INVESTMENT CONSULTANTS MARKET INVESTIGATION

Summary of hearing with JLT Group (JLT) held on 20 November 2017

Introduction

1. JLT stated that it provided both investment consultancy and fiduciary management services to trustees of pension schemes in the UK through two entities: JLT Benefit Solutions Limited and JLT Investment Management Limited. JLT Employee Benefits provides advice and solutions on pensions and employee benefits. JLT also said that they also had a professional trustee service (Independent Trustee Services Limited) that operated independently of JLT.

Competitive landscape and barriers to entry and expansion

2. JLT's core market for full pension scheme services was small- to medium-sized Defined Benefit (DB) schemes. They noted that their clients tended to be full service clients seeking to bundle their services.

3. JLT stated that they effectively started offering fiduciary management services in 2013 through its discretionary investment management service, whereby their in-house investment managers manage portfolios on a day to day basis.

4. JLT indicated that it had expanded their business through various acquisitions. In 2009, JLT acquired HSBC Actuaries and Consultants, a UK-based employee benefits and actuarial consultancy firm. In 2012, JLT acquired Alexander Forbes Consultants and Actuaries, which included its fiduciary management services [✂].

5. JLT stated that they did not perceive there to be any barriers to entering the market for the provision of fiduciary management services through organic growth. They had started to explore this route in 2012 before acquiring Alexander Forbes, but after this acquisition it was no longer necessary to set up a new fiduciary management arm. They had previously advised on strategy and manager appointment so it was only a small step to move to 'delegated' manager services.

6. JLT stated that it used Mobius Life's investment platform (which was also used by Alexander Forbes) to access a wide range of funds offered by asset managers. This platform provides access to the majority of funds that JLT research and recommend to their clients.

7. JLT competed for investment services largely in the small-medium end of the market, although they did advise some large clients in the private sector and LGPS. Additionally, JLT provided other services, such as administration, technology and actuarial services to several much larger clients. They indicated that expansion to medium-large clients was more difficult as potential clients required track records based on assets under management. Clients wanted the comfort of appointing an advisor who advises similar-sized clients. Larger pension schemes whose sponsoring employers have foreign parents may also be put under pressure to appoint a larger internationally well-known investment consultant. Breadth was not a significant barrier to expansion as JLT were able to research a wide range of asset managers. JLT stated that whilst they did actively compete with the larger consultancies in practice it was only respect of the medium sized clients, or in the LGPS sector.

8. JLT commented on request that there were examples of recent entrants that have scaled up their business models successfully. Part of the reasons JLT had suggested for their success was their Principal's previous investment backgrounds and how they marketed themselves.

9. JLT indicated that smaller schemes preferred to bundle actuarial and administrative services with either investment consultancy or fiduciary management services. This was very common due to its ease - a one stop shop - there were also some synergies. It was recognised that moving administrators was very difficult, time consuming and risky. Therefore, when administration services were bundled with advisory or other services this could be a barrier to switching.

Conflicts of interest

10. JLT stated that there was a wide-spectrum of fiduciary management ranging from aggregation to full delegation. Fully discretionary fiduciary management was entirely appropriate for smaller (but not tiny) clients, who can then focus their engagement on strategy and asset allocation and delegate selection/management of funds using a platform.

11. JLT expressed their opinion that in-house funds have the greatest potential for conflicts of interest. JLT has its own in-house fund (JLT Growth Fund) but this is now of insignificant size and is no longer being marketed.

12. JLT stated that its fiduciary management clients were predominantly previous advisory clients. However, they noted that in addition to pre-existing clients, they had also acquired new fiduciary management clients. They were very conscious of the potential conflicts in this area and had internal mechanisms in place to manage these. JLT made their clients aware that there were other alternative fiduciary management providers. Clients were clear that they were in a fiduciary management arrangement; there were two separate contracts in place, with separate fees for advisory and the fiduciary management services.

13. JLT did not consider that fees needed to increase significantly when clients moved from advisory to fiduciary management for the same level of services – they had concerns that this would create strong incentives to move clients. Any increase in fees should reflect an increase in the breadth and levels of service. Providers should not be financially incentivised to recommend that potential clients enter one arrangement instead of the other. They also had concerns regarding the transparency and bundling in of asset manager fees. In this regard, JLT emphasised its support for measures designed to improve the information available to compare fees and services, which is the culture of JLT. Equally there needs to be a requirement on investment consultants, when providing advice, to be clearer on the impact of a particular course of action on their own fees.

14. JLT stated that whilst they did not support prohibiting investment consultants from providing fiduciary management services on the basis that it would be disproportionate, JLT supported proposals to impose measures to ensure there is stronger separation of different business areas within investment consultancies to ensure that conflicts are recognised and dealt with appropriately. These should cover the inherent conflicts of EBCs providing fiduciary placement services and asset managers providing advisory and other services.

15. JLT explained how they believed 'most favoured nation' (MFN) clauses operated in practice and who benefitted from their operation. JLT confirmed they were aware that some of the larger schemes continue to have MFN clauses with asset managers precluded from providing lower fees to other schemes without offering the same to these schemes if beneficial. This used to be more prevalent.

16. JLT had procedures in place in relation to gifts and hospitality and noted that MiFID II has strict rules about the hospitality that a regulated firm can accept. In relation to conferences, JLT do organise investment conferences, to which managers are invited at a nominal fee to partly cover costs.

17. JLT did provide wider services, such as administration services to managers or the pension schemes thereof. They provided investment services to a couple of these schemes attached to asset managers, but do not currently provide ratings or recommendations for these managers. JLT confirmed it does not provide any investment advisory services to asset managers.

18. JLT stated that it had not focussed on developing its master trust offerings. Nevertheless, it fully understood the potential conflicts here.

Demand side

19. JLT stated that trustees vary substantially in terms of their experience and skills. Both trustees and investment consultants struggle in terms of benchmarking the performance of investment consultants and fiduciary managers. It was easier to assess asset manager performance. Benchmarking was particularly difficult for investment consultancy as this is an advisory service and recommendations may not always be implemented by clients. In fiduciary management, whilst the advisors are more directly responsible, their performance is significantly affected by the brief they are working against (low risk, high conviction etc.). Whilst benchmarks such as the funding level may be an appropriate performance measure, these are not without challenges. JLT questioned which is the most important measure the improvement or is it stability that is important?

20. JLT stated that greater transparency and standardisation would facilitate greater appreciation, meaningful comparisons and better engagement by trustees. They suggested that it is essential that there should be a more consistent approach to what is included in fees and costs, particularly on fiduciary management and in this context JLT has been involved in and supported the work IC Select has been undertaking. JLT also stated that professional trustees have helped to stimulate trustee engagement. JLT also noted that they felt they had previously lost out to competitors they felt were not being fully transparent with regards to fees and services.

21. JLT stated that proposals requiring mandatory tendering would be very costly and may not be effective. They stated this view has been cited in many of the public responses submitted to the CMA. Many clients may be satisfied with their current arrangements and mandatory tendering could simply lead to a ‘box-ticking’ exercise. JLT argued that it should be a requirement for the larger (greater than £100m assets) schemes to invite tenders in situations where advisory clients first move to fiduciary management. In this regard, JLT stated that such a remedy should be structured to force the inclusion of a broader set of consultancies in the tender process than merely the rotation of the largest three consultancies.