

Governance and Data Take Centre Stage

IPE interviews Penelope Biggs, Head of the Institutional Investor Group for Europe, Middle East and Africa and Head of the Retirement Solutions Practice at Northern Trust.

It is now ten years ago that the first pension fund in the Netherlands outsourced its entire asset management to a so-called fiduciary manager. From asset allocation and managers' selection to the monitoring of the portfolio's performance, it was all put in the hands of the fiduciary manager. Under pressure of the growing need for diversification, search for yield in the face of an ageing population, the growing complexity of financial instruments and the need to lower costs, many pension funds felt compelled to outsource their asset management to a trusted advisor who's acting as their 'co-pilot'.

The new concept quickly conquered the market as a solution to all pension funds' difficulties. Few questions were asked about the powerful role of the asset manager, potential conflicts of interest or the loss of control by the trustees. The financial crisis has quickly changed all that and has consequently seen the role of the asset servicer Northern Trust evolve. While safekeeping and settlement – simply making sure assets are safe – remains paramount, a significant proportion of its work with clients is now dominated by governance and data provision.

"Providing an independent check between the fiduciary manager and the client, the pension fund, has been a great opportunity for us. We have developed our capabilities to provide clients with oversight programmes, an approach that is centred on the needs of the investor; minimising conflicts and maximising client interests", says Penelope Biggs. "We are helping them continue to receive the best possible investment management services from their providers".

"Fiduciary management started in the Netherlands by outsourcing everything from investment policy design and risk budgeting through to investment manager selection and monitoring and risk management. Trustees have since realised that they shouldn't give away all control to any type of commercial party, even if they have an excellent track record", says Biggs. Ever since the financial crisis, governance and transparency have been the industry's buzz words. Biggs says, "Clients' foremost question is how can they obtain better governance, oversight and transparency over the pension fund's assets? People are seeking greater vis-

ibility over the make-up of their fund, stronger oversight over it and a better understanding."

"A fiduciary manager will make lots of decisions for you. Our Implementation and Oversight Solutions offering combines qualitative skills and technology to provide clients with an independent check and balance on the fiduciary manager. For example, to make sure that there are no unexpected correlations in the portfolio and to provide an objective evaluation of each investment manager's performance", says Biggs. "Our clients are telling us that nobody else is doing this. For example, for a large Dutch public pension fund we were the only asset servicer who could provide the custom independent

new regulations to help their clients understand the implications and meet new requirements which often mean different things in different countries. "We have to join the dots for our clients and then create the solutions to enable them to meet the evolving requirements," says Biggs.

The Alternative Investment Fund Managers Directive (AIFMD), the most pressing regulatory change at the moment, is offering a significant opportunity for Northern Trust as many pension funds in the Netherlands will fall under the directive. Biggs says, "We will be acting as a depositary in the Netherlands for a number of clients which will present an opportunity for us to have greater responsibility and influence

provision of data, aggregated across multiple custodians and managers if required. Clients can then 'pick and mix' from six layers of capabilities, from basic exposure management to more sophisticated risk analysis and the Implementation Oversight Solutions already mentioned. "Every client is different so services are tailored according to their governance framework and information needs. For example a big in-house managed pension fund may require an investment book of record using the data to make investment decisions through to a smaller pension scheme that may be looking at exposure reporting and compliance monitoring of their investment managers", Biggs says. Many clients are also invested in pooled funds and might not need all of the services. They can, for instance, choose just the transparency analysis of their pooled funds. "Our clients are all essentially asking: can you aggregate the data, can you drill-down to a granular level and tell us what is going on within our portfolio?", says Biggs. "The data and analytics are adding significant value to pension schemes, helping them make decisions based on more meaningful and timely insights".

The changes are not working changing, Biggs stresses. Collecting, validating and aggregating data are activities that have long been at the heart of the asset servicer's business. It's the breadth and frequency of data that clients are looking for and how they're using it to drive their business decisions that is fundamentally different. "The most exciting thing for Northern Trust is that it's an opportunity to be more integrated with our clients and to develop more valuable relationships as a result. That speaks volumes."

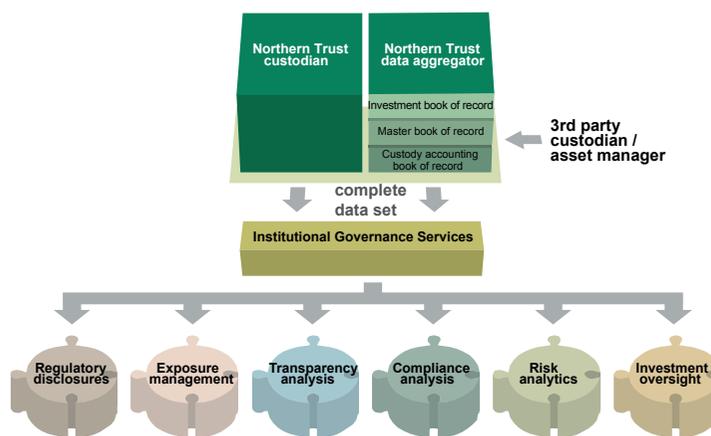
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Institutional Governance Services provides flexible tools and reporting turning data into meaningful insights for enhanced governance.



risk management they were looking for after parting company with their full fiduciary manager. Interestingly, it's now also fiduciary managers inviting us to do such monitoring. They're saying we use your reports to demonstrate to our clients that we have someone independent looking at what we're doing. That is good governance."

It's not just limited to the area of fiduciary management where Northern Trust is seeing an increased focus on governance and demand for data and oversight solutions. With the need for greater transparency and the alphabet soup of regulations – EMIR, AIFMD, Solvency II, FTT, UCITS V – that is engulfing the financial sector, the stack of reporting requirements landing on managers' and trustees' desks is growing. Northern Trust has large teams focused on monitoring and evaluating

than a traditional asset servicer. We see our role as very consultative, not only in the implementation process but assisting pension funds in their selection and structuring decisions". As for the growing pile of reports and data needs, Biggs admits, "It's always a work in progress to improve the data sets that clients need for their decision making. Today clients need data faster and it has to be aggregated across multiple managers and portfolios. Once this data is brought together, pension funds now want much more than just a top-level view of their portfolio. They want more detailed analytics and the tools and experts to help them interpret these."

Northern Trust's Retirement Solutions Practice has been closely following this trend. In response they have developed Institutional Governance Services, the foundation of which is the



Northern Trust