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Dear Peter

Investment Consultancy Services and Fiduciary Management Services Market Investigation – KPMG LLP (“KPMG”) Response to Issues Statement (PUBLISHABLE)

1. INTRODUCTION

- 1.1 This submission sets out KPMG's response to the Issues Statement (the "IS") published by the Competition and Markets Authority (the "CMA") on 21 September 2017 in relation to the Investment Consultancy and Fiduciary Management Market Investigation Reference (the "MIR").
- 1.2 KPMG does not seek to provide a comprehensive response to the points raised in the IS at this stage. It anticipates that the CMA will be exploring the issues over the course of the MIR and, as such KPMG will have the opportunity to engage fully with the CMA on the points not covered in this Submission (for example, in its responses to the CMA's various questionnaires).
- 1.3 KPMG looks forward to exploring these points and other aspects of the MIR over the coming months, as they are clarified, in particular in light of any evidence the CMA may wish to rely on.
- 1.4 This document is the publishable version of KPMG's full submission and excludes certain information which is confidential and commercially sensitive to KPMG.

2. KPMG'S INVESTMENT CONSULTANCY BUSINESS

KPMG has had an Investment Advisory business for over twenty years but it was not until 2005 that the business effectively launched to target investment-

only trustee appointments. The business has grown steadily to today's size of just under one hundred professionals.

Our Investment Advisory business is part of a larger Pensions practice and only offers an independent advisory service. Whilst we do provide advice to clients who are looking to appoint a fiduciary manager and the ongoing monitoring we do not provide any fiduciary asset management services.

KPMG does however, play an active role in reporting on fiduciary asset management services. For example, we prepare an annual survey that looks at the growth in the fiduciary management services market and key trends. Our next survey is due out in a few weeks' time but a link is attached to our 2016 survey - <https://home.kpmg.com/uk/en/home/insights/2016/11/2016-kpmg-uk-fiduciary-management-survey.html>

3. **SCOPE OF REFERENCE**

4. KPMG supports the overall framework for the investigation and believes the scope of reference is appropriate given the timeframe available.

We also consider that the CMA's definition of "Investment Consultancy Services" sufficiently captures the work carried out by our team and the market more widely. . KPMG is pleased to see the CMA's early recognition of the differences between and within institutional investors. We consider this to be an important nuance in the industry and which will be an important element in the MIR. We also support the decision to focus the review on pension trustees. In our experience, pension fund trustees tend to use independent investment consultants far more than other categories of institutional investors, such as charities and family offices.

As KPMG does not provide "fiduciary management services", we have no further comment to offer on this part of the scope.

5. **MARKET CHARACTERISTICS AND OUTCOMES**

KPMG welcomes the CMA's recognition of the important role played by trustees for pension funds and welcomes actions which will assist them further. Our view is that most trustee boards are of a high quality with the knowledge and understanding to assess and challenge the investment advice they receive. Furthermore we are finding that trustee boards and investment committees are getting stronger with the appointment of specialists such as independent trustees. The views of trustees should form an important element of the review.

Further, KPMG considers that there are many examples of good advisers providing high quality and valuable advice to their clients. KPMG also agrees

that the other characteristics identified in the IS will be relevant to the CMA's assessment and looks forward to further engagement on these complex issues.

At this stage, KPMG supports the proposed approach of considering high level and detailed analyses of the market outcomes.

6. THEORIES OF HARM

6.1 Demand side and information issues

We understand the CMA is interested in demand and whether clients have the information required in order to both make informed purchasing decisions and to continually evaluate the services received. In particular, the IS highlights tendering for investment services as a feature of the demand side which it would like to consider further

We often participate in tender processes for trustee investment appointments. We find that these processes are highly competitive and buyers will use these processes to negotiate across various aspects of the offer (including price). The processes allow for an informed choice.

Following a tender process, we continually provide information to our clients that allows them to assess our services, and would expect this is commonplace across the industry. For example, clients may be provided with annual "self-reviews" of our services that aid them in judging performance and quality.

We agree with the acknowledgement in the IS that customers in this market are complex, and differentials in their requirements mean that the service provided to each client is bespoke. More broadly, we consider that pension fund investment strategies have markedly increased in sophistication over the last decade or so. Overall we believe that this development has been very positive with investment strategies now much better aligned to the liabilities of the funds. The critical element that drives performance is the investment strategy and asset allocation used to implement it.

We do observe some schemes which in our view have overly complex fund management arrangements with an over diversification of the number of fund managers. However, KPMG is not aware of complex funding arrangements being used as part of a strategy to charge higher fees.

We look forward to engaging with the CMA on each of the points set out above and illustrating our experience of a competitive market driven by increasingly sophisticated clients and high quality, conscientious providers.

6.2 Barriers to entry and expansion

We would agree with the FCA's finding that barriers to entry are not high in this market with respect to strategic investment advice. There are a wide range of firms that can help clients in this respect. However, firms need to be of a certain size in order to carry out substantial market research and offer a credible service.

7. REMEDIES

KPMG welcomes the CMA's approach of engaging with parties in relation to remedies from the outset of the process. KPMG appreciates that this will enable the CMA to complete the MIR as efficiently as possible, helping to minimise the impact on the industry, including trustees and other stakeholders. In the time available KPMG has focused its response on the other aspects of the IS but looks forward to reviewing the evolution of any remedies as the MIR progresses.

We look forward to engaging with you on the MIR.

Yours faithfully

KPMG LLP