INVESTMENT CONSULTANTS - MARKET INVESTIGATION

Summary of hearing with Redington Limited (Redington) held on 13 November 2017

Introduction

1. Redington offered investment advisory services, but decided not to offer fiduciary management services. It does not have its own master trust.

2. Redington began just over 10 years ago. It was founded by people from investment banking who had focussed on risks for pension funds, in particular, those relating to inflation and interest rate hedging.

3. Their core client type was UK defined benefit pension scheme trusts. They initially worked with sponsoring employers but as their advisory services grew in breadth, this enabled them to tender for pension schemes.

4. Redington's manager selection approach was based around a smaller team than some large investment consultants. This team now covers the full spectrum of asset classes having built out the team over the last five years.

5. Redington believed there is competition in the market. In the last couple of years, it has won business from the big three firms. It also competes with LCP and Hymans Robertson, and new entrants such as Momentum. They believe that brand and trust are both important factors for successful firms in the advisory sector; there are also some benefits arising from having scale and there is also some inertia amongst clients. They think that being a pure advisory firm gives them objectivity and independence, and some clients prefer independent advisory service from a firm which does not offer fiduciary management. They believe that even without offering fiduciary management you can achieve equivalent outcomes through independent advice.

6. Redington stated that the market has evolved and that the complacency which existed ten years ago has reduced. They are one of a number of new entrants including Cardano, KPMG and others who can bid for bigger schemes. There are now four - six comparable firms on the longlist in most tender processes.

Demand side

7. Redington stated that assessing and comparing providers of investment consulting could be viewed in two ways

   (a) at the point of tendering and

   (b) how you assess and measure consultants prior to tendering.

   They believed objective performance measures are needed to compare the outcomes in terms of their whole fund performance and what other advised funds might be experiencing. They believed it was possible to create both objective reference benchmarks for scheme outcomes and a potential rating system. This could involve an independent body to set up some parameters and audit the track records or to calculate the track records.

8. They noted that some clients prefer a bundled advisory, actuarial and administration service and that the big three ICs offer this. They think that bundled services (or the possibility in the future of additional services) can result in undercutting of fees for individual services.

9. Redington felt that there is a trend of professionalisation and stronger governance of pension funds including professionals on trustee boards; along with growth in the availability of professional trustees.

Switching and tendering

10. Redington had some concerns with possible standardisation of tendering as this would lead to comparisons of easy to measure metrics. This could lead to bigger firms being favoured more. A possible solution to this could be a data room or portal which contained consistent information across a range of investment consultants. Also having qualitative information around investment philosophy and principles would be helpful. New entrants coming into the market would also benefit as this would help them build awareness amongst trustees who up to then would not have heard of them.

11. Redington did not have a strong view on the prospect of mandatory tendering from a fiduciary management perspective but would like to see independent consultants being able to compete where fiduciary management as a solution is presented. This would lead to competition between fiduciary management and advisory services.

12. They felt that some proposed remedies such as a benchmarking of funding levels or standardisation of the tender process would have an impact.

13. From an advisory perspective, Redington can see arguments for mandatory tendering but is concerned about the potential for unintended consequences including over-standardisation of the buying and tendering process. It is important for pension trustees to be able to assess and compare the overall impact of investment consultancy advice.

Conflicts of interest

14. Redington thought that firms offering both investment consultancy and fiduciary management have a potential conflict, although it may not be true in practise. They also note that asset managers who offer fiduciary management may tend to use their own funds, which appears to be a conflict. It is not always transparent how potential conflicts are managed. They do not generally recommend fiduciary management to clients as they think they can get an equivalent outcome via advisory services.

15. Redington did not receive fees from asset managers. But it does have clients who are asset manager pension schemes. Its use of a rigorous and transparent investment committee on its manager recommendations mitigates any potential conflict.

16. They believed that gifts and hospitality have lessened in recent years. Redington has a gifts and hospitality policy and an online compliance system. Where this area could lead to a perceived or potential conflict then it would not be accepted. They do not feel that any strengthening of either regulation or parameters is needed.

17. Redington felt that separation of investment consultant and fiduciary management services may not be necessary and that transparency could go a long way to managing conflicts.

Investment consultants driving competition between asset managers

18. Redington believed that it provides value for money and drives competition between asset managers through its manager research. Where possible, they negotiate a rate for managers through a single fee for its clients.

19. They carried out independent client service reviews where they review fees and value for money as well as any concerns clients may have. They help with innovation by developing products to help address outcomes for the clients. They encourage fund managers to think about their clients and specific needs.

20. Redington believed that a key part of the advice that they've given was helping trustees with a framework for their decision making in order to achieve better member outcomes. This provided clear reference points to what clients are looking to achieve.

Regulation of investment consultants by the FCA

21. Redington stated that they supported expansion of the FCA's regulatory perimeter as it already exists in adjoining areas of activity.