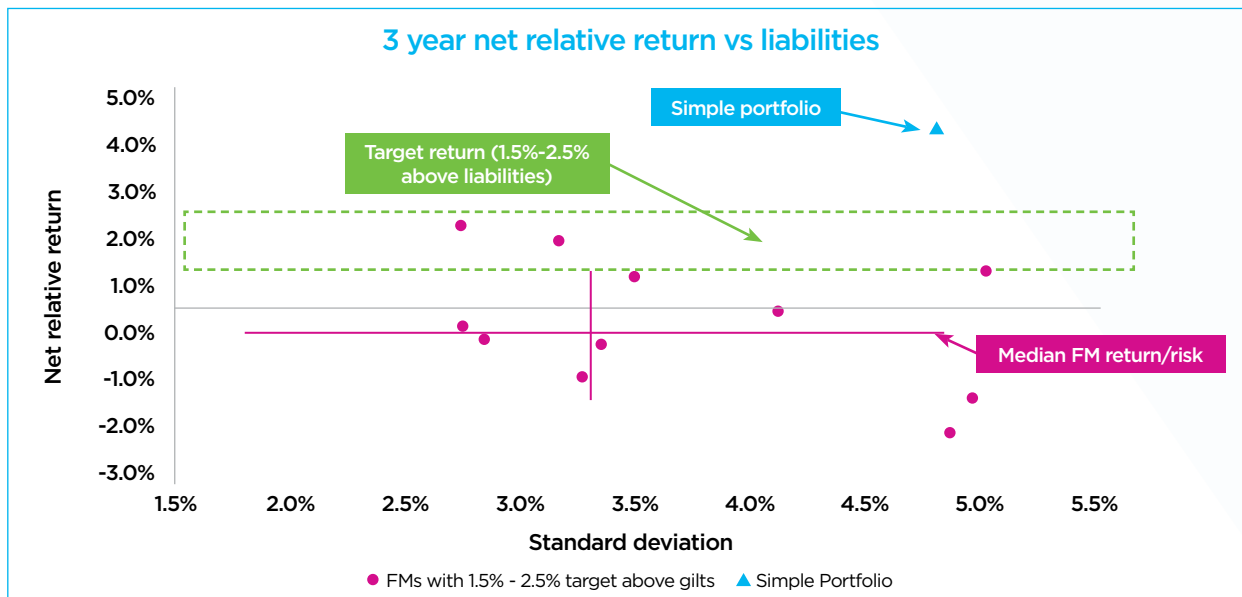
Actions employers should take

1. Establish what your scheme's investment governance model is and whether a Fiduciary Manager is used.
2. Review the performance and fees of the investment governance model over the past 3 years relative to other investment governance models, such as if a purely advisory approach was adopted.
3. Together with your scheme trustees, review how your investment strategy is aligned with your scheme's funding position and its long-term objectives.
4. Understand options to deliver your scheme's strategy - this could include refining your current approach to include a strategic advisor or moving away from FM.

How are Fiduciary Managers currently performing?

Higher fees for Fiduciary Managers are justified for schemes using complex investments to meet their objectives. Usually, the aim is to achieve higher risk adjusted returns for the scheme than would be possible without FM, whilst managing the downside risks that could worsen the funding position.

The graph shows recent returns against risk from individual FMs, relative to each scheme's liabilities. The green box indicates the target return and risk that most fiduciary managers would aim for.



Source: Global Investment Performance Standards (GIPS) for Fiduciary Management Providers (FMPs) - Liabilities + 1.5%-2.5% pa (unconstrained). Performance is net of fees. Data as at 31 March 2025.
Simple portfolio - 35% LDI, 10% investment grade credit, 20% multi asset credit and 35% equities.
The standard deviation represents the risk of volatility in returns.

What does the data from Fiduciary Managers show?

Key observations	Key takeaways
Over half of the managers reviewed had negative returns relative to how their schemes' liabilities changed	- This means a reduction in funding level due to the performance of the investment portfolio - FM does not necessarily provide positive net returns - It is essential for employers to monitor performance and understand the drivers for low returns
Where higher risk has been taken, that has not always been rewarded with a higher return over the period	- As scheme funding levels improve, holding additional risk could worsen the funding level - Complexity and higher fees doesn't necessarily lead to better outcomes - The simple portfolio offers greater returns with less risk than 3 of the FMs (and significantly less risk than equities over the period) - It is important to regularly review the existing set-up compared to other options

Find out more

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