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Elastic band theory

The relationship between trustees and investment managers

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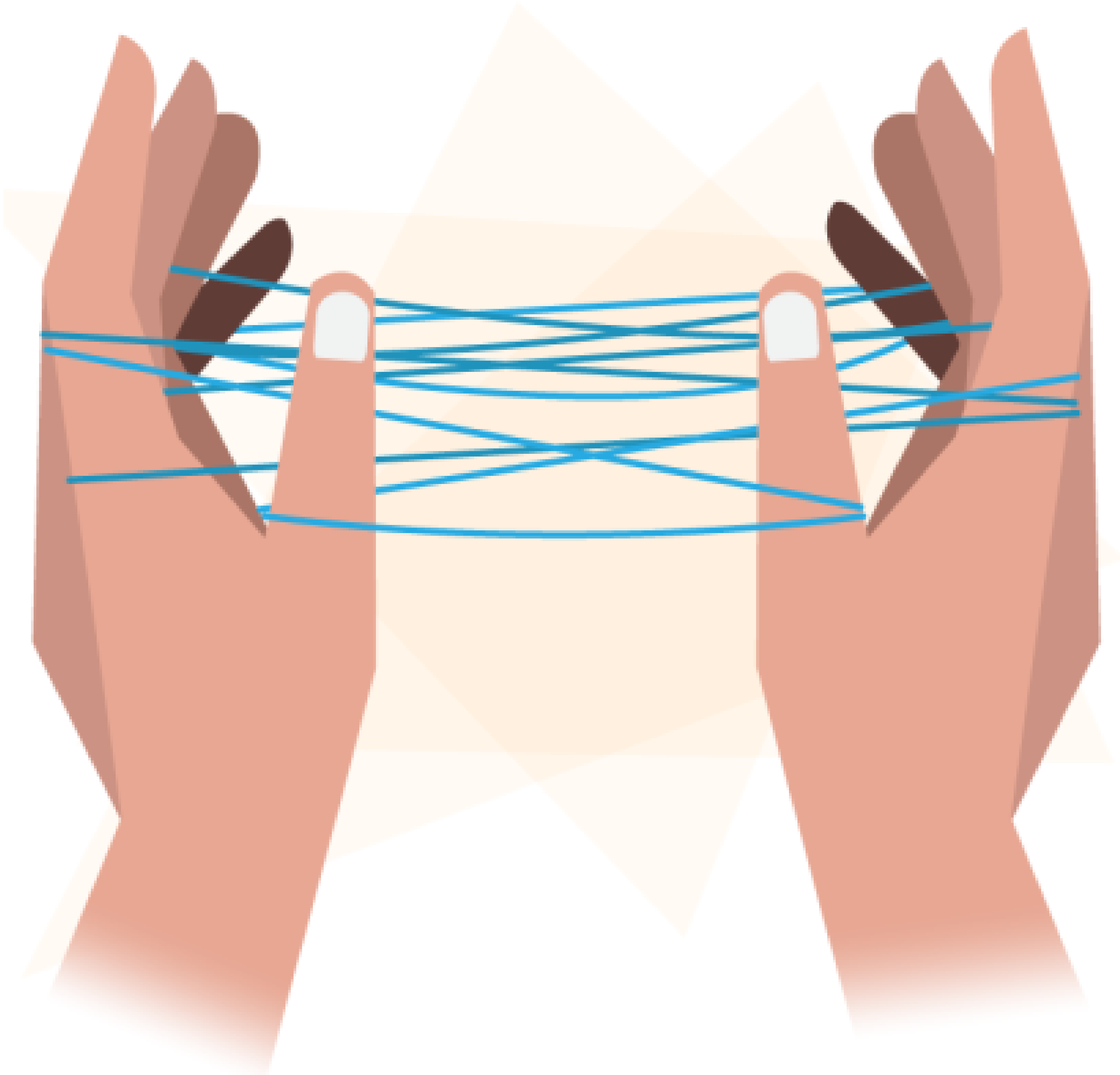

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In the intricate world of wealth management, the relationship between trustees and investment managers has undergone a significant transformation in recent years. Traditionally characterised by a more hierarchical structure with trustees providing objectives and investment managers executing strategies, this dynamic has evolved into a collaborative partnership built on mutual trust, transparency and shared objectives.

The traditional role of trustees in preserving and enhancing the value of assets entrusted to them remains fundamental. However, in today's complex financial landscape, trustees are increasingly recognising the value of engaging investment managers as strategic partners rather than mere service providers. This shift reflects a recognition of the specialised expertise investment managers bring to the table, as well as a desire to leverage their insights and group capabilities to optimise investment outcomes.

One of the key drivers behind this evolution is the growing sophistication of clients, and so the investment strategies and products they require; both challenging traditional notions of risk and return. Trustees are now faced with the task of reconciling the need for competitive returns with the imperative to manage risk effectively. Investment managers play a crucial role in this process by providing expertise in navigating modern financial markets, conducting thorough due diligence, and designing tailored investment strategies that strike the right balance between risk and return

Moreover, ongoing monitoring is essential to ensure the continued alignment of investment strategies with the trust’s goals and risk tolerance. Trustees must not only focus on underperformance but also be vigilant for signs of overperformance, as this could indicate that the investment manager is taking undue risks to deliver returns. By maintaining open lines of communication and conducting regular reviews, trustees can proactively identify and address any potential issues, ensuring the prudent stewardship of assets.

The ‘elastic band theory’ aptly describes this delicate balance in the relationship between trustees and investment managers. Like an elastic band stretched to its optimal point, the relationship should exhibit a healthy tension—enough to foster accountability and challenge but not so much as to cause strain or fracture. Trustees need not be afraid to question their investment manager and seek justifications in clear language.

This dynamic tension promotes transparency and mutual understanding, ultimately leading to better investment decisions and outcomes.

Another factor driving the shift towards a more collaborative relationship between trustees and investment managers is the growing emphasis on proportional performance and accountability. In today's competitive landscape, trustees are under pressure to deliver optimal risk-adjusted returns, so ensuring the prudent stewardship of assets. This requires a proactive and dynamic approach to investment management, one that is responsive to changing market conditions and aligned with the long-term goals of the trust.

By forging a closer partnership with investment managers, while still maintaining the tension in the elastic band, trustees can tap into their expertise to develop investment strategies that address the unique needs and objectives of the trust. This collaborative approach enables trustees to access a broader range of investment opportunities, leverage advanced analytical tools and techniques, and benefit from timely market insights – all of which can both enhance portfolio performance and mitigate risks within the wider trust.

Crucially, the evolving relationship should be underpinned by a commitment to transparency, communication and accountability. Trustees rely on investment managers to provide timely and accurate reporting on portfolio performance, risk exposures and compliance with investment guidelines. Likewise, investment managers depend on trustees to provide clear guidance on investment objectives, risk tolerance and liquidity requirements.

In conclusion, this changing relationship reflects a broader shift towards a more collaborative and partnership-oriented approach to wider wealth management. By leveraging the expertise and resources of investment managers, trustees can navigate the complexities of modern financial markets and commercial opportunities with confidence, achieving their long-term goals while effectively managing risk and maximising returns for the benefit of their beneficiaries.

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