

Investment Consultants Market Investigation

Progress update

21 February 2018

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Introduction

1. The aim of this document is to update interested stakeholders on the progress of this market investigation, including giving details of areas where we soon expect to publish papers or data. We also provide an update on one aspect of the focus of this investigation.

Status of the investigation

2. Following the reference made to the CMA in September 2017 by the Financial Conduct Authority (FCA), the CMA has been carrying out a market investigation into investment consultants and fiduciary managers. Since the reference, we have:
 - Published an [Issues Statement](#)¹ to which we received and published [32 responses](#).
 - Held site visits to three large investment consultants: Aon Hewitt, Mercer and Willis Towers Watson.
 - Held initial hearings with a range of providers including investment consultants, fiduciary managers and asset managers and published a [summary](#) of each hearing.
 - Engaged with stakeholders including sector regulators, the FCA and The Pensions Regulator (TPR); government departments (the Department for Work and Pensions and HM Treasury) and with other organisations including the Society for Pension Professionals, the Investment Association, the Pensions and Lifetime Savings Association, the Association of Member Nominated Trustees and the CFA Institute and CFA Society of the UK.
 - Gathered a large amount of data and evidence from parties and started analyses as described in our [Issues Statement](#).
 - Completed a large quantitative survey of pension trustees which we will publish soon (see below for details).

¹ CMA [Investment consultancy services and fiduciary management services market investigation, Statement of issues](#), (Issues Statement), 21 September 2017.

3. We will continue to carry out detailed analysis on areas relating to our theories of harm using the evidence we have received and we will make some further data and evidence requests to facilitate our work.
4. As set out below, we will soon begin to publish working papers on some areas of our investigation prior to publication of a provisional decision report (see 6 below).
5. In the meantime, we will continue to engage with stakeholders, including with pension trustees, investment consultants, fiduciary managers and asset managers. We will use a range of ways of doing so, such as qualitative research methods, roundtables or workshops.
6. We aim to publish a provisional decision report in July 2018. This will be the next significant opportunity for interested parties to comment and input into our investigation and we will also then hold a series of hearings for interested parties prior to our final decision being taken.
7. We thank all those who have cooperated with our investigation so far.

Forthcoming publications

8. The aim of publishing working papers is to set out some important areas of our analysis and emerging thinking, in particular those which we think it would be valuable to give parties an opportunity to comment on before our provisional decision.
9. We list below the areas where we currently expect to publish working papers prior to the provisional decision. We expect to publish these papers from February through to early May. The order in which they will be published does not reflect their priority or significance.

Working papers

10. At this stage, we are anticipating publishing working papers on the following areas:
 - Analysis of the **information on fees and quality of service** that investment consultants (ICs) and fiduciary managers (FMs) provide to current and prospective clients.
 - Analysis of the **performance of ICs' recommended asset managers**. In this area, we expect a working paper to be accompanied by disclosure of

some underlying data by means of a [data room or enhanced confidentiality ring](#).

- High-level emerging thinking on **market concentration** and **barriers to entry and expansion**.
 - Analysis of the potential **conflicts of interest related to ICs' provision of fiduciary management services**.
 - Our approach to measuring **profitability**, together with our emerging financial analyses.
 - Analysis of the type and extent of **trustee engagement** (such as levels of monitoring, tendering, switching suppliers) which will draw on the results of our survey of pension scheme trustees.
 - **Competitive landscape** which will set out our emerging analysis on market shares and market definition.
 - Our emerging analysis of the **gains from engagement**, testing whether more engaged customers get better value for money or other benefits. This may be accompanied by the disclosure, by means of a [data room or enhanced confidentiality ring](#), of supporting data.
11. The papers will not indicate any provisional conclusion on adverse effects on competition (AECs) or remedies to address those, as those matters will be set out in the provisional decision report.
12. However, alongside our analysis, some working papers may provide our emerging thinking on potential remedies, if we were to find an AEC. This is to enable us to gather views and evidence on these potential remedies.

Potential disclosure of underlying data/results

13. As set out above, in some cases we may disclose the underlying data/results from our analysis to enable parties to understand in more detail the analysis carried out.

14. There are different methods of disclosure depending on the sensitivity of the data including data rooms and confidentiality rings. CMA guidance² sets out more information on how these operate.
15. We will notify and consult separately with parties when we are intending to disclose data in one of these ways. This will give parties the opportunity to comment on the method of disclosing and express their interest in taking part.

Survey

16. We appointed IFF Research to survey trustees of UK occupational pension schemes as part of this investigation. The research gathered evidence on how pension scheme trustees use investment advisory and fiduciary management services and how they view these services. We will publish this independent survey alongside the working papers. Elements of the survey will form part of some working papers, alongside other evidence we have gathered.

Update on proposed focus of our investigation: focus on pension schemes as clients of investment consultants and fiduciary managers

17. Our [Issues Statement](#) stated³ that we proposed to focus on pension schemes within the wider range of institutional investors which were set out in the FCA's Terms of Reference.⁴ The FCA's study of investment consultants within its wider [Asset Management Market Study](#) had focussed on pension schemes as the key clients for investment consultants, arising from their requirement to obtain and consider proper advice on investment which is normally met through use of an investment consultant.⁵
18. We invited views on this and asked whether there was a need to extend our analysis to include other types of institutional investors, such as charities, insurance companies and endowment funds. We particularly sought views on the extent to which other investors use investment consultancy or fiduciary management services and whether there were any particular areas of concern that would warrant further analysis for other types of institutional investors.⁶

² For example, [Chairman's Guidance on Disclosure of Information in Merger Inquiries, Market Investigations and Reviews of Undertakings and Orders accepted or made under the Enterprise Act 2002 and Fair Trading Act 1973 April 2013](#), CC7 (Revised), paras 9.17 – 9.19. See also [Transparency and disclosure: Statement of the CMA's policy and approach](#) (CMA6), paras 4.28 – 4.34.

³ CMA [Issues Statement](#), paras 18 – 21.

⁴ FCA [Asset Management Market Study, Final Decision: Market Investigation Reference \(MIR\) on investment consultancy services and fiduciary management services](#), Annex 1.

⁵ FCA [Asset Management Market Study Interim Report](#), November 2016, para 8.16.

⁶ CMA [Issues Statement](#), para 18.

19. Most of the respondents to our Issues Statement supported our intention to focus on pension schemes and we did not receive any particular concerns in relation to other institutional investors such as to warrant that we should carry out specific research or analysis.
20. Our emerging analysis of the revenues of investment consultants show that other institutional investors represent just 6.5% of their business and 9.1% of the assets on which they advise. These low figures are reflected by the relative importance of these types of institutional investor in the overall asset management sector: charities and endowments account for just 1.2% of all institutional assets. In-house and third-party insurance assets are much larger at 26.7% combined,⁷ but we understand that these are even smaller than charities as a client set for investment consultants.
21. Our analysis shows that, for each category of institutional investor, there appears to be a range of other companies which compete with the major investment consultants who provide services to pension schemes.
22. Most importantly, we have not yet identified any additional or particular areas of potential concern about the use of investment consultants amongst these other types of institutional investor.
23. For the reasons set out above, we are minded to focus our further work on pension schemes as the main customer group for investment consultants and fiduciary managers. We are not minded to conduct any specific or detailed additional analysis of these other types of institutional investors although they remain within the scope of our investigation as buyers of investment consultancy and/or fiduciary management services. As such, they may be included in the scope of any remedies that we may impose as a result of finding any AEC.
24. We welcome feedback on this proposed focus, including any evidence or information that we should consider as the investigation continues.

Stay in touch with this investigation

25. The [case page](#) for this investigation is regularly updated. Please visit the webpage regularly to keep up to date with the case.

⁷ All figures taken from the Investment Association, [Asset Management in the UK 2016 – 2017, the Investment Association Annual Survey](#), September 2017.

26. If you wish to submit any information or raise any comments relevant to the investigation please contact investmentconsultants@cma.gsi.gov.uk.