

is being paid to investment performance. "In the end it is about the performance of the underlying managers. That is the heart of the issue – people tend to forget that."

look closely at the investment policy, changing managers or even thinking up an alternative solution to fiduciary management."

For the time being, this is going no further than "critical looks," Goris says. "By their very

well start revisiting their fiduciary mandates."

Even if that happens, however, this is not a sign that fiduciary management is a model whose time has passed. The arguments

fiduciary management: one with less focus on multi-management and more attention paid to the pension fund balance as a whole, with a more transparent approach to costs and services.

A fiduciary code of ethics: sense or nonsense?

Fiduciary management offers an all-in-one solution allowing a single party to take responsibility for all operational investment issues. That is a welcome proposition for pension funds who are being battered from all sides by regulatory and investment pressures. So it is no surprise that, one after another, funds are opting for a fiduciary approach to managing their money.

But not everybody is convinced that fiduciary management is the panacea.

More work needs to be done, in particular on the division of responsibility between the fund's board of trustees and the fiduciary manager. Providers claim to be freeing pension funds of their operational burdens without relieving the board of its ultimate responsibility. But pension funds are not convinced. A survey of pension funds carried out by IPE's sister title IPN shows that many are worried about losing control as a result of outsourcing to a single external party which pulls all the asset management levers.

At least as important is the concern over whether fiduciary managers really are acting in the interests of the fund. What is good for a fiduciary party's profit-and-loss account is not necessarily good for a pension fund and its members. By their very nature, fiduciary managers and pension funds have completely different interests and it takes some creativity and effort to bring them into alignment.

In order to address these and similar concerns, the sector is considering introducing a fiduciary code of conduct. Everyone agrees that the prime mover behind this is Loek Sibbing, chairman of OPF, the umbrella organisation for company pension schemes. Last summer, Sibbing laid down a challenge to fiduciary providers: "In the United States, the ERISA law sets out principles of conduct for fiduciaries. If these standards are not met, the fiduciary managers are responsible for any losses. This is not the case in The Netherlands. Here, the term fiduciary can be stretched to suit (marketing) requirements. Could principles of conduct be established in The Netherlands by agreement between pension funds and fiduciary managers?"

"As Dutch providers, we were happy to take up that challenge," says Jan Bertus Molenkamp, a fiduciary management specialist at Kempen. Kempen Capital Management and Mn Services took the first steps towards establishing a kind of fiduciary kitemark. "KPMG, the consultancy, made an inventory of the standards that a fiduciary code of conduct would have to meet; DUFAS, the Dutch asset management association, is now involved in devising a code for the sector."

The plan is to present this inventory to the fund umbrella organisations, with the idea being that the umbrella organisations can respond, bearing in mind the wishes of the pension

fund sector. At the latest, they expect a first concept code to have been drafted by October this year. In the meantime, pension funds have also got involved outside the umbrella organisation framework. According to one consultant, some funds are considering developing a kind of 'balanced scorecard' that would allow them to assess and rate a fiduciary party.

A code of conduct is not meant to tie fiduciary management down to a strict definition, Molenkamp says. "But fiduciary management is an important trend within asset management and so a few basic rules of behaviour should be agreed upon." The most important issue, say experts, is that fiduciary managers must be transparent about the precise services they are offering and what they propose to charge for those services. "We cannot allow it to be the case that you are earning money from things that the client knows nothing about. There's more that needs to be done on this," Molenkamp argues.

He gives hidden transaction costs as an example. "To me, it looks unjust if fiduciary managers earn more if they do their dealing via their own securities department – unless you make it very clear to the client that that's what you're doing. And you could ask questions about fiduciary managers' use of their own transition managers. Does the client know they're doing that? Has it been agreed upon? This is

not always the case." Currency hedging is yet another example. "Who's the counterparty? Did you select the counterparty in the best interests of the client, or are you earning some money on that yourself? If you yourself are the counterparty then can you pass on responsibility for that choice to the client? You have to be very clear and show the client how your own interests are aligned with the pension fund you are serving."

One argument that could be made against such a code of conduct is that it would add nothing to current codes, and would rapidly become a marketing tool with little relevance, which could, at worst, give pension funds a false sense of security.

"You can avoid this by presenting the code less as a mark of quality than as a guideline: a list of desirable attributes that pension funds can use as a basis and guide-rail when selecting and ranking fiduciary parties," says André van den Heuvel, head Institutional Business Benelux with BlackRock.

These points from the guidelines could be further developed into specific service-level agreements. This would give the elements of the code of conduct legal force. "I'm in favour of that. If you develop the code into SLAs then it's about more than signing up to some general principles. In that way, you can avoid such a code becoming a pure marketing tool," Molenkamp says.

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