

INVESTMENT CONSULTANTS MARKET INVESTIGATION

Summary of hearing with Spence & Partners Limited (Spence & Partners) held on 13 November 2017

Introduction

1. Spence & Partners explained that they provide both investment consultancy and fiduciary management services to small - and medium - sized pension schemes. They also operated a full scheme service, which provides actuarial and administrative services.

Demand side and informational remedies

2. Spence & Partners considered that the demand side varied in its strength. In this regard, they stated that lay trustees were usually less informed than professional trustees. They stated that there was no correlation between whether a scheme had professional trustees and the size of the scheme, but indicated that trustees of larger schemes tended to be more well informed.
3. Spence & Partners indicated that trustees might struggle to monitor fees and performance in both investment consultancy and fiduciary management mandates and might not be able to compare fee arrangements with other providers unless they had engaged in a competitive tendering process. More broadly, they noted that there is a lack of fee transparency throughout the value chain and, in particular, that the underlying manager fees should be split out from the advisory and fiduciary management fees.
4. Spence & Partners indicated that tendering tends to drive fee competition.
5. Spence & Partners stated that they agreed with the potential remedies to improve transparency over fees and performance outlined in the CMA's Issues Statement. However, they noted that in developing these remedies, the CMA should be mindful that strategic decisions have the potential to have a far greater impact than fee charges on the assets size.
6. Spence & Partners indicated that retendering among its investment consultancy and fiduciary management clients is not common as most clients are new to the service. They noted that the provision of administration

services constitutes a significant barrier (as it is costly and/or difficult to switch administration) to switching for smaller schemes, as smaller schemes tend to bundle actuarial and administrative services with either investment consultancy or fiduciary management services.

7. While Spence & Partners confirmed that a set of industry standard rules to improve the tendering process and make it more transparent would be beneficial, they stated that mandatory tendering should not be introduced, as it could be too costly for smaller companies to keep taking part in tender exercises.
8. Spence & Partners indicated that they had come across 'lock in' clauses, but that they considered that these are justifiable provided that they are binding for limited duration, given the significant costs involved to on-board new clients.

Conflicts of Interest

9. Spence & Partners stated that they started offering investment consultancy services in 2015 and fiduciary management services in 2016.
10. Spence & Partners stated that their clients are fully informed of the pros and cons of its different services offerings. They noted that trustees rarely tender when they move from a purely investment consultancy mandate to a fiduciary management mandate and that when tendering does take place, the incumbent firm is usually retained due to its pre-existing relationship with the client. They also stated that as fiduciary management is not clearly defined, pension scheme trustees may not fully understand the arrangements that they have entered into.
11. Spence & Partners stated that prohibiting consultancies from offering fiduciary management services would disadvantage trustees as it would reduce competition and give asset/wealth managers an advantage. However, they suggested that by ensuring conflicts of interest policies are put in place and that there is full disclosure, this could mitigate the issue.
12. Spence & Partners stated that they had procedures in place in relation to gifts and hospitality and that its view is that gifts and hospitality is less of issue today than it was historically. In any case, they noted that Spence & Partners does not receive any income from asset managers.

Barriers to entry and expansion

13. Spence & Partners indicated that they initially offered administration and actuarial services to trustees. However, having lost tenders for new clients on the basis that they did not offer investment consultancy services, they rolled out investment consultancy services across its pre-existing client base. They stated that it is more difficult to enter the market for the provision of investment consultancy services than it is to offer fiduciary management services, as the former constitutes the basis for the latter. However, they noted that its fiduciary management offering is narrow, as they did not offer full discretionary management services due to the cost of employing portfolio managers and the infrastructure required.
14. Spence & Partners noted that the costs of undertaking extensive manager research are high and constitute a barrier to entering the market for the provision of investment consultancy services as the cost of research would be difficult to recoup for smaller firms that have not yet achieved economies of scale. However, they noted that some outsourced options are available and they could constitute effective solutions. They indicated that they use Mobius Life's investment platform to help evaluate managers to a degree and to have access to a wider range of funds than its clients would ordinarily be able to access based on the amount of assets under management.
15. They indicated that expansion within different client segments (particularly larger clients) of the market is difficult as potential clients require track records based on assets under management. They also noted that in selecting Mercer, Aon and WTW, there is element of perceived risk mitigation on the part of trustees. However, they indicated that there is significant price point deviation in the market and that trustees could obtain similar quality services outside of the largest investment consultancies at a lower price.
16. Spence & Partners supported the proposed introduction of a basic FCA accreditation scheme to provide certification of smaller consultants to increase switching and lower barriers to entry and expansion. However, they indicated that such proposals would need to be proportionate as increased compliance costs might discourage rather than encourage competition especially for smaller consultants. They noted that a standardised process for authorisation would be desirable as at present, there are different routes to authorisation.