

Ukraine Update | Assessing the Impact for Pension Schemes with Fiduciary Managers

Fiduciary Management Implications

There is no escaping the ever-evolving and saddening situation in Ukraine – the humanitarian impact is huge and, for most, incomprehensible. We have now seen the impact of the Ukraine crisis hitting financial markets with significant increases in volatility.

Where trustees have delegated the day-to-day management of their pension scheme's assets to a fiduciary manager, the trustees are still responsible for the investment strategy and monitoring of their investments. With the increasing sanctions on Russian assets and accelerating numbers of investors disinvesting from them, do trustees that use fiduciary management really understand how their scheme's assets are invested and the implications that the current crisis has for their portfolios?

The XPS Fiduciary Management Oversight Team suggests all trustees in this situation give consideration to the following:

Ensure your current portfolio reflects your risk tolerance

- With a potentially complicated investment strategy in place, do you understand the range of asset classes invested in and therefore the extent of the portfolio's diversification and its exposures?

Assess your exposure to Russia and affected assets

- Do you have any direct / indirect exposure to Russian assets both via unexpected exposure within straightforward assets (Russian issuers of sterling corporate bonds, for instance) or more complex / illiquid investments such as hedge funds / private equity?
- Does your fiduciary manager have look through to the underlying exposures or do they need to rely on information from the underlying investment managers?

Is it possible for your fiduciary manager to make strategy changes?

- Does the way your fiduciary manager invests in funds/managers impact their ability to manage risks and exposures? For example, do they invest in pooled funds (where specific changes may be difficult) or bespoke arrangements (where they may be more straightforward)?
- What is the process for making changes in the portfolio and how quickly can these be implemented?
- To make a change in the portfolio, is your fiduciary manager reliant on any third parties?

Review the robustness of your ESG risk management strategy

- Will the fiduciary manager's approach to ESG have mitigated some of the exposure to geopolitical risks in your portfolio, such as Russia?

Review the accuracy of your liability hedge

- As inflation expectations continue to spiral and are expected to be above central targets for longer, is the fiduciary manager revisiting your inflation hedging to ensure protection levels remain as intended?

Ultimately, the crisis in Ukraine highlights the importance of trustees understanding how their scheme's assets are invested, irrespective of the chosen governance model, and how the approach taken aligns with their investment beliefs and that of the sponsor.

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