INVESTMENT CONSULTANCY SERVICES AND FIDUCIARY MANAGEMENT SERVICES MARKET INVESTIGATION

STATEMENT OF ISSUES

1. INTRODUCTION AND SUMMARY

As requested we provide our response to the issues raised and questions asked within the Statement of Issues published on 21 September 2017.

Our response has been provided jointly on behalf of JLT Benefit Solutions Limited and JLT Investment Management Limited, being the entities within Jardine Lloyd Thompson Group plc providing respectively Investment Consultancy Services and Fiduciary Management services. We provided in response to the first day letter a structure and management chart showing how these companies fit into the corporate structure.

The Statement poses some general questions around the overall investigation, seeks views on some aspects and then poses a number of questions on a selection of hypothetical remedies. These are suggested to address aspects anticipated to result in "adverse effects on competition" (AECs). We have set out our response in 3 sections addressing these parts separately. We have used the same paragraph references and quoted some contextual references from the statement so as to assist you in attaching the responses to the relevant sections of the report.

We would be very happy to meet with you to discuss our responses or to answer additional questions. We understand these may also take the format of round table discussions.

Finally, we support the CMA investigation and will co-operative fully to ensure the best outcomes for clients. We do believe that by creating more competition and transparency within a (FCA) regulated advisory market these aims can be achieved without the necessity for full divestment of advisory or fiduciary services where both are currently provided.

Phil Wadsworth
Chief Actuary

12 October 2017

2. GENERAL COMMENTS

In the opening paragraphs you posed some general questions to which we now give our overall response, prior to addressing the more specific questions later.

7. We invite parties to give us their views, with reasons, as to whether:

(a) the issues we have identified should be within the scope of our investigation and whether they are correctly characterised;

We are happy that you have identified aspects which are very relevant to the AECs which are being looked at following the FCA study. Our only concern is that, as you have identified, investment services are not homogeneous and there are aspects which lack clear definition as advisory or management. Equally we would suggest that many services which are marketed as Fiduciary cover a very wide spectrum from simple aggregation (typically on a platform with limited actual delegation of decision making) to full fiduciary services with full delegation and extending further into the recommendation of and use of “own funds”. To that extent in the analysis we would suggest that further breakdowns of fiduciary services are made. In particular to address conflicts potential and actual, caused by the issue of own funds this area needs special attention. In our opinion this should be addressed separately to the use of fiduciary services across a full range of third party funds.

(b) there are further issues we have either not identified, or which we have indicated we are not minded to focus on, but which parties consider we should examine;

One aspect of conflicts which we feel is not being addressed with equal vigour is the conflict aspects of the provision of advices by firms which do not offer both consultancy and fiduciary services. We do not have any evidence and do not make any assertions. We just question whether consultancies without fiduciary arms include within a search for managers those managers who have advisory arms potentially as competitors. Equally we question whether managers who require advisory services look to consultancies with fiduciary arms. Finally we do see increasing demand for FM procurement services. Where these are undertaken by an advisory firm there is the danger that valuable investment advisory material provided as part of the information gathering (including IP) could leak to the advisory arm of the procurement firm. This could also cause harm to the consumer (pension fund) if it resulted in less than full information being fed into the process. In a deep investigation into conflicts we would expect all these aspects to be addressed.

(c) the potential remedies we have identified would address the competition issues comprehensively and if so how, and whether they would be effective and proportionate;

The extent of the hypothetical response appears sufficiently wide ranging to address all the outcomes. In a later section we comment upon each in turn as naturally the remedies range from the easy and simple to the large, complex and disruptive. Therefore we cannot say that the remedies as a whole would be proportionate or effective, but certainly some of them are.

(d) there are other potential remedies which we have not identified that would address either the issues we have identified or other issues we should consider (detailing what those remedies might be and how they would address the potential AECs in these markets).

We commented in response to the proposed referral to the CMA that an alternative to the deep dive investigation would be to set out what would be regarded as best practice and then seek to regulate the industry towards adopting these. We do not believe the issues which will come out of the investigation are likely to be so radically different to those identified in the FCA study and would question the cost / benefit of this investigation not to mention the possible delay it causes in action being taken. This is no criticism of the investigation which is being conducted with great diligence and professionalism, but a question as to the necessity.

3. SPECIFIC VIEWS SOUGHT IN THE BODY OF THE STATEMENT

We now give our thoughts on the issues you we were seeking views on:

Proposed focus

18. We would particularly welcome views on the extent to which other institutional investors use investment consultancy services and/or fiduciary management services and whether there are any particular areas of concern that warrant us undertaking further analysis for other types of institutional investors.

We believe in looking at services to pension schemes you have tackled the major area where consultancy and fiduciary services are provided. There are no doubt similar issues which could be present in other areas. However an investigation including these other areas would have necessitated additional complexity and distracted from the need to reach conclusions correctly and quickly. The other areas can be addressed later and we are confident that they are watching this space with great interest.

21. We would welcome views on our proposed focus and other scoping suggestions.

We agree that your focus should be on Workplace Pension Schemes. We also agree that the focus should be on investment services. We are not materially affected by your extending the investigation into the conduct of Master Trusts in investment markets. The consideration of all conflicts and vertical integration which exist throughout the wider employee benefits businesses is beyond this remit and would in our opinion seriously distract from the main focus.

Assessment of potential detrimental effects

26. We would welcome views on whether the potential detrimental effects identified in paragraph 22 above are the right ones to be focusing on, and/or whether there are any other types of potential detrimental effect you consider we should take into account in our analysis.

We would only disagree that higher prices are not necessarily a result of AECs. They could arise for example from the use of more complex solutions which are entirely justifiable. Equally if the consequence of the investigation was merely an enforced haircut from “prices” this could have negative effects as it may restrict the appetite for development and innovation. The focus needs to be on value rather than price.

Previous reviews, ongoing work and future developments

30. We welcome views on our proposed approach to this investigation as set out in this section, including: how this investigation should build on the previous reviews of the sector and take into account current and future developments in the sector; and whether there are other fundamental changes or trends of which we should be aware.

As we said in the introduction we do not believe the issues which will come out the investigation are likely to be so radically different to those identified in the FCA study. We would therefore question the cost / benefit of this investigation not to mention the possible delay it causes in action being taken. This is no criticism of the investigation which is being conducted with great diligence and professionalism, but a question as to the necessity. We therefore believe that there is enough evidence to show “what good looks like” and Regulation and best practice could have been driven.

The initiatives from many quarters for consolidation, particularly of small schemes could have a dramatic impact in this and other areas, especially if it resulted in just a few super-trusts surviving.

Key characteristics

34. There are certain key characteristics of investment consultants, which we will consider in assessing the nature of competition, formulating hypotheses, identifying potential AECs and considering potential remedies to any AECs that we may find. We set out our understanding of these characteristics below, which have informed the development of our key hypotheses. We welcome observations on: the importance of these characteristics; how we should approach them in the context of our investigation; and whether there are others we should consider.

(a) Lack of clarity and precise definition of investment consultancy services and fiduciary management services and potential overlap in the types of services offered. This may be due in part to the fact that some aspects of investment consultancy services and fiduciary management services are not regulated by the FCA. This may complicate the

assessment of competition in the markets referred. This is something to which we will give further consideration and we would welcome views on this issue.

We agree this is a key characteristic

(b) Difference in size and type of pension funds including: a large number of small pension funds, many with under £50 million of assets; and a small number of large DB and DC pension funds, some with over £5 billion of assets. There is also a wide range of different types of pension funds. We will take these differences into account in our investigation, including in the scoping of important pieces of analysis such as the survey we propose to conduct (see paragraph 53). We would welcome views on how we should do this.

We are pleased that these facets have been recognised. It will be important that the impact of possible remedies are not only considered on their merits overall, but also against each strata of schemes. This may force pragmatic adjustments to cater for particular schemes, especially the smaller schemes.

(c) Importance of the role of trustees: pension trustees have a critical role as it is their responsibility to ensure that the pension scheme is run properly and that members' benefits are secure. They have extensive responsibilities, duties and powers in relation to pension schemes and the investment of schemes' assets. They are the key conduit for acquiring and monitoring the services of investment consultants. Crucially, trustees vary substantially in terms of their background, experience and skills and it will therefore be important for us to engage with a range of trustees to understand the issues they face. Our proposed survey of trustees will be a key tool for achieving this aim.

We agree that Trustees and in particular professional trustees are key to the success of ensuring remedies are followed through.

(d) Challenges in assessing pension scheme performance: the decisions that trustees have to make typically concern large investments over long time periods, but there are significant differences between schemes, not just in terms of size but in terms of the profile of their liabilities and their risk appetite, all of which complicates any attempt to compare the performance of different schemes. There is an additional challenge in assessing the specific contribution of investment advice on fund performance, given the range of other factors that are likely to have an impact on this performance (see paragraph 38). We would welcome views on how we should approach these challenges in our investigation.

The key factor in measuring performance is against what. The biggest impact on scheme performance is the setting of the overall strategy. Manager performance has much less of an impact typically. Therefore we believe that the setting of metrics both in terms of performance of the strategy and of the individual manager performance should be required. These must relate back to the Statements of Investment Principles and Funding Principles. In shorthand the trustees have agreed their ultimate goals and how they intend to get there. Performance therefore needs to be managed against this journey.

(e) Extensive regulations and legislation surrounding pensions: this adds to the complexity of pensions and could affect the market in a number of ways. It will be important for us to fully understand relevant legal and regulatory provisions in place. We would welcome views on whether any legislative or regulatory provisions have an impact on competition in connection with the supply or acquisition of investment consultancy services or fiduciary management services in the UK.

We do not believe that regulations and legislation affect competition. They may impact on the setting of targets (e.g. Integrated Risk Management) and thereby exclude consultants who through training or whatever are unable to advise fully. This however is arguably not a bad thing.

Market outcomes

38. Second, we will assess in more detail the outcomes from investment consultants, in terms of whether they are providing value for money – both in relation to the quality of their services and their fees. In relation to the quality of their services we propose to explore the following areas:

(a) Whether investment consultants are providing high-quality asset manager recommendations:

The FCA found that on average investment consultants are not able to identify managers that offer better returns to investors. It conducted relatively comprehensive quantitative analysis in this area, which we intend to examine in detail. We are considering whether to extend this analysis, for example by updating it to include 2016/2017 data and including 'negative' recommendations and we welcome views on whether this is necessary and likely to be informative. We may also seek to examine the selection methodologies of investment consultants to determine how they formulate their recommendations and the factors they take into account.

Of course it is not possible that the result of remedies will ensure that all managers outperform the average, by definition. There will therefore be winners and losers in terms of absolute performance. However not all investments will have been selected for the same reasons. Should advice to invest in defensive stocks to protect the downside be criticised in bull markets or indeed investment in growth stocks to maximise returns be criticised in bear markets. Decisions need to be measured as to whether the strategy set matches the client's objectives, the benchmarks chosen appropriately and whether the managers were appropriately chosen to meet these objectives. We suggest therefore that you have a difficult task in assessing performance but would encourage you to consider the processes behind the recommendations rather than merely looking at the output.

(b) The extent to which investment consultants are driving competition between asset managers:

The FCA found that investment consultants do not appear to drive significant price competition between asset managers. The extent to which investment consultants drive competition between asset managers on fees and performance is an important area for us to consider further and we will explore what further analysis we could undertake in this area. For example, we may wish to consider fee discounts secured by investment consultants, whether consultants filter out poor value for money products such as 'closet trackers' and whether the weighting of consultants' recommendations incentivises managers to reduce fees and improve fund performance. In assessing how effectively investment consultants are driving competition between asset managers, we will also take into account the overall outcomes from asset management, drawing largely from the FCA's work.

We would defend the driving of improvements in performance, since these are one of the very metrics of manager selection. By measuring process the consultants are seeking to drive returns and by virtue of the impact of cash flows away from under-performing managers to better performing managers this must at some level be driving change.

In relation to fees this is a difficult call. Performance and expectations thereof should be measured net of fees. A simple comparison of fees between one manager and the next is not the whole story. Active fees are justifiable to seek higher returns but not for "closet tracking".

When the process involves negotiating an individual fee for one scheme, one can understand the reluctance of a manager to accede readily. Were they to do so, then this would rapidly become the "new price" for all similar clients, as knowledge spreads. Pressure on pricing driven by overall pricing, performance and the need to increase AUM would however be welcome, provided it does not result into reversion towards index tracking to maintain profitability.

(c) Whether investment consultants are providing high-quality asset allocation advice:

This is potentially an important area for us to consider further, although we note that this is likely to be a particularly challenging area in which to undertake quantitative analysis. For example, we recognise that investment consultants' advice may only be sought for a certain portion of assets, that their advice may not always be followed and that there are potentially many other factors that can influence pension scheme outcomes (eg, mortality, employer contributions, macro-economic performance). Therefore, we will also consider whether there is further qualitative work we can undertake, for example in assessing: the extent of variation in allocation advice; how this varies between schemes/investment consultants and over time; how 'bespoke' this advice is; and whether there are examples of advice leading to good or poor outcomes. We therefore welcome views on the feasibility and methodology for undertaking quantitative and/or qualitative work in this area.

We would refer you to the earlier answers in this section.

(d) Whether investment consultants are providing high-quality fiduciary management services:

It may be more feasible to conduct a quantitative assessment of the quality of fiduciary management services provided by investment consultants, because they have delegated responsibility for asset allocation and/or potentially control over all, or some, of the assets in terms of selecting fund managers. This means that it may be easier to assess the direct impact of fiduciary management services on outcomes than it is to assess the impact of investment consultants' advice.

In theory this should be more straightforward as performance is measurable against objectives, which can be tested. However as said earlier fiduciary management is a journey to meet clients' objectives over time. This is less easy to test, especially over shorter time periods. It is almost impossible to say with confidence whether the performance has been optimal set against the objectives. Investors are probably satisfied if managers get 60% of their decisions right. That would lead to top quartile performance over time if consistently delivered.

(e) Whether investment consultants are providing a high quality of service in other ways:

Beyond the 'hard' quality factors described above, we will also examine other aspects of the investment consultants' quality of service, including for example their responsiveness, the clarity of advice given and the extent to which the advice given meets specific client requirements. We welcome views on these other quality of service aspects, which are the most important, how significant these are overall, whether we should investigate these further, and whether there are any other quality of service factors.

These quality aspects are vital and whilst we expect like our own firm advice is being peer (quality) reviewed and client satisfaction sought, the only true test is to ask the recipients.

40. We would welcome views on the potential ways we propose to assess market outcomes – both high-level industry wide outcomes and outcomes relating to investment consultants – and whether there are other types of analysis that may be informative and feasible.

We would refer you the work undertaken by IC Select in gathering information to be able to conduct FM procurement exercises, which we commend you to read. The link is http://www.ic-select.co.uk/services/ic-select-fiduciary-management-reporting-a-new-industry-standard.html

Hypotheses for investigation (theories of harm)

42. There are many dimensions to the supply and acquisition of investment consultancy services and fiduciary management services, and we therefore need to target our effort on those areas where an inquiry of this nature is likely to add most value and have the most positive impact on customers and ultimately consumers. We would therefore welcome comments on whether the hypotheses identified and the areas/lines of analysis within each of these, are likely to add the most value and whether other areas of analysis would be appropriate.

We fully support the areas you have chosen to address. We are however slightly puzzled why you have not sought to look specifically at the effect of the dominance of the large players on the market, or sectors of the market, given the frequent referrals by you and the FCA to this fact. We believe this is different to looking at barriers to entry and expansion although you may believe this is covered there.

Trustee/employer engagement

52. We will also seek to understand the role of employers, who are represented on the pension fund board, and the extent to which they also receive advice from investment consultants35 and whether this increases competitive constraints on investment consultants. In addition, we will seek to understand how and when employers receive advice on the design and implementation of pension schemes. We will seek to understand whether there are issues regarding how employers engage with investment consultants and whether they are incentivised and/or able to monitor and challenge advice in this area. We welcome views on this area and the extent to which we need to explore it further.

Our belief is that most of the industry understands the conflicts which arise between sponsors and trustees as well as the roles of sponsor in the initial design of and setting up of schemes. We therefore would be surprised if an examination of this area would reveal any particular AECs,

Clarity and comparability of information on investment consultants' fees and performance

56. To assess this potential issue, we will collect and review the materials provided by investment consultants, such as tender documents, marketing materials and performance reports, to look at how fees and performance are communicated, whether this information is clear and comprehensive, and how comparable it is to that provided by other investment consultants. This information would include both investment consultants' fees and, within the broad category of 'quality of service': any fee discounts from asset managers; the impact of their recommendations and strategic advice; and 'soft' quality factors. We also plan to undertake a more systematic quantitative review of the accuracy of the information presented. Alongside this we will also look at comparing whether trustees' understanding of their advisers' fees and performance is comparable with the actual fees charged and performance. This may be difficult to analyse in detail, although we may undertake some comparisons on an aggregate basis. We also note that this work may help inform the design of any potential remedies to any AECs that we may find in this area. We would welcome views on this analysis.

Whilst we can understand why you would wish to undertake this analysis and will fully co-operate in the provision of the information, the task is massive for you in analysing this data. Response material can run to 100's of Mb.

Impact of demand-side issues on market outcomes

62. The demand-side issues identified above may have a negative effect on outcomes. We will therefore consider whether there is any evidence that indicates that, as a result of these demand-side issues, customers are paying higher prices or receiving a lower quality of service than would otherwise be the case. Analysis may be challenging in this area, particularly in relation to the impact on quality, given the difficulties quantifying aspects of quality. However, there may be some analysis we can undertake, particularly on potential fee savings. We would welcome views on the value and feasibility of different types of analysis in this area, for example assessing whether those pension schemes that appear to be able to challenge investment consultants more effectively achieve better outcomes.

The challenges on this revolve around measuring the ability of the recipient to understand the issues and the ability of the consultant to tailor the advice to the audience. We would encourage engagement with recipients, typically trustees.

B. Conflicts of interest

65. In addition to these potential conflicts identified by the FCA, we also understand that some investment consultants offer investment advice to both sponsoring employers and trustees of the same pension scheme (as noted above in paragraph 20) and that this may raise conflicts of interest in relation to the independence of the advice given to each. We also understand that some investment consultants have introduced a 'pay to play'40 model which could also raise some conflicts of interest if it reduces or distorts the choice for investors and may also result in less transparent costs and fees (if the investment consultancy costs are indirectly incorporated into asset manager fees). We would welcome views on these conflicts or any other potential conflicts. We set out some further detail relating to the four key potential conflicts identified above.

We would refer to our response to paragraph 20 above in relation to sponsors. We do not support "pay to play" models as costs are less than transparent and can lead to conflicts.

Moving clients into in-house products (e.g. fiduciary management/master trusts)
71. We welcome views on the types of analysis we could undertake in this area. In particular we wish to understand the strength of any potential concern in relation to master trusts given that this was not the FCA's key area of focus and the extent to which further detailed analysis is required.

We do not have any particular comments in relation to MTs. With possible consolidation as proposed by the DWP and others and the emergence of super-trusts we would encourage you to look at the conflicts which can emerge through the restriction of advisers and managers to sister companies/businesses of the Founder.

Looking wider at the issues around moving clients to in-house products, we would suggest further analysis as follows:

- Where FM is provided by an asset manager - the degree to which clients are constrained in their choice of funds to those managed by the investment manager providing FM services
- Where FM is provided by a consultant – the degree to which clients are restricted to the consultants own fund range and not able to invest whole of market
- Where FM is accessed in a the FM providers pooled funds (asset managers and consultants) the disaggregation of the FM fee into manager fees, fund costs, FM providers fees, transaction costs, custody costs etc and comparing this to the cost of acquiring the services separately

Gifts and hospitality
75. We will examine the FCA's analysis and consider if there is any scope for, and value in, extending or carrying out additional statistical analysis in this area. Subject to this examination, we may also carry out some further high-level qualitative analysis, which would involve identifying and assessing the effectiveness of existing internal policies or controls, and whether this varies across different types/size of consultants. We welcome views on the need for, and appropriate form of, further quantitative and qualitative work in this area.

We believe that most firms now have strict Gifts and Hospitality policies in place. As a result we do not believe these aspects figure highly now in the selection of providers.

4. REMEDIES

We provide our responses in this section to the potential remedies you have asked us to address.

The CMA's approach to remedies

81. As noted in the introduction, alongside considering initial hypotheses relating to competition issues that might exist, we will also explore what potential remedies may be suitable to address any AECs that we may find. We are at a very early stage in thinking about potential remedies and we should emphasise that any discussion in the next sections on potential remedies and issues is purely hypothetical at this point. As our understanding of the market and the potential issues within it develops, we expect our consideration of potential remedies to develop also. To help inform our initial thinking, we nonetheless welcome views from parties on potential remedies at this very early stage. Were we to provisionally find that there is one or more AECs, then our provisional decision on any remedies would be contained in our Provisional Decision Report, at which point parties would have a further opportunity to comment. Our final decision on any remedies would be contained in our Final Report.

We welcome this approach

You have invited us to answer specific questions in relation to each proposed remedy. We have set out our responses in tabular format for consistency and ease of presentation. Our shorthand label is attached to each question below. Finally in the interests of conciseness and to assist your analysis we have looked to brevity in individual responses, although happy to expand as you wish on request.

(a) Would the potential remedy be effective and proportionate in remedying any AECs that we may find in relation to investment consultancy services and/or fiduciary management services? (Effective & Proportionate)

(b) Would the potential remedy give rise to any unintended consequences or distortions? (Unintended Consequences)

(c) Are there other potential remedies that would be as effective and proportionate in remedying any AECs that we may find that would be less costly or intrusive? (Other Remedies)

(d) What are the relevant costs and benefits that we should take into account in considering the proportionality of the potential remedy? How could we quantify these? (Cost/Benefit)

(e) What provisions would need to be put in place for the monitoring and enforcement of the potential remedy and which body should be responsible for monitoring? (Monitoring)

(f) Should the potential remedy be time limited? If so, for how long should it apply? What type of changes in the market would warrant the variation or removal of the remedy? (Time Limited)

(g) Should the potential remedy apply only to pension funds and/or investment consultants of a certain size? If so, what should that threshold be? (Applicability)

A. Demand side and informational remedies

Insufficient information is available to trustees and employers to compare investment consultants' fees and quality

(a)	Effective & Proportionate	Transparency of fees and services is a fundamental tenet of all our investment services and we support universal enhancement of the transparency on fees and in relation to precisely defined services. We believe this to be effective and proportionate.
(b)	Unintended Consequences	None anticipated
(c)	Other Remedies	Not in regard to transparency
(d)	Cost / Benefit	We believe in transparency, the benefits of which far outweigh the costs of implementation. Bodies are already looking at development of an industry standard template
(e)	Monitoring	A standard template would assist comparison, which is no substitute for transparency, and is required. This will undoubtedly require an independent or quasi-independent party to collate and assimilate the data
(f)	Time Limited	No
(g)	Applicability	Transparency should be universal. However it is likely the template would be specific to each type of investor, pension fund, charity etc

Require investment consultants to provide clear, consistent information to trustees in relation to all fees

(a)	Effective & Proportionate	Yes, as described in response to previous
(b)	Unintended Consequences	None
(c)	Other Remedies	No
(d)	Cost / Benefit	Benefits far outweigh any costs involved
(e)	Monitoring	Development of a standard template would be desirable, but as said above is not a substitute for transparency
(f)	Time Limited	No
(g)	Applicability	Should be universal

Require consistent reporting of fees charged compared to those quoted or estimated

(a)	Effective & Proportionate	Yes, indeed we would regard as best practice currently
(b)	Unintended Consequences	None
(c)	Other Remedies	No
(d)	Cost / Benefit	Benefits far outweigh any costs involved
(e)	Monitoring	Trustee education is required to set expectations in this regard
(f)	Time Limited	No
(g)	Applicability	Should be universal

Require investment consultants to report all fees to an independent benchmarking service to allow pension schemes and employers to compare their fees to the market

(a)	Effective & Proportionate	This would be effective, but we would question the proportionality of requiring this for smaller schemes.
(b)	Unintended Consequences	May lead to price being seen as the sole determinant, whereas there are many other factors of arguably equal or greater importance
(c)	Other Remedies	Yes by working on transparency principles
(d)	Cost / Benefit	Benefits outweigh costs for larger schemes, but not smaller.
(e)	Monitoring	The independent body would need to be identified
(f)	Time Limited	No
(g)	Applicability	Suggest restriction to larger Pension Schemes, say AUM greater than £100m

Require investment consultants, when providing advice, to be clearer on the impact of a particular course of action on their own fees

(a)	Effective & Proportionate	Yes. Indeed we would regard as best practice currently.
(b)	Unintended Consequences	None
(c)	Other Remedies	None
(d)	Cost / Benefit	Minimal cost of implementation
(e)	Monitoring	Suggest none required
(f)	Time Limited	No
(g)	Applicability	Should be universal

Ban certain investment consultant pricing practices

(a)	Effective & Proportionate	Depends how far it extends. Banning Pay for Play would be appropriate. Banning ad valorem fees would however be very unpopular with clients as well as advisers and would not in our opinion be proportionate. We do however stress that full transparency is required particularly around services covered and bps charges therefore under ad valorem contracts.
(b)	Unintended Consequences	A banning of ad valorem would be likely to result in trustees not taking advices, being put off by the "time cost" fees. Ad valorem allows trustees to pay for services effectively over a period and ensures that all services can be covered, without the perils of needing to approve each and every part. As an extreme example trustees having to forego monitoring services, on cost grounds, at the end of implementing a new strategy would be a very false economy.
(c)	Other Remedies	None
(d)	Cost / Benefit	Banning pay to play would perhaps have minimal impact. Banning ad valorem would have huge cost implications of implementation, involve extensive discussions with clients, who are not unhappy with the current position.
(e)	Monitoring	We are not sure what would be viewed as necessary were these actions to be enacted.
(f)	Time Limited	No as clearly could not be.
(g)	Applicability	Should be universal

Require investment consultants to report on pension fund returns against agreed benchmarks

(a)	Effective & Proportionate	Yes, this ought to be in place already
(b)	Unintended Consequences	None
(c)	Other Remedies	None
(d)	Cost / Benefit	None, as these should be in place already
(e)	Monitoring	None
(f)	Time Limited	No
(g)	Applicability	Should be universal

Require investment consultants to report the fees of asset managers selected and give details on the extent to which they have reduced fees for the trustees

(a)	Effective & Proportionate	Yes. However as indicated in preliminary comments, the asset managers would be concerned with confidentiality and therefore be more reluctant to reduce fees on an individual scheme, or consultancy basis.
(b)	Unintended Consequences	Publication of individual negotiated reductions could lead to fewer special deals as managers become concerned with them being used as a precedent across other clients and/or consultancies.
(c)	Other Remedies	Just require the fees to be reported.
(d)	Cost / Benefit	Costs of reporting on fees should be minimal
(e)	Monitoring	None
(f)	Time Limited	No
(g)	Applicability	Should be universal

Require investment consultants to report the performance of their manager recommendations based on standardised performance metrics

(a)	Effective & Proportionate	This depends on the standardised metrics, but should be effective
(b)	Unintended Consequences	If this becomes too complicated it could lead to increased costs
(c)	Other Remedies	None
(d)	Cost / Benefit	This depends on what is intended. The more complicated the less the analysis becomes value for money
(e)	Monitoring	None
(f)	Time Limited	No
(g)	Applicability	Should be universal

Require pension schemes and employers to provide reviews of investment consultants, with aggregate results shared/available on websites

(a)	Effective & Proportionate	This sounds too much like Trip Advisor, which is littered with unjustified, false and malicious comments making the trust in it dubious, although it does have some value. There would need to be strict policing not only of inputs but use of results. The stakes are high and how would you police concerted efforts to drive consultancies or managers out of business.
(b)	Unintended Consequences	The creation of mistrust between clients and advisers who should be working together to further the best interests of the beneficiaries
(c)	Other Remedies	The seeking of references could be made much smarter with clients having the opportunity to select references from a longer list spanning, recently appointed, long standing and lost clients.
(d)	Cost / Benefit	The cost is probably low, and like many comparison sites could be supported by the advertising from the competing firms, but the benefits are in our opinion questionable
(e)	Monitoring	None
(f)	Time Limited	No
(g)	Applicability	Should be restricted to comparable schemes.

There is insufficient and/or ineffective tendering and market testing

Introduce mandatory tendering for consulting, fiduciary management services and/or master trusts

(a)	Effective & Proportionate	This would be effective but its introduction could lead to small schemes dismissing fiduciary on the grounds of cost of implementation (including the tender process) alone. We would encourage however for larger schemes, say AUM greater than £100m
(b)	Unintended Consequences	The increased costs thereof if made universal
(c)	Other Remedies	None
(d)	Cost / Benefit	Depends on universality
(e)	Monitoring	None
(f)	Time Limited	No
(g)	Applicability	For schemes with AUM greater than £100m

Establish rules to improve the tendering process

(a)	Effective & Proportionate	We would support a list of principles which should be followed. Mandatory rules become challenging to monitor and aspects which are not appropriate in a particular case become difficult to comply with or to disclose the reasons for non-compliance
(b)	Unintended Consequences	The rigidity of rules may actually worsen the outputs, but we support the principles
(c)	Other Remedies	None
(d)	Cost / Benefit	Provided it is principles based the costs ought to be minimal
(e)	Monitoring	None
(f)	Time Limited	No
(g)	Applicability	Should be universal

Produce standardised off-the-shelf tender documents that smaller pension schemes and employers could (but would not be obliged to) use to make tendering cheaper, easier and more effective

(a)	Effective & Proportionate	We are nervous about these, as selection could merely be driven towards cost alone. For example how many consumers worry about claims service when selecting motor insurance via a comparison website.
(b)	Unintended Consequences	There becomes a concern that the only criteria will be price
(c)	Other Remedies	Procurement firms and advisers on the tender process should be required to stick to relevant aspects and to limit responses by length and content. Reams of company material are rarely of interest or relevance, except to the largest schemes. What is vital is the service which will be provided to the client, how, by whom and at what cost.
(d)	Cost / Benefit	There could be cost benefits of limiting responses which could offset the costs of mandatory tendering
(e)	Monitoring	None
(f)	Time Limited	No
(g)	Applicability	Should be universal

Recommend some form of aggregation/consolidation of pension trusts to benefit from economies of scale

(a)	Effective & Proportionate	This is a massive subject. The consolidation from an investment perspective is already in place. Platforms provide economies of scale and access to a wider range of funds, usually restricted to the biggest schemes. The other benefits of consolidation are less proven, but are equally outside the investment area. Caution also needs to be exercised as consolidation to a few super-trusts could exacerbate the concentration within the big 3 and a few others. Trustees may be reluctant to venture beyond the safety of the big 3 who are better equipped to service the largest clients. (This is not dissimilar to the old adage “no-one was ever sacked for choosing IBM.)
(b)	Unintended Consequences	Further concentration within a few advisers
(c)	Other Remedies	None required
(d)	Cost / Benefit	The benefits of consolidation from an investment perspective are already accessible and should be encouraged by this review not discouraged
(e)	Monitoring	None as already in place
(f)	Time Limited	No
(g)	Applicability	Solutions already available

B. Potential remedies to address conflicts of interest

Investment consultants encourage clients to use their fiduciary management services and/or master trust services even if it is not in the clients' best interests

Require investment consultants to give greater clarity to trustees that they are moving into a different arrangement, and that they could seek this service from other firms

(a)	Effective & Proportionate	We support the practice of the good consultants who confirm with clients their conflicts of interest policies. Furthermore these firms do already discuss potential or actual conflicts arising out of a proposed course of action
(b)	Unintended Consequences	None
(c)	Other Remedies	There should not be a need for other remedies
(d)	Cost / Benefit	The cost should be minimal
(e)	Monitoring	None needed
(f)	Time Limited	No
(g)	Applicability	Should be universal

Require mandatory tendering of fiduciary management/master trust services

(a)	Effective & Proportionate	This would be effective and would address the perceived issues from the FCA / CMA perspective. However we would reiterate that many clients are very satisfied with the current arrangements. Indeed its introduction could lead to small schemes dismissing fiduciary on the grounds of cost of implementation (including the tender process) alone. We would encourage however for larger schemes, say AUM greater than £100m
(b)	Unintended Consequences	Many clients may not be prepared to pay or be put off paying the mandatory costs of tendering resulting in their being deprived of the benefits of fiduciary.
(c)	Other Remedies	The mandatory requirement of the full disclosure of the conflict issues and making clients aware of other providers. They can then select or not the tendering of these services
(d)	Cost / Benefit	This would increase costs to clients with many preferring to appoint the existing advisors who they have trusted and worked with.
(e)	Monitoring	None
(f)	Time Limited	No
(g)	Applicability	Given that we believe for small clients that the only viable model is for services to be provided together we would suggest this is limited to schemes with AUM of £100m plus.

Prohibit investment consultants from providing fiduciary management/master trust services

(a)	Effective & Proportionate	This may be considered to be effective from FCA / CMA perspective but is hardly proportionate as it would involve wholesale upheaval in the industry. We think the client loses out in this scenario as the investment consultant typically has a deep understanding of the clients' situation and at its most basic fiduciary management is a way to implement the decisions taken by the trustees. Instead we favour safeguards being put in place.
(b)	Unintended Consequences	The upheaval to clients, resulting in unjustified costs and possibly less choice as the smaller managers merely sell their portfolio to the larger players
(c)	Other Remedies	Maintenance of the status quo, but with the principles of how they should be managed driven through the industry through regulation
(d)	Cost / Benefit	The cost of this would vastly outweigh the benefits with all EBCs being required to divest their asset management portfolios
(e)	Monitoring	Not required
(f)	Time Limited	This would be viewed as a one off requirement with banning of dual appointments persisting thereafter
(g)	Applicability	We believe this move to be indefensible with less draconian measures being sufficient to address the perceived AECs

Measures to control prices in relation to master trust services

(a)	Effective & Proportionate	We are not significant players in the MT space and therefore have not offered responses to this. We would however comment that professional independent trustees are almost universally appointed to MTs and we would have thought they have the wherewithal to ensure prices are controlled by virtue of pursuing value for money
(b)	Unintended Consequences	
(c)	Other Remedies	
(d)	Cost / Benefit	
(e)	Monitoring	
(f)	Time Limited	
(g)	Applicability	

Bringing the supply of investment consultancy services and fiduciary management services within the FCA's regulatory perimeter

(a)	Effective & Proportionate	As many of the organisations are already regulated by the FCA in many areas of their business, we would have thought this to be not a significant hurdle, albeit there is clearly an initial cost. As we have said in responses to other consultations and to the FCA study we would support the advisory services being regulated by the FCA.
(b)	Unintended Consequences	
(c)	Other Remedies	
(d)	Cost / Benefit	
(e)	Monitoring	
(f)	Time Limited	
(g)	Applicability	

Investment consultants' recommendations are influenced by their business relationships with asset managers

Require full disclosure of business interests to trustees

(a)	Effective & Proportionate	Provided there is a materiality limit introduced then this would be effective and proportionate
(b)	Unintended Consequences	None
(c)	Other Remedies	Not in this regard
(d)	Cost / Benefit	The costs are we suggest minimal
(e)	Monitoring	None required
(f)	Time Limited	No
(g)	Applicability	Should be universal

Impose measures to ensure there is stronger separation of different business areas within investment consultants
124. This potential remedy would involve developing a set of business separation rules that investment consultants would be required to adhere to. The remedy could, for example, facilitate stronger business separation between investment consultancy services and fiduciary management services and the services that asset managers purchase from investment consultants (for example the organising/hosting of conferences, data and consulting services, as well as investment consultancy services).

(a)	Effective & Proportionate	This we believe is desirable to ensure that conflicts are recognised and dealt with appropriately. We debate whether the remedy should be rules based or principles based. We prefer the latter, which successfully works in the actuarial profession. We believe this would be a proportionate response to the current debate and enhance transparency.
(b)	Unintended Consequences	If the rules were too stringent it could force complete separation of the services, which would likely not be in the best interests of the end user's, particularly smaller schemes
(c)	Other Remedies	None
(d)	Cost / Benefit	The implementation of a principles based separation would not be unwieldy and would be outweighed by the transparency resulting therefrom.
(e)	Monitoring	None
(f)	Time Limited	No
(g)	Applicability	Should be universal

Investment consultants' recommendations are influenced by hospitality

Impose limits on the value of hospitality that investment consultants are allowed to receive from asset managers

(a)	Effective & Proportionate	Yes, although we suspect that these limits are already in place at most firms as part of their gifts and entertainment policies
(b)	Unintended Consequences	None
(c)	Other Remedies	None in this area
(d)	Cost / Benefit	Little impact
(e)	Monitoring	None
(f)	Time Limited	No
(g)	Applicability	Should be universal

Impose limits on the type of hospitality e.g. legitimate business meetings and conferences only

(a)	Effective & Proportionate	This is really an extension of the previous remedy. It is difficult to see that within a cost limit the "excesses" in this area would be material
(b)	Unintended Consequences	
(c)	Other Remedies	
(d)	Cost / Benefit	
(e)	Monitoring	
(f)	Time Limited	
(g)	Applicability	

Require full disclosure of hospitality received to trustees

(a)	Effective & Proportionate	With an appropriate limit on hospitality this we would suggest to be unnecessary and serving no purpose
(b)	Unintended Consequences	
(c)	Other Remedies	
(d)	Cost / Benefit	
(e)	Monitoring	
(f)	Time Limited	
(g)	Applicability	

Impose an outright ban on hospitality

(a)	Effective & Proportionate	This is merely the same remedy but with a zero limit. This is workable, as with Public sector dealings. It merely results in "the bill" being split 5 or 6 ways. For that reason and practicality we support policies reflecting an overall limit and purpose as sufficient.
(b)	Unintended Consequences	
(c)	Other Remedies	
(d)	Cost / Benefit	
(e)	Monitoring	
(f)	Time Limited	
(g)	Applicability	

C. Potential remedies to address barriers to entry and expansion

Introduce mandatory tendering for investment consultancy services and/or fiduciary management services

(a)	Effective & Proportionate	This would be effective and would address the perceived issues from the FCA / CMA perspective. However we would reiterate that many clients are very satisfied with the current arrangements. Indeed its introduction could lead to small schemes dismissing fiduciary on the grounds of cost of implementation (including the tender process) alone. We would encourage however for larger schemes, say AUM greater than £100m
(b)	Unintended Consequences	First many clients may not be prepared to pay or be put off paying the mandatory costs of tendering resulting in their being deprived of the benefits of fiduciary.
(c)	Other Remedies	The mandatory requirement of the full disclosure of the conflict issues and making clients aware of other providers. They can then select or not the tendering of these services
(d)	Cost / Benefit	This would increase costs to clients with many preferring to appoint the existing advisors who they have trusted and worked with.
(e)	Monitoring	None
(f)	Time Limited	No
(g)	Applicability	Given that we believe for small clients that the only viable model is for services to be provided together we would suggest this is size limited to portfolios of £100m plus.

Require divestiture of investment consultancy services

(a)	Effective & Proportionate	This may be considered to be effective from FCA / CMA perspective but is hardly proportionate as it would involve wholesale upheaval in the industry. We think the client loses out in this scenario as the investment consultant typically has a deep understanding of the clients' situation and at its most basic fiduciary management is a way to implement the decisions taken by the trustees. Instead we favour safeguards being put in place.
(b)	Unintended Consequences	The upheaval to clients, resulting in unjustified costs.
(c)	Other Remedies	Maintenance of the status quo, but with the principles of how they should be managed be driven through the industry through regulation
(d)	Cost / Benefit	The cost of this would vastly outweigh the benefits with all EBCs being required to either divest their consultancy or fiduciary arms.
(e)	Monitoring	Not required
(f)	Time Limited	No
(g)	Applicability	We do not support this move

Basic FCA accreditation scheme to provide certification of smaller consultants

(a)	Effective & Proportionate	We do not understand the reference to smaller consultancies, except perhaps the inference that the larger firms are already regulated. As will be clear from the response to earlier sections we support the FCA regulating the advisory firms in the investment sector, at least as far as services to pension schemes
(b)	Unintended Consequences	
(c)	Other Remedies	
(d)	Cost / Benefit	
(e)	Monitoring	
(f)	Time Limited	
(g)	Applicability	

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