CMA
Competition & Markets Authority

INVESTMENT CONSULTANTS - MARKET INVESTIGATION

Summary of hearing with Stamford Associates Limited (Stamford) held on 14 November 2017

Introduction

1. Stamford provided investment advisory services to a number of client types; the comments below relate to pension trustee clients only. Stamford's core investment proposition facilitated a blended advisory and delegated investment governance solution covering the full suite of investment consulting services.

2. The delegated investment governance solution was implemented via an independent fund management organisation named MMIP Investment Management Limited ('MIML'). Stamford advised the MIML Investment Committee on investment manager selection and fund structure for a number of MIML's funds and therefore those funds are typically expected to reflect Stamford's recommended investment solutions. MIML also provided an effective operational, legal and administrative framework that, in Stamford's view, helped remove some of the 'hassle' factors associated with manager selection / monitoring and enables trustees to focus on 'higher level' investment strategy issues.

3. This model was quite different to others in the market. It enabled Stamford to offer a similar solution to that of a fiduciary manager but without Stamford having delegated authority (unlike most fiduciary managers). Rather, the delegated actions rest with MIML to whom pension trustees also delegate oversight on Stamford's manager selection recommendations (to the extent the MIML funds are used).

4. Stamford believed this provides an additional level of governance oversight on them compared to a more typical fiduciary manager arrangement. Since its inception, Stamford has aimed to avoid challenging its clients with asset manager 'beauty parades', which it believed blur the accountability for manager appointments.

5. MIML offered funds across a number of asset classes which Stamford expected to form the core building blocks of the growth assets held by

trustees. However, the MIML funds would only be recommended if they were deemed suitable given the client's specific requirements; otherwise Stamford would advise clients on which non-MIML managers / funds to invest in. Stamford received no remuneration as a result of their pension trustee clients investing in any of the MIML funds thereby avoiding the conflicts of interest that would otherwise arise.

6. Stamford recognised that as with all firms providing advisory /fiduciary services there were a range of potential conflicts of interest to be managed. They endeavoured to mitigate these within the design of their investment proposition. For example, they preferred to work on a performance fee basis with fees expressed as a percentage of scheme assets. In doing this, they believed they more closely aligned their interests with those of their clients, being rewarded for the quality of the investment advice implemented as opposed to the quantity of advice provided.

Competitive landscape and barriers to entry and expansion

7. In terms of expansion, a key challenge was obtaining 'air time' with trustees. Stamford believed there was a natural bias towards the larger consulting firms due to the "comfort factor" associated with them. Without the opportunity to engage directly with trustees this bias could be difficult to overcome. This particularly applied to the larger pension schemes. As a result Stamford expected most of their opportunities will be for clients of less than £2bn. Stamford would like to see an open tendering process that focuses on investment skills, including experience of the individuals driving investment decisions, rather than metrics that bias the short-lists to firms with more clients, more staff etc.

8. In terms of potential economies of scale, Stamford believed that bigger was certainly not better. They argued that larger advisors providing active manager selection suffer diseconomies of scale. This reflected Stamford's belief that the pool of suitable active managers is relatively limited. Brand was also an important factor in the ability and success of firms to expand in the market. For example, Stamford understood that one of the newer advisory firms managed to secure a large scheme early on and it is likely this opened the doors for access to other larger schemes. Similarly, Stamford understood that the same firm entered the market with a proposition that was timely given the market's focus at the point in time. Stamford was actively looking for opportunities to expand and believed that now is a good time to do so given the nature of their proposition.

Demand-side

9. Stamford agreed that there were difficulties in comparing and assessing investment consultants, however they believed these could be overcome. They believed it was harder to assess the performance of investment consultants than fiduciary managers. Information is available for trustees to assess and monitor consultants and fiduciary managers. The challenge is to find someone well placed to advise what information should be obtained and access the information to effectively analyse it.

10. Switching investment consultants wasn't difficult. Stamford believed there was some competition on the 'soft' issues but not in terms of a consultant's / fiduciary manager's ability to deliver better outcomes for pension scheme members.

11. Assessing investment consultants / fiduciary managers required a different type of analysis to that typically provided to trustees as part of the regular cycle of investment monitoring reports. In particular, information needed to be provided such that trustees can determine whether there is clear evidence of skill or luck in the recommendations provided and actions taken.

12. Stamford stated that investment consultants should provide clear, consistent information to trustees in relation to all fees. Trustees need to be aware of all the fees, including knock on fees, such as legal costs associated with how the investments are likely to be structured. They also supported the need for consistent reporting of fees charged compared to those quoted or estimated.

13. Stamford believed that it was not necessary for investment consultants to report all fees to an independent benchmarking service as this could end up in price clustering.

14. Educating trustees to empower them to deal with some of the issues outlined in the CMA's Issues Statement would, in Stamford's opinion, lead to better outcomes than many of the possible remedies referred to in the Issues Statement. This could be achieved, for example, by providing best practice guidance for trustees or use of a kitemark standard.

15. Stamford was ambivalent about FCA regulation as it was not convinced it would bring about much in the way of material consequences on the market.

Conflicts

16. Stamford supported the need for investment consultants to be clear with trustee clients who are considering switching to the consultant's fiduciary management offering that the trustees could seek this service from other

firms. They suggested a mandatory health warning to trustees would be appropriate, including that best practice would involve obtaining independent third-party advice. Stamford noted that investment consultants were in a stronger position to win fiduciary management business from incumbent clients as they were already engaging with the client, creating the familiarity and "comfort factor" that is crucial to securing new business.

17. Stamford did not consider that a requirement to have mandatory tendering of fiduciary management services was necessary. If the correct monitoring processes were in place then it should be clear to trustees when they ought to go to market. Mandatory tendering may also create 'false' tenders, creating additional cost for no benefit which, in turn, may restrict the number of parties willing to tender for a particular mandate.

18. Stamford supported full disclosure of business interests to trustees but did not see that there was a need for stronger separation of different business areas within investment consultants. If the right information were given to trustees it should empower them to ask the right questions with the result that consultant / fiduciary business models that fall short of good practice are unlikely to survive. Stamford also worried that any such separation may also lead to longer term unintended consequences that would not be in the interests of pension scheme members.

19. Stamford considered that there should be limits on the value and type of hospitality that investment consultants can receive from asset managers, for example, legitimate business meetings and conferences only. There should also be full disclosure to trustees of hospitality received by their investment consultant. Stamford did not support an outright ban on hospitality as there was benefit to clients in consultants meeting with asset managers.[i]

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[i] The CMA received the following statement from Stamford in relation to their comments on disclosure to Trustees:

> Section [19] reflects the points made during [the hearing]. However, on discussing this further internally we came to a view that if limits are imposed on the value and type of hospitality (which is deemed acceptable) then rather than a regular disclosure on who has accepted hospitality from whom, it would make more sense to require a simple annual disclosure statement to each client confirming that no hospitality has been accepted from incumbent managers (and any new manager recommendations) outside of the limits imposed. There would also have to be some appropriate rectification process should the hospitality limits be inadvertently breached.

The CMA is happy to accept this clarification from Stamford.