STAMFORD

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

12 October 2017

Dear Sir / Madam

Investment Consultancy Services and Fiduciary Management Services – Market Investigation

We are writing in response to the Competition & Markets Authority (CMA) request for evidence in relation to its investigation into the supply and acquisition of investment consultancy and fiduciary management services.

Stamford Associates

By way of context Stamford Associates is an investment consulting firm that facilitates a blended advisory and delegated investment and governance solution. We employ 36 people and advise a number of institutional clients with assets totalling circa £63bn (as at 31/12/2016). Our longstanding involvement in the investment consulting industry since the 1980's and a conscious effort not to allow our business model to compromise our investment integrity gives us, we believe, a unique perspective on the challenges facing the industry.

Comments

We are supportive of the FCA's referral of the investment consulting and fiduciary management market to the CMA and very much welcome the opportunity to contribute to the CMA's investigation. The areas of investigation outlined in the CMA's "Statement of Issues" give us hope that a clear picture of the current industry dynamics will emerge that will be of benefit to all stakeholders. To achieve this, we believe it is important to give equal voice to the various industry participants and that the review framework should be structured accordingly. With this in mind we were concerned that the first feedback deadline was just three weeks from when the Statement of Issues was released. There is a risk that such short deadlines could bias the feedback in favour of the larger consulting firms with the greatest resources to apply to their response and who arguably have the most to gain from keeping the status quo.

Given the comments above we have restricted our initial feedback but would welcome the opportunity to meet with the CMA to share our views in more detail. The section references below relate to those in the "Statement of Issues".

(18) We agree with the proposal to focus on pension schemes.

(34a) We do not agree that there is a lack of clarity between investment consulting and fiduciary management services. The key distinction is whether or not the firm concerned has authority to act without the client's prior consent.

(34c) The proposed survey of trustees will need to be carefully worded and widely undertaken across a broad spectrum of schemes if it is to elicit meaningful information. It should also be completed by investment consultants and fiduciary managers in order for the CMA to understand whether there is a disparity of views between the parties.

(34d, 98, 104) We would caution over introducing an industry standard template for reporting investment performance. Whilst we appreciate the high level appeal of such an approach we are concerned it will simply generate more costs, create significant misinformation and entrench current thinking around investment benchmarks and risk management that we believe is flawed. Performance reporting should be designed with the specific scheme in mind, assessing the extent to which the risks it was prepared to take have been successfully exploited whilst mitigating those it wished to avoid.

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(34e, 60, 61) The basic underlying investment principles relating to how pension scheme assets should be effectively invested in order to meet member benefit promises have not changed over the years. Yet the industry, supported by legislation driven by perceived wisdom at the time, has created what we believe to be unnecessarily complex solutions for many schemes. The result, in our opinion, is a double whammy of higher costs and difficulties in effectively monitoring the continuing suitability of the investments and adviser / fiduciary manager.

(38a) We believe it is possible to deliver strong long term risk adjusted returns from genuinely active management but that the pool of suitable active managers is relatively limited. If this premise is accepted, it raises questions for the larger firms (consultants and fiduciary managers) as to the scope to add value from active management across their whole client base.

(38b and 105) Consultants' claims to secure fee discounts need to be treated carefully as many investment managers have no or low expectation of charging their standard fee rates in practice. There is also a risk of managers being recommended on the basis of how large a fee discount can be "negotiated" in order to make it appear that the consultant is adding value, rather than on the basis of which manager is best fit for purpose. In particular, boutique managers who are capacity constrained are unlikely to negotiate on fees. However, it is often these very managers that have the best potential, in our opinion, to add significant value.

(47) The information needed for trustees to assess and monitor consultants and fiduciary managers is, in principle, readily available. The challenge is finding someone who is well placed to a) advise on what information should be obtained b) access the information and c) analyse it effectively. The problem at present is that many of the firms that provide oversight services are conflicted in that they are direct competitors in other situations with the firms they are charged with overseeing. This in turn affects the free flow of information on which trustees need to develop an informed opinion with regard to the incumbent and /or potential service providers.

(60) This section highlights the dynamics around time cost fee structures that naturally incentivise consultants to generate more work. Consideration should be given to identifying fee structures that are better aligned with client outcomes and are agnostic to consultant hours spent.

(63 – 75) Conflicts of interest: it is important to distinguish between conflicts that are perceived but not real and those that are real (but sometimes not perceived). For example, we often see throw away comments suggesting that fiduciary managers have more conflicts than investment consultants. However, the reality depends on how the fiduciary business model is structured – the key test is whether the fiduciary has a financial incentive to place client assets in some funds at the expense of others. In contrast, little is often said of the conflicts facing consultants providing fiduciary oversight services and the incentives inherent within a time cost model as discussed in items (47) and (60) above.

(76 – 80, 109) Unlike the public sector there is no requirement for private sector pension schemes to run a public procurement exercise. We believe this can result in a relatively closed shop of firms that are asked to tender and restricts competition. Consideration should be given to requiring all private sector pension schemes to invite tenders from all interested parties.

We trust these high level comments are helpful and would welcome the opportunity to engage in discussions with the CMA in due course.

Yours sincerely

[redacted]

Carl Hitchman FFA
Head of Fiduciary Management Advisory