THE INVESTMENT ASSOCIATION

Investment Consultancy Services and Fiduciary Management Services

Market Investigation

Statement of issues

Response from The Investment Association

12 October 2017

IA response to the CMA statement of issues on the market investigation into investment consultancy and fiduciary management services

Summary

1. The Investment Association[1] welcomes the opportunity to respond to the CMA's statement of issues on the market investigation into investment consultancy and fiduciary management services. Investment consultants play a central role in the institutional asset management market and the quality of their advice is likely to be significant in determining outcomes for institutional investors. Ensuring that this element of the investment value chain works well for institutional investors is therefore important.

2. In our response to the FCA asset management market study Interim Report[2], we previously set out our position on key issues regarding the structure of the institutional market including the role of investment consultants and the disclosure of costs and performance. Specific areas in this document draw from, and build on, comments made in our response to the Interim Report.

The CMA's approach to the investigation

3. We agree with the focus on pension schemes as they represent the largest group of investors in the institutional market and are key clients for investment consultants. However, this is a diverse group of investors and we think a more specific focus is required on small and medium-sized pension schemes as they are more likely to be reliant on the services of investment consultants. Larger schemes are more likely to have in-house investment expertise and may not use consultants at all.

4. We are pleased to note that as it carries out its investigation the CMA intends to take account of existing work affecting the pensions and asset management sectors. In this regard we would particularly highlight forthcoming domestic and European regulation (in particular the EU's revised Markets in Financial Instruments Directive), requiring enhanced disclosure to investors of asset management fees and the transaction costs incurred in the investment process. These regulations, due to take effect from January 2018 will lead to greater transparency of asset management-related costs incurred by investors.

Market characteristics and outcomes

5. The IA welcomes the CMA's focus on the outcomes from investment consultancy services. As the CMA explores the quality and value for money of investment consultancy services we consider that it would be helpful to further refine how the quality of these services is assessed as well as

[1] The Investment Association represents the asset management industry operating in the UK. Our members include independent fund managers, the investment management arms of retail banks, life insurers and investment banks, and the in-house managers of occupational pension schemes. They are responsible for the management of around £6.9 trillion of assets in the UK on behalf of domestic and overseas investors. The money our members manage is in a wide variety of investment vehicles including authorised investment funds, pension funds and stocks & shares ISAs.

[2] The full IA response can be found here. See Part Seven for a detailed discussion of the institutional market findings and conclusions.

the factors on which institutional asset managers compete for clients which we consider to be much broader than price alone.

Hypotheses for investigation

6. The IA agrees with the CMA on the need to understand the challenges that the demand side of the market faces – notably the ability of pension trustees to do their job in the context of an increasingly complex macroeconomic and regulatory environment. A strong and well informed demand side is important in ensuring that this market delivers good outcomes.

7. Investment consultants have a trusted position with the client as a consequence of their advisory role and the provision of additional services, including fiduciary management, is a natural evolution of this advisory service. While vertical integration between advisory and fiduciary services can be beneficial to the client, where the distinction between these two services is blurred there is a potential conflict of interest since investment consultants can recommend their own services to their clients without the need for a tendered mandate. The FCA's analysis raised important issues in this regard and we welcome the CMA's intention to examine this further

8. As a related point, while we have no major concerns over the existence of barriers to entry for investment advisory services, we do consider the dominance of the fiduciary management market by the investment consulting industry to be a possible indication of greater challenges faced by non-consultant providers of this service (asset managers and specialist fiduciary managers) trying to win market share. The fact that fiduciary mandates are not always tendered for externally does create a barrier to entry for firms that do not already have an existing advisory relationship with a client.

Possible Remedies

9. Ahead of the CMA conducting its investigation the IA thinks it is premature to comment on the possible remedies although we consider that the CMA has identified the full range of possible remedies at this stage. That said, we do question the relevance of further considering the price cap on DC master trusts in this market investigation as it is not clear to us how the cap deals with the conflict of interest faced by consultants with the incentive to recommend their in-house master trusts to employers.

10. At the same time, we do believe that there is a good case for investment consultants to be brought into the FCA's regulatory perimeter ahead of the CMA investigation concluding. This is something that should happen alongside the CMA's work as it will lead to improved regulatory oversight of the sector in the future.

1. The CMA's approach to the investigation

Proposed focus

11. We agree with the focus on pension schemes given their importance within the institutional market and the fact that they are a key client group for consultants. According to the IA's latest Annual Asset Management Survey[3] pension schemes own £2.2 trillion of assets out of the total institutional market size of £3.6 trillion[4]. The FCA report that pension schemes are a key client of investment consultants, with 93% of investment consultant advisory revenues in 2015 coming from pension schemes, the vast majority of them DB[5]. Fiduciary management is a service largely offered to DB schemes, although it is expanding into the DC market as well.

12. Moreover, within the more general focus on the pensions sector we would suggest a specific focus on small and medium-sized schemes that are often less well-resourced in terms of governance budgets and more reliant on consultant advice. Large schemes (roughly speaking with assets of £5 billion or more) typically have in-house investment expertise which trustees can call upon; in these cases trustees may not always use consultants.

Previous reviews, ongoing work and future developments

13. We welcome the CMA's recognition that there are a number of changes currently taking place or due to take place in the coming years which will have an impact on institutional investors. There are two areas mentioned in the issues statement that we wish to highlight in particular: disclosure of asset management fees and investment transaction costs; and the charge cap on DC workplace pension products, including master trusts.

Disclosure of asset management charges and investment transaction costs

14. The CMA discusses a potential remedy to require investment consultants to report to clients the fees of asset managers selected and the extent to which consultants have reduced them. The CMA notes[6] this *"would involve developing an industry standard for disclosure of asset managers' fees…"*.

15. Enhanced disclosure of asset management fees and the transaction costs incurred in the investment of client monies has been a significant regulatory theme in recent years, both in the UK and Europe. As a result, major changes to the way that asset managers are required to disclose fees and transaction costs are due to take effect in the coming months. These measures will significantly enhance investors' ability to hold their asset managers accountable for what they deliver, and if used correctly will be able to help with 'value for money' judgements. Ultimately the entire client base of the UK asset management industry will benefit from these changes, but for institutional investors two pieces of regulation in particular are relevant here and therefore need to be brought to the CMA's attention.

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[3] Asset Management Survey 2016-2017, The Investment Association, 2017
[4] Of the non-pension assets £1 trillion are owned by insurance companies which have significant in-house investment expertise and are less reliant upon investment consultants.
[5] FCA Asset Management Market Study interim report, 2016. See paragraph 8.17.
[6] See paragraph 105 of the statement of issues

16. On 3 January 2018 the EU's revised Markets in Financial Instruments Directive (MiFID II)[7] comes into force across member states. This is a wide-ranging piece of legislation that covers a large number of areas affecting the asset management industry and the capital markets that it operates in. In the area of fee disclosure, MiFID II requires asset managers and their distributors to make ex-ante and ex-post disclosure of all charges and costs to the client. These costs must be aggregated into a single number, with a detailed breakdown made available to the client on request. Ex-post reporting must be at least annual and will be done pro-actively by the asset manager and distributor, as appropriate, with the client not having to request this information.

17. Institutional investors in receipt of portfolio management services from a MiFID investment firm will be covered by these rules. In the pensions sector this would apply to schemes that have segregated accounts managed for them by MiFID investment firms. Segregated accounts are very common in the corporate pensions sector in particular, with nearly two thirds of corporate pension assets directly invested on a segregated basis[8]. MiFID legislates for the cost and charge items that must be disclosed, but not for the form of that disclosure. The asset management industry has been working to develop a standardised MiFID disclosure template for portfolio managers to meet their obligations (see also paragraph 22 below).

18. Regulatory guidance on MiFID II from the European Securities and Markets Authority (ESMA) has also provided the asset management industry with a standardised methodology for the calculation of implicit transaction costs[9], an area where there are a number of possible methods to estimate a figure due to a lack of standardisation in the Transaction Costs Analysis (TCA) discipline.

19. The second piece of regulation that directly affects UK institutional investors is the FCA's recently finalised rules for transaction cost disclosure to DC workplace pension schemes[10]. Under these rules, which also take effect on 3 January 2018, asset managers must disclose on an ex-post basis to their DC clients their fees and the transaction costs incurred in the investment of their monies. Implicit transaction costs are calculated according to a standardised methodology and this is largely consistent with the methodology deemed suitable by ESMA for MiFID disclosures.

20. The data generated under the FCA rules is intended in the first instance for DC governance bodies – trustees, insurance companies' investment teams and Independent Governance Committees (IGCs) – that make the decisions about the investments that are selected for workplace DC schemes. Since April 2015 IGCs and trustees have been obligated[11] to seek information on charges and transaction costs and assess the 'value for money' that they provide. The 2014 Pensions Act[12] also places further duties on the DWP and FCA to ensure that these

[7] Markets in Financial Instruments (MiFID II) Directive 2014/65/EU
[8] Asset Management Survey 2016-17, The Investment Association, 2017
[9] Those costs that do not result from any fees being paid as a separately identifiable amount by one party to another. The bid/offer spread is a commonly encountered implicit cost, as most financial instruments are available at any moment to be bought at one price, but to be sold at a lower one.
[10] PS17/20: Transaction cost disclosure in workplace pensions, FCA, 2017
[11] See regulation 17 of The Occupational Pensions Schemes (Charges and Governance) Regulations 2015. The FCA's COBS 19.5.5R(2) makes equivalent rules for contract-based schemes.
[12] In particular section 44.

costs are disclosed to scheme members and further rules to ensure this happens are expected in due course.

21. These pieces of regulation are intended to provide disclosure to asset managers' clients first and foremost. However, our own experience – particularly in the DC market – suggests that investment consultants are also interested in being able to collect this data from the asset managers they work with, in order to be able to offer assistance to their clients in interpreting this information and assessing the costs as part of a 'value for money' judgement. Anecdotally, we are aware of investment consultants building databases to capture transaction cost information alongside the fee information they already hold on asset managers. Our understanding is that such information can be used as part of the advice offered to DC scheme decision-makers. It may also be used to inform the design of in-house master trust investment strategies.

22. In addition to these two pieces of regulation the FCA, in the wake of its Asset Management Market Study Final Report[13], set up an Institutional Disclosure Working Group[14] to advise on the design of a standardised cost and charge disclosure template for institutional investors. This group, in which the Investment Association participates, will build on a piece of work that the IA has already done with the Local Government Pension Scheme Advisory Board to deliver a standard cost disclosure template for Local Government Pension Schemes[15]. The template is attached in the appendix and has already been designed to be compliant with the FCA's DC cost disclosure rules. It can also be used by asset managers to collect the component parts needed for MiFID cost disclosures.

23. These different initiatives represent significant progress in enhancing the disclosure of charges and transaction costs and we believe that clients will, as a result, have all the information they need on asset management fees and investment transaction costs on both an ex-ante and ex-post basis. Asset managers face significant implementation challenges in delivering these requirements and clients will be faced with a significant volume of additional data in the form of these new disclosures. These new disclosures of asset manager fees would appear to meet the requirement of the industry standard that the CMA discusses in paragraph 105 of the Statement of Issues. Additional remedies related to asset manager fees are unlikely to be appropriate until a sufficient period of time has passed in which regulators can assess the impact of these disclosures on investor behaviour. We would be very happy to discuss with the CMA the work carried out in this area to date.

Master trusts and the charge cap on DC automatic enrolment default strategies

24. The issues statement also highlights that some consultants, when advising on pension scheme design to employers, face a potential conflict of interest in recommending their own DC master trust solutions to clients ahead of the products of external providers. In raising this as an issue to consider the CMA highlights the *"existing price cap in place for master trusts."* and states that

[13] Asset Management Market Study Final Report, FCA 2017
[14] Further information on the Institutional Disclosure Working Group is available via its webpage
[15] Further information on the template can be found on the Scheme Advisory Board website

it may consider *"the pricing of master trusts if there are concerns in relation to this potential conflict"*[16].

25. We acknowledge the potential conflict of interest, although we do not know if it is a problem in practice. Other stakeholders, for example employers that receive such a recommendation, will be better placed to comment here. However, it is not clear to us that the charge cap is an appropriate mechanism for dealing with the conflict of interest identified here and we struggle to see why it should be considered as part of this market investigation.

26. Moreover, in the area of pricing in particular we would note that the charge cap applies to all DC default strategies, not just master trusts. Any decisions on the charge cap would therefore affect all parts of the DC workplace pensions market and not just the master trust segment. Furthermore, the DWP is already reviewing the level and scope of the cap alongside its review of the Automatic Enrolment programme[17]. In its consideration of the conflicts of interest in relation to master trusts we would encourage the CMA to take account of these points.

2. Market characteristics and outcomes

27. We welcome the CMA's focus on considering market outcomes but consider that there are a number of areas where the definition of quality in relation to investment consultancy services could be refined: the quality of consultant advice and how it is assessed; as well as the factors – broader than just price – on which institutional asset managers compete for clients.

Quality of consultant advice: asset allocation and manager recommendations

28. As the CMA notes, assessing the quality of asset allocation advice[18] in quantitative terms is challenging because of the multiple factors that drive pension scheme outcomes although we consider there is merit in trying to measure the quality of this advice given its importance in determining the client's outcome. In our view however, the concerns are less with the quality of advice offered, but more around the specificity of that advice, in particular whether for certain clients it is sufficiently tailored. There is a view that smaller and medium sized clients may be receiving more 'packaged' advice that may be less tailored to their specific circumstances. We consider that it should be feasible for the CMA to assess whether the specificity of advice varies across different types and sizes of pension scheme.

29. Asset manager recommendations are made to institutional clients following a thorough and challenging appraisal before a mandate is won. As the FCA has highlighted in its Asset Management Market Study interim and final reports it considers the due diligence of managers' products offered by consultants to be a valuable service to institutional investors. In theory it should be possible to measure the quality of manager selection advice by looking at the subsequent performance of highly-rated products and managers. The FCA conducted this analysis and found that on average investment consultants are not able to identify managers that offer better returns to investors.

[16] See paragraph 70 of the statement of issues
[17] Further information about the DWP's review of automatic enrolment and the charge cap can be found in the review's terms of reference
[18] More generally we mean this term to include advice on the scheme's investment strategy.

30. We believe this is an overly strong conclusion to draw for two main reasons. Firstly, consultant ratings are by their nature to some extent subjective judgements. This subjectivity is exacerbated by the fact that there is significant heterogeneity between specific products within a wider product set, which can make it difficult to identify best-in-class products.

31. Secondly, the FCA's work assessed performance based on a narrow interpretation of investment objectives. Annex 5 of the FCA's interim report states that the conclusion is based on looking at the returns of recommended and non-recommended products and then comparing these to the return of the appropriate benchmark. This assumes that all investment objectives are set solely in relation to achieving a given level of return. However, this is far from the case – institutional investment objectives are frequently set in relation to other factors such as risk measures, liability hedging or funding levels (e.g. Liability Driven Investment strategies), reflective of the underlying purpose and needs of the investor (e.g. to pay out pensions). More generally, management of investment exposure – as opposed to a narrow focus on returns – is increasingly a significant part of what institutional clients, particularly pension schemes, buy. Any consideration of advice provided by investment consultants should take these wider outcome-focused objectives into account rather than simply focus on the single outcome of performance.

Investment consultants and competition in the institutional asset management market

32. The FCA's interim report of the Asset Management Market Study contained analysis of competitive dynamics in the institutional asset management market that focused on the correlations drawn between pricing, past performance and competition. This was particularly evident in its institutional market econometric analysis, where product flows were largely specified as a function of a number of variables focused on price and past performance (alongside consultant recommendations). This work was the main basis of the conclusion that investment consultants do not appear to drive significant price competition between asset managers.

33. While price is of course important, this focus is to the exclusion of the broader based competitive forces in the institutional asset management market whereby managers are selected by a much wider set of criteria, including (though not exclusively and in no particular order of importance):

- Stability of organisation;
- Consistency of investment process;
- Investment research capabilities;
- Access to portfolio managers;
- Alignment of compensation and reward between an investment manager and their investors;
- Variety of investment strategies and the ability of managers to grow with their clients over time;

- Organisational values, culture and ethics; and
- Internal control and risk management frameworks.

34. While most of these factors were identified by institutional investors themselves (see figure 4.4 of the FCA's interim report on the Asset Management Market Study) as being important when selecting asset managers, there was little discussion of them in the FCA's interim report analysis of how institutional asset managers compete[19]. A complete analysis of the extent to which investment consultants drive competition between institutional asset managers would also need to include a consideration of these broader factors.

3. Hypotheses for investigation

Demand-side and information issues

Trustee capability

35. We welcome the CMA's recognition that it needs to understand the demand side of the market. The ability of pension fund trustees to effectively scrutinise their investment consultants and assess the quality of their services is important in getting good outcomes for their schemes. In this regard we would note that the FCA's work in the Asset Management Market Study identified a number of issues with respect to the governance structures at some pension schemes.

36. One of the most important decisions that trustees face is on strategic asset allocation, which as the FCA noted in its work, is a major driver of client outcomes, and an area that it has identified as not always receiving enough attention from trustees (see for example para 8.43 of the interim report to the Asset Management Market Study). This finding is consistent with the Myners review on institutional investment in the UK[20] which highlighted, as long ago as 2001, the lack of resource devoted by trustees to asset allocation decisions.

37. The FCA noted that *"trustees have a tendency to rely heavily on investment consultants, Chairs of Trustees and/or professional trustees that they perceive as having greater investment knowledge. This dependency can result in trustees accepting proposed investment strategies without critique or challenge".*[21] The FCA also found that *"trustees often fear complexity and looking ignorant in front of their peers. This contributes to their unwillingness to challenge and makes them more likely to accept proposed strategies that they do not fully understand"*.[22]

38. There is a wider public policy debate regarding the professionalisation of trustees and the knowledge and skills they require in order to fulfil their duties. In the light of the issues that the FCA found we think there is merit in the CMA examining the capabilities of trustees alongside the information issues they may face in the procurement of investment consultancy and fiduciary management services.

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[19] Although we do note that the FCA identified some of these factors as feeding into consultants' ratings of managers. See paragraph 8.55 of the Asset Management Market study Interim Report.
[20] 'Institutional Investment in the United Kingdom: A Review', Paul Myners, 2001.
[21] FCA Asset Management Market Study, Interim Report, Para 4.108, p.68.
[22] FCA Asset Management Market Study, Interim Report, Para 4.111, p.69.

Complexity

39. The environment that pension schemes operate in has undoubtedly become more complex over the last 20 years. This has arisen for a number of reasons:

    - Changes to the nature of DB pension promises that have increased the value and complexity of liabilities e.g. inflation protection for deferred benefits and pensions in payment, spousal benefits etc.
    - A greater focus on pension liabilities, in turn due to a greater regulatory and corporate focus on the need to better manage liabilities
    - A greater desire on the part of trustees to manage the volatility of both assets and liabilities
    - The shift in investment risk from the employer to the individual as a result of the DB-DC shift

40. Much of the innovation seen in institutional asset management over this period – for example Liability Driven Investment, Fiduciary Management, Target Date Funds, Diversified Growth Funds, to name a few – has arisen in response to a demand for more sophisticated products to deal with the more complex environment that pension schemes now operate in.

41. We do not see this increasing sophistication in product set as a problem – schemes should, and do, have a range of products to choose from in order to meet their investment needs. However, it may be the case that not all clients will need to take on the same level of complexity in their investment strategy and there is a concern that some schemes may be being advised to adopt solutions that are overly complex for their needs. In some cases there may be simpler and cheaper solutions available for clients.

Conflicts of interest

Moving clients into in-house products

42. Investment consultants have a trusted position with the client as a consequence of their advisory role and are able to build strong relationships with their clients. The provision of additional services, including fiduciary management, is a natural evolution of this advisory service. As long as clients understand the different nature of the relationship in the move from adviser to fiduciary, and are aware of the option to look across the market for a fiduciary manager, we do not see an inherent problem with this kind of vertical integration. However, anecdotally we have heard that this may not always be the case.

43. We therefore consider the move from an advisory relationship to a fiduciary one to be the most serious potential conflict of interest since investment consultants can recommend their own services to their clients without the need for a tendered mandate. This appears to be borne out by the evidence, which paints a picture of a market that has been growing steadily in recent

years[23], dominated by consultants[24] who frequently win this business without any competitive tendering process[25].

44. As with any asset management service it is important that the performance of fiduciary managers is monitored by clients and their advisers. While the performance of externally appointed fiduciary managers is always independently audited, this may not always be true of fiduciary mandates that arose from an advisory relationship. In that regard we welcome the commitment made by the three largest consultants in their undertakings in lieu[26] to report fiduciary managers' performance on a standardised basis. Further industry initiatives, such as that being proposed by IC Select[27], to improve reporting of the performance of fiduciary managers will also help bring greater transparency for clients and improve competition amongst all providers in the market.

45. A similar conflict of interest can arise were consultants to use their client advisory relationships to sell their own funds. For example, in the DC pensions market, consultants might design their own default strategies by blending external managers' funds. There are also issues that arise with respect to transparency and disclosure, since there is no requirement to publish the performance of these blended strategies, whereas managers must report the performance of their individual funds.

46. More generally the nature of the advisory role of consultants means they collect large amounts of information on asset managers' fees and products. If this information is used in the market positioning of consultants' in-house products then this can create a significant informational advantage for consultants over asset managers where they are directly competing.

47. We are particularly keen that where consultants provide asset management products and services, they compete on a level playing field with asset managers in terms of market information, regulatory oversight and client scrutiny of their performance.

Gifts and hospitality

48. The FCA discussed in the Asset Management Market Study interim and final reports the relationship between gifts, hospitality and revenues from asset management groups and the ratings given to them by investment consultants.

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[23] From just £12 billion of assets under management in 2007 to £123 billion of AuM in 2016. Source: 2016 KPMG Fiduciary Management Market Survey

[24] See 2016 KMPG UK Fiduciary Management Survey, p3, Chart 'Number of mandates by type'. By 2016 350 of around 450 full fiduciary mandates in the UK were provided by consultants, with around 50 by specialist fiduciary managers and another roughly 50 by investment managers

[25] Aon Hewitt report that in 2016 58% of schemes surveyed would appoint the fiduciary business of their existing investment consultant or actuarial adviser as their provider. Source: Fiduciary Management Survey 2017, Aon Hewitt

[26] Proposed undertakings in lieu of a market investigation reference given to the FCA by each of Aon Hewitt, Mercer and Willis Towers Watson. Available to download here. See UIL number 3 and Annex 2 in particular.

[27] See IC Select's website for further details of their work to create an industry-wide performance standard for fiduciary managers.

49. The FCA found that the value of expenditure on these non-monetary benefits has fallen significantly[28] from around £160,000 in 2013 to around £40,000 in 2015[29] and this coincided with the publication of their inducement guidance in 2014[30]. We expect further falls in future years following the publication of the FCA's thematic review last year[31]. It is our understanding that both managers and consultants have strict policies in this area.

50. Furthermore, forthcoming changes to the FCA's rules on inducements as a result of MiFID II[32] will provide further clarity for asset managers specifically in relation to portfolio management services provided to professional clients (which includes all pension schemes bar local authority schemes). In the light of this and the changes that have already occurred, we see limited merit in further analysis on this issue beyond that which the FCA has already done.

The 'pay-to-play' fee model

51. We note that the CMA has highlighted possible concerns over the pricing model used by some consultants known as 'pay-to-play' in which the asset manager awarded a mandate pays for the cost of the consultant's advice.

52. We do not consider there to be any inherent conflicts of interest in this model but it does not seem especially transparent, in that the cost of the consultant's service is not always explicit (although it is sometimes included in the RFP to managers). Under this model, asset managers must pay the consultant's fee and then either choose to absorb it, re-coup it directly from the client with an explicit charge or re-coup it via an increase in the manager's own fee. In general such a pricing model in the institutional market conflicts with the transparency introduced into the retail investment market through the Retail Distribution Review, which required the explicit unbundling of the costs of asset management, distribution and advice. It also conflicts with the increasing direction of enhanced transparency in asset management fee disclosure, as described above.

53. We do recognise that the customer may find it easier to pay one service provider (the asset manager) although this seems a reasonably minor convenience for institutional investors and one which has not been deemed significant for retail investors. At the very least there should be transparency over the cost of what services are covered by any fee and we note that comparisons will be made more difficult if some prices bundle the cost of investment consultancy with asset management while others do not.

Barriers to entry and expansion

54. We generally do not have any concerns in relation to barriers to entry for advisory services provided by investment consultants. As the FCA has noted in its analysis, although the advisory

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[28] Asset Management Market Study Interim Report, paragraph 8.88, FCA, 2016
[29] Asset Management Market Study Interim Report, figure 8.6, FCA, 2016
[30] FG14/1 – Supervising retail investment advice: inducements and conflicts of interest, FCA, January 2014
[31] Inducements and conflicts of interest thematic review: key findings, FCA, April 2016
[32] Final rules are set out in the FCA's Policy Statement 17/14 of July 2017. COBS 2.3A 'Inducements relating to MiFID, equivalent third country or optional exemption business'. See in particular: COBS 2.3A.5R 'Rules on inducements relating to the provision of investment services and ancillary services'; and COBS 2.3A.16 'Inducements relating to the provision of independent advice and portfolio management services to retail clients outside the UK or to professional clients'.

market is concentrated, a number of smaller consultancies have entered the market in recent years. More generally, asset managers seem to be able to get consultants to research and rate their products although we are aware of concerns that consultants may sometimes focus their research efforts on firms where they have significant clients or a large value of assets under advice. Generally speaking however, while individual consultants may sometimes be capacity-constrained or lacking research expertise in a particular area, this is not true of the market as a whole.

55. Where we do have concerns relates to possible barriers to entry in the fiduciary management market arising from the ability of consultants to sell their fiduciary services to their advisory clients as we have noted above. Evidence that this may be an issue can be found in the dominance of consultants in the fiduciary management market, where by 2016, approximately 350 out of 450 fiduciary management mandates were being run by consultants[33]. Specialist fiduciary managers and asset managers offering a fiduciary management service made up the rest of the market.

4. Remedies

56. We think it is, in general, premature to comment upon specific remedies ahead of the CMA carrying out its detailed analysis. We do however consider that the CMA has set out an appropriately broad range of potential remedies.

Extending the FCA's regulatory perimeter

57. As in our response to the FCA asset management market study Interim Report, we would like to state our support at this early stage for extending the FCA's regulatory perimeter to include investment consultancy and fiduciary management services. We do not think a CMA investigation is required in order for this remedy to be applied.

58. As the FCA noted in its Asset Management Market Study, asset allocation decisions are likely to be one of the most important drivers of outcomes for institutional investors[34]. Although trustees make the final decisions on asset allocation, the asset allocation advice given by consultants is hugely influential.

59. The Myners' review identified as long ago as 2001 that trustees did not devote sufficient resource to asset allocation decisions and it is a concern that that the FCA still found this to be the case today. This lack of focus means the advice of consultants in this area becomes even more important. Given both the importance and the influence of the consultant's asset allocation advice (and for that matter manager research and selection[35]) it seems an anomaly that such advice is not an FCA-regulated activity.

[33] 2016 KPMG UK Fiduciary Management Survey

[34] There is a significant body of academic work on the impact of asset allocation on returns. See 'Setting the Record Straight on Asset Allocation', CFA Institute, February 2012 for a good discussion of the literature.

[35] The FCA stated that *"Strategic asset allocation advice and manager selection advice can currently be provided in a way that is not regulated by the FCA"*. See 'Final Decision: Market Investigation Reference (MIR) on investment consultancy services and fiduciary management services', FCA, 2017

60. It is also anomalous in light of the fact that asset managers providing multi-asset products are FCA-regulated persons. This is entirely correct and we do not see why consultant advice should be treated any differently. Assessing the performance of consultant advice in this area will give institutional investors the same power to hold consultants to account that they currently have in relation to their asset managers. We consider that a clearer articulation of performance by the consultants will facilitate enhanced competition in that market through investors being more informed.

61. This analysis also applies to the advice that is given by consultants to trustees and employers in the DC workplace pensions market in relation to the creation of the default investment strategy in these schemes. DC default strategies are typically multi-manager and/or multi-asset solutions, with the consultants creating their own default strategies by blending external managers' products. The advice provided here seems to us to fall into the same category as more traditional institutional investment advice and we see no case for it not to be regulated. Making this advice a regulated activity will allow the FCA to set performance standards or assessment criteria that trustees and employers will be able to use to hold consultants to account for the advice they provide.

Appendix: Asset management fees and investment transaction costs disclosure templates

Figure 1: IA Pooled Fund Reporting Template

POOLED FUND COST COLLECTION TEMPLATE *For use with investments in pooled funds*

All figures in % of average NAV pa unless specified

Fund Manager	
Fund name	
Share class name	
Date of report	
Currency of report	GBP

Investment return (% pa)	1 year	3 years	5 years	10 years	Since formation
Net return					

Investment activity (GBP unless specified)	Total	Equity	Bonds	Property	Pooled funds	Other (specify)
Opening assets						
Closing assets						
Purchases	0					
Sales	0					
Turnover (% pa)	%					

Management fees	Total (GBP)
Invoiced fees (less any rebates)	
VAT (if applicable)	
Total	0

Client-specific data	Client (GBP)	*To be completed by the investing client in order to calculate client-specific amounts*
Average value of client holding		

Ongoing charges	Client (GBP)	Total
Manager's fees		
Other fees		
Indirect fees		
Total ongoing charges figure	0	0.00%

Performance fees	Client (GBP)	Total
Performance fees	0	

Transaction costs	Client (GBP)	Total	Equity	Bonds	Property	Pooled funds	Derivatives	Foreign exchange	Other (specify)
Transaction taxes		0.00%							
Broker commission		0.00%							
Implicit costs		0.00%							
Entry/exit charges		0.00%							
Indirect transaction costs		0.00%							
Other transaction costs (specify)		0.00%							
Anti-dilution offset		-0.01%							
Total transaction costs	0	-0.01%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Stock lending (if applicable)	Total	
Value of stock on loan		%
Gross income		
Less: income shared (name recipients)		%
Income retained by pooled fund	0	%

Figure 2: IA Segregated Portfolio Management Cost Collection Template

SEGREGATED MANDATE COST COLLECTION TEMPLATE *For use with segregated portfolio management mandates*

All figures are monetary amounts unless specified

Asset Manager				
Portfolio name				
Period of report	Start:		End:	
Currency of report	GBP			

Investment return	**1 year**	**3 years**	**5 years**	**10 years**	**Since formation**
Gross return (% pa)					
Net return (% pa)					

Investment activity	**Total**	**Equity**	**Bonds**	**Property**	**Pooled funds**			**Other (specify)**
Opening assets								
Closing assets								
Purchases	0							
Sales	0							
Turnover (% pa)	%							

Management fees	**Total**
Invoiced fees (less rebates)	
VAT (if applicable)	
Payments for research	
Other charges (specify)	
Performance fees	
Total	**0**

Indirect fees	
Fees paid from NAV of pooled funds	

Transaction costs	**Total**	**Equity**	**Bonds**	**Property**	**Pooled funds**	**Derivatives**	**Foreign exchange**	**Other (specify)**
Transaction taxes	0							
Broker commission	0							
Implicit costs	0							
Entry/exit charges	0							
Indirect transaction costs	0							
Other transaction costs (specify)	0							
Total	**0**	0	0	0	0	0	0	0
Transaction costs per value traded								

Stock lending (if applicable)		
Value of stock on loan		%
Gross income		
Less: income shared (name recipients)		%
Income retained by client	**0**	%

Ancillary sevices (if provided by manager)	
Custody charges	
Collateral management	
Other (specify)	
	0