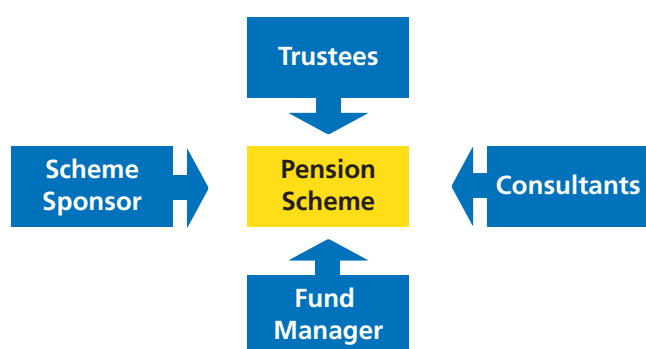


The management of a pension scheme requires the expertise and dedication of administrators, investment professionals, actuarial consultants and stakeholders. The diagram below highlights the broad structure of the pensions industry and the four main bodies that play a role in its management.



Trustees: The pension scheme trustees act as the legal owners of the scheme's assets and are required to ensure that these assets are managed appropriately for the beneficiaries, that is, the scheme members. The board of trustees will usually comprise current scheme members and a representative of the scheme sponsor and may also include an 'independent trustee', a person unrelated to either the scheme or to the scheme sponsor. The Myners Report sets out a code of good practice for trustees which clarifies their roles and their responsibilities with respect to the scheme and its beneficiaries.

Scheme sponsor: The scheme sponsor is the corporate or public sector employer that offers the pension scheme to its employees, either in the form of a Defined Benefit (DB) or a Defined Contribution (DC) scheme. With a DB scheme the sponsor effectively takes on the investment risk of the fund. This means that the sponsor may be obliged to make additional contributions to the scheme, over and above those that have already been agreed, should any fund shortfall arise.

Fund manager: The management of a pension scheme's assets is normally outsourced to a fund management company. However, some large schemes manage at least some portion of their funds 'in-house'. The fund manager's role is to manage the assets, usually with reference to an agreed investment benchmark and performance objective relative to this benchmark (see the *Investment Tutor* Benchmarking and Indices training guide). The trend in recent years has been to appoint asset class specialists to manage portions of the fund. In other words, the portion of the fund allocated to equities is given to a specialist equity fund manager, the government bond component to a government bond specialist etc. Hence, many schemes appoint more than one fund management company to manage their assets. Fund management companies usually charge pension funds a fee for their management services that is related to the amount of money under management, though in some cases the fee will also have a performance-related element.

Actuarial and investment consultants: The estimate of the liabilities faced by a pension scheme and an assessment of the likelihood that the scheme's assets will be sufficient to meet these liabilities is the responsibility of the scheme actuary. The scheme actuary will be a professional actuary, usually working for a large company of actuarial consultants, such as Watson Wyatt Worldwide, or Hewitt. It is also the scheme actuary's responsibility to determine whether the scheme's assets are sufficient to meet its liabilities. As well as providing actuarial advice, actuarial consultants also offer investment advice to pension scheme trustees in the capacity of investment consultants. The investment consultants will offer advice on appropriate asset allocation and will also help trustees vet potential fund managers, thus helping the pension scheme trustees achieve their investment objectives. For these services actuarial and investment consultants will charge the pension scheme a consultancy fee. The Myners Report lays down guidelines emphasising that these consulting contracts should be subject to periodic, open competition and that they should not, where possible, all be awarded to the same company.

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