

# The attraction of the umbrella

**U**mbrella funds have most often been seen as a solution for the smaller employers with 20 to 50 members needing a retirement fund. According to Graham Thomas, head of product innovation at Liberty Corporate, the reality is now that they are seeing a lot more of the bigger employers looking at umbrella funds. Thomas says with all the external controls it is not always easy for an employer to offer their own pension fund.

Hugh Hacking, Umbrella Fund product manager at Old Mutual Corporate, says that they are seeing a lot more interest in umbrella funds from medium and even larger employers. Hacking says not only do they offer really good cost benefits, but many companies are looking to stick to their core businesses and leave other matters to the experts in that field.

Another reason why umbrella funds are becoming

more attractive? There is a lot of governance and compliance required for retirement funds. Essential because it is other people's money and deserves the best care and attention – but at the same time expensive and onerous and time consuming.

Umbrella funds have not been without their criticisms – one immediate question that is raised is how do the trustees of an umbrella fund function?

Independent and professional trustees are a major benefit in an umbrella fund. Today's trustee can almost have a full time job attending meetings, keeping up to date with changes and legislation and ensuring members' needs are known, communicated and their expectations met as far as possible. Hacking says at Old Mutual – they appoint trustees on very strict guidelines and they must be completely independent in all rights, and are limited in terms of their shareholding. Hacking says trustees have such a

strong fiduciary duty that it makes sense for them to be independent.

Thomas says Liberty Corporate has a mechanism to create a management committee where for example there would be equal representation from employers and members and that management committee would oversee the particular portion of the umbrella fund that relates to their members. Liberty Corporate also has independent trustees and Liberty appointed trustees to oversee the entire fund. Thomas says the medium to large employers do have management committee structures in place.

When they first came on the scene umbrella funds were also seen as being tied to one particular provider. However, this is not the case anymore and Thomas says the umbrella fund has evolved over time and the trustees have ensured there is choice and flexibility on the investor side; while the administration is handled

separately. "Umbrella funds are no longer seen as the provider but just the administration."

Choice may not be all it's cracked up to be and as the results from the Sanlam Employee Benefits Survey, and numerous other industry stats reveal, the majority of members still use a default portfolio. However, for some members choice is essential, Thomas says they offer 13 – 15 portfolios that the trustees have selected after careful and thorough research. Typically Thomas says members with a higher net worth and a financial plan will require some flexibility in how they structure their pension fund investment.

Old Mutual Corporate's Hacking says choice is important for some members. And while you may find 75% of members in a default portfolio, you need to cater for other members needs. Hacking also makes the excellent point that while as a proportion of members you may land up with only a very

small percentage of members who take a flexible solution – this may not necessarily be similar in asset proportions as those members may have considerably larger shares of funds.

According to David Gluckman, managing director: Sanlam Umbrella Solutions, the main benefits of an umbrella fund are cost, regulation and governance.

Gluckman says cost should be a major reason for choosing an umbrella fund – a large portion of costs are fixed and for smaller funds that cost is just prohibitive.

Is there an ideal size at which funds should look to use an umbrella fund? Gluckman says this is difficult to answer because member size and asset size are not always the same – and as in any investment management – sizeable assets can lead to lower costs.

It is clear that in times of better but more onerous regulation and higher costs umbrella funds are a viable solution for any pension fund. But not all umbrella funds are equal. Gluckman says investigate the following when looking at umbrella funds:



**Hugh Hacking: Trustees have a strong fiduciary duty**

- Cost structures must be good
- There must be reasonable economies of scale
- Governance has got to be good with independent trustees
- Look at if there have been governance failures in the past
- Look at investment mandates
- Look at risk insurance
- Systems must be good
- There must be member communication
- Transparency
- Menu choice – Gluckman says too much choice may not be a good thing and can increase costs, but a balanced choice should be provided.