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Research Confirms Trustees Held Back by 'Groupthink,' Resulting in Reliance on Investment Consultants

Research Sponsored by SEI Supports Questions Raised in FCA Asset Management Study

LONDON, UNITED KINGDOM -- (Marketwired) -- 01/18/16 -- A new study sponsored by SEI's (NASDAQ: SEIC) Institutional Group, in conjunction with IFF Research and Dr. Iain Clacher, Associate Professor in Accounting at Leeds University, reveals that trustees may be held back by the traditional pension scheme governance model. The study demonstrates that 'groupthink' is prevalent on DB scheme trustee boards, which results in over reliance on unaccountable investment consultants and may lead to increased demand on employers.

The research identified four key findings related to groupthink:

1. There is evidence of groupthink in trustee bodies
2. Groupthink may hinder decision making processes
3. Trustees are reticent to challenge their investment consultant
4. Groupthink may lead to increased demand on employers

Groupthink is a scientific theory defined as a phenomenon developed in groups and marked by consensus of opinion without critical reasoning or evaluation of alternatives. A documented outcome of groupthink is the tendency to rely heavily on the most vocal participants of a group.[i]

Over half of the trustees polled consider other trustees' views as 'extremely or very important' when making their own investment decisions. Out of the 100 trustees surveyed, only one said they 'reach their own decisions.' Forty-two percent of trustees have never challenged the advice of their investment consultants, and less than a quarter (22 percent) of boards appoint a devil's advocate to argue the alternative perspective to the board. The results of these issues are also demonstrated by the survey -- only 49 percent of trustees rate their board's ability to make decisions as 'very good' with just 36 percent rating their scheme's ability to respond quickly to new situations or opportunities as 'very good.'

The research revealed that the impact of group think on trustee boards may have led to an increased burden on employers. Findings confirm that in the last five years, 41 percent of schemes have increased employer contributions as a result of underperforming against their benchmark, with the average increase being 22 percent. When asked what barriers exist to improving performance, trustees cited a number of different challenges with 28 percent concluding that poor processes exacerbated poor performance against their benchmark, and 19 percent citing inadequate resources as a reason.

The results of groupthink are exacerbated in a model where advisers work in separate silos and are unaccountable for the advice they provide. As well as revealing that a significant proportion of trustees do not feel comfortable challenging the advice of their investment consultant, the results also found that a majority -- 59 percent -- do not frequently consider alternatives to the investment consultant's recommendations. In the traditional pension scheme governance model, investment consultants operate on an hourly billing model rather than a fee based on results and they are not directly accountable for the advice they provide. It can be argued that this structure means the objectives of the scheme and the investment consultant are not aligned.

Patrick Disney, Managing Director of SEI's Institutional Group, said:

"The Terms of Reference for the forthcoming Financial Conduct Authority review of asset management have highlighted the potential issues with the traditional investment consulting model and identified that it may be difficult for pension schemes to adequately monitor the services their consultants provide.[ii] Our research clearly underlines this point, revealing that more than half of trustees (59 percent) do not frequently consider alternatives to the advice proposed by their investment consultant. One of the clear reasons behind this is that investment consultants operating in a traditional model are not results-based. At SEI, we would argue that it is not the fault of trustees that groupthink exists. The present model does not allow trustees to be constantly aware of the funding position of their scheme. Without this knowledge it is difficult for trustees to not only monitor, but also challenge, their advisers. It seems clear that a more accountable advisory model is needed where fees are based on results and the trustee board is able to clearly track the funding level against the scheme's goals."

Methodology

IFF Research telephone interviewed 100 trustees of DB schemes for SEI in September 2015. Of those surveyed 46 percent of the schemes were classified as small (£15m - £99m AUM), 33 percent were medium (£100m - £499m), and 21 percent were large (£500m+). The research was conducted under the supervision of Dr. Iain Clacher, Associate Professor in Accounting and Finance, Co-Director of the Centre for Advanced Studies in Finance (CASIF) and Co-chair of the Actuarial Profession's and cross-practice working party on behavioural finance.

To receive a full copy of the study please contact cdeutsch@seic.com.

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[i] Irving Janis, Yale University, 1972

[ii] FCA Asset Management Market Study Terms of Reference, November 2015

Company Contact:
Caroline Deutsch
SEI
+44 020 7 297 6408
cdeutsch@seic.com

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