

INVESTMENT CONSULTANTS - MARKET INVESTIGATION

Summary of hearing with Kempen Capital Management (Kempen) held on Friday 24 November 2017

UK and Netherlands pension markets

1. Kempen provided fiduciary management (FM) for pension schemes in the UK. They advised clients on pension fund strategies but did not act as an investment consultant and do not offer actuarial or scheme administration services.
2. Kempen entered the UK market from the Netherlands. They noted some differences in the Netherlands pension market: while size of the state pension has declined in both countries, the provision of pensions through pension funds has since become under more stringent regulation from the Dutch Central Bank in the Netherlands rather than second pillar pensions being left simply as a contract between the employer and employee. The number of pension schemes has fallen from around 2,000 in 1995 to around 300 today, due to consolidation. This concentration was driven by the Dutch central bank (which supervises pensions) due to concerns about the costs associated with pensions and the level and quality of governance. Pension schemes are treated as if they were a provider of a financial service. This gives members greater security regarding outcomes. (Kempen noted that the Australian superannuation fund is treated similarly as a financial services provider.)
3. In the Netherlands, there is a three-stage process: setting strategic objectives; executing the strategy and then reporting the results. Different firms perform different functions.

Fiduciary management

4. Kempen said that it was important to provide services that are easy to understand for trustees and be transparent in their fees. They saw client retention as a better measure of success than just the increase in number of clients. They think that FM can benefit pension schemes of all sizes, from £40m to £2bn.

5. Kempen stated that FM fees are based on assets under management. They negotiated AM fees with external managers for their clients and pass these savings on. They did not use multi-asset funds and so clients do not incur exit or transition fees if there is a switch of FM provider. They only used third party fund managers in the vast majority of cases and clients mostly contracted directly with these managers.
6. Kempen thought that there may be some potential conflicts of interest when investment consultant clients move into FM but this depends how these conflicts are made transparent and managed.
7. Kempen were very supportive of the IC Select initiative to standardise FM performance and support the CFA taking this over. They also support the LGPS initiative. They are clear that information on performance could be made simpler and better for trustees.
8. Kempen were not clear that increased or mandatory tendering would lead to improvement in outcomes. Kempen thought that helping pension trustees to be better guided and informed would be more beneficial as there was currently an asymmetry between clients and their advisors.