HYMANS ROBERTSON

investment perspectives

November 2017

In this issue:

Welcome

Welcome to our autumn edition of Investment Perspectives.

In the first article, Graeme Johnston provides his quarterly background to markets, together with an overview of the economic landscape. In the next article, Chris Arcari reviews the insurance-linked securities market – an interesting niche asset class that has assumed more prominence than usual in the wake of a devastating Atlantic hurricane season.

In late June, the Financial Conduct Authority (the "FCA") published its review into the asset management market. The review was announced in late 2015 to identify whether the asset management industry was delivering a good deal to retail and institutional investors, including pension schemes. It focused not only on investment managers but also financial intermediaries such as investment consultants.

The FCA has subsequently referred the investment consulting industry to the Competition and Markets Authority (CMA) for the purposes of "carrying out a market investigation into the supply and acquisition of investment consultancy services and fiduciary management services to and by institutional investors".

The report raised a potential lack of competition within the investment consulting market, with the 3 largest employee benefit consulting firms having at least 56% of market share, and highlights potential conflicts of interest for those who both advise and manage money for their clients. The FCA believes that competition in the market could be improved if investors found it easier to compare providers. It also noted that smaller pension funds can struggle to achieve good value for money with investment managers. The CMA review will take up to 18 months to complete, although they have already provided a flavour of the anticipated findings and potential remedies.

Recognising the need for buyers of investment services to focus on optimising outcomes for pension funds, we take a look at two different implementation solutions that have evolved in the industry in recent years. Both are just part of the range of solutions available to investors:

- First, John MacDonald looks at Fiduciary management – what it is, what it provides, and how it compares to the more traditional separate consulting advisory/fund manager model.
- Second, David Morton looks at the use of DB scheme platforms. Like DC platforms, DB platforms allow trustees to access a range of managers through a single platform for a fee. This is intuitive for schemes seeking a governance-lite implementation solution, but can their use be extended cost effectively?

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Capital market update

Earlier in the year, the main cause of uncertainty in the global economy was a divergence between the evidence from business surveys (generally upbeat) and that from official data (more mixed). More recently, any conflict seems to have been resolved in favour of the positive view. Quarterly fluctuations are inevitable, but GDP growth over a year in the US, Eurozone, and Japan has been generally edging higher for a few quarters (chart 1). Official data indicates that the slowdown in China's growth, dating back to 2010, has stabilised over the last year.

The UK, where post-referendum buoyancy had faded in the first half of the year, has been an exception and an unexpectedly good Q3 growth has done little to change that. The 'shock' element of a preliminary estimate of 0.4%, against average expectations of 0.3%, may have been overdone in some commentary, but even the hint of good news might have been relevant. It certainly was nowhere near bad enough to derail a rise in UK interest rates at the start of November.

The Bank of England's shift in bias reflects a view that spare capacity in the UK economy is diminishing even at current sluggish rates of growth, while underlying inflation pressures are gradually rising. It is consistent with the prevailing mood in the major central banks – the Federal Reserve has started to unwind its Quantitative Easing (QE) programme, while the European Central Bank (ECB) has announced its programme will be scaled back next year. The underlying rationales may diverge – outside the UK, inflation has not been rising in recent months – but there does seem to be a view that growth is good enough and the distorting effect of easy money large enough that a slightly less accommodating stance is appropriate.

These changes are at the margin and need to be put into context; while describing the interest rate environment as 'lower for longer' seems increasingly unrealistic, 'low for long' still seems reasonable. In particular, a rise in UK rates simply reverses last year's hasty response to the referendum result – it's still a long way from the path to "normalisation". It may be further evidence of the end of the long bond bull market – the yield on global government bond indices is already well above the troughs of last summer and little lower than the levels of three years ago – but that does not necessarily have to be followed by a major bear market.

A less certain background for government bonds has not done much to take the momentum out of other markets that benefited from the long decline in risk-free yields. It is no easier to find value in financial markets than it was three months ago – our strategic biases remain broadly unchanged. The terms for de-risking are as good as they have been for a long time. Returns underpinned by contractual income rather than potential capital gains are increasingly valuable, but are also increasingly expensive. Where risk has to be taken, this is a time to diversify as much as possible or implement hedges and insurance protection.

Chart 1: GDP growth

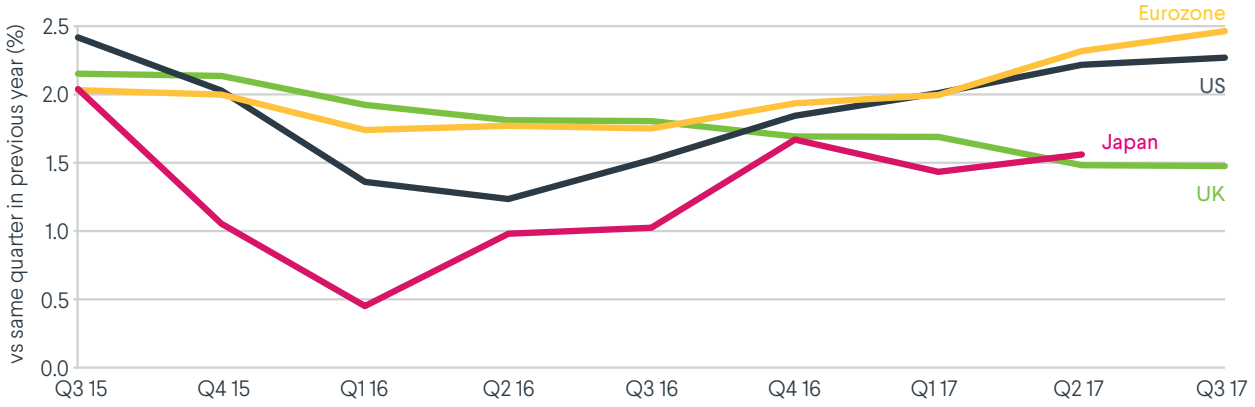


Chart 2: iBoxx £ Non Gilts AA-rated

Government bonds

So far, the approach of Brexit has not been an obvious influence on the gilt market, but it still has the potential to affect short-term sentiment at least. The strength of domestic demand can perhaps be taken for granted; foreign demand could be more fickle. But the main reason for our negative view relates to valuation. Long-dated index-linked gilt yields may be close to the highs of last year's trading range but, around -1.5% p.a., are still very low by historic standards. Even allowing for a discount of roughly 1% p.a. reflecting the linkage to RPI rather than CPI, it means index-linked gilts still represent very expensive insurance. Equivalent US yields of +1% p.a. provide a yardstick for pricing in a less distorted environment.

There is no glaring anomaly between conventional gilt yields and real index-linked yields – inflation protection is reasonably priced on average. Conventional gilts may fare better in a sustained disinflationary environment and therefore provide better diversification from other assets in typical portfolios. And there are variations by maturity – for example, the inflation protection offered by index-linked gilts looks relatively expensive between 10 and 20 years.

Other bonds

Market fundamentals remain robust – defaults are at low levels and the current upturn in global growth should help to sustain that. We would like to see some protection against the possibility that current conditions are not sustained over the next business cycle. But yield spreads in credit markets have continued to narrow and are typically very low by historic standards. In the sterling investment-grade market, yields relative to gilts are little better on a like-for-like basis than in the halcyon days of the mid-2000s (chart 2). An upward bias in global government bond yields may not completely undermine the hunt for yield, but it might start to chip away at the foundations. At current levels, we would be looking to take less pure credit risk than usual.

As we have noted before, we think relative value can be found by harvesting returns from factors other than credit risk. In investment-grade markets, that can be the complexity of asset-backed securities; in speculative-grade markets, that can be the illiquidity of direct lending, where bespoke covenant protection can help to mitigate credit risk.

Further diversification can be found outside non-credit bond markets. We highlighted local currency emerging market debt last time. Recent performance has been good, supported by dollar weakness and global economic strength; a reversal of either remains a short-term risk. However, subject as always to a willingness to accept foreign exchange risk, investors will find valuations less stretched here than in many other markets. Catastrophe bonds (as representative of wider insurance-linked markets) offer another source of diversification that we consider in more detail in the next article.

Chart 3: MSCI AC World Index (rebased to 31 Dec 2014 = 100)

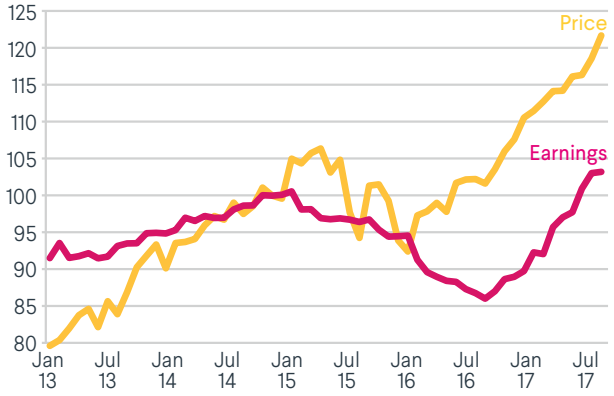
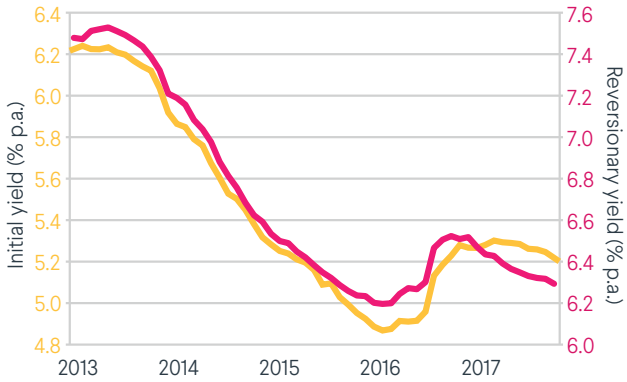


Chart 4: IPD Monthly Index



Equities

For those of us of cautious disposition, the persistence of historically low levels of volatility in global equity markets hints at vulnerability to shocks, whether political or economic. That said, optimism about corporate earnings can be a powerful influence in sustaining equities in the short-term. And that optimism is based on more than revived hopes of corporate tax cuts in the US. Earnings growth has been enough to justify a 15% bounce in global equity indices since last summer...

...but just enough and no more. At 20, the price-earnings ratio on the MSCI AC World Index is still high by historic standards and has not changed in a period when global government bond index yields have risen from 0.8% p.a. to 1.5% p.a. On a slightly longer-term perspective, global government bond yields are back where they were at the end of 2014, global equity earnings have only just edged higher, but global equity indices have risen over 20% (chart 3). Valuation levels remain the main negative for equities and the reason for our cautious bias.

Those who want to express their caution cautiously and retain exposure to equity risk can take advantage of the low level of implied volatility in global markets. This means it is relatively cheap to underpin equity risk with option protection. And there are wide divergences across markets in terms of valuations and the profits cycle. The unappealing combination of high valuations and extended profits appears most notable in the US. Europe and emerging markets seem to offer the best combination of relatively attractive valuations and scope for cyclical earnings growth.

Property

There are some continued signs of improvement in the fundamental background for property. Aggregate rental growth, as measured by the IPD Monthly Index, is drifting higher, but still failing to keep pace with rising UK inflation. Against that, there is anecdotal evidence that leases are taking longer to agree and tenants are seeking greater incentives to sign deals. This is true particularly in office and retail sectors – the underlying momentum in industrials continues to be greater.

Capital values have also continued to edge up almost as quickly and the IPD Monthly Index has now recovered all of its post-referendum fall. Reversionary yields (based on current market rents) are roughly where they were immediately before the referendum and only a little above the lows of early last year. Initial yields (based on income actually received) have not fallen back so far, as the stronger rental growth of mid-2014 to mid-2016 is crystallised in rent reviews (chart 4).

As with equities, the resilience of historically high valuations in a period of rising bond yields limits the attractions of property. More defensive strategies should come into their own in the current environment. More generally, the relative security of property income gives it an advantage over equities in respect of our relative strategic biases.

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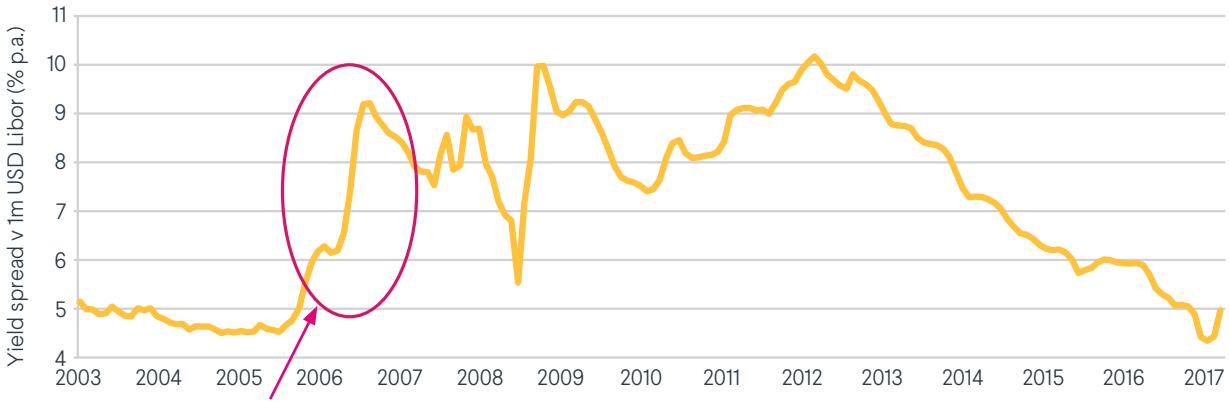
Insurance-linked securities

Investment in insurance-linked securities (ILS) has grown in recent years as investors have sought the diversification benefits of non-financial market risks and returns uncorrelated to other assets in institutional portfolios. Although strong performance from the market has probably contributed to the enthusiasm for the asset, the devastating Atlantic hurricane season may threaten both performance and enthusiasm.

The traditional reinsurance market amounts to over $600bn of premiums annually, of which around half relates to property risk. "Alternative" capital (i.e. capital provided by the ILS market rather than traditional reinsurance companies) now provides about $90bn of this. The original ILS, traded catastrophe ("cat") bonds, which have been issued since the mid-1990s, are still an important source of alternative capital, but they now account for less than private collateralised reinsurance contracts between an insurer and a capital provider.

There is no doubt that the growth in the ILS market has been spurred in part by a relentless hunt for yield across asset classes. The absence of sizeable loss-events since storm damage from Superstorm Sandy impacted the East coast of the US in late 2012 has meant an excess of capital supply to insurers and reinsurers looking to cede insurance risk. This has driven reinsurance pricing lower and ILS valuations higher, with the result that yields on cat bonds had dropped to historic lows relative to risk-free rates by the second half of 2017 (chart 5).

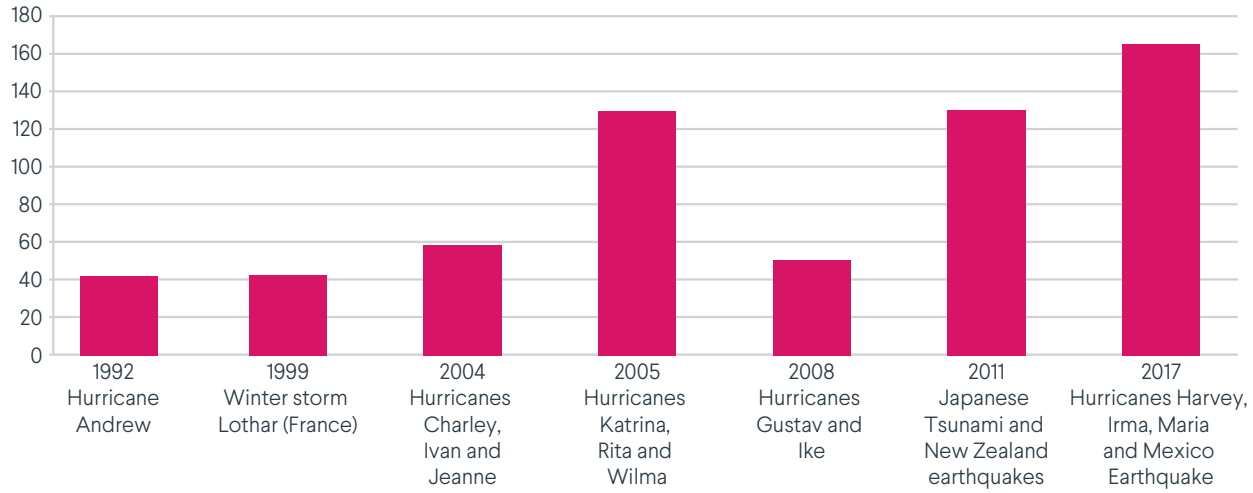
Chart 5: Swiss Re Cat Bond Index



The market significantly repriced after hurricanes Katrina, Wilma and Rita caused insured losses of $112bn in 2005.

Source: Bloomberg, Hymans Robertson

Chart 6: Estimated total insurance losses from natural catastrophes ($bn)



Source: Applied Insurance Research Worldwide

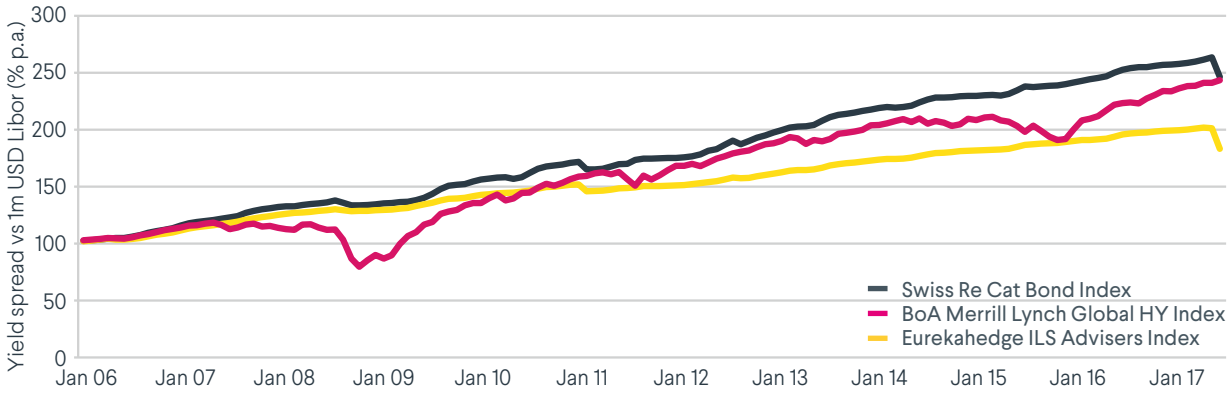
In late August, Hurricane Harvey was the first major hurricane to make landfall in the US for 12 years. Although financial losses were huge, it seems likely that insurance companies will cover an unusually small portion of them. Thousands of the homes damaged or destroyed lacked adequate cover and flooding, the main cause of damage, is routinely excluded from residential policies. Instead, flood insurance in the US is provided by the taxpayer-backed National Flood Insurance Program (NFIP), which does cede some risk to reinsurance markets, but only about one in six properties in the county most affected by Harvey had NFIP protection.

Even so, 2017 could emerge as the costliest year on record for the reinsurance industry, outstripping 2005, the year of Hurricane Katrina, and 2011, the year of Japan's Great Eastern Earthquake. Loss assessments for Hurricanes Harvey, Irma, and Maria are not complete, but early estimates suggest cumulative losses to the insurance industry so far in 2017 could be as high as $165bn (chart 6).

At this level, some losses will be covered by reinsurance; insurance companies typically assume the initial losses from a large loss event, but the excess loss above a specified threshold will be covered by reinsurance they have purchased, either from traditional reinsurance companies or alternative capital markets. As a consequence, some ILS funds will have lost capital as a result of this year's Atlantic hurricane season.

The Swiss Re Cat Bond Index fell by over 6.5% in September and the Eurekahedge ILS Advisers Index (based on 33 hedge funds that have at least 70% of their portfolio invested in non-life insurance-linked risk) fell by 5% (chart 7). Alliance Bernstein, the asset manager, estimates alternative capital market losses will be around $9bn – 10% of capital currently invested by capital market reinsurers.

Chart 7: ILS and US High Yield – total return in US $ (rebased to 31 December 2005)



Source: Bloomberg

The effect on future reinsurance premiums is not yet clear – reinsurance renewals are not spread evenly over the year and the next major round is in January. Although there have been some suggestions that climate change may increase the likelihood of major storms, it is probably not a reassessment of long-term risk that will have the biggest effect. It is the pricing of the risk that may well change – a tighter supply of loss-absorbing capital may well place upward pressure on reinsurance pricing. The supply of alternative capital may be more constrained than in recent years: in addition to the immediate loss of capital on some cat bonds and private contracts, investors may not be able to access all of their capital as expected when contracts mature. Ceding insurers are able to hold collateral to provide protection against further adverse loss developments. The recent events may have dulled the appetite of the more speculative of existing or potential new investors attracted by what may have seemed like risk-free returns until the last few months.

As well as new investors, the benign conditions of recent years have attracted new managers, some of whom have not had to deal with a major loss event. The conclusions to be drawn from one year cannot be comprehensive, but large industry losses in 2017 will provide an opportunity to assess how managers have performed in respect of risk control relative to their stated objectives and diversification beyond the US wind risk that dominates the market.

Conclusions

For longer-term investors, ILS offer a genuine strategic alternative – returns that are uncorrelated to traditional financial risks. As we have seen this year, they still carry their own risks. The tragic events of this year will not reduce the demand for insurance; indeed, they emphasise the value that it can have. Tighter supply of capital may mean that those willing to supply it may get a more attractive entry point for investment in the ILS market.

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Fiduciary management in the spotlight

Over the last decade there has been a steady increase in the use of fiduciary management by pension funds. The figure is still less than 5% of all pension fund assets (source: FCA Asset Management Study), but the industry is barely 10 years old.

The FCA's report has brought into sharp focus the potential conflicts of interest faced by investment consulting firms that also provide fiduciary management services, and in particular "when moving clients from an advisory relationship to a fiduciary management arrangement".

Briefly, fiduciary management is the full delegation of assets to a third party manager (the "fiduciary"), with a view to achieving the investor's overall investment objectives. In the context of a pension fund, this typically means managing assets relative to a liability type benchmark. This is in contrast to the advisory model, where trustees retain control of strategic decisions and the appointment of asset management firms ("managers") .

At Hymans Robertson, we focus solely on providing independent investment advice and do not provide fiduciary management of assets. Instead, we have invested considerable resource into developing an understanding of the critical issues that underpin and surround fiduciary management and fiduciaries. We then use this knowledge when working with clients in the context of assessing whether they should appoint a fiduciary and, for those who decide to do so, in the selection, oversight and monitoring of their fiduciary.

Good governance means knowing what to expect

Whatever the outcome of the CMA review, many pension schemes will continue to delegate some or all of the management of their portfolios to a fiduciary. And for many of these it will be the right solution – but good governance suggests they should demonstrate that they have followed a transparent and competitive process for selecting the fiduciary, and have put in place a clear governance framework for monitoring them going forward.

There are many different flavours of fiduciary management, and trustees should be able to clearly articulate their rationale for adopting a particular approach. And once a fiduciary is in place, trustees should be very clear on which metrics to use to measure the fiduciary's investment performance and the ongoing suitability of the fiduciary to perform the role.

For example, the main risk most pension fund trustees face is exposure to interest rates and inflation. When appointing a fiduciary, how to manage this risk is one of the most important questions. It is important to know what to expect from your fiduciary, so that their performance can be properly monitored against the right metrics, while checking that risks are being taken in areas in which they have expertise and in accordance with their stated investment philosophy and process. There are, basically, three approaches:

- The trustee may retain responsibility for the level of hedging outside the fiduciary mandate. If so, setting the fiduciary a liability/funding level benchmark will not be appropriate.
- Hedging decisions may be delegated to a fiduciary whose approach is to passively hedge most or all the interest rate or inflation risk as a matter of course. If so, the trustee, not the fiduciary, is essentially taking a decision to hedge.
- The fiduciary may be given responsibility for actively managing hedging levels. Here, the fiduciary's overall success is likely to depend on how much discretion they use in managing these risks, alongside the discretion over asset allocation and manager selection, typical of this type of mandate.

Questions to ask

The management of interest rate and inflation risk is probably the most important area in which the scope of a fiduciary appointment might vary. But once the scope of any appointment has been defined, there are still multiple aspects that need to be clearly understood both as part of the process of appointing a fiduciary manager and in the subsequent oversight of a fiduciary appointment. We think the following set of questions are the key to understanding a fiduciary manager:

1 How does the fiduciary manage operational risks?

Ask the fiduciary about the key operational risks inherent to their approach, how they manage those risks, and the extent to which they could withstand claims arising as a result of operational mishaps. The operational challenges in developing a fiduciary business will vary depending on whether the fiduciary has an asset management or consulting background.

2 How many different managers/mandates does the fiduciary expect to put in place?

Understanding all the risks inherent within pension fund arrangements is a challenge at the best of times, requiring sophisticated systems to monitor and manage investments in place. This challenge is magnified for those fiduciary mandates that result in a significant increase in the numbers of managers and mandates in place. It is important therefore that the fiduciary's portfolio monitoring and management systems are compatible with the way they manage client portfolios.

3 How easy is it to exit from the fiduciary relationship and what costs would be involved?

Will you be able to easily terminate the fiduciary's appointment and move the management of the assets to a new manager, or will you be forced to disinvest from some or all of the investments in transferring to a new fiduciary, incurring costs?

4 What due diligence does the fiduciary undertake on their in-house funds and how do they ensure the due diligence undertaken is fair and unbiased?

There are two concerns the fiduciary needs to demonstrate they can deal with effectively. Firstly, that their choice of asset classes and managers could be swayed, with a potential impact on returns, by the additional fees their firm could generate if in-house funds are used. Secondly, that there may be pressure not to use external funds, as this could be seen as a lack of confidence in the firm's own abilities.

5 How does the fiduciary structure their fees?

There are two main fee structures: an all-inclusive fee or a structure that charges fiduciary and manager fees separately. Each structure poses challenges. While an all-inclusive approach provides clarity over fees charged, the risk is that some of the best managers could be excluded purely on the basis of their fee structures. In contrast, the conflict within the separate fee structure is that the fiduciary could appoint a third-party manager for a role that, under the mandate terms, it is expected to undertake itself; for example, managing a portfolio of alternative investments. You should also examine very closely any performance fee arrangements.

6 How does the fiduciary manage conflicts of interest?

This is one of the questions at the heart of the current CMA review. Some conflicts (such as those described above regarding fees) are, if not obvious, at least identifiable and even measurable. Others are less so. Some changes to investment strategy may rely on funds or investment services provided by the fiduciary themselves, who may not always make clear whether alternatives are available. Certain changes may even tie you in and make exit from the fiduciary more difficult. We believe that most conflicts can be managed, but only if they are clearly explained and fully understood by all parties.

7 What is the fiduciary's policy for managing the allocation of capacity constrained products?

If appropriate procedures are not in place and implemented effectively, the risk is that capacity is allocated to a particular sub-sector of the client base, for example, to those operating on a performance-related fee. This is unlikely to be an issue in the early days as the fiduciary business grows, but could become more of an issue over time.

Fiduciary management is a growing part of the UK pension fund industry. The extent to which it involves delegation of decision-making means the fiduciary model should be adopted by trustees only after a careful assessment of whether it fits with the governance and strategic requirements of their scheme. For those who decide to use fiduciary management, the extent of the delegation means that the appointment should be subject to much more scrutiny than the appointment of investment managers. Trustees should be clear on the scope of the appointment and set appropriate targets and test the candidates for the appointment on a range of issues. Getting answers to the questions we pose should give trustees confidence that they will receive a good service from the fiduciary they select, not only in investment performance terms but also in terms of value for money. Keeping them in mind as ongoing challenges for an incumbent fiduciary will also assist in building a strong and trusting relationship that will stand all parties in good stead for the future.

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DB Platforms

Platform solutions have become the norm for Defined Contribution arrangements. A range of platform solutions has also now evolved for Defined Benefit ("DB") schemes, and more are in development. Their use is growing rapidly, particularly by smaller schemes and it seems likely that this trend will continue. In this note, we provide a brief outline of what they do, how they might help and also some of the potential drawbacks.

What they do

A platform offers investors a "one stop shop" to access a wide range of pooled funds run by different asset managers. There are currently two leading DB platforms: one, managed by a standalone specialist platform provider that has assets in excess of £10bn and offers access to c500 funds across 45 managers; the other, managed by one of the leading passive asset managers, has c£3bn of external DB assets and offers access to c70 external funds as well as all of its own funds.

In some senses, the services provided by a platform in relation to pooled funds are analogous to those provided by a global custodian in relation to securities. However, platform providers would claim they offer more, particularly in terms of benefits of scale and reduction of governance burden. In that respect, a platform solution could be seen as a halfway house between traditional advisory and fiduciary management models, offering the administrative simplification of the latter while retaining the management autonomy of the former.

In the following sections, we consider, in more detail, the key features of platforms and the main benefits that they aim to deliver.

Key features

Underlying management fees

Platforms should be able to use their combined asset value to negotiate better terms and fee deals with managers of the underlying funds. In practice, it is not clear that platforms currently offer access to materially better terms than larger pension schemes (on their own account) or consulting firms (by aggregating client assets) could achieve by negotiating directly with managers. Nor is it clear whether the savings will fully offset the additional platform fee charged.

Many managers, one agreement

Typically platforms use their own life insurance company. Clients sign a single platform document (the life policy) and through that gain access to all of the funds on the platform. This is essentially the same as the approach used by a number of fund managers whereby they include a list of their own permitted funds in a schedule to one Investment Manager Agreement.

Behind the scenes, the platform provider's life company has a Management Agreement in place with each of the fund managers. The life company has certain responsibilities to act in the best interests of its clients, and so will carry out a certain level of investment and legal due diligence to ensure that the funds brought onto the platform are appropriate for clients. However, our understanding is that the nature of the review and negotiation here is typically different to what clients might carry out themselves (or expect an adviser to carry out) for a direct appointment. Users of platforms would need to understand the life company's approach and, if necessary, carry out their own additional due diligence.

As a consequence of these arrangements, a platform solution should lead to a reduction in the paperwork associated with the appointing of a manager. In particular, individual clients do not need to go through the usual take-on process with each new manager, as the platform has the contract in place with the manager. So, implementing changes to strategy or replacing managers should become much easier if the relevant product is already on the platform.

However, adding a brand new manager to a platform can actually take longer than a direct manager appointment by trustees, albeit the governance burden is borne by the platform. More fundamentally, it may not be possible to add all managers and funds to platforms – some illiquid and/or more exotic funds, particularly those based outside of the EU, and segregated mandates, may be excluded. These would need to sit alongside the platform and, while platform providers will typically consolidate external portfolios in their reporting, other administration – such as setting up IMAs, managing transitions and authorising payments through the Trustees' bank account – would follow pre-platform procedures.

Transitions and rebalancing

Platforms facilitate transitions, including rebalancing, between funds covered by the policy as part of their standard service. The cost of this is usually covered by the platform fee, although there may be additional charges where there are frequent or extensive changes.

In most cases, the paperwork to effect a transition is straightforward, and, essentially, just a revised asset allocation. However, a key point to note is that the platform provider will not exercise any discretion during a transition – it will either trade at the first available date for all funds, or to some other fixed schedule.

Reporting

Consistent with the custodian analogy, platform providers can produce consolidated reporting, which typically includes valuations as well as actual and benchmark performance. It is likely that up-to-date valuations will be easily accessible – helpful when rebalancing or disinvesting to fund cash outflows. Platform reporting will not include detailed commentary such as attribution analysis or information on underlying allocations. Our expectation is that most users of platforms would continue to require reporting from their advisers. For consistency, this would incorporate valuation and performance figures provided by the platform provider, but would also cover monitoring of the more important areas of fund strategy and managers.

Platform fees

Platforms typically charge a layer of ad valorem fees on scheme assets invested in funds held on the platform. Actual fees will depend upon the nature of the funds (including differing levels for the platform provider's own funds, where that applies), but are typically in the range of 3-5bps p.a., or 0.03% to 0.05% p.a.

Note that there will be additional costs, including legal and advisory fees, associated with the initial transition to a platform. A reduction in ongoing costs may be an important element in the decision to use a platform, but the time to break even should be considered as well. As there may be a fixed element to the set-up costs, the effect will vary by size of scheme.

Conclusions

Platforms provide a custody service for clients using pooled funds. However, they provide additional benefits that cannot be offered by a custodian:

- Scope for negotiated fee discounts on some manager products.
- Simplified appointment of managers, switches between managers and other transitions (albeit some separate due diligence still likely).
- Consolidated reporting.

Offsetting factors will include:

- Additional fees charged for participating in a platform; and
- The possibility that some scheme investments cannot be included on a platform.

At this stage, appointing a platform provider is likely to be most attractive for those who are looking for a low governance model. Depending on the range of funds invested in, and the fee arrangements that schemes have already negotiated, platforms may also offer some cost savings.

Relative to fiduciary management, platform solutions allow trustees to retain control of investment decision-making. That autonomy does mean that some ongoing governance requirements are retained – due diligence in relation to new investments, monitoring of managers, strategic reporting.

The decision on whether or not to use platforms will be affected greatly by the specific circumstances of individual schemes, but we think their development is an innovative and progressive step that is worthy of further investigation by some schemes.

If you would like to explore whether the use of a platform could be appropriate for your scheme, please speak to your consultant.

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Market returns to 30 September 2017

	Yield % p.a.		Returns to 30 September 2017 (sterling, % p.a.)		
	30 Jun	30 Sep	1 year	3 years	5 years
Equities					
Global	2.4	2.4	15.5	15.1	15.1
UK	3.6	3.7	11.9	8.5	10.0
Developed markets ex UK	2.3	2.3	15.8	16.1	16.4
Emerging markets	2.9	2.7	16.5	11.6	8.3
Bonds					
Conventional gilts	1.6	1.7	-3.6	5.5	3.8
Index-linked gilts	-1.6	-1.5	-3.8	9.7	8.7
Sterling corporate bonds	2.8	2.9	0.3	6.5	6.3
High yield (US) *	6.1	5.9	9.0	5.9	6.4
Emerging market debt	6.6	6.4	6.1	6.8	3.0
UK Property	-	-	10.4	9.5	10.9
Hedge Funds *	-	-	5.9	2.0	4.2
Commodities	-	-	5.1	-1.2	-4.8

* Return in $

Source Datastream:
FTSE All Share
FTSE World Developed ex UK
FTSE All World
FTA Govt All Stocks
FTA Govt Index Linked All Stocks
iBoxx Corporate All Maturities
BofA ML US High Yield Master II
JPM GBI-EM Diversified Composite
UK IPD Monthly
Credit Suisse Hedge Fund
S&P GSCI Light Energy

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