

Hymans Robertson Investment Services (HRIS)

Investment Governance: testing your investment provider

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Consumer Duty places considerable focus on investment governance, and we can understand why! Research demonstrates there is a linkage between robust investment governance and improved future investment outcomes; indeed, a leading expert suggests the difference between good and bad governance could be worth between 1% to 2% p.a. of additional returns for investors.

The research, which focused on global pension funds, flagged that the governance “dividend” arises from a number of areas e.g. related to having:

1. **High quality people and effective use of time.**
Smart teams, with clarity on their roles and responsibilities, means they focus more on their strengths and delegate when it is appropriate.
2. **A well-defined strategy**, with priority given to decisions that have the most impact on outcomes.
3. **A fit for purpose investment manager line up** to support future outcomes, with efficient use of spending on investment management.
4. **A robust and repeatable process** to give confidence in future outcomes, inform decision-making and reflect on their learnings.



**Governance
impact**

1-2% p.a. difference
in investment
outcomes between
good and bad
governance.

Based on: Ambachtsheer, K., 'How Much is Good Governance Worth?', The Ambachtsheer Letter 245, KPA Advisory Services Ltd., June 2006

How does this apply in the Retail world?

While the research outlined above focuses on institutional pension funds, the principles are highly transferable to managing model portfolios for Retail investors. Just as pension boards must balance stakeholder interests and long-term outcomes, advisers must be confident their portfolio strategies meet with their clients' goals, regulatory standards, and operational efficiency. It is therefore important advisers get this confidence from their model portfolio provider. Based on the four areas outlined above, advisers may want to ask their model providers the following governance-related questions.

High quality people and effective use of time

There are many elements to providing model portfolios, including investment expertise, operating on platform and providing relevant ongoing support and collateral. A well governed investment provider should be able to:

- **Identify and explain** the depth and experience of teams supporting your portfolios.
- Highlight any **key decision-makers**.
- **Demonstrate what depth and support** are available should the key decision makers be unavailable.

A well-defined strategy

Research shows that around **90% of an investor's outcome** comes from how their assets are allocated—such as the use of alternatives or regional benchmarks. That's why it is important advisers trust their model providers to build strong asset allocations. A well-governed provider should be able to:

- **Explain their asset allocation decisions**, including how they've tested the portfolio in different market scenarios and what level of turnover to expect.
- **Clarify their approach to key factors** like regional exposure and duration, and how these choices help create a smoother investment experience.
- **Show the oversight and challenge** behind their decisions, including how they test and rebalance portfolios to keep investors aligned with their risk targets and align with regulation.

Fit for purpose investment manager line up

While strategy is the key decision for investors, choosing the right managers is also important—it helps put that strategy into action effectively. A well-governed provider should be able to:

- **Explain how they use active and passive investing**, including why active is used in certain areas and what evidence supports those choices.
- Show how they use newer, **efficient approaches like multi-factor investing** (if any) to improve returns, diversification, and control cost.
- **Be clear about how they research managers and funds**, the depth of research resource and what fee negotiations they've achieved on behalf of advisers e.g. a number of our **portfolios have c.20% lower fees, due to our negotiated fees**, than their standard fee.

Robust and repeatable processes

Strong processes to support ongoing portfolio management are essential. It means making sure the portfolio performs as expected, runs smoothly on the platform, and advisers get the support they need. A well-governed provider should be able to:

- **Demonstrate all aspects of the investment process**, to give you confidence in its repeatability and how it adds value to your clients and your advice process.
- **Support your advice process**, including ad-hoc support to queries, providing suitability wording and materials to help meet client needs.
- **Provide clear reporting and tools**, such as data and tooling to support your advice process as well as regular investment committee meetings to share market views.

Summary

Many of the points here build on our June publication, "Are you getting value for money from your investment provider". Ultimately, a key focus for advisers - both in terms of risk and return - is to gain confidence that your model portfolio provider(s) have the necessary skills, processes and technology to achieve strong investment outcomes and support for your clients, because, over the long term, the evidence shows this can improve investment outcomes.



William Marshall
Partner, Chief Investment Officer

Risk warning

The value of your investments and the income from them may go down as well as up and neither is guaranteed. Investors could get back less than they invested. Past performance is not a reliable indicator of future results. Changes in exchange rates may have an adverse effect on the value of an investment. Changes in interest rates may also impact the value of fixed income investments. The value of your investment may be impacted if the issuers of underlying fixed income holdings default, or market perceptions of their credit risk change. There are additional risks associated with investments in emerging or developing markets. The information in this document does not constitute advice, nor a recommendation, and investment decisions should not be made on the basis of it. The material provided should not be released or otherwise disclosed to any third party without prior consent from HRIS.