Investment Consultants Market Investigation

Competitive Landscape

26 April 2018

This is one of a series of consultative working papers which are being published during the course of the investigation. This paper should be read alongside the issues statement published on 21 September 2017 and other working papers published.

These papers do not form the inquiry group's provisional decision report. The group is carrying forward its information-gathering and analysis work and will proceed to prepare its provisional decision report, which is currently scheduled for publication in July 2018, taking into consideration (among other matters) the evidence obtained, responses to the consultation on the issues statement and responses to the working papers as well as other submissions made to us.

Parties wishing to comment on this paper should send their comments to investmentconsultants@cma.gsi.gov.uk by 10 May 2018.

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The Competition and Markets Authority has excluded from this published version of the working paper information which the inquiry group considers should be excluded having regard to the three considerations set out in section 244 of the Enterprise Act 2002 (specified information: considerations relevant to disclosure). The omissions are indicated by [✂]. Some numbers have been replaced by a range. These are shown in square brackets.

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Executive Summary

1. This working paper covers the competitive landscape, market definition and in particular levels of market concentration in the supply of investment consultancy (IC) services and fiduciary management (FM) services. This is one of a series of pieces of work which in combination forms part of our assessment of whether or not there is an adverse effect on competition (AEC).[1] This paper should therefore be read alongside the other working papers that we have published.

2. Our emerging finding is that there are separate relevant markets for the supply of IC services to pension schemes in the UK (the IC market), and the supply of FM services to pension schemes in the UK (the FM market). We therefore focus our analysis of concentration of these two markets. This is on the basis that there are significant differences in the competitive dynamics between these two services, and also between supplying these services to UK pension schemes and other types of institutional investor.

3. We also found that these markets contain a number of further segments in which competition may function differently, for example pension schemes of different types and sizes, so we also analyse concentration at this more granular level.

4. We undertook a detailed analysis of concentration of the IC and FM markets. We collected data from 45 firms on their revenues, number of customers and value of assets under advice, split by pension scheme size and type. We also collected aggregate data on revenues over ten years. Collectively, this gives us a thorough picture of the IC and FM markets.

5. As a result of this detailed assessment, our emerging finding is that the IC market is not highly concentrated:

   (a) The largest firm has a market share of less than 20%;

   (b) the three largest IC firms (Aon, Mercer and WTW) make up less than a 50% share of the market in total;

   (c) the market is characterised by a number of well-established, mid-sized firms who in several segments enjoy a stronger position than some of the three leading firms, and

[1] Guidelines for market investigations: Their role, procedures, assessment and remedies (CC3 (Revised)), April 2013, paragraph 95.

(d) overall, ten firms make up around 75% of the IC market.

6. In recent years, concentration in the IC market has fallen slightly. The supply of IC services to smaller pension schemes is particularly unconcentrated. Concentration is higher for the largest pension schemes, however these schemes often employ in-house advisors, use external consultants for more limited pieces of project work, and sometimes employ multiple consultants simultaneously. This may mitigate the impact of the greater concentration faced by these customers.

7. Our initial results show that the FM market is more concentrated than the IC market. However, the FM market does not appear to be highly concentrated, and customers appear at present have access to a sufficient number of suppliers:

   (a) No firms have market shares above 20%;

   (b) there are five large firms in this market and several other notable players, and

   (c) there has been recent entry into the FM market by a number of large asset management firms.

8. However we have also considered the trend in concentration in FM, which is expanding rapidly (total revenues have more than trebled over the last five years). We have examined how the position of the three largest IC firms (Aon, Mercer and WTW) has evolved in the FM market. Our analysis shows that the combined position of these firms has grown substantially, having increased by around 40 percentage points in the last ten years. This represents a significant upwards trend.

9. While it is difficult to predict whether this trend will continue in even the near future, we see that these firms have ambitious growth plans in FM. There is also some evidence that barriers to expansion may be greater in FM than IC. Therefore we consider that these firms could continue to collectively gain market share in the foreseeable future and there is a possibility that concentration may increase in the FM market in the next few years.

10. We also note that our working paper on the supply of FM services by investment consultancy firms found that a significant proportion of FM customers have bought these services from their existing IC advisor. This may have contributed to the growth of IC firms’ provision of FM.

Introduction

11. This paper covers the competitive landscape, and in particular levels of market concentration, in the supply of IC services and FM services. Our guidelines for market investigations (CC3 revised) set out that, subject to the availability of data, the CMA normally calculates market shares for all firms currently producing products in the relevant market or in any market the CMA considers relevant to its investigation.[2]

12. Although high concentration does not necessarily imply that competition is working poorly (or where there are low market shares, that it is functioning well), concentration measures can form a useful starting point for the assessment of the market as a whole. In particular, our guidelines set out that concentration is only one determinant of market outcomes, and that market shares must be interpreted alongside a range of other factors.[3]

13. Other factors which can determine whether suppliers have a significant degree of market power include:

    (a) **Stability of market shares**: volatility may indicate the existence of effective competitive constraints, such as successful entry and innovative developments;[4]

    (b) The existence of **capacity constraints**: if suppliers are capacity constrained, the full range of options is not available for customers looking to switch providers;[5]

    (c) Greater **product differentiation** within the market: in differentiated product markets, while some products can be close substitutes and compete strongly with each other, others are more distant substitutes and compete less strongly;[6]

    (d) A **weak demand side**: even in markets without significant product differentiation, if demand is unresponsive to price (and quality), suppliers

[2] CC3 revised, ANNEX A: Market Characteristics and Outcomes, paragraph 1. Note that the 'relevant market' is defined in the Enterprise Act 2002 (the EA02) to mean the market in the UK for the goods or services described in the terms of reference given to the CMA for investigation (s134(3) of the EA02). The market definition(s) used by the CMA are in respect of the economic market(s) and need not always correspond with the relevant market(s) as used in the EA02 (CC3 revised, paragraph 26 and footnote 18).
[3] ibid, paragraphs 170 and 185.
[4] ibid, paragraph 192.
[5] ibid, paragraph 196.
[6] ibid, paragraph 198.

may have the ability to worsen value for money without experiencing a disciplining reduction in demand,[7] and

(e) On the supply side, the ability of potential market participants to expand their facilities to produce the services concerned (**supply side substitution**) and **barriers to entry**.[8]

14. As such, even in a market which is not highly concentrated, it is possible for a small number of suppliers to have market power. We give consideration to these factors as follows.

(a) We analyse the stability of market shares in the sections entitled 'historical evolution' below.

(b) We have not considered it necessary to undertake bespoke analysis of capacity in these markets, but understand that industry participants generally have the ability to win more business (and to expand their capacities at relatively short notice should this be required).

(c) We have found some limited evidence that particular suppliers have greater specialisation in particular areas, such as project work or hedging techniques. We discuss this possibility further in paragraphs 93 to 97 for the IC market, and paragraphs 131 to 132 for the FM market.

(d) We have undertaken work considering the strength of the demand side (which has implications for its elasticity) in both the IC and FM markets as a whole, and for some aspects of switching between these markets. Our emerging findings to date have been set out in the working papers 'Information on fees and quality' (published 1 March 2018), 'Supply of fiduciary management services by investment consultancy firms' (published 29 March 2018), and 'Trustee Engagement' (published 12 April 2018).

(e) We have undertaken a detailed assessment of barriers to entry and expansion. Our emerging findings are set out in the standalone working paper on this topic, (published 24 April 2018).

15. In this paper, we proceed as follows. First, we set out our analysis of market definition. Second, we set out our approach to analysing market structure. Third, we present our analysis of the size and firms' shares of the markets we have defined, as well as the size and shares of supply of plausible segments

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[7] CC3 revised, paragraphs179 and 191.
[8] ibid, paragraphs 200 and 205.

and the trends within these markets. We first cover the IC market and then the FM market.

Market Definition

16. Market definition is the process by which the CMA identifies the boundaries over which competition occurs for particular services, such as which firms compete for which customers' business. Our market investigation guidelines state that defining the market helps the CMA to focus on the sources of any market power and provides a framework for the assessment of the effects on competition of features of a market.[9]

17. However, market definition and the assessment of competition are not distinct chronological stages of an investigation but rather are overlapping and continuous pieces of work, which often feed into each other. The guidelines also state that market definition is a useful tool, but not an end in itself, and that identifying the relevant market involves an element of judgement. The boundaries of the market do not determine the outcome of our competitive assessment of a market in any mechanistic way. The competitive assessment takes into account any relevant constraints from outside the market, segmentation within it, or other ways in which some constraints are more important than others.[10]

18. Our starting point for assessing market definition was the terms of reference for this investigation, which are 'the supply and acquisition of investment consultancy services and fiduciary management services to and by institutional investors and employers in the UK'.[11]

19. We considered three possible dimensions of the definition of the market:

    (a) the product market;

    (b) the geographic market; and

    (c) customer segments.

20. We address each of these in turn below.

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[9] CC3 revised, paragraph 132.
[10] ibid, paragraph 133.
[11] *FCA Asset Management Market Study, Final Report,* September 2017, Annex 1, paragraph 1.

Product market

21. We have examined whether

   (a) there are separate product markets for investment advisory and fiduciary management services;

   (b) whether advice from other professional advisors should be included, and

   (c) whether advice from in-house advisors should be included.

Investment consultancy vs fiduciary management services

22. There are some similarities between IC and FM services. IC services are predominantly advisory: firms advise their clients as regards investment decisions such as strategic asset allocation and manager selection. Investment advice is also a component of FM services.

23. However, there are also significant differences between them. FM is an implemented service whereby providers put into action their advice on each clients' behalf. It may therefore not be perceived as an attractive option for trustees who wish to have greater direct control over their schemes' assets. In addition, because of the major difference in FM and IC services, a move to FM would have significant implications on fees paid. It is therefore unlikely that trustees would readily switch between IC and FM in response to a small increase in price of one of these services.

24. FM is generally regarded as a separate service model from IC services, both by industry participants and by commentators. For example, surveys of the industry do not commonly combine IC and FM services together, and IC-FM firms often (but not always) have separate divisions and a degree of distinct reporting for FM services.

25. In terms of evidence on switching, although most FM mandates are comparatively new, there is little or no evidence of customers in fiduciary management switching to an advisory relationship and picking up the implementation of this advice themselves. In contrast, there has been both a substantial movement of customers from advisory to FM, and a significant number of customers who have begun purchasing FM for some asset classes alongside wider IC services.

26. However, this appears to be part of a long-term trend to FM services, rather than customers switching in response to a small change in the competitiveness of advisory services. Indeed, as set out in our working paper covering the supply of fiduciary management services by investment

consultancy firms, most customers who have moved to FM have done so with their existing provider, with firms losing only a limited number of advisory customers through switching to an FM service provided by rivals.

27. Our emerging view is therefore that the provision of investment advisory and fiduciary management services constitute separate relevant markets. However, in our assessment we will continue to be mindful of the interactions between these markets.

Other professional advisors

28. In response to the CMA survey, up to 17% of pension schemes reported that they do not purchase investment consulting or fiduciary management services.[12] However, because trustees are required under the Pensions Act 1995 (the Act) to obtain 'proper advice', they must be receiving this advice from other sources.

29. The Act makes clear that this advice can be provided by anyone 'who is reasonably believed by the trustees to be qualified by his ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of the investments of trust schemes.'[13] It is therefore not limited to advice from investment consultants or fiduciary managers.

30. The CMA survey shows that the schemes that were not purchasing investment consulting or fiduciary management services were overwhelmingly small schemes.[14] These schemes rely on a range of other professional advisors such as wealth managers, independent financial advisors and actuaries.

31. We considered whether these other professional advisors should be included within the relevant markets. However, these advisors have different areas of expertise, and are not focussed on the provision of investment consultancy or fiduciary management services to pensions schemes, which require specialist expertise in investing with respect to a scheme's liability profile and cash flow requirements.

32. As a result, the fact that some very small pension schemes, which are more likely to have simple investment requirements, are able to use these

[12] CMA Survey. This number includes pension schemes which don't know whether they purchase FM services, or who purchase FM services from an unconfirmed FM provider.
[13] Section 36(6) of the Pensions Act 1995.
[14] CMA survey, published 29 March 2018, page 10. Whilst around nine in ten large schemes purchase IC services, only around five in ten small schemes do so. Further, only about two in ten small schemes purchase FM services, some of whom also purchase IC services.

non-specialist advisors, does not mean that these would be an effective competitive alternative for the large majority of pension schemes.

33. Our emerging view is therefore that these other professional advisors lie outside of the relevant markets. However, where relevant, we will continue to take into account the fact they these may provide some competitive constraint for the very smallest schemes.

In-house advisors

34. Some pension schemes satisfy their duty to obtain proper advice by employing in-house advisors, often investment professionals with similar expertise to those working for investment consultants. We understand that some in-house investment teams (typically for the very largest pension schemes) may effectively have a fiduciary management role. We therefore considered whether these should form part of the relevant markets.

35. Only the very largest pension schemes typically employ in-house advisors, usually when they have assets[15] of at least £1 billion, and with this being even more common for schemes with assets over £5 billion. Regarding the IC market in particular, even these large schemes typically still employ outside investment consultants because their in-house advisors are not able to replicate the entirety of their services, such as their very broad research into asset management products.

36. Our emerging view is therefore that in-house advisors lie outside of the relevant markets.

37. However, in-house advisors are likely to play an important role in shaping competition between ICs to supply IC services to the largest pension schemes. They make it easier for these schemes to evaluate the quality of advice they are receiving, and to purchase less advice by doing more in-house. Stakeholders told us that these in-house advisors would often use a number of consultants simultaneously for different pieces of project work, and are well placed to switch between them. Similar considerations may apply to the purchase of FM for such schemes. We therefore consider these advisors an important part of our competitive assessment of larger schemes' purchasing behaviour.

[15] Ie the total value of assets over which investment consultants provide advice, or which clients have delegated decision making power to.

Geographic market

38. As noted above, our terms of reference concern the supply and acquisition of the services in question within the UK.[16]

39. In addition, the supply and acquisition of investment consulting and fiduciary management services is heavily shaped by the UK-specific regulatory and legal framework, such as the requirement under the Act for trustees to obtain proper advice.

40. Therefore, for the purposes of this investigation, we are taking the geographic market as the UK.

Customer segments

41. We consider whether the market should be subdivided:

    (a) between pension schemes and other institutional investors, and

    (b) between different types of pension schemes based on their characteristics.

Pension schemes vs other institutional investors

42. Pension schemes have different requirements for financial advice compared to other institutional investors. For example, defined benefit (DB) scheme advisors need to work closely with actuaries to invest according to schemes' liabilities to help them reach their funding requirements, considering other scheme-specific factors such as trustees' investment preferences and the strength of the employer covenant. Moreover, this all takes place within the regulatory and legal framework of the UK pensions landscape.

43. Other institutional investors appear to have different requirements from pension schemes. In some ways, advice provided to them may be more complex: for example, we have been told that charities have specific tax treatment that leads them to take particular approaches in their investment strategies. In other ways however, advice may be more simple: we understand that complex liability modelling may not be required.[17]

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[16] Sections 131(1) and 134(3) of the EA02 provide that the market for the goods or services described in the reference is the market in the UK for those goods or services.

[17] We have also been told that charities may have specific environmental, social and governance requirements. Insurers appear to have greater in-house expertise than almost all pension schemes, and different criteria for investing given their specific regulatory environment. IC services to employers appear rarely to operate on a retained basis and to be focussed on particular questions, such as supporting the triennial actuarial valuation of

44. The differences set out above mean that it may be challenging for firms active in the supply of services to other institutional investors to expand to supply pension schemes within a short period of time. Further, although a small majority of firms providing services to pension schemes also supply at least one category of other institutional investors as set out above, many of these supply only a very small number of such customers.

45. As such, the nature of both supply and demand for these services may differ in a way that undermines robust assessment of concentration across all institutional investors. Our emerging view is therefore that UK pension schemes comprise a separate relevant market that does not include other institutional investors.

46. As set out in our progress update,[18] we are minded to focus our further work on pension schemes as the main customer group for investment consultants and fiduciary managers. We are not minded to conduct any specific or detailed additional analysis of these other types of institutional investors.[19] As such, we have not undertaken analysis to define the market in which other types of institutional investors purchase investment advice and management.

Pension scheme characteristics

47. There is substantial variation in the specific characteristics of individual pension schemes. Most obviously, this can be in terms of scheme type (DB, defined contribution (DC) or hybrid) and scheme size, which can have assets ranging from the tens of millions to several billion pounds in value.

48. These characteristics can translate into differences in the advice that these schemes are looking to purchase: for example larger schemes may seek more detailed and potentially complex advice.

49. However, each pension scheme has its own specific combination of characteristics, and many of these lie along a continuous spectrum, meaning that no straightforward bright line can be drawn between different groups of customers. Further, commonalities in the nature of advice across client size means that firms providing advice to clients in one segment could expand into other segments quickly. In addition, a significant number of ICs and FMs offer services to (i) large, medium and small clients, and (ii) both DC and DB

the scheme, whilst services for wealth managers appear to be highly bespoke and often step beyond the tasks required for pension schemes.

[18] CMA ICMI Progress update, published 21 February 2018, paragraph 23.

[19] Other institutional investors remain within the scope of our investigation as buyers of investment consultancy and/or fiduciary management services. As such, they may be included in the scope of any remedies that we may impose as a result of finding any AEC.

schemes, such that schemes of different sizes and types have many of the same options.

50. As a consequence, our emerging view is that all pension schemes purchasing IC services should be treated as part of the IC services market, and all schemes purchasing FM services should be treated as part of the FM services market.

51. Nevertheless, where necessary, we supplement our market-wide assessment with analysis of the various customer segments introduced above. We treat the segmentation as indicative only, and conduct this exercise in order to understand how competition might vary within the same market.

Emerging findings on market definition

52. Based on the assessment set out above, our emerging findings are that there are separate relevant markets for:

(a) the supply of IC services to pension schemes in the UK (the IC market), and

(b) the supply of FM services to pension schemes in the UK (the FM market).

53. However, in our ongoing assessment we will have regard to a number of possible more granular market segments.

Analysis of Market Structure

54. We have undertaken analysis to calculate market shares for each of the markets defined above. We have also calculated shares for relevant segments of these markets.[20]

55. Our primary metric for market shares is revenue. We have used revenue because we consider that it is the best proxy for the amount of advice or fiduciary management undertaken by firms. It also has the advantage of being a very standard metric.

56. Consistent with the practice set out in our guidance, we have also constructed other indicative measures so as to understand fully how the relevant markets are operating.[21] In particular, we have analysed market shares in terms of number of clients and assets under advice / assets under management. However, we consider that both these alternative measures have features which could make shares calculated on this basis misleading. We therefore place little weight on these shares.[22]

57. We also use revenue market shares to calculate concentration ratios and the Herfindahl-Hirschman Index (HHI). The HHI is a common reference point in competition assessments, used across jurisdictions. It is useful because it summarises all market shares in one single number. It is often more useful than the simple count of firms in the market, because it assigns less weight to firms which are very small and greater weight to firms which are larger.

58. The HHI is calculated as the sum of the squared market shares, and takes a value between 0 and 10,000 points. A value of 0 can be thought of as a market in which an extremely large number of firms are active, and a value of 10,000 would indicate a complete monopoly.

59. Values ranging between these two extremes represent a spectrum of concentration: for example, an HHI of 2,000 would imply a market with five

[20] We note that our figures differ from those published in the FCA's Asset Management Market Study and used in that context. Our figures include data from more firms, FM firms which do not offer IC, use more recent data, include a set of breakdowns relevant to our market investigation (such as for Fiduciary Management alone), and a longer timeseries. Our figures also benefited from substantial engagement from the Parties to provide additional checks where relevant.

[21] CC3 revised, ANNEX A: Market Characteristics and Outcomes, Paragraphs 1 and 2

[22] These measures have the advantage that each firm's share is not (directly) a function of the price it is charging, price itself being a measure of market outcomes rather than market structure. However, they are much more sensitive to the inclusion of particular types of clients. AUM/AUA based measures will be very sensitive to the distribution of a few very large clients, whilst number of clients bases metrics assign as much weight to clients which contribute large amounts of business to the firms as those which contribute very little business.

equal sized firms, and a HHI of 1,000 would imply a market with ten equal sized firms.

60. Our guidelines for market investigations state that the CMA is likely to consider any market with a HHI in excess of 2,000 as highly concentrated, and any market with an HHI in excess of 1,000 as concentrated.[23] The HHI is therefore a useful benchmark for assessment of concentration.

61. In order to construct these concentration measures, we collected data from over 45 industry participants and confirmed several more are not active in the markets relevant to this investigation. We collected:

(a) A snapshot of revenues, assets under management (AUM) and assets under advice (AUA), and number of clients for 2016. This was the most recent full year of data at the time our investigation began. We split the snapshot by client type (eg pension or charity), as well as by client size (small, medium and large clients, respectively with under £100 million, £100 million to £1 billion and over £1 billion in assets under advice/management).

(b) A timeseries of revenue data for the period 2007 to 2017 (2017 on a year to date basis). We split this by client type.

62. Despite the very large-scale nature of our data collection exercise, we have not obtained data from every conceivable supplier of IC and FM services. The CMA survey indicates that we have covered approximately 92% of the market for IC services[24] and approximately 86% of the market for FM services.[25] These relatively large percentages give us confidence that the shares below do not omit any large providers.

63. We adjust our (2016) market shares downwards by the proportion of respondents to the CMA survey who said they use an IC or FM provider outside of those we have confirmed provide IC or FM services.

64. We consider that this adjustment is likely to overstate the significance of these providers, given that they are likely to be small and our data on small providers shows that they tend to have clients with disproportionately small

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[23] CC3 revised, ANNEX A, paragraph 7.
[24] CMA survey. This is the proportion of respondents who said they purchased IC from a provider we have confirmed as offering IC services.
[25] CMA survey. We understand that there are a number of asset management services which can fulfil a similar role (in some respects) to FM itself. As a consequence, schemes which purchase services outside the definition for FM may nevertheless consider themselves to be *in effect* purchasing such services. Consistent with this fact, the FM providers from which we have collected data are used by only about 54% of the schemes in the CMA survey. However, several of the remaining providers have confirmed to us that they don't provide FM. Excluding these firms, our initial results are that our shares cover firms used by 86% of remaining respondents.

revenue. As such, we treat these adjusted figures as upper bounds, whilst we treat the unadjusted figures as lower bounds. We find these bounds are quite close together, and so using one rather than the other would not change our conclusions.

Industry Players

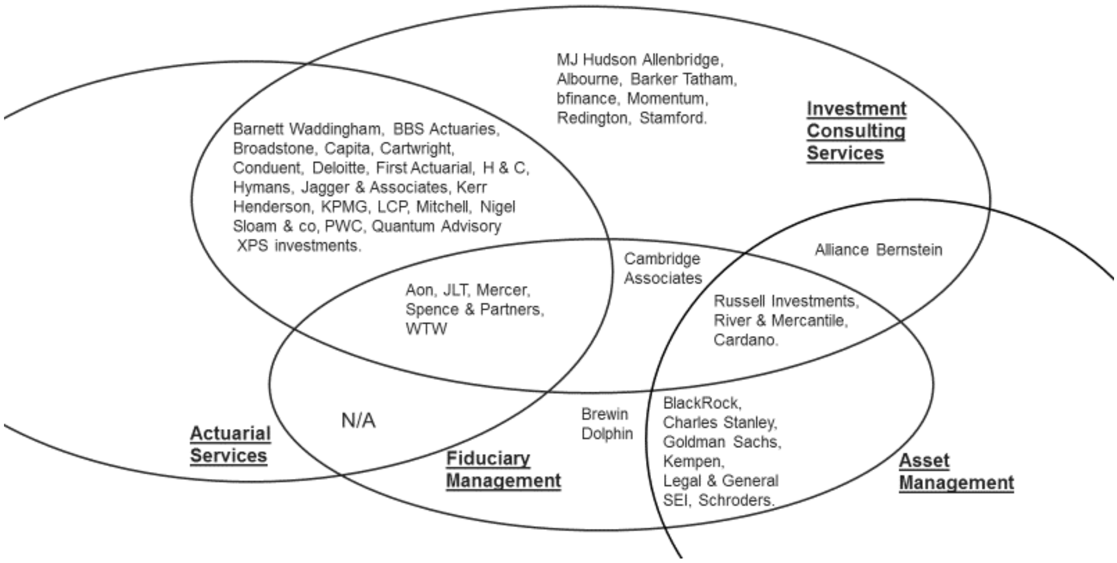
65. In this short section, we provide an overview of the larger players in the industry and the overlaps in service offering between these firms. Although we note there are several other participants in the relevant markets, our market testing phase has not identified any large players outside of those listed. We include data from each of the below firms in our market share statistics.

66. The Venn diagram set out below illustrates the providers which we understand offer IC and/or FM services. The diagram also shows those which offer actuarial services and/or asset management services (which, although outside the scope of our investigation, do have a bearing on the functioning of competition in the relevant markets).

67. Because firms may in theory offer any combination of these services, we include a set for each service type.[26] For example, Aon provides Actuarial Services, Investment Advisory services and Fiduciary Management services, amongst others. As a consequence, it is listed as within each of these circles. We have listed providers of actuarial services or asset management services only if we have identified them as providing at least one other relevant service.

[26] In practice, we have not identified any providers of actuarial services who also offer asset management services; any providers of actuarial services and FM services which do not offer (standalone) IC services, nor any providers of IC services and asset management services which do not offer FM services.

Figure 1: Provision of services by firm



Source: Parties' responses[27]

68. Figure 1 shows that there is a large group of firms which offer IC services to pension schemes (32+ firms), and a moderate number which offer FM services to pension schemes (18+). We have identified a smaller number of firms which offer both services to pensions schemes (ten). A subset of each of these group also offer either actuarial services or asset management services, but none appear to offer both services in addition to IC or FM services.

The IC market

69. In this section, we consider the market for IC services to pension schemes in the UK. We first set out statistics regarding the market as a whole, before considering breakdowns by scheme size, scheme type, and the level of individual services. We go on to present information on how the market has evolved through time, and likely future trends.

[27] Based on revenue data received by the CMA and Parties responses. For the purposes of this working paper, we have treated Fiduciary Management activities as distinct from Asset Management activities (although we are aware some firms do not make this distinction). The chart above shows merely whether the services are offered, some firms may offer very little of some particular names services.

The market in aggregate

70. Our analysis indicates that the market size has a lower bound of £257 million per year in revenue terms, calculated by summing all the revenues for IC suppliers from which we collected data. Adjusting for our estimate of the percentage of the market we have not covered gives an upper bound to the market size of around £280 million per year.[28]

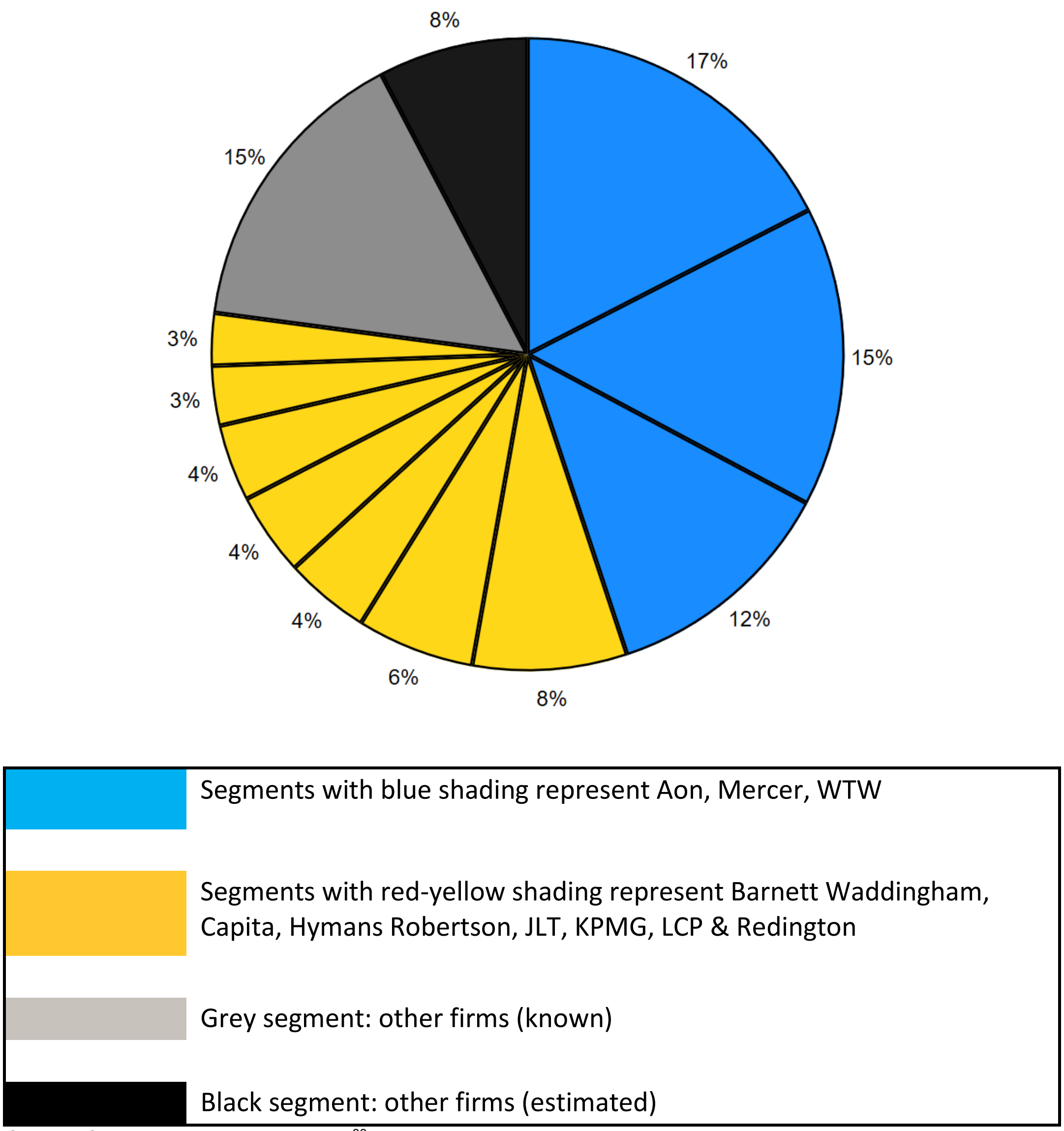
71. Our data gathering exercise revealed over 4,300 pension scheme-IC relationships.[29] Because we collected data from ICs rather than schemes, this may understate the true number of relationships. Some pension schemes do not purchase IC services, and some purchase FM services as an alternative to IC services.

72. The PPF found the total value of assets for schemes in the PPF 7800 index is around £1.6 trillion.[30] The FCA found that schemes' total assets were also approximately £1.6 trillion in 2015.[31] We found that 73% of pension schemes purchase IC services and that those that did not purchase IC services were overwhelmingly smaller schemes.[32] Assuming that ICs advise on all of schemes assets, it follows that ICs provide advice covering at a minimum approximately £1.2 trillion of pension scheme assets.

73. Market shares by revenue are set out in Figure 2 below. This is a pie chart showing the shares of the largest three firms in the IC market in blue, and the shares of a set of other notable firms in yellow. It also shows the aggregate share of all other firms we have received data from, and our estimate of the share of all firms from which we have not received data.

[28] From the suppliers we have collected data from, our initial results are that IC revenues were in excess of £290 million in 2016 for all client types (not just pension schemes).
[29] Some schemes have a relationship between more than one IC, but we are not able to identify duplicate pension schemes across firms in most cases. This figure is likely to be a lower bound because we have not adjusted it for the proportion of the market not covered in our data collection exercise from ICs.
[30] PPF 7800 Index, March 2018 Update. http://www.pensionprotectionfund.org.uk/Pages/PPF7800.aspx.
[31] FCA Asset Management Market Study, Interim Report, page 141.
[32] See paragraph 30.

Figure 2: 2016 shares by firm of the IC market (by revenue)



Source: CMA Analysis, Parties' Data.[33] Parties listed alphabetically within groups.

74. Figure 2 shows that Aon, Mercer and WTW make up between 45% and 49% of the market in revenue terms for the supply of IC services to pension schemes in the UK. [34]

75. There are also several comparatively smaller, but nevertheless significant, players in the IC market. In particular, two further firms have over 5% of the market, three more have around 4% of the market, and two more have around 3% of the market.[35] The ten largest players in combination constitute between

[33] This chart shows individual market shares and identifies particular firms as belonging to two groups: those in the largest three firms, and others who have shares ranging between 3% and 8%. Individual firms are not matched to individual segments. We list firms alphabetically rather than in size order.
[34] Discrepancy between the lower bound figure and the sum of each firm's shares in the chart is due to rounding.
[35] Using 'lower bound' figures.

77% and 83% of the market, and there at least a further 27 suppliers who are active to some degree.

76. This picture is not dissimilar when we consider metrics other than revenue and these shares appear to be relatively consistent with those used internally by the parties. For example:

(a) A 2017 Mercer internal document states that they have a '[✂] market share[36] ([✂]) in their target market', and

(b) A 2017 WTW Board minute states that they have a 17.3 share of the UK DB advisory market.[37]

77. In this case, our results indicate that the market for IC services to pension schemes has an HHI of 1,023 points. As noted above our guidelines state that the CMA is likely to consider any market in excess of 2,000 as highly concentrated.

Segmentation of the market

78. As set out in the section on market definition, we have not defined separate markets by customer type, nor have we concluded on precise segmentation in the market.

79. Nevertheless, we recognise that competitive conditions may vary somewhat along particular scheme characteristics and that our competitive assessment should take this fact into account. We have therefore conducted analysis of concentration within particular segments along scheme size and type. The boundaries of these segments are considered indicative-only.

By scheme size

80. In line with approaches we have seen in the industry, for the purposes of this exercise we have used the following indicative thresholds to assess variation in concentration by scheme size.

(a) Small: schemes with assets of less than £100 million;

(b) Medium: schemes with assets of between £100 million and £1 billion; and

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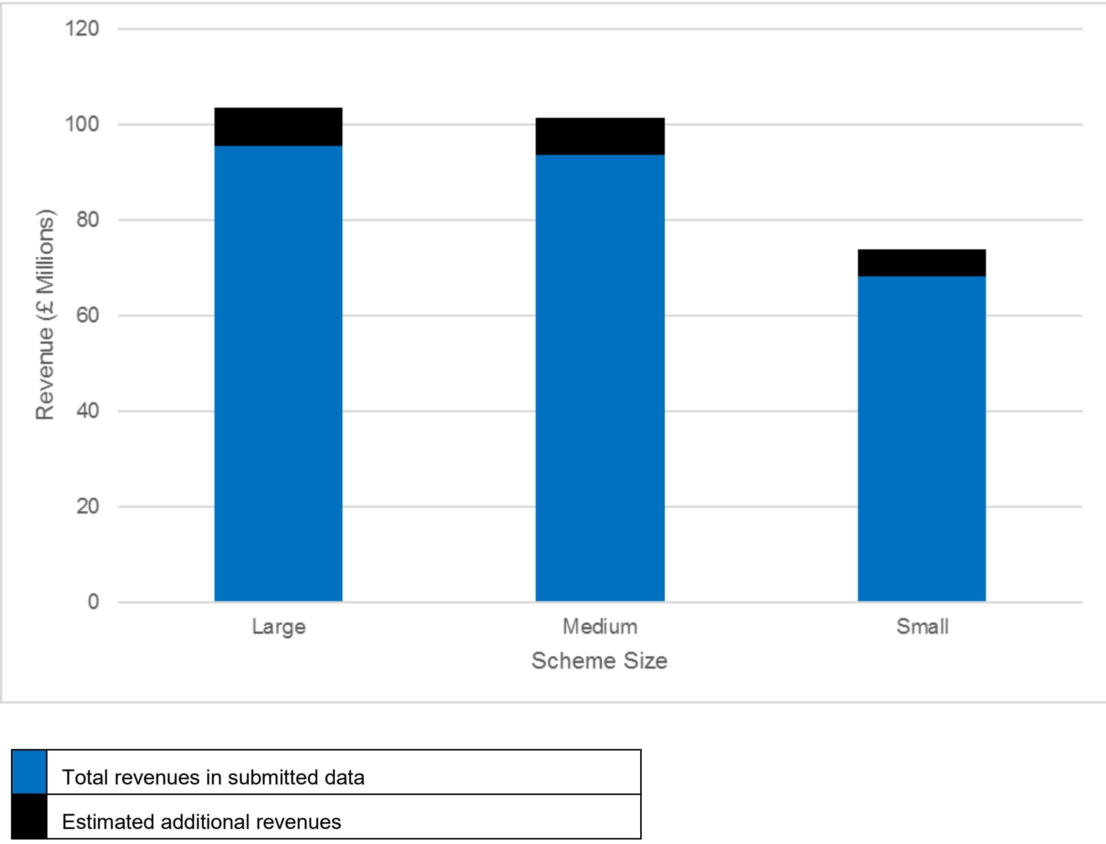
[36] Mercer define their target market as [✂]. It is not clear whether these figures are common across advisory and FM. Mercer internal document.
[37] WTW Internal Document. Measured by AUM. The largest three IC-FM providers (Aon, Mercer and WTW), together with Hymans Robertson are stated to have a 51% market share,

(c) Large: schemes with assets greater than £1 billion.

81. We show the sizes of each of these segments below in revenue terms. The blue portions of each bar represent the revenues firms have confirmed to us in our data gathering exercise. The black portion represents our estimate of the size of that part of the segment we did not cover in this exercise, as explained in the section on analysis of market structure.

Figure 3: Total revenues in the segments for 'large', 'medium' and 'small' clients within the market for IC services to pension schemes



Source: CMA Analysis, Parties' Data.

82. Figure 3 shows that each segment is of comparable size. That is, ICs in aggregate gain roughly as much revenue from 'large' schemes as they do from 'medium' schemes, and almost as much from 'small' schemes.

83. We have also calculated the size of each segment in terms of assets under advice and number of clients. These statistics are presented below.

Table 1: AUA and Number of Clients in IC pensions market, segmented by scheme size

		£bn[38]
Scheme Size	*AUA*	*Number of Clients*
Small	74	2,802
Medium	263	1,022
Large	2,025	470

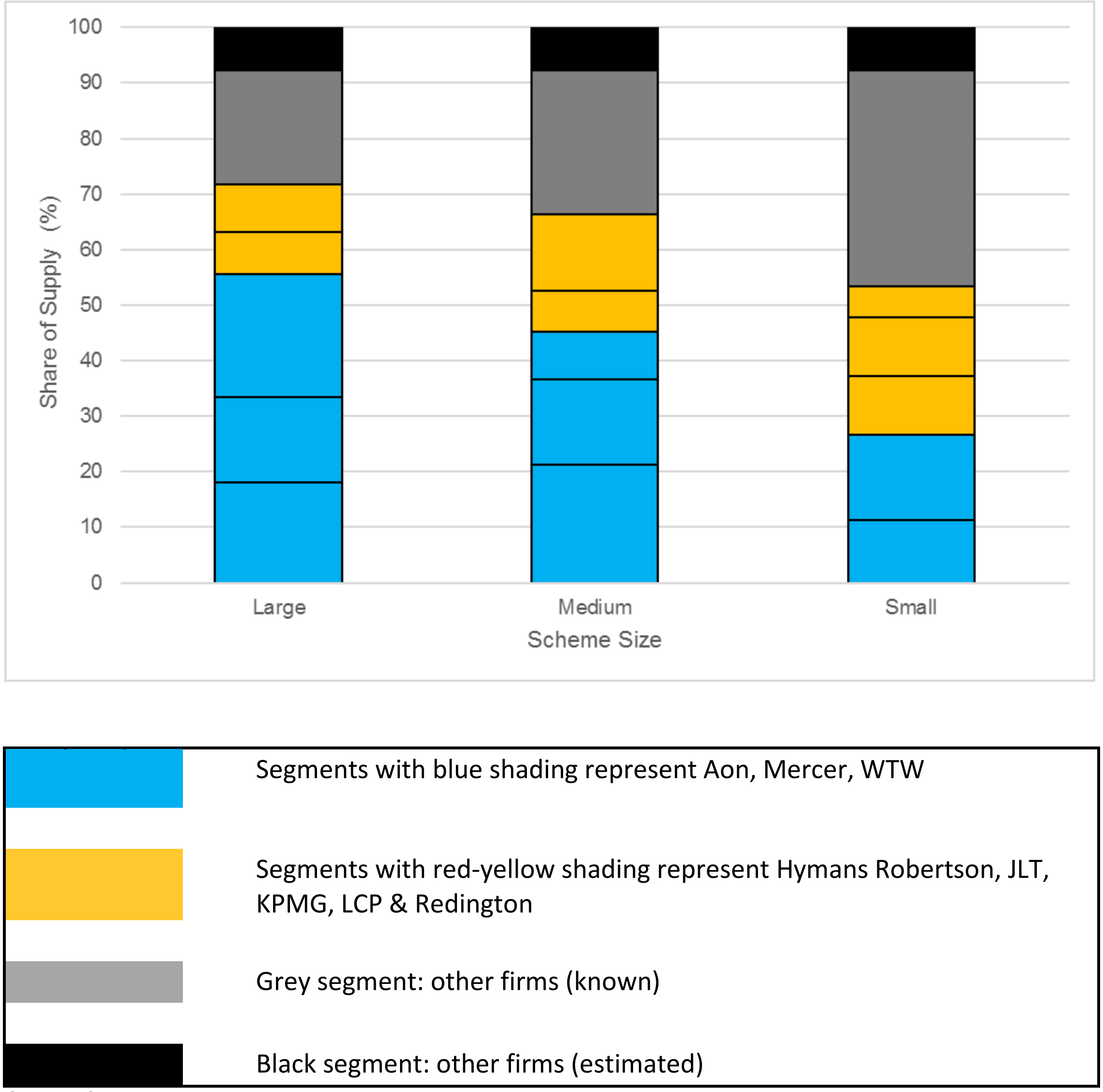
Source: CMA Analysis, Parties' Data.

84. When split by assets under management, 'large' clients are found to account for almost the whole market. When split by number of clients, 'small' clients are found to account for most of the market. This is because there are a very small number of very large clients, and a very large number of very small clients: even though there are about six times fewer 'large' clients, in total they account for 27 times the AUA of small clients (although less than 1.5 times the revenue).[39] Using revenue as a market shares metric avoids us assigning too much weight to schemes of any given size when calculating shares.

85. We have calculated shares of supply across each of these client types (using revenue). The following chart shows shares of supply for the largest five providers in each segment, all other providers are aggregated together.[40]

[38] Figures rounded to the nearest whole number.
[39] This may be because large clients undertake a lot of small project work, use multliple ICs (and therefore may be double counted) or because the market is simply very skewed by measures of AUM and Number of Clients.
[40] If a particular firm is one of the largest five firms in the large client segment but is, say, seventh largest in the medium client segment, that firm will appear with a coloured portion of the large client stack but will be part of the grey 'Other (known)' portion of the medium client stack. We have pseudo-anonymised the firm identities: due to the method used, firms which are not in the chart will appear in the key.

Figure 4: Shares of supply in the segments for 'large', 'medium' and 'small' clients within the market for IC services to pension schemes



Source: CMA Analysis, Parties' Data. Parties listed alphabetically within groups.

86. Figure 4 shows that the combined shares of supply for the largest three providers of IC services (Aon, Mercer and WTW) are increase with scheme size. Specifically, their combined shares are below 30% for 'small' schemes, 45% for 'medium' schemes and 56% for 'large' schemes.[41] In each segment these three ICs are the largest three players. The fourth and fifth largest firm remain of notable size.

87. The five-firm concentration ratio (i.e. the combined share of supply of the largest five firms, shown as that percentage of each bar which is not coloured

[41] These are lower bounds, the corresponding upper bounds are 32%, 49% and 60%.

grey or black in the chart above) is around 20 percentage points higher for large schemes than for small schemes.[42]

88. Although the segment for supply to smaller pension schemes is particularly unconcentrated, the figures above demonstrate that concentration is higher for the largest pension schemes. However, as explained in paragraph 37, the characteristics and purchasing behaviours of these large schemes may mitigate the impact of the greater concentration faced by these customers.

By scheme type

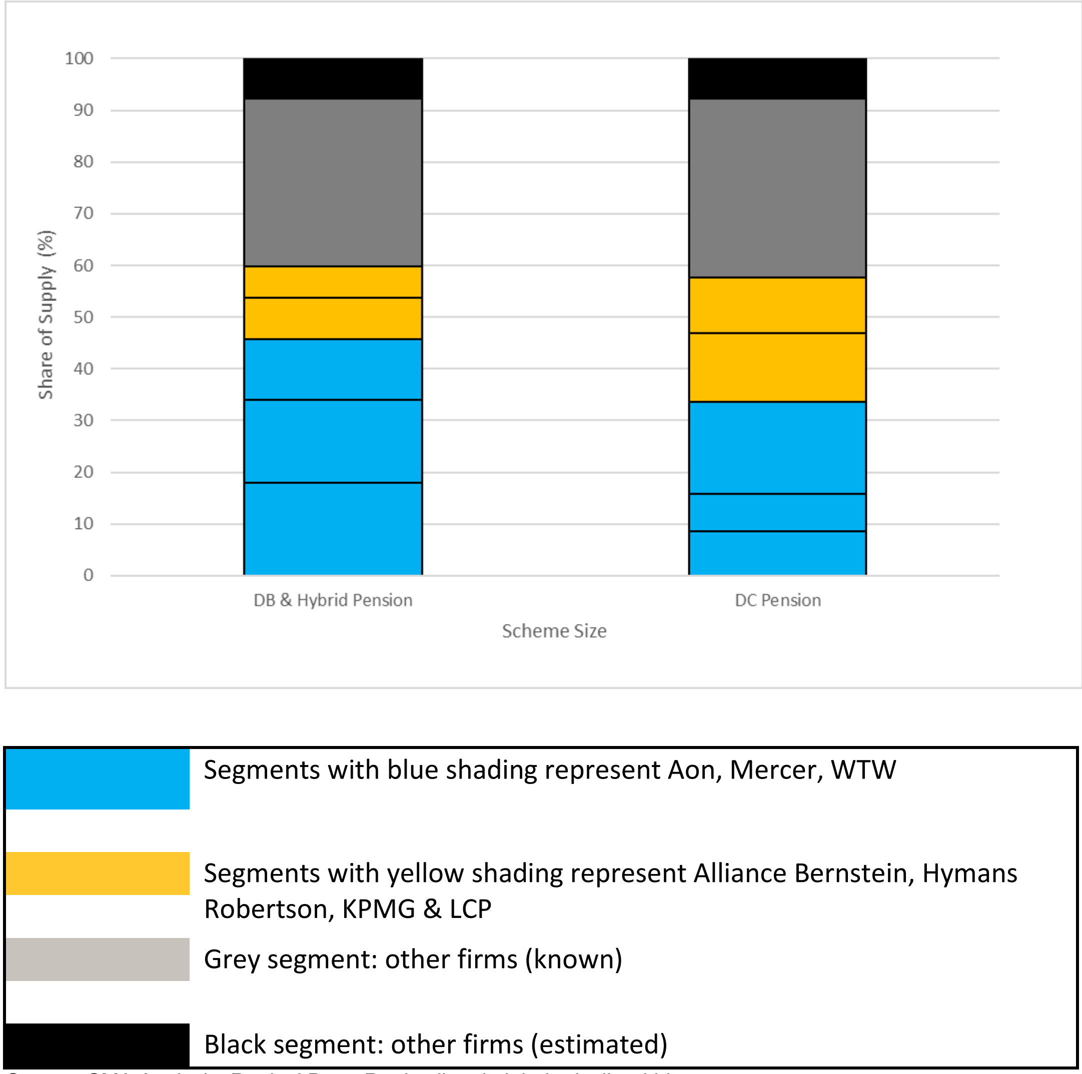
89. We have also broken the market down into segments based on scheme type. The revenue received from advice to DB pensions represents the majority of the market. DC pensions together appear to constitute a very low fraction (about 10%) of the total market.[43] This remains true when we consider the number of DC clients and the value of DC assets relative to those for DB and Hybrid schemes.

90. Looking within these segments, we have calculated shares of supply to indicate whether clients of particular types are likely to face greater concentration than the average for the market overall. We present the shares of the top five providers in each segment in Figure 5 below.

[42] The chart is ordered by the share of each firm in the market as a whole.

[43] We note that we have relied on ICs' own classification of schemes between types. If ICs advise mainly on the DB portion of Hybrid schemes, it may lead ICs to have categorised them mainly as DB schemes. We have therefore aggregated together DB and Hybrid schemes. This is consistent with practice sometimes taken in this industry. Note that if some of these schemes are actually DC schemes, this would lead us to understate the size of the DC market.

Figure 5: Shares of supply in the segments for 'DB/Hybrid' and 'DC' clients within the market for IC services to pension schemes



Source: CMA Analysis, Parties' Data. Parties listed alphabetically within groups.

91. The chart shows that the largest five firms in each segment make up about 60% of each segment. Concentration in the DB pension segment looks very similar to concentration in the market as a whole: this is unsurprising because over 80% of the market is DB pensions.

92. Concentration in the DC segment appears to be lower: whilst the five-firm concentration ratio for DC schemes is comparable, the combined shares of Aon, Mercer and WTW is notably lower and two are smaller than other mid-size players in this segment.

Differentiation at service level

93. IC services usually include combination of discrete elements, such as strategic asset allocation advice, liability hedging or manager recommendations.

94. For schemes who require particular services such as liability hedging, their options for their main IC might be constrained to those providers which offer that service. In practice however, almost all ICs from which we obtained service level data offered advice on the full range of services.

95. We considered whether the evidence showed only a small subset of these providers could provide high quality, highly complex, or highly cost efficient advice, such that differentiation between providers would systematically constrain schemes choices. Responses stated that although firms vary in their resourcing and abilities to conduct either very complex analysis or very cost-effective analysis, there remain a significant number of options for clients seeking advice of each type. Further, there are many ways in which schemes' demands differ, such that the suppliers of IC services cannot be divided in any meaningful way.

96. Even if a client were forced to choose a particular firm due to their strength in one individual service offering, we consider that they would not necessarily have to use that same firm for all services. Some customers will contract ICs for 'ad-hoc' project work from another IC focussing on one of these services.[44]

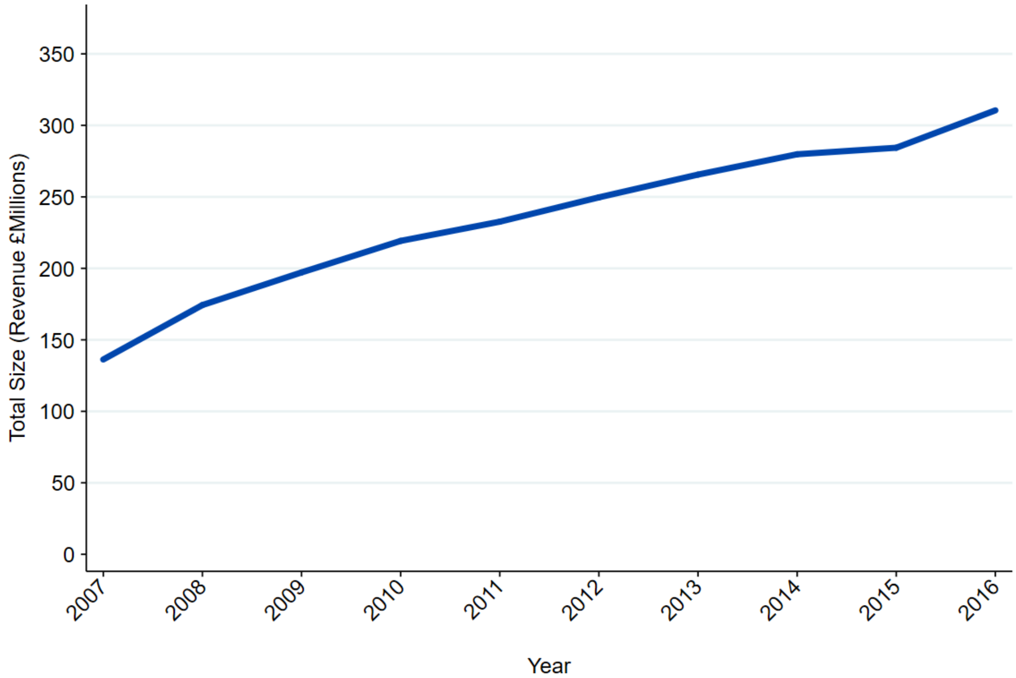
97. In practice however, we note that most clients of all ICs purchase a full range of services from that main IC. The CMA survey shows that at least 70% of schemes purchase strategic asset allocation, asset manager selection, reporting and operational services and advice on setting scheme objectives from their main IC provider. At least 60% also purchase monitoring and de-risking services, design of liability hedging and dynamic asset allocation from their main IC.[45]

Historical evolution

98. We collected revenue data from each party through time. This allowed us to understand how both the size of and concentration in the market has evolved over the last ten years. We show the total size of the market (in nominal revenue terms) over these ten years in the line chart below.

[44] Although some ICs told us that ad-hoc work for non-retained clients makes up less than 15% of their business, some firms told us that a relatively high proportion of their work for retained clients might be treated as project work. For example, [✂].
[45] CMA survey.

Figure 6: Total size of the market for IC services to pension schemes through time



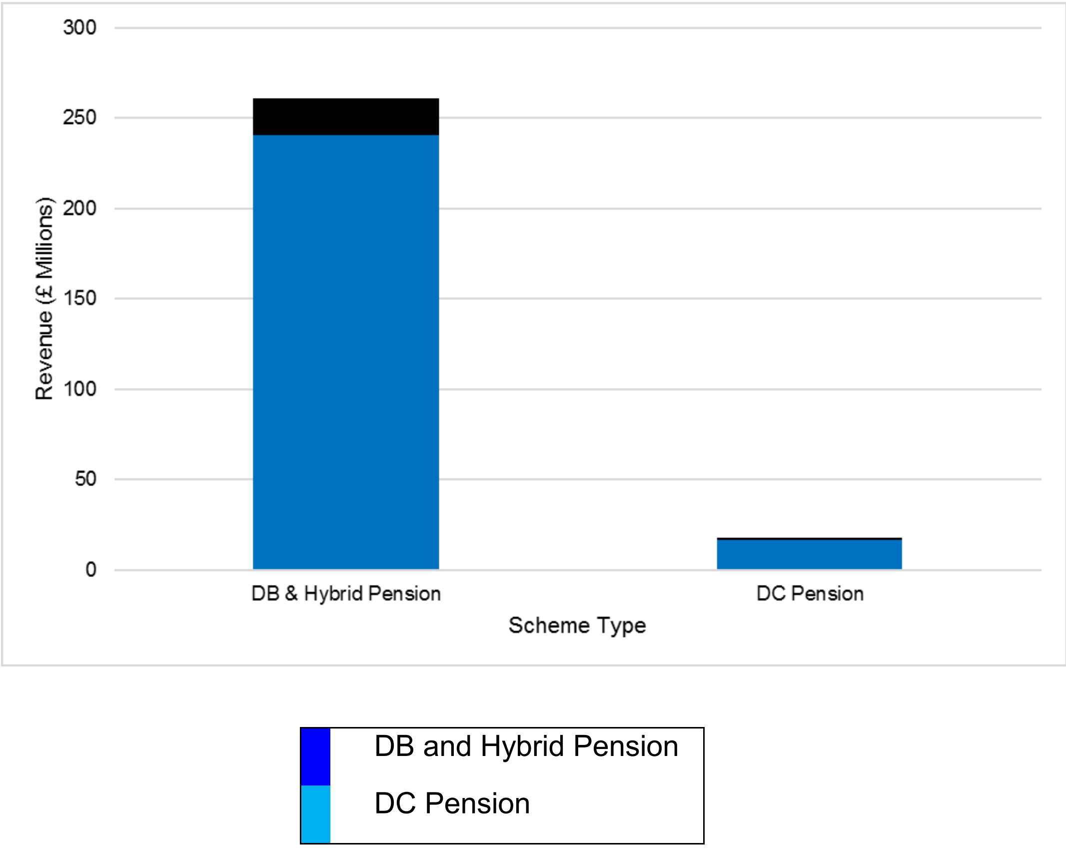
Source: CMA Analysis, Parties' Data

99. Figure 6 shows that the IC market has been growing (in nominal revenue terms) through time. Over the ten years for which we collected data, it has approximately doubled in size.[46]

100. We understand that DC has been an area of particular growth as members are increasingly enrolled in schemes other than DB schemes. We therefore examined how total revenue for DB and Hybrid schemes on the one hand, and DC schemes on the other hand, have increased relative to their sizes in 2007. The vertical axis shows the percentage of that segment's size compared to its size in 2007.

[46] We have not collected data from any firm which is not currently active, which may understate historical shares if any firms had exited. However, we are not aware of significant market exit over this period. In the timeseries data, we are also unable to apply an estimate of the percentage of the market not covered by our data gathering exercise. We have this data only for our static analysis. As a result, the total market size here is likely to be a lower bound.

Figure 7: Size of the 'DB/Hybrid' and 'DC' segments of the market for IC services to pension schemes through time



Source: CMA Analysis, Parties' Data

101. Figure 7 shows that the DB segment doubled in size over the ten year period. Given the market is mostly comprised of DB pensions, it is unsurprising that this figure is the same as the figure for the whole market.

102. Figure 7 also shows that there has been much more significant growth in DC schemes over this period, and a significant uptick in the last few years (possibly consistent with the roll out of autoenrollment), although the DC segment remains comparatively small in absolute terms at present.[47]

103. In addition to considering changes in market and segment size through time, we have considered how firms' individual revenues have evolved. We plot the upper bound market shares of the five largest IC firms in the chart below over the ten year period.

[47] Both the segment for hybrid schemes, as well as the total revenues provided to other institutional investors have grown significantly over this period. However, due to concerns about the categorisation of our data in the former and the coverage of the market in the latter, we do not display this growth on the below chart or place weight on this finding.

Figure 8: Change in revenues for the largest 5 IC firms through time

[✂]

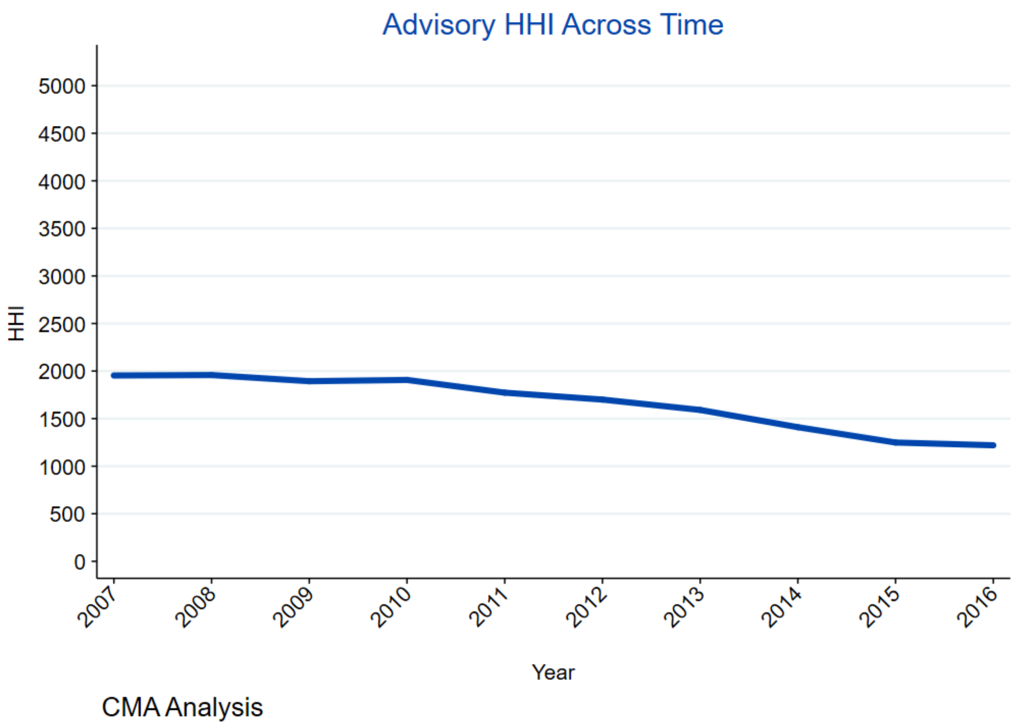
Source: CMA Analysis, Parties' Data.

104. The chart shows that the shares of [✂] and [✂] have remained relatively stable through time, and the same is true for [✂] and [✂] as the fourth and fifth largest players. The share of [✂] has however decreased markedly in over this period of time. Amongst other reasons, the firm in question put this down to '[✂]'.[48]

105. We have assessed how concentration has evolved through time. We use two measures. First, we assessed how the share of the market attributable to the largest three IC providers has changed. Our analysis indicated that the share was relatively stable, falling slightly due to the decline of [✂] share as discussed above.

106. We also assessed the evolution of the HHI through time. We plot this in the chart below.

Figure 9: The HHI in the market for IC services to pension schemes through time



Source: CMA Analysis, Parties' Data

[48] [✂].

107. In paragraph 60 above we noted that our guidelines for market investigations state that the CMA is likely to consider any market with a HHI in excess of 2,000 as highly concentrated. Figure 9 shows that the HHI remained around or below 2000 points over this time period, and has been below this threshold since 2009. Some of this decline is likely to be attributable to the decline in share of [✂] as set out above.

108. Considering the evidence set out above, our emerging findings are that whilst the IC market has continued to grow in nominal revenue terms, this growth has been much higher for DC than DB and Hybrid schemes. Concentration has fallen slightly over this period.

Future trends

109. Parties' internal documents generally note a projected long-term decline in DB advisory revenues, and a growth in DC revenues. This is consistent with views we have heard from the parties. It is also consistent with third party analysis showing the growth in DC. For example, in 2016 [✂].[49]

110. The future size of the pension advisory services market as a whole will likely depend on the extent to which contract-based pension schemes expand at the expense of trust-based schemes which generally are associated with reduced purchasing of IC services, and on the extent to which the market for FM services to pension schemes increases in size at the expense of the advisory market. We cover this further below.

Emerging finding

111. As set out in paragraph 60, our guidelines for market investigations state that the CMA is likely to consider any market with a HHI in excess of 2,000 as highly concentrated, and any market with an in excess of 1,000 as concentrated.[50] We showed in paragraph 77 that, in the IC market overall, the HHI has a value of 1,023. We showed in Figure 9 that concentration as measured by the HHI has fallen slightly over the last ten years.

112. Taking this evidence together with the fact the largest firm has a market share of less than 20%; the three largest IC firms make up less than a 50% share of the market in total; the market is characterised by a number of well-established mid-sized firms; and overall, ten firms make up around 80% of the market, our emerging finding is that the IC market is not highly concentrated.

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[49] [✂].
[50] CC3 revised, ANNEX A, paragraph 7.

The FM market

113. We have also undertaken analysis of the market for FM services to pension schemes. As for the IC services market, we first assess the size of the market, before considering market shares. We go on to set out how market size and shares vary by customer segment, and then present analysis of trends through time.

The market in aggregate

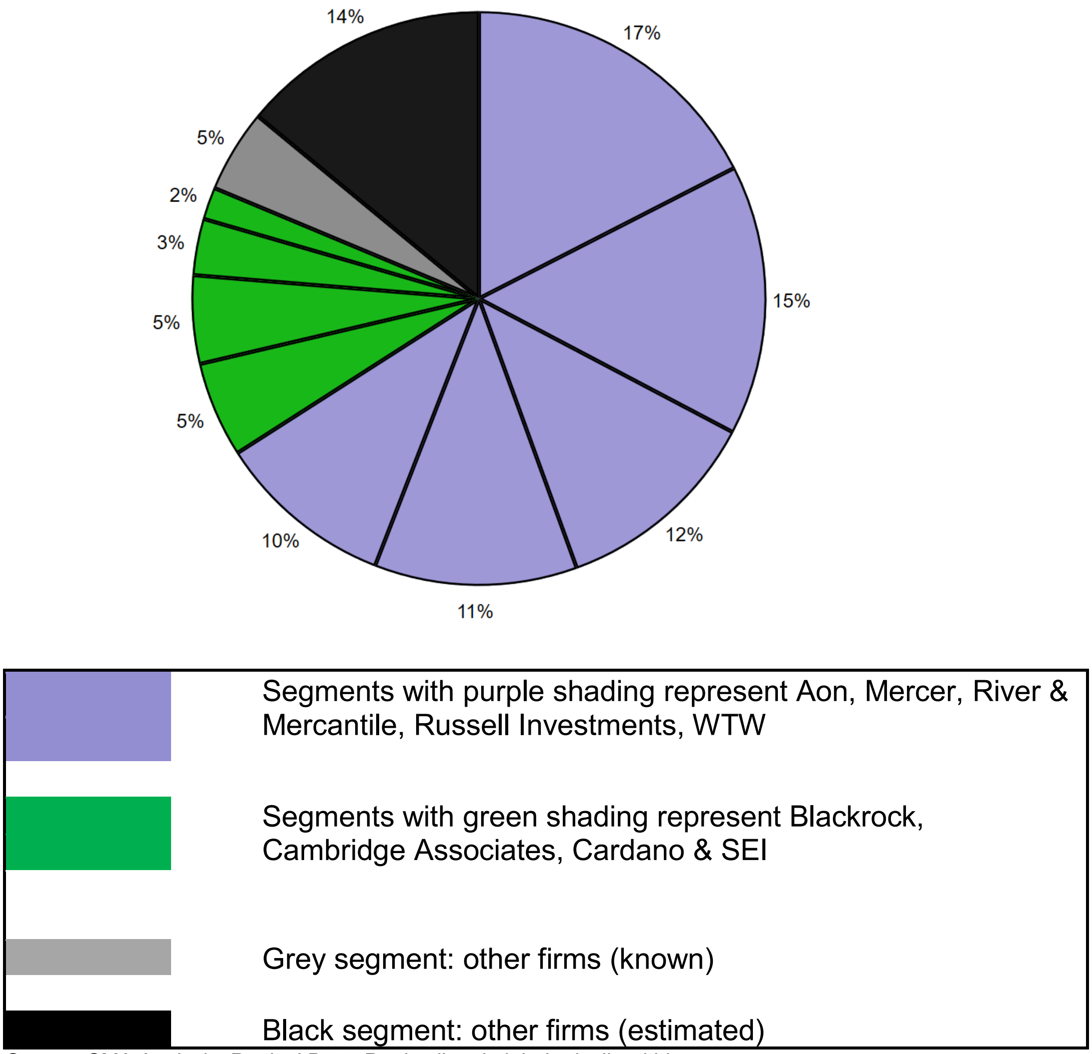
114. From the suppliers we have collected data from, our initial results show a lower bound on the market size (in revenue terms) of £204 million per year. Adjusting for our estimate of the percentage of the market we have not covered gives an upper bound to the market size of £237 million.[51]

115. Providers we have confirmed as offering FM services manage at least £110 billion in assets,[52] and have 980 clients.[53]

116. We have calculated the share of revenue for each firm within the FM market based on 2016 data. We show these shares in Figure 10 below. We group together the largest five firms in the market, who have comparable shares, and the next largest four firms in the market who also have notable shares.

[51] Total FM revenues for all institutional investors in our data were over £220 million.
[52] We have summed together the value of all assets in the data provided to us to give a total of £113 billion. We consider this has indicative value here but not in IC because few schemes have more than one FM (whilst this is more common in IC) and as a consequence we do not think there are such significant concerns about double counting scheme assets (as there would be for IC). This figure does not take into account the percentage of the market which may use an FM provider from which we did not collect data.
[53] We have not presented figures at market level. To do this, we would need to adjust these figures (i) upwards to account for our estimate of the percentage of the market we have not covered, and (ii) downwards to account for some ICs purchasing from multiple ICs (or if they switched, being present in two ICs data for the year they switched).

Figure 10: Shares by firm of the FM market



Source: CMA Analysis, Parties' Data. Parties listed alphabetically within groups.

117. Figure 10 shows that the three largest IC-FM providers have combined market shares of between [40% - 50%] and [40% - 50%] [54] in revenue terms. This is very similar to their share of the IC market set out in paragraph 73. The share of the largest ten providers is again slightly higher but comparable (in FM it is 82 - 92%, whereas in IC it is 77 - 83%).

118. In the FM market there are two other suppliers of comparable size to the largest three IC-FM providers: River and Mercantile (operating under the name P-solve) and Russell Investments. This means that the five-firm concentration ratio is higher (at least 65% as compared with 42% in IC).

[54] [✂].

119. As for the IC market, there also exist a number of players outside of the largest five who, although in comparative terms have a smaller share of revenues, still represent significant players in their own right. These include BlackRock, Cambridge Associates, Cardano and SEI Investments. However, in comparison to the IC market, these mid-size FM suppliers have a smaller share of the market relative to the largest firms in the market.

120. We have also calculated the HHI for the FM market as a whole. Our initial results show a value of 1,324. This figure is higher than that for the IC market as whole (1,023), however does not meet the threshold set out in our guidance for us to be likely to consider the market ‘highly concentrated’.[55]

Segmentation of the market

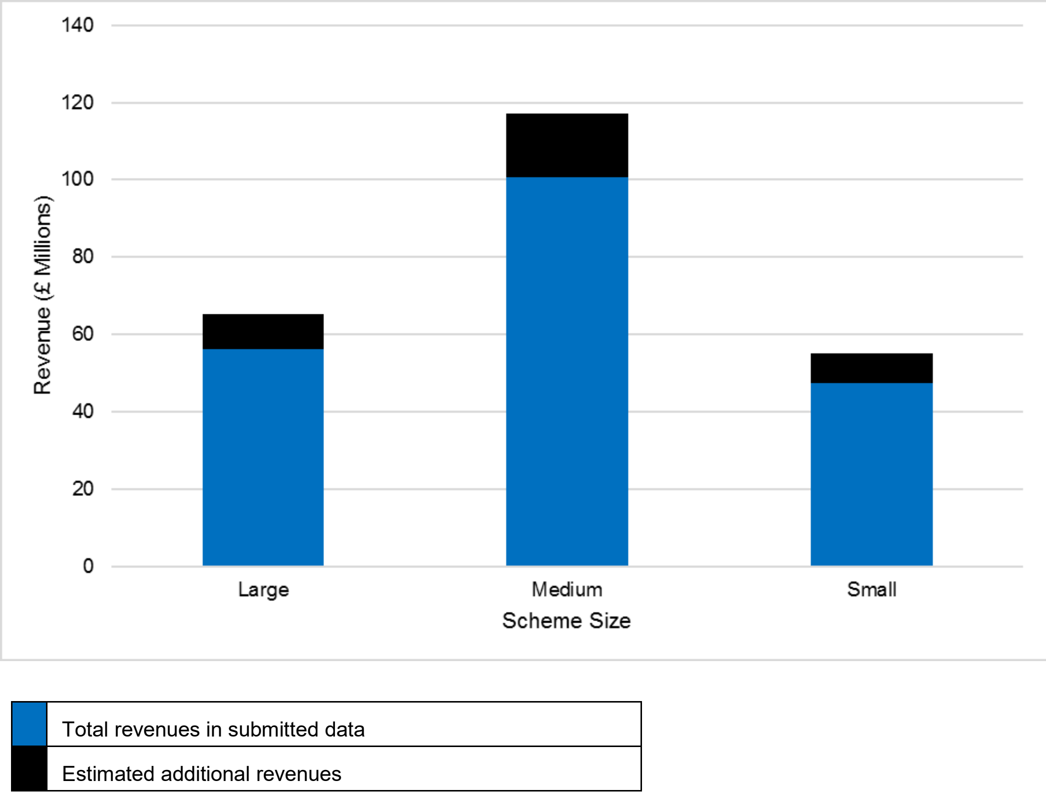
121. As we did in our assessment of the market for IC services to pension schemes, we have conducted some analysis at segment level.

By scheme size

122. We have segmented the market by scheme size. We present the total size of each segment below in the bar chart below, again dividing the market into ‘large, ‘medium’ and ‘small’ schemes.

[55] CC3 revised, ANNEX A, paragraph 7.

Figure 11: Total revenues in the segments for 'large', 'medium' and 'small' clients within the market for FM services to pension schemes



Source: CMA Analysis, Parties' Data

123. Figure 11 shows that the segment for 'medium' size schemes is larger than the segment for 'large' and 'small' schemes.

124. As a sensitivity, we have also calculated the size of each segment as measured by AUM and number of clients. We set this information out in Table 2 below.

Table 2: AUA and number of clients in FM pensions market, segmented by scheme size

£bn

Scheme Size	*AUM*	*Number of Clients*
Small	40.6	738
Medium	45.8	213
Large	75.4	29

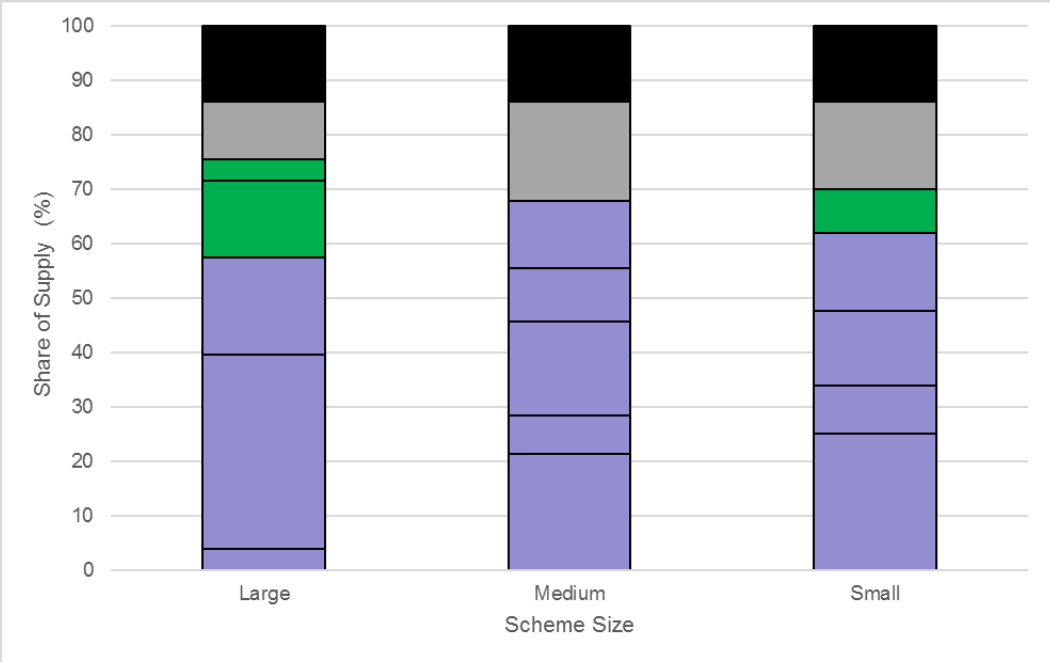
Source: CMA Analysis, Parties' Data

125. Table 2 shows that only 29 'large' clients use FM, as compared with over 700 'small' clients. Yet these 29 clients account for a greater value of AUM and revenue than ICs' obtain from the 'small' clients. As for IC then, a very small number of clients account for a very large share of assets in the market. As such, we consider that revenue is the best metric to use for market shares.

126. We have calculated shares of supply across each of these client size bands. This analysis is presented using a stacked bar chart in Figure 12 below. We

show the shares of the largest five firms in each segment, representing the remainder in the grey portion of the bars, and the estimate of the market size not covered in the black portion of the bars.

Figure 12: Shares of supply of the top five providers in the segments for 'large', 'medium' and 'small' clients within the market for FM services to pension schemes



Segments with purple shading represent Aon, Mercer, River & Mercantile, Russell Investments, WTW

Segments with Green shading represent Cambridge Associates, Cardano & SEI

Grey segment: other firms (known)

Black segment: other firms (estimated)

Source: CMA Analysis, Parties' Data. Parties listed alphabetically within groups.

127. The chart shows that the largest five suppliers across the market as a whole vary across segments, although [✂] and [✂] are amongst the largest five providers in each segment. [✂] is not amongst the largest five providers for 'large' clients.

128. The largest five firms in each segment make up (at most)[56] around 70% of revenues in each segment. The segment for large schemes appears the most concentrated, with the biggest three firms accounting for over half the market. As set out above however, we consider that larger schemes have

[56] These shares are likely to represent lower bounds because we believe the estimate of the percentage of the market not covered in our data exercise may overstate the true size of this segment.

characteristics which mitigate against higher concentration. The segment for small and medium size schemes appears to be less concentrated.

By scheme type

129. We have also segmented the market by scheme type. Our initial results show that DB (and hybrid) pensions make up over 99% of the FM market by revenues. Correspondingly, DC schemes make up less than 1%.

130. We have also calculated shares of supply for each of these segments. Given the dominance of the DB segment relative to other scheme types, the picture for this is nearly identical to that for the market as a whole. The DC market, whilst very small, appears to be almost exclusively served by Mercer and Brewin Dolphin, with some coverage by River & Mercantile.

Differentiation at service level

131. In contrast to advisory work, we understand that clients do not purchase FM services in a project- or ad-hoc based setting. Consequently, the division of services is less meaningful than in advisory work, where one may in theory be purchased in isolation from the others.[57]

132. Further, although some FMs are specialists in particular aspects of FM, for example dynamic liability hedging, we understand that almost all FMs can offer a full range of services. Therefore, we consider that the concentration faced by customers in need of aspects of FM such as hedging or partial/bespoke mandates would not be materially higher than in the market for FM services to pension schemes as a whole. As a result, we have not conducted analysis at this level.

Historical evolution

133. As for the IC market, we collected revenue data from each party through time. This allowed us to understand how both the size of and concentration in the market has evolved over the last ten years. We show the total size of the market (in nominal revenue terms) over these ten years in the line chart below.

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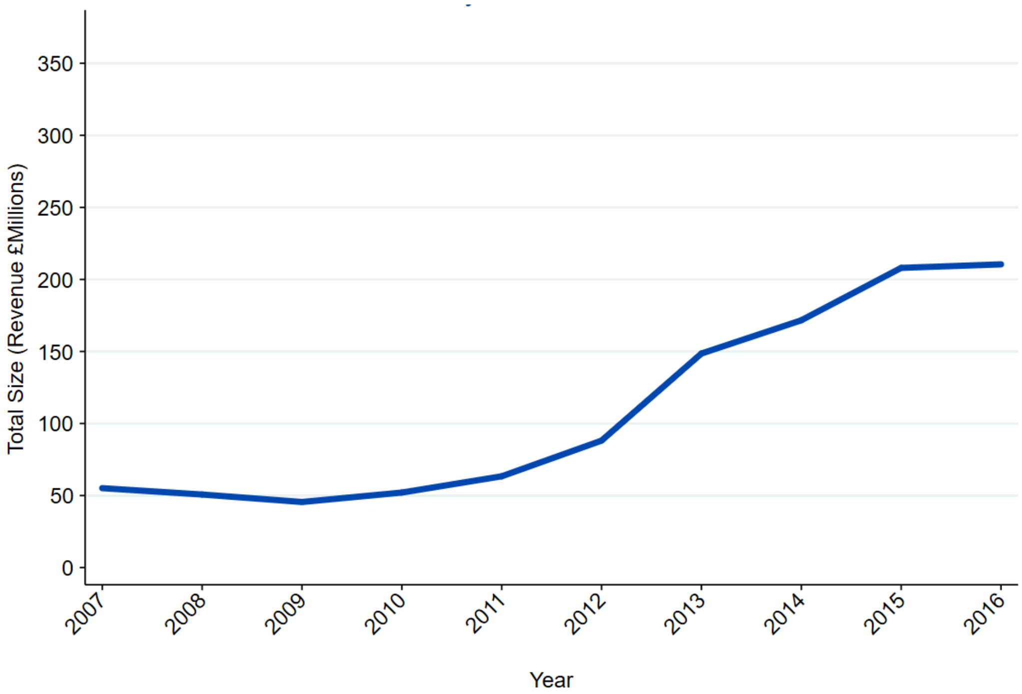
[57] DB customers generally purchase each service within FM. We understand DC customers likewise generally purchase several services, although they are less likely to buy dynamic liability hedging or dynamic asset allocation.

Figure 13: Total size of the market for FM services to pension schemes through time in revenue terms



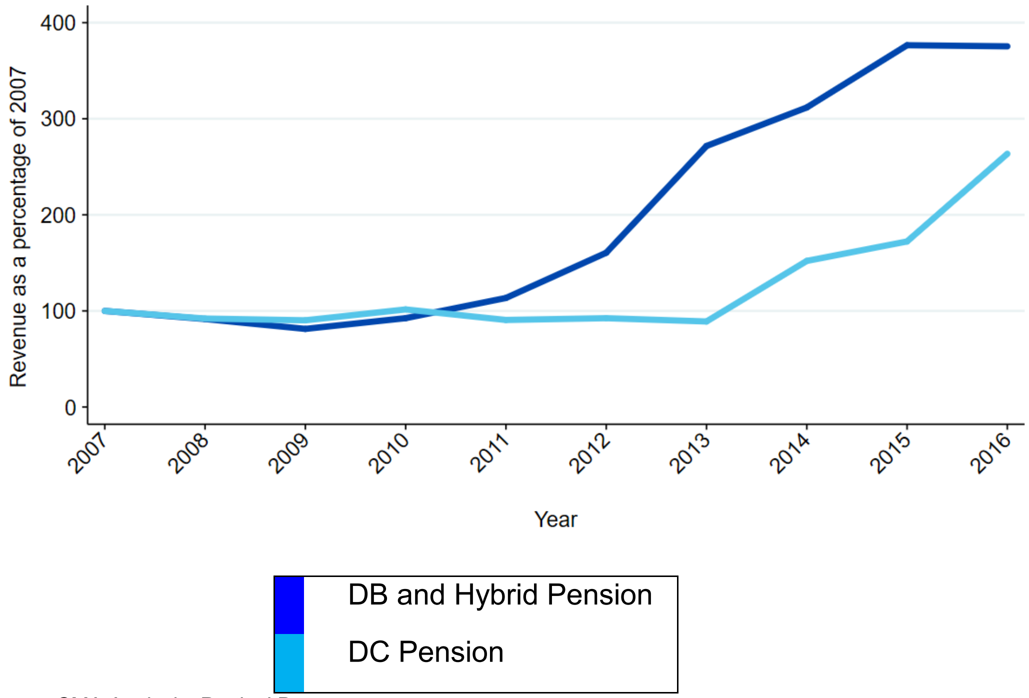
Source: CMA Analysis, Parties' Data

134. Figure 13 shows that the size of the FM market has increased substantially in recent years. In particular, total revenue increased from around £50 million in 2009 to around £210 million in 2016.[58] It more than trebled in size in the period following 2011. This significant growth is consistent with other sources of information, such as the KPMG fiduciary management survey, which analyses this growth in terms of the number of mandates and growth in assets under management.[59]

135. We examined how total revenue for DB and Hybrid schemes on the one hand, and DC schemes on the other hand, have increased relative to their sizes in 2007. This analysis is set out in Figure 14 below.

[58] These figures are lower bounds. Whilst in the snapshot it is possible to apply an estimate to the percentage of the market we have not covered to calculate an upper bound, it is not possible to do this in the timeseries as we do not have the data to do so.
[59] Page 2, 2017 KPMG Fiduciary Management Survey, available at https://assets.kpmg.com/content/dam/kpmg/uk/pdf/2017/11/CRT086217_KPMG_FM_Survey_2017.pdf

Figure 14: Size of the 'DB' and 'DC' segments of the market for FM services to pension schemes through time



Source: CMA Analysis, Parties' Data

136. Figure 14 shows that in percentage terms DB FM revenues have grown more than DC FM revenues, although the latter has had a more recent uptick. The below chart shows fiduciary management services revenues for each segment relative to their level in 2007.[60] We note again that the DC segment of the market for FM services to pension schemes is very small.

137. As a further consideration, we have analysed changes in individual firms' market shares through time. We focussed on the largest 5 firms in this market (as of 2016). These results are shown in Figure 15 below.

Figure 15: Market Shares through time for the largest 5 FM providers

[✂]

Source: CMA Analysis, Parties' Data.

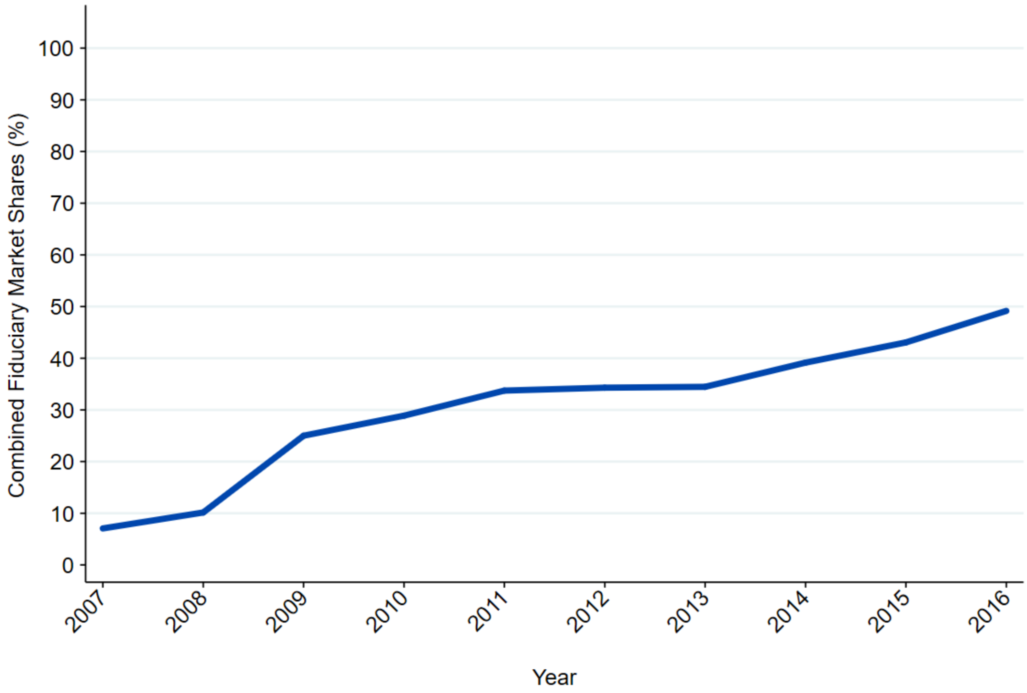
138. Figure 15 shows that the largest three providers of IC services have increased their shares of the FM market from relatively low levels prior to 2010 to become large market players in 2016. The remaining two providers in the

[60] We do not have sufficient data to calculate the change in size of the hybrid segment through time. We do not show the size progression for other institutional investors, but see that fiduciary management has grown very quickly for such clients, at least from the firms we collected data from.

chart, River & Mercantile and Russell Investments, have not seen such large comparative increases in FM shares.

139. We show this result by combining the shares of the FM market for the largest three IC-FM providers and plotting these through time. This analysis is represented in Figure 16 below.

Figure 16: Combined share of the market for FM services to pension schemes for the three largest IC-FM providers through time



Source: CMA Analysis, Parties' Data

140. Figure 16 shows that the largest three IC providers have increased their combined share of the FM market from around 10% in 2007 to up to (at most) 50% in 2016.[61] This is a considerable upward trend.[62]

Future trends

141. Most evidence points to continued growth in the fiduciary management services market as time goes on. This is consistent with the growth in

[61] We note that these shares anc concentration measures are likely to represent upper bounds because we cannot account for the estimate of the percentage of the market not covered through time. The three largest IC-FM providers' shares and overall concentration are both in practice likely to be slightly lower. The figures differ slightly from those implied by our static revenue data due to differences in firms' returns. The key change appears to be due to the reconciliation between calendar and financial years. We consider that our static analysis represents the best picture for 2016, but the timeseries data remains useful to assess trends.
[62] Because our data indicates that Russell Investments and River & Mercantile were previously the only two large providers of services in 2007, the entry and subsequent rapid growth of the three largest IC providers actually resulted in a reduction in the HHI over this period from over 4300 in 2007 to 1353 in 2016.

fiduciary management services revenues we observe in our own data in recent years, survey evidence, and the parties' forecasts.

(a) Aon Hewitt's 2017 FM survey shows that 16% of those schemes who do not currently use FM plan to explore or are currently exploring it. A further 35% of those who do not currently use FM have decided against it for now, but say they may reconsider later. [63]

(b) A 2017 WTW document states that the UK FM market seems 'to be approaching the tipping point … where we move from early adopters to early majority and volumes increase sharply'. [64]

(c) A 2015 [✄] strategy document forecasts annualised AUM growth over the period 2014-2019. The 2017-2019 projected annualised growth rate is in the region of 12%.[65]

(d) [✄].

142. In the context of the recent substantial growth in combined shares of the three largest IC providers in the market for FM services to pension schemes, we have considered whether there is evidence that this trend will continue.

143. We reviewed some internal documents from the five largest FM providers in 2016. These generally show that they foresee strong growth rates in their own FM offerings.[66]

(a) A 2017 WTW strategy document states a global 5-year growth target of 20% per annum for their global FM revenue, relative to their 2016 levels.[67]

(b) A 2015 Aon strategy document states that Aon sought to increase its AUM in corporate pensions delegated solutions (globally) at a faster rate than market growth ([✄]).[68]

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[63] Page 9, Aon Hewitt Fiduciary Management Survey 2017.
[64] Page 9, WTW internal document.
[65] [✄].
[66] There are challenges in comparing and interpreting these as a set because the projections are not always comparable. For example (a) Achieving high growth rates in FM was easier when FM was smaller in 2015: as FM has grown, achieving the same growth rate requires winning more business. Figures forecast over different periods will therefore contain different annualised growth rates, (b) Several figures were presented at the global rather than the UK level and (c) Differences in rates of growth may be as much to do with differences about expected market growth as they are about expected ability to win business from others. Assumptions on market growth rates are usually not stated in these documents.
[67] WTW internal document.
[68] Aon internal document.

(c) A 2015 River and Mercantile board strategy day document set out targeted growth of 15% p.a. in FM up until 2020.[69]

(d) A 2015 3-year strategy document from Russell Investments stated targeted revenue increases totalling $7.8m across 2016, 2017 and 2018. This implies an annualised growth rate of around 11%.[70]

(e) A 2017 Mercer strategy document states that they will [✂].[71]

144. [✂].[72]

145. Future concentration in the market for FM services to pension schemes of course depends on the prospect for future entry and expansion. We have set out our emerging findings with respect to these issues in the Barriers to Entry and Expansion working paper, published on 26 April 2018. We note in particular that a number of the smaller players and recent entrants in the FM market are part of very large firms in other markets, which implies that they are likely to be relatively well resourced and have a degree of established reputation. However there appear to be some greater barriers to expansion amongst FM providers.

146. While it is difficult to predict whether this trend will continue in even the near future, we see that these firms have ambitious growth plans in FM. There is also some evidence that barriers to expansion may be greater in FM than IC. Therefore we consider that these firms could continue to collectively gain market share in the foreseeable future and there is a possibility that concentration may increase in the FM market in the next few years.

Emerging finding

147. Our initial results show that the HHI for the FM market as a whole is 1,324. This figure is higher than that for the IC market as whole (1,023), however does not meet the threshold set out in our guidance for us to be likely to consider the market 'highly concentrated'. We also found that:

(a) no firms have market shares above 20%;

[69] River & Mercantile internal document.
[70] Russell Investment internal document. Figure uses 2016 revenue provided to the CMA as a base, and 2016 USD/GBP conversion rates. The calculation is only approximate. https://edrm.cma.gov.uk/mkt2/50427/Parties/Investment%20Consultants1/Russell%20Investments/Off-the-Shelf/UKI%20Strategy%20docs/2016%2001%20UKI%203%20Year%20Business%20Plan_Jan%2016_RB%20v6.pptx?web=1
[71] Mercer UK internal document.
[72] [✂].

(b) there are five large firms in this market and several other notable players, and

(c) there has been recent entry into the FM market by a number of large asset management firms.

148. As a result, our emerging finding is that the FM market is not highly concentrated, and customers appear at present have access to a sufficient number of suppliers.

149. However we have also considered the trend in concentration in FM, which is expanding rapidly. Our analysis shows that the combined position of the three largest IC firms (Aon, Mercer and Willis Towers Watson) has grown substantially, having increased by around 40 percentage points in the last ten years. This represents a significant upwards trend.

150. While it is difficult to predict whether this trend will continue in even the near future, we see that these firms have ambitious growth plans in FM. There is also some evidence that barriers to expansion may be greater in FM than IC. Therefore we consider that these firms could continue to collectively gain market share in the foreseeable future and there is a possibility that concentration may increase in the FM market in the next few years.

Appendix 1: Joint purchasing with actuarial and administration services

151. Stakeholders told us that investment consulting services are distinct from services such as actuarial advice and administration services. For example:

(a) WTW told us that 'the formal separation of actuarial and investment appointments was recommended in the Myners Report of 2001 and has been considered best practice since then'.[73]

(b) Capita told us that 'there is a clear boundary between actuarial and investment [advice] services, as our investment advisors are authorised by the FCA and the actuaries are not'.[74]

152. Nevertheless, several firms told us that there were complementarities between the services described above and other services which their clients may purchase. For example:

(a) WTW told us that although there were a relatively small number of areas where actuarial services and investment consultant services converged, in some cases actuarial and investment services are complementary inputs.[75]

(b) Aon told us that 'Most well-run pension schemes take Integrated Risk Management (IRM) seriously. IRM is the consideration of the sponsor covenant, the actuarial valuation and the investment strategy holistically. Large portions of the IRM can be and is done either by an actuary or by an investment adviser.'

153. The areas where actuarial techniques and investment consulting may converge, include asset liability modelling and construction of Liability Driven Investment portfolios, as well as advice on integrated risk management frameworks considering funding arrangements, investment strategy and the sponsor's covenant.

154. Several firms told us that it is immaterial whether they provide the actuarial services or another one does, in each case they will work with the actuaries to provide joined-up services.

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[73] WTW's response to the market information request, question 5c.
[74] Capita's response to the market information request, question 5c.
[75] WTW's response to the market information request, question 5c.

(a) JLT told us that a number of their larger clients use other actuarial firms. JLT told us that they consider a joined-up approach integral, and so they would look to set up monthly calls between ourselves and the actuary, just as they do with clients for whom JLT provides the actuarial services,[76]

(b) Xafinity told us that 'we have seen external actuaries advise on appropriate return targets and levels of risk.'[77]

(c) In the context of actuarial and administration advice, Mercer told us that 'The client may appoint a number of advisors to assist them in managing their pension fund. Mercer is often expected to work with professionals from other companies and firms'.[78]

155. However, for most firms, a majority of schemes do purchase these services from the same provider. We provide the figures for these below where firms gave us this information.[79]

Figure 17: Percentage of DB IC clients purchasing actuarial services from the same firm, split by firm

[✂]

Source: CMA Analysis, parties' estimates

156. Figure 17 shows that the percentage of clients purchasing DB IC services who also purchase actuarial services varies significantly by firm, but in all cases is a substantial fraction. Of the firms who provided data, one of the largest IC-FM firms ([✂]) had the lowest percentage of clients also purchasing actuarial services at [✂], whilst [✂] had the highest at around [✂].

157. Consistent with these figures, the CMA survey showed that 59% of DB schemes purchase actuarial services from the same provider as their main IC services provider. The figure was similar for Hybrid schemes, but lower for DC schemes (16%).

158. As regards scheme administration, the CMA survey showed that about half of schemes of all types purchased this service from their main IC provider.

159. Many parties told us that although firms might purchase IC (or FM) services in addition to administration or actuarial services from the same provider, the incidence of joint tenders is (i) demand side led and (ii) more infrequent. That

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[76] JLT's response to the market information request, question 3.
[77] Xafinity's response to the market information request, question 5c.
[78] Mercer hearing summary, paragraph 22.
[79] Information sourced from each firms' responses to the market information request.

is, the investment consulting part of the services purchased might be open to competition from a full range of providers.

160. Nevertheless, there appears to be a notable group of pension schemes which prefer to purchase these jointly.

(a) KPMG told us that 'A number of smaller pension schemes prefer a bundled investment and actuarial service and we are more often appointed to deliver full service trustee services to these clients'.[80]

(b) WTW told us that 'some small clients actively choose to have their actuarial provider also provide investment services in a bid to simplify governance arrangements'.[81]

161. Aon told us that 13% of tenders, for IC and/or FM services they were involved during 2016 in were combined with a tender for actuarial services. WTW told us similarly that fewer than 20% of tenders were combined in this way. Hymans Robertson also told us that such joint tenders are not common, particularly for larger cleints.

162. For clients of other firms however, this scenario seems more common. LCP and Barnett Waddingham provided figures showing around a third of their (successful) tenders involved joint provision of services. Capita and JLT told us the 'vast majority' of their new tenders are of this type, Xafinity told us this scenario is 'very typical' and Spence & Partners told us it is typical.

163. In such cases, clients' choice sets will include only those firms which are able to offer all the relevant services, and the market may appear more concentrated.[82] We have therefore conducted analysis to assess the degree of concentration amongst firms which we understand also offer actuarial services.

Customers jointly purchasing actuarial services

164. We have calculated shares of supply for that group of firms which also offer actuarial services. We acknowledge that these shares include customers who may not purchase actuarial services. We show these in Figure 18 below.

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[80] KPMG's response to the market information request, question 5.
[81] WTW's response to the market information request, question 5.
[82] Even where clients do not conduct market searches or tenders for investment advisory and either actuarial or administration services jointly, if clients (a) value the joint provision of services and (b) have already appointed the provider for one of the above services, competition may be weaker.

Figure 18: Shares of supply for IC services to pension schemes, including only firms which offer actuarial services

[✂]

Source: CMA Analysis, Parties' Data

165. The figure shows that concentration amongst these particular firms is not significantly higher than for the market as a whole. The largest three IC providers have the largest share amongst these firms, however there remain a large number of other significant players.

Other joint-purchasing customers

166. We do not have consistent data on which firms also offer scheme administration services. Nevertheless, we understand that it is common to provide this service if the firm also provides IC services.

167. We do not consider that customers who wish to purchase IC services from the same provider as their administration provider would face significantly high levels of concentration than customers of similar types set out in the segment breakdowns above.