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Response to the CMA Investment Consultants Market Investigation *Working Paper: Information on Fees and Quality*

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Executive Summary

The *Working Paper: Information on Fees and Quality* ("the Paper") represents a valuable step towards identifying causes of the current lack of competition within the UK investment consulting market and proposing appropriate remedies. We applaud the CMA for their work.

bfinance has a number of concerns regarding the **feasibility**, **effectiveness** and **unintended consequences** of the remedies as they are currently framed. The majority of these concerns stem from one particular issue: the lack of granularity around the very different "Advisory" services, which are grouped as a unit in the Paper.

There appears to be no suggestion that these very different "Advisory" services should be disaggregated and itemised for performance reporting or fee attribution, even though these services are quite straightforward to delineate and require different resources and expertise (e.g. asset allocation and fund manager selection).

In doing so, the Working Paper appears to overlook a critical issue that could severely undermine both the **feasibility** and the **effectiveness** of the proposed remedies, as discussed in our response below. Defining and disaggregating the different Advisory services transparently would make it easier for investors to assess cost, performance and value-for-money in each. Clearer definitions would also reduce the potential for conflicts of interest between different Advisory services (e.g. recommending the introduction of a new asset class and then being paid to implement the new asset class).

As a result, the Paper also omits to acknowledge that different consultants provide different Advisory services and that many investors use multiple consultants (e.g. specialists), perhaps on a project basis rather than a retainer basis, rather than relying on one retained consultant for all Advisory services. Speaking as a specialist consultant ourselves, we are also concerned about the "**unintended consequences**" that such an omission may produce: remedies designed without differentiation or multiple advisor usage in mind could accidentally promote the market position of full-spectrum investment consultants over specialist investment consultants. We believe that growth of the latter represents a positive competitive trend in the industry during the past few years.

It is highly possible that this Working Paper, since it is the first of several, simply does not go into granular detail on the subject of unbundling and itemisation of different Advisory services and that the issue is in already being addressed in another Working Paper. We hope that this is the case, since transparency and clarity would surely be in keeping with the spirit of the investigation and would greatly aid the **effectiveness** of the remedies that are currently proposed. However, certain sections appear to suggest that non-transparent bundling of services is being viewed favourably, at least from the perspective of fees (e.g. page 22).

If the CMA has not yet considered the prospect of defining and unbundling the different Advisory services, encouraging separate performance reporting and fee attribution for each where multiple services are provided, we hope that this response will be helpful. As such, this could be considered an "**alternative potential remedy,**" as requested by the Working Paper. We would be happy to contribute towards research in this area, such as defining the main categories and sub-categories of Advisory service.

This response comments only on the recommended remedies for Advisors and does not comment on Fiduciary Management. bfinance does not provide Fiduciary Management services. We do, however, assist investors in the selection of Fiduciary Managers.

1 Comments on Remedies from Section 1: Current Clients, Information on Fees

Remedies proposed by the CMA

- Mandating comprehensive disclosures of fee and charges with minimum frequency including in relation to third party fees.
- Guidance to trustees on requesting and interpreting fee information, potentially including templates.

Feasibility and effectiveness

a. Mandatory comprehensive disclosure of fees charged to clients is feasible for all investment consultants.

b. The effectiveness of this measure could be maximised if consultants are required to itemise or attribute their fees according to the different types of Advisory service provided: these different services are very distinct (e.g. Asset Allocation advisory vs. Manager Selection advisory). This would be feasible regardless of whether the charges are in the form of monthly retainers, hourly rates or project costs.

c. We encourage the CMA to exercise caution in recommending that the fees being paid by an investor to third-party asset managers should be examined and judged by the same consultant that was used to select those managers. The fees that investors can achieve during a manager selection process are often significantly lower than the “official” rack rates quoted by managers for the same strategies, meaning that benchmarking based on official/survey data is flawed and above-average fees can appear average. This issue, coupled with the clear conflicts of interest, could limit the effectiveness of this measure.

d. We therefore encourage the CMA to examine (as a point of reference) current regulations for the insurance industry, relating to the use of objective external fee benchmarking when investing assets using the asset management divisions owned by their same business.

Unintended consequences and proportionality

e. We view this measure as proportional.

f. We do not believe that this remedy would restrict innovation in fees (an unintended consequence noted by the Paper). Just as asset managers can provide a range of different fee schedules side by side (e.g. fixed fees versus performance fees), advisors are capable of presenting more innovative and more conventional fee schedules side by side.

Testing and implementation

g. We would encourage the testing of fee disclosure on a selection of investment consultants, including different types of provider - both full-spectrum consultants and specialists.

h. Testing should be designed to reveal whether the resulting information does actually allow for comparison of different advisors’ charges. This would aid in the development of appropriate and robust templates.

i. In the course of implementation (e.g. written guidance) we recommend a focus on value for money as opposed to purely on cost: in other words, the fees for the different types of Advisory service should be weighed alongside the performance within that Advisory service.

2 Comments on Remedies from Section 2: Current Clients, Information on Performance

Remedies proposed by the CMA

- Introducing a standard baseline level of scheme performance information including frequency, requirement for net/gross returns and focus on member outcomes.
- Guidance to trustees on requesting performance information and how to interpret this information.

Feasibility and effectiveness

a. The proposed remedies and the related discussion in the Working Paper prior to these remedies run the risk of conflating two quite different subjects. This conflation could limit both feasibility and the effectiveness of the remedies. The first subject is the monitoring and reporting of the client's overall scheme performance: a service provided by certain investment consultants. The second subject is the monitoring and reporting of the advisor's performance. Although there are some points of overlap between these two (particularly where the Advisor is recommending strategic asset allocation or asset-liability management) the two are fundamentally different. <u>We would urge the CMA to separate these two subjects very clearly indeed</u>.

b. On the subject of *assessing and reporting the performance of clients' schemes* (for retained Advisors who provide this service), we believe the proposed remedies are clear and feasible, as long as the client retains the ability to customise reporting to their own needs.

c. On the subject of *assessing and reporting the Advisor's performance*, we believe that the proposed remedies would be significantly more **effective** if consultants are required to separate their performance reporting into a defined series of services. For example, an advisor that provides both Asset Allocation recommendations and Manager Selection should report performance on both of these two different services (discussed further in part 4). Many consultants offer five or more distinct areas of service, but only deliver transparency on the performance of one or two areas at present, making it difficult to assess the full picture.

d. We note with appreciation the comments in the Paper regarding the difference between the advice that may be given and the client's decision. This further reinforces the point above regarding establishing clear water between advisor performance and scheme performance.

Unintended consequences and proportionality

e. We view the remedies as proportional.

f. Without the clarity and transparency that separation/unbundling would deliver (noted in 2c), the potential for negative unintended consequences would be high.

Testing and implementation

g. We would encourage the testing of performance reporting on a selection of investment consultants, including different types of provider - both full-spectrum consultants and specialists.

h. Testing should be designed to reveal whether the resulting information does actually allow for comparison of different Advisors' performance in the different areas (per the example above, whether one advisor is stronger on tactical asset allocation and the other is stronger on manager selection).

3 Comments on Remedies from Section 3: Prospective Clients, Information on Fees

Remedies proposed by the CMA

- Duty on firms to provide a minimum level of fee information.
- A tender toolkit for trustees including template documentation.

Feasibility and effectiveness

a. Mandatory comprehensive disclosure of fees to be charged to clients is feasible for all investment consultants.
b. The effectiveness of this measure would be maximised if consultants are required to itemise or attribute their fees according to the different types of Advisory service provided: these different services are very distinct (e.g. Asset Allocation advisory vs. Manager Selection advisory). Itemisation or unbundling would be feasible regardless of whether the charges are in the form of monthly retainers, hourly rates or project costs.
c. We would caution the CMA to maximise feasibility of template documentation with a highly modular approach, with the understanding that the investor may be requiring any of the following: one retained advisor; multiple retained advisors potentially covering similar or different services; one or multiple project-based advisors; or, a combination of retained and project-based advisors.

Unintended consequences and proportionality

d. We view this measure as proportional.
e. We do not believe that this remedy would restrict innovation in fees (an unintended consequence noted by the Paper). Just as asset managers can provide a range of different fee schedules side by side (e.g. fixed fees versus performance fees), advisors are capable of presenting more innovative and more conventional fee schedules side by side.

Testing and implementation

f. We would encourage the testing of fee disclosure on a selection of investment consultants, including different types of provider - both full-spectrum consultants and specialists.
g. Testing should be designed to reveal whether the resulting information does actually allow for comparison of different Advisors' charges. This would also aid in the development of robust and appropriate templates.

4 Comments on Remedies from Section 4: Prospective Clients, Information on Performance

Remedies proposed by the CMA

- Introducing a standard baseline level of scheme performance information including frequency, requirement for net/gross returns and focus on member outcomes.
- Firms to provide example performance reporting information.
- A tender toolkit for trustees including template documentation.
- A duty on firms to provide information in accordance with the toolkit or other minimum standards on a comparable basis and against relevant benchmark (sic).

Feasibility and effectiveness

a. We believe that the proposed remedies would be significantly more **effective** if consultants are required to separate their performance reporting into a defined series of services. For example, an advisor that provides both Asset Allocation and Manager Selection should report performance on *both* of these different services. Many consultants offer five or more distinct areas of service, but only deliver transparency on the performance of one or two areas at present, making it difficult to assess the full picture.

b. We note on page 83 that some advisors publicise the performance of asset manager recommendations and a few share information on asset manager fee discounts. However, there is no mention of the performance of asset allocation recommendations (either long-term Strategic Asset Allocation or for Dynamic/Tactical Asset Allocation “tilt” recommendations), which represents an important part of many (though not all) investment consultants’ services. For example, Strategic Asset Allocation recommendations can be assessed against simple “reference portfolios” as per international examples from Canada and Singapore; Dynamic/Tactical Asset Allocation recommendations can be assessed against the Strategic Asset Allocation. Disaggregation and unbundling of different Advisory services would help to highlight these and other gaps in performance reporting.

c. We note with appreciation the comments in the Paper regarding the difference between the advice that may be given and the client’s decision. We believe it is possible to assess the recommendations that were given, regardless of which route the client decided to take.

d. We urge the CMA to investigate the different ways that Advisors present the performance of services and the different ways in which such analysis or presentation can be adjusted in the Advisor’s favour. For example, in the case of manager recommendations, a manager’s performance should only be incorporated in analysis following the date at which the recommendation or high rating has taken place, and must remain in the analysis for at least three years following the last date at which the manager was recommended or highly rated (even if it is no longer highly rated at present). We also urge the CMA to interrogate the benchmarks used for assessing the performance of recommended managers (e.g. absolute return, relative return versus a benchmark and which benchmark, relative return versus a relevant peer group of similar managers).

Unintended consequences and proportionality

e. We view the remedies as proportional.

f. Without the clarity and transparency that unbundling would deliver (noted in 4a), the potential for negative unintended consequences would be high.

Testing and implementation

g. We would encourage the testing of performance reporting on a selection of investment consultants, including different types of provider - both full-spectrum consultants and specialists.

h. Testing should be designed to reveal whether the resulting information does actually allow for comparison of different Advisors’ performance in the different areas (per the example above, whether one advisor is stronger on asset allocation and the other is stronger on manager selection).

5 Comments on Remedies from Section 5: Other Information on Quality

Remedy proposed by the CMA

- A remedy that requires the collection of objective client feedback and dissemination to prospective clients.

Feasibility and effectiveness

a. We believe that this remedy would be both feasible and effective. Questions could be incorporated into existing client satisfaction surveys, as long as they are conducted by an objective third party (we have previously used Strategex).

b. We would encourage disaggregation of the different Advisory services when assessing client feedback, where multiple services are provided. A client may often be satisfied with service on one area but not on another.

Unintended consequences and proportionality

c. We view the remedy as proportional and do not envisage unintended consequences.

Testing and implementation

d. No comments.

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