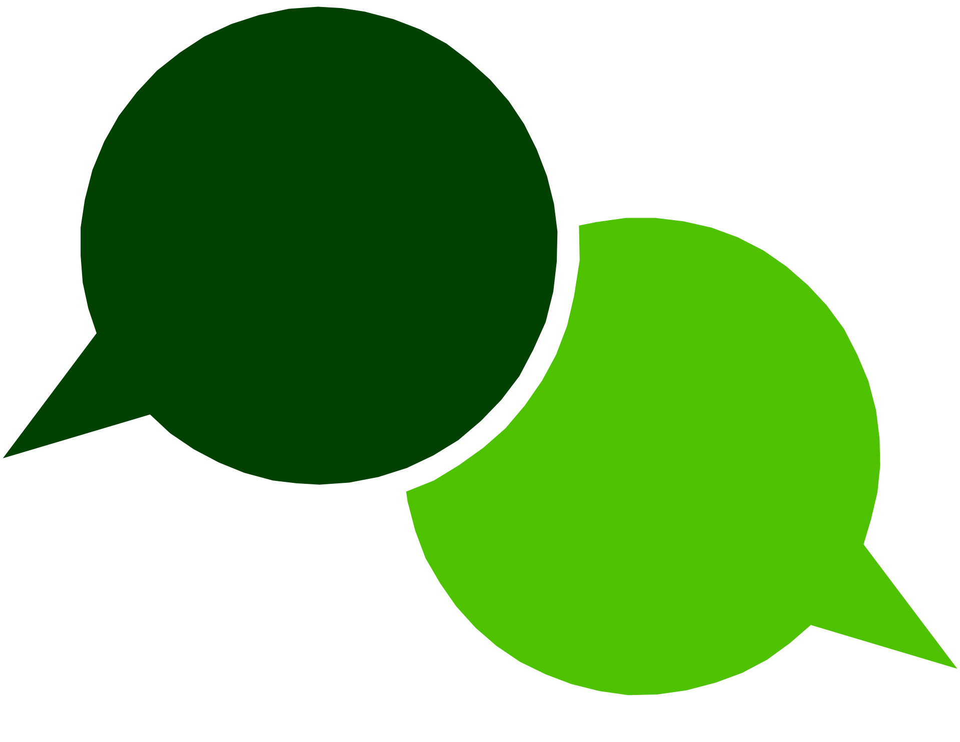
Investment Consultancy Services and Fiduciary Management Services Market Investigation

Response to Consultation on the Statement of Issues

Cardano Risk Management Limited



Overview

The investment consulting and fiduciary management industry is built on trust and has historically focussed more on relationships than financial outcomes. This has impaired growth and innovation, particularly in fiduciary management, and constrained new entrants' ability to enter the market. In turn, this has weakened competition and contributed to the poor performance that created ballooning deficits.

Ensuring there is sufficient focus for buyers and sellers on measurable financial outcomes, transparency and accountability will go a long way to solving the inherent problems.

We support many of the proposals set out by the CMA. However, we believe that significant improvements can be made with only a handful of the proposed remedies. Some of the proposed remedies are disproportional and have the potential to lead to unintended consequences which could negatively impact buyers and lead to worse outcomes for pension fund beneficiaries.

The problems cannot be solved by a single entity and we fully endorse the coordination with the different regulators.

We have an opportunity to improve a market that affects the quality of millions of lives. This opportunity should not be wasted.

We hope this response to the consultation is helpful for the Competitions and Market Authority (CMA) as it starts its market investigation into Investment Consultancy Services and Fiduciary Management Services (the 'Market Investigation').

We believe that a comprehensive approach that considers the behaviour of sellers and buyers of the relevant services requires contributions from, and coordination of, the FCA, the CMA, TPR and the Department for Work and Pensions. Ultimately, we believe this is what's required to create better outcomes for defined benefit pension schemes and retirement security for their members. We are encouraged by, and supportive of, the inclusive and pragmatic approach taken by the CMA.

Given the importance of the review, we suggest that the scope be broadened to include Scheme Actuaries to the extent they are involved in providing investment advice. Scheme Actuaries play an important role in advising pension scheme trustees, including on investment matters, and their appointments are often linked to that of investment consultants.

A wider review of conflicts of interest is also required. To date the focus has been on investment consultants who also provide fiduciary management services. However, equally important are investment consultants who do not provide fiduciary management services as they are not incentivised to advise their clients to appoint a fiduciary manager in lieu of their own services. This conflict also has the potential to impact the competitiveness of the market and importantly the financial outcomes achieved by the buyer.

About Cardano Group

Founded in 2000, Cardano is a purpose-built, privately owned specialist focused on integrated management of pension schemes' biggest risks: funding, investment and covenant. That's all we do. For the avoidance of doubt, we are not part of an employee benefits group, an actuarial firm, an insurance broker or a global asset gatherer with diverse lines of business and dissimilar clients. We are, therefore, less encumbered by conflicts of interest and organisational complexity, enabling us to offer specialist services of unusually high quality to a select group of clients.

We have a purpose beyond profit:

- WHY? We believe in a fair society in which financial services improve our quality of life
- HOW? We want to contribute to such a society by fighting for a fair and robust financial system that benefits all stakeholders
- WHAT? We strive to deliver better and more secure financial outcomes for our clients in a realistic and responsible way

Cardano employs 170 people based in London and Rotterdam to serve clients with assets of £120bn. In London, 100 professionals serve 24 UK defined benefit pension schemes with assets of £50bn. Our services include investment consulting, fiduciary management and implementation of derivative overlays.

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1. Introduction

Background

We support the Market Investigation. The CMA has understood the issues well and the focus within the Market Investigation on both the buyers and sellers is critical to help improve the overall functioning of the market.

Much of the scope and proposed remedies set out within the Statement of Issues of the Market Investigation are sensible and would lead to improvements in the functioning of the Investment Consulting and Fiduciary Management market. Not all are necessary though, and some could lead to more harm than good.

This response

In our response to the FCA consultation about whether to make a Market Investigation Reference to the CMA we shared our thoughts on the following:

- How well the market for services is working for defined benefit pension schemes
- Best practice for sellers and buyers of the relevant services

We believe these points are also relevant to the CMA's investigation. We have therefore included them in this response.

In addition, we:

- Set out our proposed approach to assess performance of investment consultants and fiduciary managers
- Comment on the scope of the investigation
- Set out our thoughts on the approach to the CMA's approach to the investigation
- Comment on the hypotheses for investigation
- Respond on your proposed remedies

This response to the consultation is deliberately brief in that we do not go into the reasons behind all of our conclusions and assessments. However, we would welcome the opportunity to discuss our views with you.

2. A dysfunctional market

You can learn a lot about how well or poorly a market functions by looking at the health of its participants.

The market for services to defined benefit pension schemes appears dysfunctional on the basis that sellers are relatively robust but too many buyers are fragile.

Limited transparency and accountability are the principal maladies, but the cure is available.

What would success look like?

- In a highly functioning market for services to defined benefit pension schemes, sellers (particularly investment consultants and fiduciary managers) and buyers (pension trustees) would focus on maximising the probability that pension beneficiaries will receive the pensions they have accrued
  - The best and most unbiased way to assess this at a point in time is a pension scheme's solvency ratio
  - The solvency ratio must be interpreted in the context of the sponsoring employer's covenant (i.e. a low solvency ratio is more tolerable if the covenant is – and is likely to stay – strong)
- The sellers who produce better performance would attract more clients than their poorer performing peers and be more commercially successful as a result
  - Those who do not contribute demonstrably[1] to improvement in their clients' solvency ratios would be willing and able to explain why not. If their failure is wide-spread and persistent, they should expect erosion of margin and market share
- Buyers who do not demonstrably contribute to improvement in their solvency ratios would be willing and able to explain why not, and expect a challenge from scheme members and, in some cases, from the sponsoring employer
- In either case, the principal causes of disappointment or success would be identifiable, and one or more parties would be clearly accountable for the outcome

What does failure look like?

- Even though economic conditions have been relatively benign for most of the last decade, and sponsoring employers have made very large deficit repair contributions, UK private sector defined benefit schemes' solvency deficit is over £780bn; 900 schemes and 235,000 members are already in the PPF; a further 100 schemes (£6bn) are in assessment now.[2]

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[1] In many cases, a seller's contribution may be broader than, or unrelated to, the manager selection activities on which the Study focused. For example: objective setting, journey planning and risk management are first-order considerations and may have a larger impact on solvency ratios than manager selection.

[2] Pension Protection Fund, "The Purple Book", December 2016; "Annual Report & Accounts 2016/2017", March 2017.

- These are not just numbers. A decade of poor performance will have real life consequences. Sponsors will default, jobs will be lost, a substantial number of scheme members will find themselves transferred to the PPF (likely losing a considerable proportion of their benefits) and vast deficit repair contributions will not have been invested in the real economy
- Many schemes appear fragile and exposed to future shocks. Even with support from their sponsoring employers, many would struggle to withstand a deterioration in market conditions or a prolonged recession, which is particularly worrying late in an economic cycle
- Business concentration levels among the large investment consultants are high; switching levels between them and other providers are low; and competitive tenders for fiduciary management are not the norm, particularly when the incumbent investment consultant offers that service[3]

So, what's gone wrong?

In addition to the original issues raised by the FCA, several other factors have had a profound impact on the outcomes for defined benefit pension schemes:

- Insufficient focus by sellers and buyers on the most important outcome: improvement in the solvency ratio in the context of the sponsoring employer's covenant
  - Defined benefit pension schemes' governance budget is limited, in many cases. Sellers and buyers have spent too much time on second-order issues: e.g. performance of assets without regard to liabilities; manager selection, etc.
- Lack of clarity about who, exactly, is accountable for economic outcomes
  - There is a pervasive accountability gap[4]
  - While trustees and sponsoring employers generally fulfil their statutory roles – admirably and ably in many cases – neither party usually accepts full responsibility for the outcome
  - Trustees will often defend their decisions by reference to process and professional advice, but how often do they write to members to say, "It was our decision and we got it wrong."? How often do CEOs or CFOs report to their Boards that deficits grew because they encouraged trustees to take risks that didn't come good?
  - The accountability gap extends to investment consultants, whose "scope of work" usually involves tasks, not outcomes, so trustees struggle to hold them to account when outcomes disappoint – even when it's clear consultants' advice was wrong, untimely or insufficiently clear and persuasive

[3] FCA, "Asset Management Market Study Final Report", June 2017, 10.7, 10.25.

[4] See Cardano, "Mind The Governance Gap", May 2017. https://www.cardano.com/~/media/files/resources/publications/mind-the-governance-gap-2017.ashx

3. Improving the market

To drive better outcomes, buyers must be empowered to make more informed choices and the market needs to foster increased competition and innovation. This can be achieved through a combination of: clearer objectives; greater transparency; comprehensive regulatory guidance on the selection and assessment of providers and enhanced governance and accountabilities.

In forming our response, we consider the following four issues should be the main focus of attention for the CMA:

- Objective setting
- Transparency
- Selection & evaluation of providers
- Governance & accountability

Objective Setting

A market functions best, and relationships between sellers and buyers are improved, when the scope of work and commercial terms are set with respect to clearly defined objectives with measurable outcomes.

- For sellers: We believe best practice is for investment consultants and fiduciary managers to set objectives for the services they offer. Ideally, these objectives would define the need that sellers are trying to meet and link directly to their clients' objectives. To the extent possible, sellers' objectives should be less task-based and more outcome-driven. Outcome-based contracts are easier to agree in fiduciary management than investment consulting, given the level of delegated decision-making. Nevertheless, investment consultants and their clients should do more to reach implicit agreement and shared understanding of the desired outcome of services sold, making it easier to monitor progress and explain deviations from plan. At a minimum, investment consultants' duty of care to act in the best interests of their clients should be strengthened, as envisaged in the Study for asset managers[5]
- For buyers: We believe best practice is for trustees to articulate and document their investment beliefs and objectives. These objectives should focus on improvement in the solvency ratio over defined periods of time, taking the sponsoring employer's covenant into account. For example, trustees could identify target and required returns expressed as a margin over the return on their liabilities consistent with their long-term funding objective. Trustees should also identify target and maximum levels of risk expressed as tracking error of the solvency ratio. Clearly defined objectives make it easier to monitor progress toward specific and measurable outcomes, and to explain deviations from plan

Better objective setting would facilitate clearer accountability among sellers, buyers and sponsoring employers. In turn, clearer accountability would drive better outcomes for defined benefit pension schemes and their members.

[5] FCA, "Asset Management Market Study Final Report", June 2017, 10.24.

Transparency

Both the CMA and FCA have correctly identified inadequate transparency as a problem for both Investment Consultancy Services and Fiduciary Management Services. We agree with the FCA's conclusions:

- "We have concerns about conflicts of interest in fiduciary management, which is increasingly offered by investment consultants and fund managers."[7]
- "Fiduciary managers' performance and fees appear to be among the most opaque parts of the asset management value chain. A lack of publicly available, comparable performance information on fiduciary managers also makes it hard for investors to assess value for money."[6]

We add that:

- Conflicts of interest in investment consulting and fiduciary management can be highly nuanced. Both the CMA and FCA focus on conflicts that arise when a firm sells multiple services e.g. investment consulting and fiduciary management. But, the services a firm does **not** offer can also skew advice to clients in ways that may not be obvious to them. For example:
  - Investment consultants who do not offer fiduciary management may discourage clients from considering that solution, as they would effectively be advising their client to stop using their own services
  - A fiduciary manager may discourage clients from exploring insurance buy-ins/outs or other settlement transactions that would reduce the manager's assets under management and fees.
- For buyers, it is not always clear which type of organisation they are dealing with, the range of services they offer and hence when advice could potentially be conflicted
- There are industry-led initiatives underway to produce standardised, comparable performance measures for Fiduciary Managers. We support and contribute actively to these initiatives, but we are frustrated by limited progress to-date
- Measures of risk-adjusted net returns suggested in the FCA Study[7] are no less relevant for Fiduciary Managers than asset managers. These measures should be solicited and provided to help buyers assess value for money
- Investment Consultants have track records, too – but these are rarely solicited or provided. The CMA has mentioned that it is a particularly challenging area in which to undertake quantitative analysis[8] . However, a similar performance assessment to those used for Fiduciary Managers can also be applied to Investment Consultants. This focuses on changes in clients' solvency ratios over time

In Section 4 we provide details of the how we propose performance track records are compiled.

Selection & Evaluation of Providers

We think The Pension Regulator (TPR) could do more to help trustees with the selection and evaluation of providers.

While TPR has issued regulatory guidance on "working with your investment advisors" and "fiduciary management", their guidance is not particularly prescriptive in some areas:

- "If you are considering appointing a fiduciary manager, you may wish to consider appointing an independent consultant or intermediary who has specific expertise in this area."[9]

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[7] FCA, "Asset Management Market Study Final Report", June 2017, 1.16.

[8] CMA, Investment Consultancy Services and Fiduciary Management Services, Market Investigation, 35(d), 38(c)

[9] http://www.thepensionsregulator.gov.uk/guidance/db-investment-one-governance.aspx#s24034

This is in striking in comparison to very detailed, comprehensive guidance TPR issued on other topics e.g. asset-backed contribution arrangements (ABCs) and appointing a covenant advisor:

- "The regulator is aware that ABCs are being promoted heavily and has seen a significant rise in the number of DB schemes entering into this type of arrangement . . . It is important that trustees considering investing in an ABC fully understand the risks, complexity and costs involved, and obtain appropriate advice so that they can make an informed decision . . .'we expect trustees to carefully evaluate proposals and ask probing questions of their advisers.'"[10]
- "Ensure your approach to assessing the strength of the employer covenant is robust and effective . . . 'Here is a suggested, non-exhaustive list of questions and prompts to help trustees decide how to appoint an appropriate covenant adviser.'"[11]

On the topic of fiduciary management, TPR does say:

- "If you consider this an option for your scheme, you should commit sufficient time and resources to the process of selecting and appointing the fiduciary manager. This includes . . . considering a suitably wide range of potential managers . . . You should carry out enough due diligence to be comfortable that the proposed fiduciary manager has the appropriate experience and skill-set for the mandate . . . This is particularly relevant if you propose to appoint your existing investment consultant; the skills required to be a successful consultant are not exactly the same as those required to be a successful investment manager."[12]

But the FCA Study, informed by independent surveys, finds that:

- "While 63% of investors received third party advice, only 13% ran a selection process when the investment consultant proposed fiduciary management. This survey also suggests that 41% of respondents had not considered more than one fiduciary manager."[13]

Therefore, we suggest TPR issue regulatory guidance saying best practice involves trustees' written disclosure to members about:

- The rationale for choosing a particular governance model, recognising there are alternatives:
  - Internal investment team
  - Advisory with input from investment consultant
  - Fiduciary management with partial delegation
  - Fiduciary with full delegation
  - Hybrid approaches
- The criteria used to select and monitor a fiduciary manager e.g.:
  - Investment performance
  - Management of risk
  - Value for money
  - Understanding of scheme's and sponsoring employer's objectives
- The rationale for the process followed to select a fiduciary manager e.g.

[10] http://www.thepensionsregulator.gov.uk/press/pn13-43.aspx ; http://www.thepensionsregulator.gov.uk/guidance/asset-backed-contributions.aspx

[11] http://www.thepensionsregulator.gov.uk/trustees/decide-how-to-assess-employer-covenant.aspx

[12] http://www.thepensionsregulator.gov.uk/guidance/db-investment-one-governance.aspx#s24034

[13] FCA, "Asset Management Market Study Final Report", June 2017, 10.25.

- Number of fiduciary managers considered and interviewed
- The role of any incumbent investment consultant or fiduciary manager
- The use (or not) of independent advisors

TPR has been an invaluable resource for trustees since its founding in 2005. In our view, trustees would welcome additional guidance on selecting and evaluating Investment Consultants and Fiduciary Managers. TPR has a role to play in improving the function of the market to complement the work undertaken by the FCA and the CMA.

Given the scope of the CMA review, our comments in this section have primarily related to guidance that could be applied to the selection of Fiduciary Managers.

Governance & Accountability

We believe that the lack of clarity over who is accountable for the financial performance of defined benefit pension schemes has contributed to large deficits and is a significant challenge to proper market function and to the retirement security of millions of people.

The vast majority of trustees we know are intelligent, committed and diligent. Our concern about accountability is in no way a criticism of their competence or skillset. Rather, it is a reflection of the fact that the system doesn't hold anyone to account for financial outcomes. In both law and practice, no one is truly accountable for the pension deficit.

To our minds, the solution is obvious. We need a governance system that clearly assigns accountability for financial results and encourages robust risk management. For inspiration, we need look no further than the governance model applied in the corporate sector.

The 1992 Cadbury Report set out recommendations on general principles to ensure proper corporate governance. It was written in response to a series of corporate scandals in the early 1990s. These recommendations are also reflected in the more recent OECD Principles of Corporate Governance.

Corporate governance has three layers. Shareholders appoint a set of Directors to represent shareholders' interests. The Directors appoint an Executive team and set the strategy. The Directors are accountable to the shareholders for the financial results. If the company does not deliver, the Directors will change the strategy and/or replace the Executive team, or be replaced themselves.

Separation of non-executive Directors and the Executive team is an essential component for governance success. It creates checks and balances. The Directors are competent but not necessarily experts in the field. They do, however, function as effective representatives of the shareholders because they appoint, manage and monitor professional experts who can focus full time on delivering the strategy.

A similar approach for defined benefit schemes could involve:

- The members and sponsoring employer appoint the trustees, who should be held accountable for the financial outcomes of the scheme
- The trustees set the strategy (see earlier suggestion on return and risk objectives) and appoint and manage the executive team using a set of key performance indicators
- The executive team – which could be an in-house chief investment officer, a pooling vehicle (along the lines of a Superfund recently suggested by the PLSA's DB Taskforce) or an external fiduciary manager – manages investments, risks and asset manager selection

We argue that trustees should have the same accountability as non-executive directors of a company. We acknowledge that this would be a genuine change of role, but if the trustees do not take on this critical role, then who will? Even if trustees' role is not changed to include accountability for the deficits of their schemes, trustees could take a meaningful step forward by employing day-to-day executive teams and holding them accountable for solvency.

4. Performance Assessment

Throughout the Market Investigation Statement of Issues, performance measurement of Investment Consultants and Fiduciary Managers is discussed as part of the assessment process and potential remedies.

In Section 3 we set out the importance of having clear and measurable objectives for both Buyers and Sellers. These objectives help inform the approach required to measure performance, and can be applied to both investment consultants and fiduciary managers. We touched on this in our initial response to the FCA[14] and, for completeness, we set this out below.

Performance assessment methodology

Our proposed approach for assessing performance is as follows:

- The time-weighted return on the assets should be calculated each month
  - This should exclude the impact of any cashflows, in particular the deficit repair contributions from the sponsoring employer
  - Returns should be net of all costs, both underlying manager costs and the investment consultant's or fiduciary manager's
- The percentage change in the (present value of the) liabilities as a result of movements in financial conditions (interest rates and inflation) should be calculated each month
  - The simplest approach is to use the 'economic' value i.e. the value of the liabilities assessed on a gilts or swap basis with no additional outperformance margin
  - Allowing for outperformance margins above gilts or swaps can lead to distortions as it isn't an investible benchmark
- Any outperformance (or underperformance) represents the value added (or detracted)
- This approach also allows the calculation of a standardised and comparable measure of risk e.g. tracking error
- This is defined as the annualised standard deviation of the relative return of assets versus liabilities based on monthly observations
- The level of skill can be assessed by dividing the excess return above the liability benchmark by the tracking error
  - This is known as the information ratio
- We currently show an asset-weighted composite of our clients' performance
  - An equally-weighted composite could also be calculated to eliminate distortions from larger clients and to better reflect performance of clients of all sizes
  - We note that this would not be GIPS compliant

- An example of a pro-forma performance table is shown below (illustrative numbers are used)

[14] Asset Management Market Study, Interim Report, Response to Consultation from Cardano Risk Management Limited

Date	No of mandates	AUM £m	Composite return net of all fees A	Composite Liability Benchmark return B	Net Relative return (A – B) = C
Dec 16	16	7,290	3.9%	3.4%	0.5%
Nov 16	16	7,005	-3.7%	-4.2%	0.5%
Oct 16	16	7,265	-3.4%	-3.7%	0.3%

	Q4 2016	1 Year	3 Year p.a.	5 Year p.a.
Asset return A	-3.3%	20.0%	16.2%	11.1%
Liability return B	-4.6%	20.8%	15.1%	8.7%
Outperformance (A - B) = C	1.3%	-0.8%	1.1%	2.4%
Tracking error (St.dev (C) * SQRT12 = D		2.3%	2.2%	2.4%
Information Ratio (C / D) = E		-0.35	0.5	1.0

- The most representative assessment of the performance is achieved by compiling discrete composites representing similar mandates
  - The use of the Information Ratio allows mandates with different performance targets to be easily compared
  - It isn't a perfect measure, but would be a significant step forward
- If necessary other composites could be used, following the principles of GIPS, but we point out that if too many composites are used it will be confusing for the reader

Relevance for Investment Consultants and Fiduciary Managers

The above methodology is equally as relevant to Investment Consultants as it is Fiduciary Managers. Whether as Investment Consultant or Fiduciary Manager, both services provide an important role advising on liability hedging and asset allocation, which means that a performance comparison against liabilities is equally valid.

Many arguments have been given in the past as to why performance measurement is 'difficult' or why many composites are required to reflect 'unique' client characteristics. However, as described above, using risk-adjusted returns would allow all mandates to be compared on a like-for-like basis.

Further, it is probably useful that each provider would choose a 'flagship' track record, which represents their "best" or "ideal" way to invest. Where there is dispersion against this flagship track record, it will be incumbent on the provider to explain why e.g. the client wanted to invest differently by limiting the allocation to equities compared to the flagship. Client information such as portion of clients in the flagship service versus total client base will need to be provided.

We believe this information would invaluable to buyers, as it will provide:

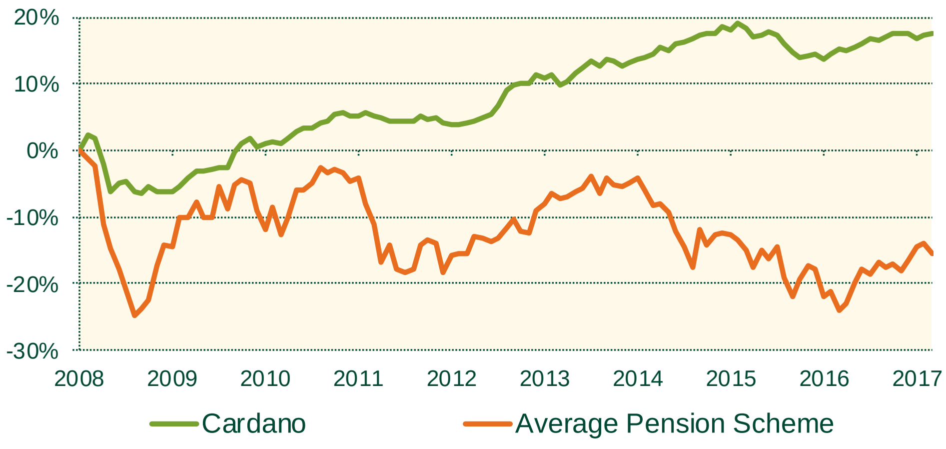
- Clarity on what service is being provided and how much of the outcome could be down to them or the firm
- Like-for-like comparisons across firms, for example

– Seller X: A small number of clients within the flagship track record, with high levels of dispersion. This would likely indicate that outcomes received would be as much driven by the buyer as by the seller. It would be clear that the flagship returns are not representative of what most clients achieve
– Seller Y: Majority of clients within flagship service and low levels of dispersion. This would indicate that the track-record is a good representation of what most clients achieve

Our published track-record

Using the above methodology, we have created a composite performance track record which is shown on our website (source: www.cardano.com), and is shown overleaf. It sets out the performance of our fiduciary management clients, net of fees, who have adopted a full liability benchmark. We compared this against our estimate of the performance of the Average Pension Scheme, which is our proxy for the industry. There is no performance information available for the average pension scheme, and therefore this is our current best estimate and is shown in the chart below[15].

Change in funding ratio (i.e. performance of assets vs. liabilities)



Qualitative Assessments

Qualitative assessments can also be informed by industry surveys such as the U.K. Institutional Investors Research performed by Greenwich Associates[16], although we note that this is not publicly available information.

[15] Source: Cardano, 30/06/2008 to 31/08/2017. Performance shown is for our clients following our fiduciary management approach with a full liability benchmark and net of all Cardano's and underlying managers' fees. *Due to the lack of published information, average pension scheme performance is estimated based on information contained in the Purple Book published by The Pensions Regulator and the Pensions Protected Fund using market index returns and implied hedge ratios based on the bond asset allocation only. No allowance for deficit repair contributions have been made. The liability benchmarks in the calculation of relative returns are taken from the composite of Cardano clients. Past investment performance is not a reliable indicator of future results, no guarantees of future performance are provided.

[16] https://www.greenwich.com/

5. Scope of the reference

The scope of the reference[17] defines the services being reviewed as:

- Investment Consultancy Services
  - The provision of advice in relation to strategic asset allocation, manager selection, fiduciary management and to employers in the UK
- Fiduciary Management Services
  - Provision of a service to institutional investors where the provider makes and implements decisions for the investor based on the investors investment strategy in the UK. This service may include responsibility for all or some of investor's assets and may include, but is not limited to, responsibility for asset allocation and fund/manager selection

Further, the CMA notes that[18]:

- Not all investment consultants provide fiduciary management services and vice versa
- Fiduciary Management is an industry term that is usually taken to describe cases where a provider advises clients on how to invest their assets and then makes investments on their behalf for all or some of their assets

The focus of fiduciary management is to help trustees solve a funding ratio problem, not a pure asset management problem. The scope of fiduciary management is therefore a lot broader than most asset management services as it includes advice and asset management. This is likely to be a key reason why a number of investment advisers have started to offer fiduciary management services.

To reflect this we believe that the definition of Fiduciary Management Services should be clarified to include investment advice which is provided to clients including that covered by the Pensions Act. For example, the provision of advice covering objectives, long-term strategy and asset allocation. These aspects ensure an integrated service and hence play a key part of the role of a UK fiduciary manager

We therefore propose that the following definition is used:

- Fiduciary Management Services
  - Provision of a service to institutional investors where the provider **advises** on and makes and implements decisions for the investor based on the investors investment strategy in the UK. This service may include responsibility for all or some of investor's assets and may include, but is not limited to, responsibility for asset allocation and fund/manager selection

[17] CMA, Investment Consultancy Services and Fiduciary Management Services, Market Investigation, 14

[18] CMA, Investment Consultancy Services and Fiduciary Management Services, Market Investigation, notes 12 (a), 12(b), 17

6. Approach to the investigation

Proposed focus

We are supportive of the approach the CMA is taking with the Investigation and make the following observations:

- Pension schemes control a high proportion of the total assets managed by institutional investors, estimated to be £2.1 trillion[19] out of c. £3 trillion[20]
- Whilst Investment Consultancy services and Fiduciary Management services may be provided to other institutional investors such as endowment funds, charities and Insurance companies we suggest the focus for this review remains with pension funds
  - It covers the broadest segment of the market and widest range of suppliers
  - Best practice that is developed for pension funds can be adopted by other institutional investors as appropriate

When the CMA assess competition in the industry, we agree that it will be important to understand the linkages between the various services provided to pension funds. It will be equally as important to review the impact of vertically integrated firms as those who are not vertically integrated. Conflicts of interests can apply to all businesses across all industries which in turn can impact competition. The important consideration is how the conflicts are managed in order not to be detrimental to the competitiveness of the whole market.

As the CMA approaches their review, we suggest the scope is extended to assess the impact on both Investment Consultancy and Fiduciary Management of:

- Actuaries who sit outside of an investment consultancy but still provide investment advice/views to their pension trustee clients
- Investment consultants whose core business is investment consultancy but also provide advice on the suitability of fiduciary management services
- Investment consultants who do not advise on fiduciary management services

Assessment of potential detrimental effects

We encourage the CMA to focus on the performance of pension funds as being the primary measure as to whether or not the market functions well. Good performance leads to better outcomes for pension funds and ultimately the beneficiaries. In Section 2 we set out what can only be considered to be a sorry state for the industry. Poor performance and increased deficits will have meant that employer and, possibly, employee contributions will have had to increase to help close the deficits.

With clear performance measurement it would also help the CMA form a judgement as to whether fiduciary management can lead to better outcomes, net of fees, compared to investment consultancy. This will help inform the proposed remedies and potential action required to improve competition.

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[19] CMA, Investment Consultancy Services and Fiduciary Management Services, Market Investigation, 18

[20] CMA, Investment Consultancy Services and Fiduciary Management Services, Market Investigation, 31

When assessing potential detriments to customers and proposed remedies we suggest they be considered in the broader context of improving financial outcomes and achieving value for money i.e. will the performance of the industry improve net of costs involved as a result of the remedies imposed.

Key characteristics

The Statement of Issues identified the following characteristics of the UK pension scheme market[21]:

- Lack of clarity and precise definition of investment consultancy services and fiduciary management services
- Difference in the size and type of pension funds
- Importance of the role of trustees
- Challenges in assessing pension scheme performance
- Extensive regulations and legislation surrounding pensions

We comment on two of these points, which are particularly important:

Role of trustees

As set out in Section 3, trustees play an important role and we need a governance system that clearly assigns accountability for financial results and encourages robust risk management. We argue that trustees should have the same accountability as non-executive directors of a company.

Without clear accountabilities of the ‘buyer’ it is difficult to hold the ‘seller’ to account. We believe that this is a contributing factor impacting buying decisions and hence overall competition in the market.

Performance assessment

Clear performance assessment within pension schemes is vital. In Section 4 we set out our proposed approach to assessing the performance of investment consultants and fiduciary managers. We do not believe it needs to be a complicated or challenging process.

Market outcomes

As set out in Section 4, we believe the best way of assessing market outcomes is to compare the performance of the assets (net of fees) against that of the liabilities. This is consistent with your primary focus of assessing how pension funds are performing.

The proposals to examine the following areas are all worthy of investigation[22]:

- Manager selection
- Extent to which investment consultants are driving competition between asset managers
- Asset allocation advice
- High quality fiduciary management services
- Overall service levels

We also propose that you investigate:

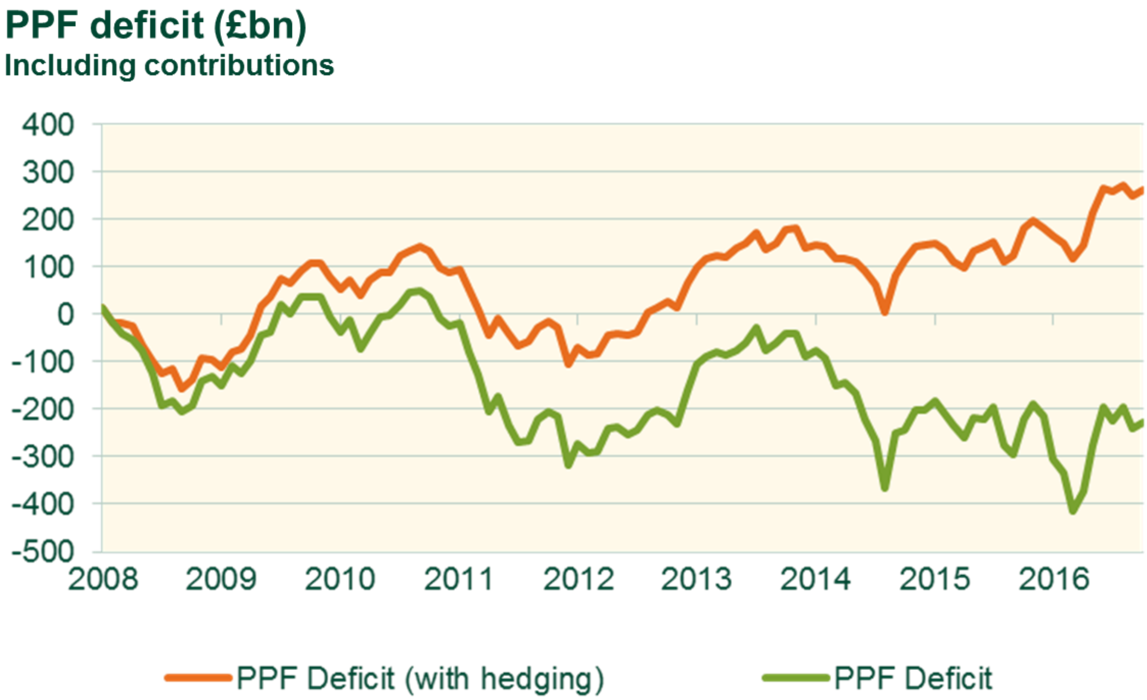
- Advice in relation to portfolio risk management including liability hedging

[21] CMA, Investment Consultancy Services and Fiduciary Management Services, Market Investigation, 34

[22] CMA, Investment Consultancy Services and Fiduciary Management Services, Market Investigation, 38

The poor financial position of many pension schemes is a direct result of weak risk-management practices. It is therefore important to assess the advice provided and the impact on pension schemes in the context of fees paid.

The chart below shows the PPF 7800 deficit alongside an estimate of the PPF 7800 deficit had UK pension funds used tried and tested LDI techniques to mitigate against adverse interest rate and inflation risks that are inherent in the liabilities. We estimate[23] that the industry would have been c. £500bn better off if interest rate and inflation hedging had been wholeheartedly adopted.



Whilst they are valid areas of investigation, we urge the primary focus to be on overall net-of-fees risk-adjusted performance. This is the best measure of outcomes across providers and is consistent with the FCA's definition of Value for Money[24]. Given its importance as part of the review, we request that the CMA provides clarity over its definition of Value for Money which can be adopted throughout the industry.

[23] Source: Cardano

[24] FCA, Asset Management Study, Final Report, 1.16

7. Potential remedies

In order to address potential competition issues, the CMA has set out a number of potential remedies under the following three headings[25]:

- Demand side and information remedies
- Conflicts of interest
- Barriers to entry and expansion

We note that during the investigation, the CMA will set out if they have found evidence of an adverse effect on competition (AEC). In our response to the proposed remedies to solve potential AECs, we set out our views of whether or not we believe they will be a positive step forward for the industry. As requested, we have considered our views in light of the following questions:

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?

b. Would the potential remedy give rise to any unintended consequence or distortions?

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 of intrusive?

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?

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?

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?

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

These are discussed in the following pages.

[25] CMA, Investment Consultancy Services and Fiduciary Management Services, Market Investigation, 43

Demand side and informational remedies

Table 1: Require investment consultants to provide clear, consistent information to trustees in relation to all fees

Consideration	Our thoughts
A	Yes Clear and consistent information should help buyers compare and contrast, and therefore be in a position to make better informed decisions
B	Not as long as it is clear to trustees that value for money is a very different concept to the level of fees. If this was not the case, the risk would be that trustees seek out the cheapest solutions which may not provide the best outcomes
C	No
D	No costs. Material benefit in helping trustees make better informed decisions
E	Guidance from the tPR on what to expect should allow pension trustees to enforce consistency Clarity over the definition of value for money Industry templates and clear definitions Additional monitoring by the FCA on an ad-hoc basis
F	No
G	No

Table 2: Require consistent reporting of fees charged compared to those quoted or estimate

Consideration	Our thoughts
A	Yes Consistent information should help buyers compare and evaluate providers. Help trustees make better informed decisions and easier to hold service providers to account Historic Information should be included in tenders to allow trustees to assess how good the service provider has been at keeping to quotes/estimates
b	No
c	The MiFID II requirements coming into force on 1 January 2018 will oblige Fiduciary Managers to provide extensive details on fees charged. The CMA therefore need only consider whether there is further information that trustees would benefit beyond this
d	No costs. Benefit to trustees in terms of better informed decisions and holding service providers to account
e	Guidance from the tPR on what to expect should allow pension trustees to enforce consistency Industry templates and clear definitions Additional monitoring by the FCA on an ad-hoc basis
f	No
g	No

Table 3: 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

Consideration	Our thoughts
a	No Services offered or value added is not homogenous. No context or value for money assessment is provided to the buyer when comparing fee structures. Trustees often want a bespoke set of services which would be difficult to capture
b	Yes Buyers focus purely on cost rather than value for money. Outcomes could worsen
c	Require investment consultants to provide clear, consistent information to trustees in relation to all fees Require consistent reporting of fees charged compared to those quoted or estimate
d	Costs and benefit would be low
e	n/a

Consideration	Our thoughts
f	n/a
g	n/a

Table 4: Require investment consultants, when providing advice, to be clearer on the impact of a particular course of action on their own fees

Consideration	Our thoughts
a	Yes. It will allow the buyer to be clear about the impact of the action being proposed and the extent to which the investment consultant may be conflicted
b	No
c	No
d	No costs. Benefits should be better informed decision making
e	Guidance from the tPR on what to expect should allow pension trustees to enforce consistency
f	No
g	No

Table 5: Ban certain investment consultant practices

Consideration	Our thoughts
a	Further clarity is needed on which practices However, if there is transparency of fee models and standard disclosure this is not needed as the buyer should be in the best position to make an informed choice
b	Could limit choice and/or innovation and/or potential to achieve value for money
c	Require investment consultants to provide clear, consistent information to trustees in relation to all fees Require consistent reporting of fees charged compared to those quoted or estimate Require full disclosure of business interests and financial relationships in relation to the service being provided
d	Difficult to quantify the impact as it depends on what practices are banned and whether or not the issues could have been better solved with greater transparency
e	n/a
f	n/a
g	n/a

Table 6: Require investment consultants to report on pension fund returns against agreed benchmarks

Consideration	Our thoughts
a	Yes. This is one of the most important remedies When a clear mandate and objective is agreed, the choice of benchmark should be straightforward For example, where an investment consultant or fiduciary manager is working with the whole pension the benchmark should be the liabilities of the pension fund calculated using a risk-free rate linked to the actuarial valuation basis of the pension scheme. By doing this you can capture the entire impact of the service provision
b	No
c	No
d	None
e	Guidance from the tPR on what to expect should allow pension trustees to enforce consistency Require all investment consultants and fiduciary managers to publish their results on company websites Annual returns to the FCA or other regulatory body An independent performance measurement service provider can be used for composite trackrecords
f	No
g	No

Table 7: Require investment consultants to report fees of assets managers selected and give details on the extent to which they have reduced fees for trustees

Consideration	Our thoughts
a	A formal requirement is not needed. It won't help assess the overall performance of investment consultants as their main job is not to negotiate manager fees, but instead will help clients achieve value for money i.e. better net risk-adjusted returns assessing relative to liabilities. We expect that this information is already being provided to clients as part of 'manager profiles' which are often prepared by investment consultants We also note that there are other ways in which Investment Consultants can add value in their negotiations with asset managers: • Developing a product specifically to meet the specific needs of their clients • Securing better legal structures and terms • Capacity for client base with managers who may have capacity constraints • Better alignment of interests • Engaging with managers to raise standards within the industry
b	Two potential unintended consequences: • Standard fees are raised just so consultants can show a discount has been achieved i.e. no new benefit of lower fees • Investment consultants focus on achieving fee discounts rather than alpha i.e. lower fees become more important than manager outperformance. This could result from high quality, and high performing, managers which are often capacity constrained managers not always giving discounts
c	Requiring investment consultants to report on pension fund returns against agreed benchmarks is a better way to assess overall performance
d	n/a
e	n/a
f	n/a
g	n/a

Table 8: Require investment consultants to report the performance of their manager recommendations based on standardised performance metrics

Consideration	Our thoughts
a	Yes Although this is not as important as overall pension scheme performance, having a standardised approach will be helpful as the buyer will find it much easier to make like-for-like comparisons
b	No
c	No
d	None
e	Guidance from the tPR on what to expect should allow pension trustees to enforce consistency Compliance monitoring from the FCA
f	No
g	No

Table 9: Require pension schemes and employers to provide reviews of investment consultants, with aggregate results shared/available on websites

Consideration	Our thoughts
a	No. Services are not homogenous or a commodity and therefore comparison sites may be not providing useful information or allow reasonable comparisons There may also be confidential issues and legal advice may need to be sought on what could/could not be shared. This could either increase cost or lead to insipid comments being provided – none of which would lead to a good outcome for all those involved
b	Incorrect comparisons across providers
c	Industry surveys are already done e.g. Greenwich survey. Survey results could be shared with trustees Industry forums could be used e.g. PLSA or AMNT

Consideration	Our thoughts
d	n/a
e	n/a
f	n/a
g	n/a

Table 10: Introduce mandatory tendering for consulting, fiduciary management services and/or master trusts

Consideration	Our thoughts
a	Yes, it would be effective in forcing more tenders within the industry however it doesn't mean it solves the potential issue of ineffective tendering We don't think this is needed for general tendering. Trustees of pension schemes are the best placed to decide whether they should review the services being provided and good governance suggest that this should be done on a regular basis However, it could be useful when procuring services for the first time, if the CMA review shows there to be a problem in this area
b	Potential higher costs in the industry, but this would depend on how the approach to tenders is structured
c	A statement of best practice for trustees when selecting and/or reviewing providers issued by the tPR Standardised tender documents making it easier for trustees to access the information Disclosure to members of the approach taken by trustees to conducting tenders Increased transparency of performance 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
d	Costs will be a 'business expense' and therefore should not be an issue. Firms can decide whether or not to tender in order to manage costs Benefits would need to be assessed through better results, although this will only be known over time
e	Investment Consultants and Fiduciary Managers could supply tender activity to the FCA and comparisons with historical evidence made
f	Five years. Any implementation would need to be staggered otherwise the industry could be flooded by tenders all at the same time It could be removed once there was more evidence of switching across providers
g	No

Table 11: Establish rules to improve the tendering process

Consideration	Our thoughts
a	Whilst rules would help to ensure that tenders are conducted in a set way we don't think it is needed for the industry. It assumes that all buyers fit within a homogenous group, which isn't the case
b	Increasing costs for the buyers which could result from being forced to always use a third-party advisor, when they may have the resources in-house Minimum standards for third-party advisors would be needed to ensure that they fully understand all aspects of the seller's services and have the requisite skills in place to be able to provide advice
c	A statement of best practice for trustees when selecting providers issued by the tPR Standardised tender documents making it easier for trustees to access the information Member disclosure of the approach taken my trustees to conducting tenders
d	Costs to the buyers of using the rules e.g. always having to use a third-party advisor
e	Representations would need to be made by both the buyers and sellers to a regulatory body
f	n/a
g	n/a

Table 12: 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

Consideration	Our thoughts
a	Yes, this would help improve the provision of consistent information and make it less onerous for the buyers which in turn should make the use of tenders more common
b	No
c	No
d	Should be cost effective for all parties
e	Guidance from the tPR
f	No
g	No

Table 13: Recommend some form of aggregation/consideration of pension trusts to benefit from economies of scale

Consideration	Our thoughts
a	No. Whilst aggregation could bring benefits of economies of scale (and we support the concept for small funds), we do not see which potential AEC this course of action would remedy. i.e. aggregation is the potential answer to a different question
b	n/a
c	n/a
d	n/a
e	n/a
f	n/a
g	n/a

Table 14: Ensure that trustees have responsibilities to achieve value for money from investment consultants/scrutinising consultants' advice

Consideration	Our thoughts
a	This is key to help improving competition. We support the FCA measure of Value for Money i.e. Net risk-adjusted relative returns. Relative returns should be measured against the liabilities
b	As with proposed remedy 1, not as long as trustees are given clear guidance that value for money is a very different concept to level of fees. If this was not the case, the risk is that trustees seek out the cheapest solutions which may not necessarily provide the best results
c	No
d	This will help reduce the influence of fear, uncertainty and doubt[26] or in other words the impact of 'nobody got fired for buying IBM'[27] from the decision-making process
e	Disclosure to members can be used with ad-hoc monitoring by the tPR. We set out our proposed disclosure approach to selecting and monitoring advisors/fiduciary managers in Section 3
f	No
g	N/a

Table 15: Require the inclusion of at least one professional trustee for each pension scheme/enhance training for trustees

Consideration	Our thoughts
a	Without clarity as to the definition of a Professional Trustee it is difficult to know whether this remedy would help Ensuring a minimum training standard would be useful, but this can be argued to be appropriate regardless of whether any AECs are found

[26] https://en.wikipedia.org/wiki/Fear,_uncertainty_and_doubt

[27] http://www-03.ibm.com/ibm/history/ibm100/us/en/icons/personalcomputer/words/

Consideration	Our thoughts
b	Supply of professional trustees is limited and therefore it could cause a demand/supply issue. New professional trustees would be needed and they may not have the necessary broader context suggested in the proposed remedy
c	Guidance from the tPR and training support
d	n/a
e	tPR could monitor this as part of an annual questionnaire / return
f	No
g	No

Conflicts of interest

Table 16: 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

Consideration	Our thoughts
a	Yes. This will provide much more clarity to trustees and hence improve the decision-making process Clients should be provided cost/benefit analysis of the different options available as part of any recommendation
b	No
c	No
d	No real costs, but significant benefit to the buyer in terms of transparency and awareness
e	Guidance to all buyers, including legal representatives Self-certification Ad-hoc monitoring by the FCA (assuming that all firms fall under the remit of the FCA)
f	No
g	No

Table 17: Require mandatory tendering of fiduciary management/master trust services

Consideration	Our thoughts
a	Yes, it would be effective in ensuring more tenders take place However, without other remedies in place such as trustees judging value for money, greater transparency etc. the same problems of comparing firms would remain. Tenders may happen but switching may not occur, or switching into firms that do not deliver value for money but are comfortable may continue With the other remedies in place, we expect trustees to be in a position to better decided for themselves whether or not a tender should take place
b	Potential higher costs in the industry, but this would depend on how the approach to tenders is structured
c	A statement of best practice for trustees issued by the tPR Standardised tender documents making it easier for trustees to access the information Disclosure to members of the approach taken by trustees to conducting tenders Increased transparency of performance 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
d	Costs will be a ‘business expense’ and therefore should not be an issue Benefits would need to be assessed through better results, although this will only be known over time
e	Investment consultants and Fiduciary Managers could supply tender activity to the FCA and comparisons with historical evidence made
f	Five years. Any implementation would need to be staggered otherwise the industry could be flooded by tenders all at the same time It could be removed once there was more evidence of switching across providers
g	No

Table 18: Prohibit investment consultants from providing fiduciary management/master trust services

Consideration	Our thoughts
a	No This is not a proportionate response. If Investment Consultants provide a Value for Money service (either fiduciary management and/or master trust services) with good outcomes then they should not be prohibited from providing the service. With the right level of transparency, improved disclosure, assessment of value for money, trustees will be able to understand any conflicts of interest and make better informed decisions
b	Reduce choice Could lead to poorer outcomes, although this depends on the outcomes being achieved by the investment consultants who provide fiduciary management/master trust services
c	A statement of best practice for trustees when selecting providers issued by the tPR Standardised tender documents making it easier for trustees to access the information Disclosure to members of the approach taken by trustees to conducting tenders Increased transparency of performance and costs 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 Requirement on trustees to assess value for money (including a definition)
d	Impact of potential outcomes
e	n/a
f	n/a
g	n/a

Table 19: Measures to control prices in relation to master trust services

Consideration	Our thoughts
a	No There already exists a measure to control costs in the default option of master trusts used as Qualifying Workplace Pension Schemes. The bulk of members are invested in this default option so prices are largely already controlled In a functioning market, price will be a function of demand and supply. Other remedies proposed should increase competitiveness and awareness and therefore improve competition
b	Potential to reduce competition and innovation
c	Transparency and consistent disclosure of costs within master trusts A statement of best practice for trustees when selecting and/or reviewing providers issued by the tPR Standardised tender documents making it easier for trustees to access the information Requirement on trustees to assess value for money (including a definition)
d	n/a
e	n/a
f	n/a
g	n/a

Table 20: Bringing the supply of investment consultancy services and fiduciary management services within the FCA's regulatory perimeter

Consideration	Our thoughts
a	Yes Need to widen scope to include all those parties who provide investment advice, e.g. scheme actuaries
b	No
c	No
d	Cost - May impact some businesses, but this would need to be a business cost Benefit – Comfort to all buyers that all firms fall under the same regulatory remit which will improve confidence and trust in the industry
e	Guidance to all buyers, including legal representatives, that all firms should be regulated by the FCA

Consideration	Our thoughts
	Make it a contractual obligation
f	No
g	No

Table 21: Require full disclosure of business interests to trustees

Consideration	Our thoughts
a	Yes Clarity to trustees, full transparency. Additional guidance to trustees would be needed to help them to compare/contrast the relevance of the different business interests and how this could impact potential conflicts of interest
b	No
c	No
d	None
e	Sample testing by the FCA or self-certification Confirming to pension schemes during the tender process / writing to clients confirming the policy is adopted
f	No
g	No

Table 22: Impose measures to ensure there is stronger separation of different business areas within investment consultants

Consideration	Our thoughts
a	No This is not a proportionate response
b	There are a number of potential unintended consequences • Reduction in quality – This could result in the talent within a firm having to make the choice between investment consultancy and fiduciary manager, given the great impact fiduciary management can have on the pension scheme outcomes • Increased costs – Some Investment Consultants and Fiduciary Managers share resources when providing the services, thus leading to greater efficiencies and lower costs. If the business was divested then resources would need to be replicated, which could increase costs • Reduce competition – Business divested could be sold to existing Investment Consultants and clients migrated. This would not improve competition • Poorer outcomes – The potential reduction in talent, increase costs and distance to investment markets could mean that the remaining investment consulting business is less well placed to provide high quality investment advice. This could also result in lower adoption of fiduciary management as non-vertically-integrated-businesses are less likely to recommend fiduciary management
c	A statement of best practice for trustees when selecting providers issued by the tPR Standardised tender documents making it easier for trustees to access the information Member disclosure of the approach taken by trustees to conducting tenders Increased transparency of performance 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 Requirement on trustees to assess value for money (including a definition)
D	Please see b) above. The cost of replicating internal services would need to be assessed. The potential costs of lower quality results could be assessed by comparing the performance of those pension schemes who have adopted fiduciary management compared with those that haven't
E	n/a
f	n/a
g	n/a

Table 23: Impose limits on the value of hospitality that investment consultants are allowed to receive from asset managers

Consideration	Our thoughts
a	Yes, this would reduce hospitality and potentially give more comfort to buyers However, an overall limit on the type of hospitality e.g. legitimate business meetings and conferences only is likely to be more effective
b	No, although not as impactful as limiting the 'type'
c	Limit on the type of hospitality e.g. legitimate business meetings and conferences only
d	No costs Consider whether it achieves as much benefit as limiting the type of hospitality
e	Sample testing by the FCA or self-certification Confirming to pension schemes during the tender process / writing to clients confirming the policy is adopted
f	No
g	No

Table 24: Impose limits on the type of hospitality e.g. legitimate business meetings and conferences only

Consideration	Our thoughts
a	Yes Further definition of restrictions should apply, for example conferences should not include travel or overnight stays or dinners paid for by the manager
b	No
c	No
d	Cost – none Benefit – perceived conflict interests immediately reduced, without any detriment to the industry
e	Sample testing by the FCA or self-certification Confirming to pension schemes during the tender process / writing to clients confirming the policy is adopted
f	No
g	No

Table 25: Require full disclosure of hospitality received to trustees

Consideration	Our thoughts
a	No. You are essentially requiring individuals to form a judgement as to whether a firm is conflicted. This is best done by a Regulator who can review the potential AEC
b	Difficult to say as hard to predict how trustees will use the information
c	Require the disclosure of internal policies during the tendering process, and on a regular basis to existing clients Impose limits on the type of hospitality e.g. legitimate business meetings and conferences only
d	Little cost or benefit
e	Sample testing by the FCA or self-certification
f	n/a
g	n/a

Table 26: Impose an outright ban on hospitality

Consideration	Our thoughts
a	No, is not proportionate and not needed Conferences can a be useful source of education about a manager(s)/thought leadership. Meetings are often held in managers offices where basic refreshments are often provided.
b	Reduction in knowledge within the Investment Consultants / Fiduciary Managers

Consideration	Our thoughts
c	Limit extent of hospitality or adjust remedy to exclude education and basic sustenance
d	n/a
e	Annual compliance reporting by the relevant firms
f	n/a
g	No

Barriers to entry and expansion

Table 27: Introduce mandatory tendering for investment consultancy services and/or fiduciary management services

Consideration	Our thoughts
a	Yes, it would be effective in ensuring more tenders take place However, without other remedies in place such as trustees judging value for money greater transparency etc. as the same problems of comparing firms would remain. Tenders may happen but switching may not occur, or switching into firms that do not deliver value for money but are comfortable may continue With the other remedies in place, we expect trustees to be in a position to better decided for themselves whether or not a tender should take place
b	No
c	A statement of best practice for trustees issued by the tPR Standardised tender documents making it easier for trustees to access the information Member disclosure of the approach taken my trustees to conducting tenders Increased transparency of performance 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
d	Costs will be a 'business expense' and therefore should not be an issue Benefits would need to be assessed through better results, although this will only be known over time
e	Investment consultants and Fiduciary Managers could supply tender activity to the FCA and comparisons with historical evidence made
f	Five years. Any implementation would need to be staggered otherwise the industry could be flooded by tenders all at the same time It could be removed once there was more evidence of switching across providers
g	No

Table 28: Require divestiture of investment consultancy services

Consideration	Our thoughts
a	No This is not a proportionate response
b	There are a number of potential unintended consequences • Reduction in quality – This could result in the talent within a firm having to make the choice between investment consultancy and fiduciary manager, given the great impact fiduciary management can have on the pension scheme outcomes • Increased costs – Some Investment Consultants and Fiduciary Managers share resources when providing the services, thus leading to greater efficiencies and lower costs. If the business was divested then resources would need to be replicated, which could increase costs • Reduce competition – Business divested could be sold to existing Investment Consultants and clients migrated. This would not improve competition • Poorer outcomes – The potential reduction in talent, increase costs and distance to investment markets could mean that the remaining investment consulting business is less well placed to provide high quality investment advice. This could also result in lower adoption of fiduciary management as non-vertically-integrated-businesses are less likely to recommend fiduciary management

Consideration	Our thoughts
c	A statement of best practice for trustees when selecting providers issued by the tPR Standardised tender documents making it easier for trustees to access the information Member disclosure of the approach taken my trustees to conducting tenders Increased transparency of performance 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 Requirement on trustees to assess value for money (including a definition)
D	Please see b) above. The cost of replicating internal services would need to be assessed. The potential costs of lower quality results could be assessed by comparing the performance of those pension schemes who have adopted fiduciary management compared with those that haven't
E	n/a
F	n/a
G	n/a

Table 29: Basic FCA accreditation scheme to provide certification of smaller consultants

Consideration	Our thoughts
A	Yes This is likely to give comfort to the buyers around perceived risks of hiring a smaller business The buyer will be able to take comfort from having the accreditation from a government regulatory body
B	No
C	n/a
D	Costs at this stage not known, but are not expected to be significant if firms are already under the FCA remit Benefits can be assessed over time
e	FCA monitored and supported by the tPR in the guidance provided by them on the selection and monitoring of investment consultants and fiduciary managers. The input of the tPR will be important to give additional comfort. This will also help with the earlier comments overcoming issues akin to 'fear, uncertainty and doubt' and 'nobody got fired for buying IBM' influencing the decision-making process
f	No
g	No