

12 October 2017

Classification: **PUBLIC**

Project Manager
Investment Consultancy Market Investigation
Competition and Markets Authority
Victoria House
Southampton Row
London
WC1B 4AD

Dear Team

Consultation on Statement of Issues (the “Statement”) for Market Investigation

Barnett Waddingham LLP is a UK based firm of actuaries and consultants. In particular, we provide actuarial, administration and investment consultancy services to trustees and sponsoring employers of occupational pension schemes.

This response should be considered as our organisation’s views, rather than my own professional views although the two are, by and large, the same. We are happy for this response to be made public at the discretion of the CMA if appropriate.

This letter is solely intended as a response to the Statement. We would like to express our support of this review. We believe that anything that improves outcomes for all pension scheme stakeholders, ranging from sponsoring employers and Trustees to the beneficiaries (i.e. members of pension schemes), is ultimately a worthwhile exercise.

Comments on issues identified

We have not, at this stage, sought to provide full analyses and responses to all of the statements. Our overall impression is that the issues identified are sensible and with sufficient and appropriate breadth. That said, below we outline our initial comments on a small number of the issues identified (where numbering below reflects the paragraph number in the Statement).

18 (Extract): We would welcome views on our proposal to focus on pension schemes within the wider range of institutional investors and whether there is a need to extend our analysis to include other types of institutional investors, such as charities, insurance companies and endowment funds.

Whilst we believe that similar services and issues are applicable to charities, insurance companies and endowment funds, we are supportive of the proposed focus on the pension scheme client base within institutional investors. As identified by the CMA, pension schemes represent a significant proportion of the institutional market.

Barnett Waddingham LLP, Decimal Place, Chiltern Avenue, Amersham, HP6 5FG

Tel 0333 11 11 222 Fax 01494 788800 Web www.barnett-waddingham.co.uk

AMERSHAM | BROMSGROVE | CHELTENHAM | GLASGOW | LEEDS | LIVERPOOL | LONDON

We assume that any remedies resulting from the investigation could be equally be applied to other institutional investors in retrospect and do not, at this stage, expect that focusing the qualitative and quantitative analysis on pension schemes would necessarily prohibit this.

34 (Extract): 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.

(c) Importance of the role of trustees

We believe this is an absolutely essential component of the investigation given the critical role they play in all investment matters from strategic asset allocation and manager appointment.

We are wholly supportive of the proposal to survey Trustees and gain their input in this process.

We would suggest that the CMA consider, as is implied within paragraph 34(c), broadening the survey to include individual responses from a number of Trustees on a given scheme, rather than relying solely on responses from a Chair or independent trustee. This is because these individuals may have a particular interest or higher level of knowledge on investment matter and, therefore, may not be fully representative of the experience of the wider decision-making structure.

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 are wholly supportive of the extension of including master trusts within the investigation. We believe the issues regarding the sale of in-house products (paragraphs 66 – 70) from a position of “trusted advisor” are absolutely relevant to this part of the market.

Furthermore, a lot of the issues regarding the ability to assess performance of the provider and potentially fee levels are analogous to that identified by the CMA for the fiduciary management market due to the level of delegation and responsibility offered to the appointed to master trust, potentially more so for the relatively younger defined contribution market.

Comments on potential remedies

Our general view of the potential remedies is that this is a sensible range, accepting of course that these are subject to development as the investigation progresses. We have not sought to comment on all of the remedies at this stage but would welcome the opportunity to provide input once the CMA has been able to consider this further alongside the collated data.

Below, we include comments and initial reactions to a small number of selected potential remedies.

101 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

In principle, we are supportive of increased transparency. However, an unintended consequence of this may mean that pension schemes and employers place a disproportionate weighting on fees when selecting an investment consultant (or, indeed, asset or fiduciary manager) which may lead to a

misalignment in the scheme's requirements and the strengths of a consultant. The same may be true of published performance figures (e.g. paragraph 104).

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

Again, we are supportive of transparency. However, in addition to the concern regarding the weighting placed on this during selection, there are also a number of factors which will make specific analysis and direct comparison of providers difficult and not solely reflective of the advice from an investment consultant.

As identified by the CMA (paragraph 38(d)), this may be more applicable in fiduciary management space where the financial results are more closely aligned to the decision making and recommendations from the service provider.

114 Require the inclusion of at least one professional trustee for each pension scheme/enhance training for trustees

In our experience, the addition of an independent Trustee is very positive and there is significant value for a number of schemes in bringing their experience into the decision-making process. However, we would note that this is an unregulated market and the investment focus and knowledge of independent trustees can vary between individuals.

Next steps

We welcome the opportunity to contribute to the CMA's investigation process and look forward to progressing with the next stages of the review.

Yours sincerely

Marcus Whitehead FIA
Partner, Head of Investment Consulting
Barnett Waddingham LLP