momentum

Newsletter

May 2025

HOT TOPICS

Investment Governance Models

Investment governance models have evolved considerably over the last 20 years.

There are now several different models that are typically adopted in the UK pensions market, and within these models, there can be subtle nuisances in relation to the approach adopted. Furthermore, the number of providers in the market is potentially reducing with the continued market consolidation.

A key question that is continually being asked (and assessed) is: how do trustees of pension schemes (and other entities performing a fiduciary duty) select an investment governance model that is most suitable for their particular circumstances?

Taking a step back, what should a good investment governance model seek to achieve? As noted by the Pensions Regulator, 'choosing an appropriate investment governance model is important to ensure you [trustees] can make timely investment decisions, access appropriate advice and implement your investment strategy efficiently'.

The two most common investment governance models are Advisory and Fiduciary Management (FM). However, there is a 'spectrum of governance structures and levels of delegation between these models, which you can choose from to meet the investment governance needs of your scheme[1]'.

The key differences between these two models are around day-to-day investment decisions and accountability – ***the responsibility for strategic investment decisions remain with trustees in both.***

Day-to-day investment decisions are typically delegated to third-party investment managers under the Advisory model, which is in contrast to the FM model whereby these decisions are delegated to an overall fiduciary manager.

With the FM model, the fiduciary manager is accountable for managing to a funding level and/or return target. Under the advisory model, a funding level target may form part of the objective setting exercise, but it's unlikely that the advisor is accountable for meeting that target.

Working with providers that are governance agnostic should help trustees select an investment governance model that is most suitable for their particular circumstances. We pride ourselves on being able to work with clients right across the governance spectrum after determining the level of delegation that is right for each client. In short, we offer advisory and FM solutions, and tailored solutions in between such as OCIO (Outsourced CIO), this means we can independently advise on what model may suit each scheme. We think few providers genuinely cater for all governance models.

[1]The Pensions Regulator: Choose an investment governance model | The Pensions Regulator

BUSINESS UPDATE

We are pleased to announce that we have added to the team with a new senior hire. Gary Yeaman has joined as Head of UK Pension Scheme Relations and has overall responsibility for distribution across the main channels in the UK, third-party evaluators and professional trustees.

Gary brings a wealth of experience, developed over 30 years, in pensions and investments. He has worked at in-house pension teams of Unilever, Railpen and Shell in the Netherlands, before returning to the UK in 2010 to take the fiduciary management / OCIO message to UK pension plans. Gary is also a trustee on a handful of UK pension plans, which ensures he keeps engaged with topical matters for UK pension plans.

"I am delighted to join the team at Momentum. Momentum have always stood as an independent voice providing high quality service and bespoke strategies for every client. I am genuinely excited to be responsible for making the market aware of the great work that has been undertaken by the advisory team over many years."

TEAM UPDATE

Congratulations to Alex for his recent pass of CFA level 3. Alex has now completed all three levels of the CFA program and will be eligible for the charter in the coming months.

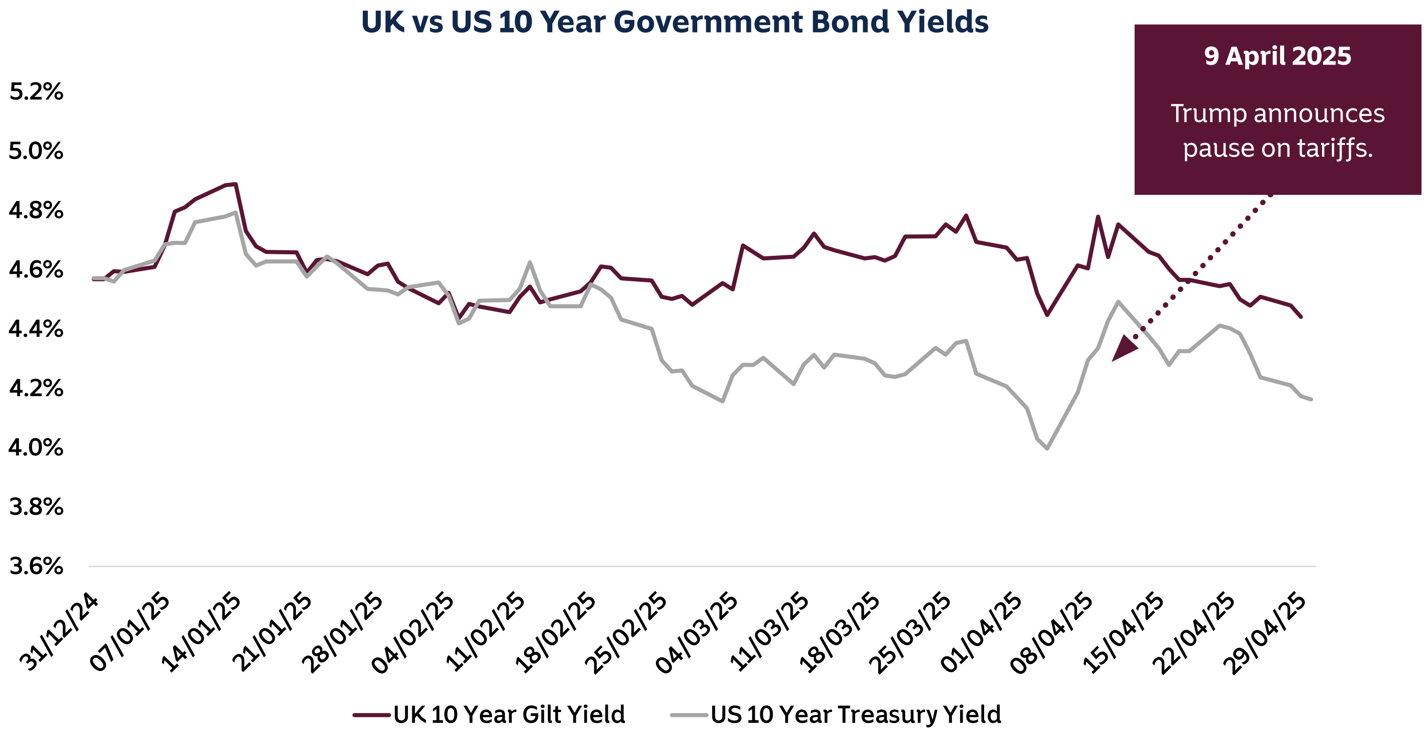
We also have a number of other team members continuing to work towards CFA exams taking place later this year.

MARKET UPDATE

Donald Trump's second coming has been marked by significant market volatility, largely due to aggressive tariff policies, executive orders, proclamations and memorandums. Several possible reasons have been cited for the tariff policies, including as a direct response to rebalancing the structure of global manufacturing to compete with China.

The impact on US Treasury yields and the US dollar from the planned tariffs has arguably been the most interesting of all assets classes (along with gold), and several market commentators believe it was concerns raised by the US Administration of rising US Treasury yields that put a pause to the tariffs (given the impact on US government borrowing to fund the economy).

The chart below shows the impact of selected equity, bond and currency markets since the start of 2025 to 30 April.

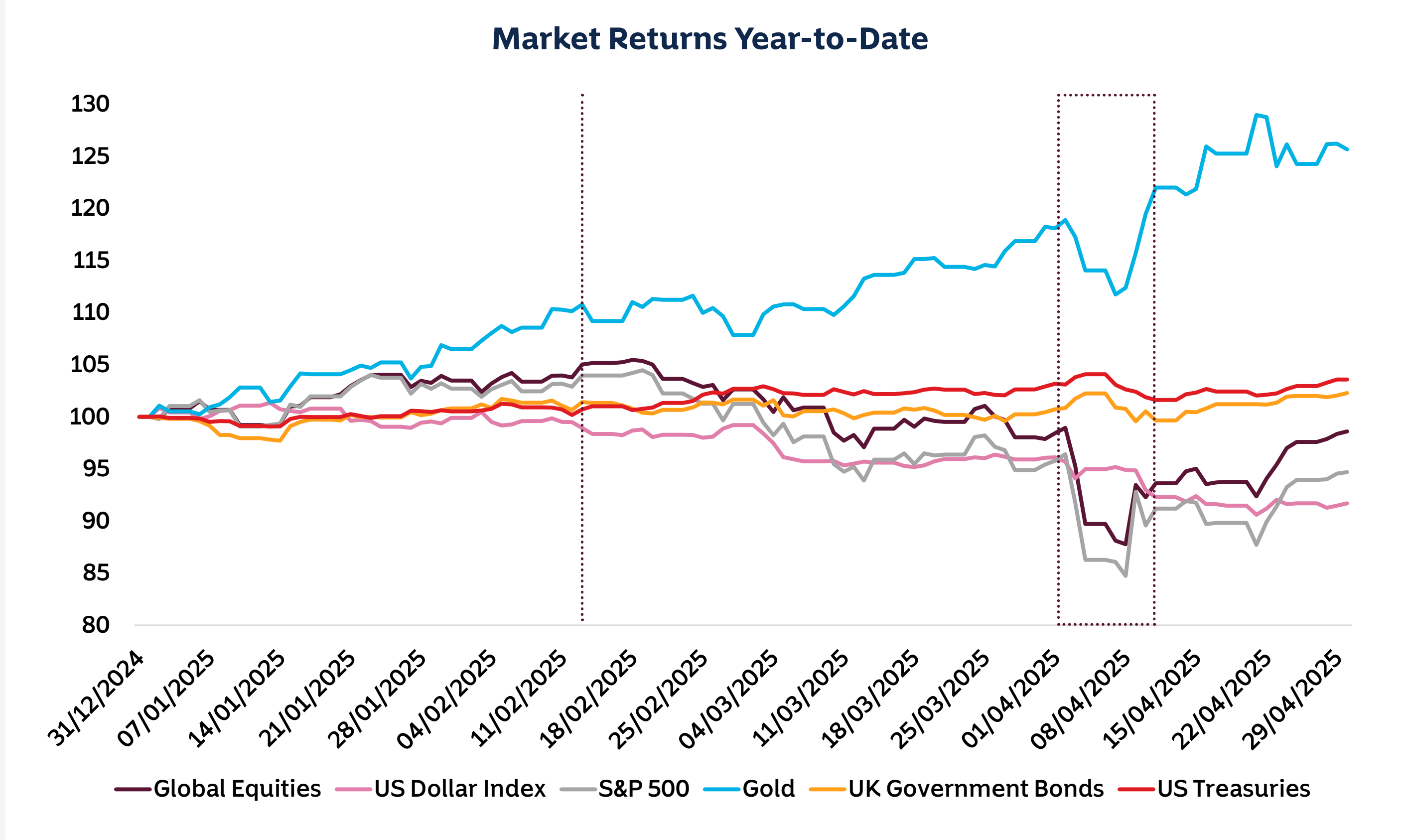


13 February 2025
Trump commissions reciprocal tariffs to be drafted.

4 April 2025
Since Liberation Day, US stock market drops $5.4tn.

7 April 2025
Additional 50% tariff imposed on China.

10 April 2025
China tariff confirmed at 145% although some companies may be exempt.



2 April 2025
Minimum of 10% tariff on all US imports from 5 April announced on "Liberation Day".

5 April 2025
US tariffs commence - China responds with 34% tariffs.

9 April 2025
China retaliates with an additional 50% tariff on US. 90-day pause announced for all tariffs >10%, excluding those who retaliated.

11 April 2025
China retaliates with a reciprocal 125% tariff imposed on the US.

> **"*Donald Trump's second coming has been marked by significant market volatility, largely due to aggressive tariff policies, executive orders, proclamations and memorandums.*"**

The performance of global equity markets has been mixed since the start of 2025. Both US and Japanese equities have fallen, which has partially been offset by the positive performance of Pan European markets. In addition, the U.S. dollar weakened against a basket of major currencies and oil prices have declined amid fears of an economic slowdown.

Overall, U.S. Treasury bonds, along with sovereign bonds from other developed markets, including the UK, have delivered positive returns since the start of the year, which is in line with investors gravitating towards 'safer' assets in times of uncertainty. This was even more stark in the oldest 'safe haven' asset, gold, with the price increasing by nearly 26% since the start of the year.

Source of all data: Bloomberg Finance L.P. All returns quoted in Local Currency. Global Equities - MSCI World Index, S&P 500 - S&P 500 INDEX, USD Currency Index - DXY Index – Dollar Index Spot Rate , Gold - GC1 Comdty , UK Gilts - Bloomberg Sterling Gilts Total Return Index Value Unhedged GBP, US Treasuries - Bloomberg US Treasury Total Return Unhedged USD

The most obvious direct impact from higher US Treasury yields is higher UK government bond yields. Given the issues around the gilt-crisis in late 2022, the collateral resilience of a typical UK DB pension scheme is healthy. Furthermore, higher government bond yields would expect to attract foreign capital which should help to limit the absolute level of yields. That being said, the introduction of the Bank of England's Contingent Non-Bank Financial Institution Repo Facility (CNRF) would be a welcome addition to the market given it is designed to provide liquidity to non-bank financial institutions (NBFIs) during periods of severe market stress.

Overall, long-term investors should be able to withstand bouts of market volatility, particularly those that:

- Adopt robust, well defined strategic objectives – the most important step in the investment policy setting process;
- Focus on asset classes with low-risk of fundamental impairment – mark-to-market risks should be recovered by patient investors, whereas losses due to default are permanent; and
- Diversify investment policies by sources of risk and return rather than by capital allocations.

For more information, please contact:
Momentum Investment Solutions & Consulting
E: mgim_windsor_consultants@momentum.co.uk