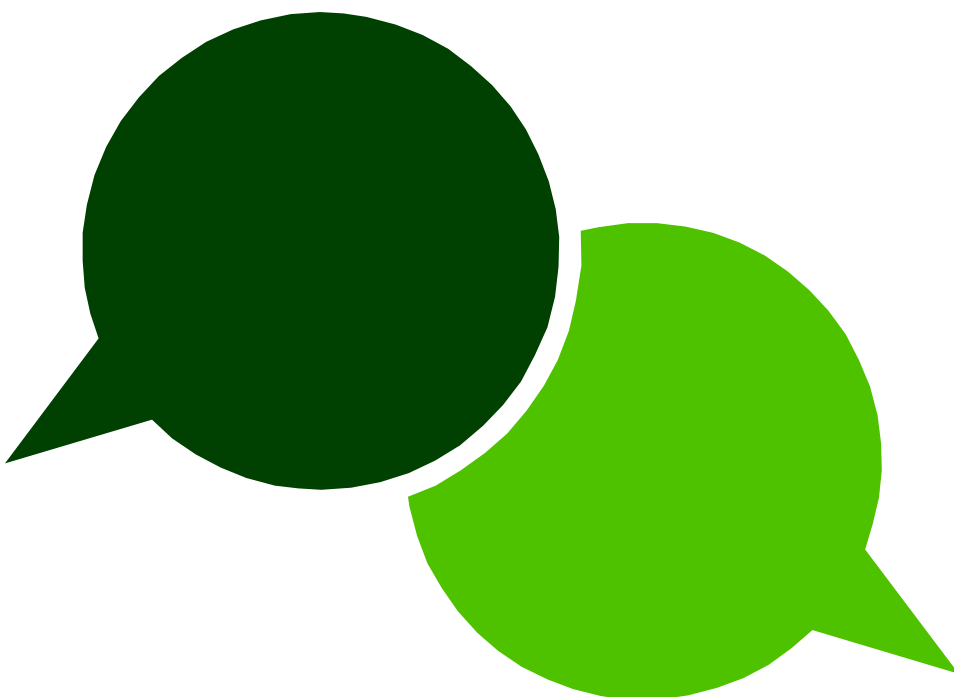




# Investment Consultancy Services and Fiduciary Management Services Market Investigation

Response to Working Paper on Fees and  
Quality

Cardano Risk Management Limited



# Overview

The investment consulting and fiduciary management industry is built on trust and has historically focussed more on relationships than financial outcomes. This has impaired growth and innovation, particularly in fiduciary management, and constrained new entrants' ability to enter the market. In turn, this has weakened competition and contributed to the poor performance that created ballooning deficits.

Ensuring there is sufficient focus for buyers and sellers on measurable financial outcomes, transparency and accountability will go a long way to solving the inherent problems.

We support many of the proposals set out by the CMA. However, we believe that significant improvements can be made with only a handful of the proposed remedies.

The problems cannot be solved by a single entity and we fully endorse the coordination with the different regulators.

We have an opportunity to improve a market that affects the quality of millions of lives. This opportunity should not be wasted.

We continue to believe that a comprehensive approach that considers the behaviour of sellers and buyers of the relevant services requires contributions from, and coordination of, the FCA, the CMA, tPR and the Department for Work and Pensions. Ultimately, we believe this is what's required to create better outcomes for defined benefit pension schemes and retirement security for their members.

We are encouraged by, and continue to be supportive of, the inclusive and pragmatic approach taken by the CMA.

## About Cardano Group

Founded in 2000, Cardano is a purpose-built, privately owned specialist focused on integrated management of pension schemes' biggest risks: funding, investment and covenant. That's all we do. For the avoidance of doubt, we are not part of an employee benefits group, an actuarial firm, an insurance broker or a global asset gatherer with diverse lines of business and dissimilar clients. We are, therefore, less encumbered by conflicts of interest and organisational complexity, enabling us to offer specialist services of unusually high quality to a select group of clients.

We have a purpose beyond profit:

- **WHY?** We believe in a fair society in which financial services improve our quality of life
- **HOW?** We want to contribute to such a society by fighting for a fair and robust financial system that benefits all stakeholders
- **WHAT?** We strive to deliver better and more secure financial outcomes for our clients in a realistic and responsible way

Cardano employs 170 people based in London and Rotterdam to serve clients with assets of £120bn. In London, 100 professionals serve 25 UK defined benefit pension schemes with assets of £50bn. Our services include investment consulting, fiduciary management and implementation of derivative overlays.

## Contact details

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# 1. Introduction

## Background

We support the Market Investigation. The CMA has understood the issues well and the focus within the Market Investigation on both the buyers and sellers is critical to help improve the overall functioning of the market.

## Working paper: information on fees and quality

We are not surprised with the CMA's emerging findings in relation to fees and quality. In particular, the continued lack of performance transparency across Advisors and Fiduciary Managers remains a cause for concern.

We support much of the proposed remedies set out in the paper.

## This response

For completeness we have responded to your consultation. However, given our support for many of your proposals we have kept our response to a minimum.

## 2. Our response

As requested, we have considered our views in light of the following questions:

- a. Ongoing developments - to what extent will current or recent industry or regulatory developments address (or exacerbate) the shortfalls in information that we have identified in our emerging findings?
- b. Feasibility - are the potential remedies achievable in practice?
- c. Effectiveness - will the potential remedy in each case address the shortfalls we have identified and will it be a comprehensive solution either on its own or in conjunction with others?
- d. Unintended consequences – what potentially harmful consequences should we be mindful of in designing each remedy?
- e. Proportionality - are the remedies no more onerous than needed; and are they the least onerous of potential effective remedies?
- f. Testing - would any specific proposal benefit from testing, and if so with whom?
- g. Implementation - how should the potential remedies be implemented?

These are discussed in the following pages.

Table 1: Produce standardised off-the-shelf tender documents for running better tenders

| Consideration | Our thoughts                                                                                                                                                                                                                                                                   |
|---------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| a             | There is nothing in progress within the industry which will either address or exacerbate the shortfalls in information that you have identified                                                                                                                                |
| b             | Yes                                                                                                                                                                                                                                                                            |
| c             | Should help to drive a minimum standard, but flexibility will be required in the design of the tender to allow each firm to provide information to describe their approach and philosophy                                                                                      |
| d             | Inability for a business to accurately represent themselves. Limit innovation. Could lead trustees to focus on the wrong issues if documents are drafted incorrectly                                                                                                           |
| e             | They are proportional                                                                                                                                                                                                                                                          |
| f             | Testing should occur with investment consultants and fiduciary management firms involved along with a sample of trustees<br>The work should be led by the tPR with input from interested parties                                                                               |
| g             | Guidance from tPR to all trustee boards<br>If firms are sent a standardised tender document they should be required to use this format – this can be self-imposed by the pension scheme trustee board i.e. if a firm doesn't use the document then they will not be considered |

Table 2: Standardised information for prospective clients in response to tenders

| Consideration | Our thoughts                                                                                                                                                                                                                                                                                                                                              |
|---------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| a             | There is nothing in progress within the wider industry which will either address or exacerbate the shortfalls in information that you have identified. However, Third Party Evaluators are standardising information for their own client base. The IC Select performance standard may lead to increased standardisation of performance metrics over time |
| b             | Yes                                                                                                                                                                                                                                                                                                                                                       |

| Consideration | Our thoughts                                                                                                         |
|---------------|----------------------------------------------------------------------------------------------------------------------|
| c             | Yes                                                                                                                  |
| d             | Please see our response to Table 1                                                                                   |
| e             | It is proportional                                                                                                   |
| f             | Testing should occur with the firms involved along with a sample of trustees                                         |
| g             | Guidance from the tPR on what to expect should allow pension trustees to enforce consistency<br>Oversight by the FCA |

Table 3: Better fee information

| Consideration | Our thoughts                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|---------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| a             | There is nothing in progress within the wider industry which will either address or exacerbate all of the shortfalls in information that you have identified. MiFID II will help improve clarity of fees charged<br><br>Flexibility in approach will be needed to cover the different fee models. It should include information on the total fees paid for the service provided as well as split by mandate<br><br>This work should include agreeing a standard formatting for the presentation of information |
| b             | Yes                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| c             | Yes                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| d             | Could prohibit innovation in fee structures unless flexibility is allowed for different fee structures                                                                                                                                                                                                                                                                                                                                                                                                         |
| e             | It is proportional                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| f             | Testing should occur with the firms involved along with a sample of trustees                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| g             | Guidance from the tPR on what to expect should allow pension trustees to enforce consistency<br>Oversight by the FCA                                                                                                                                                                                                                                                                                                                                                                                           |

Table 4: Standardised performance metrics

| Consideration | Our thoughts                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|---------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| a             | There is nothing in progress within the wider industry which will either address or exacerbate the shortfalls in information that you have identified. However, some Third Party Evaluators are standardising information for their own client base. The IC Select performance standard may lead to increased standardisation of performance metrics over time<br><br>At minimum the performance information provided should be Net of Fees Asset Returns compared to Liability Benchmarks (derived using a swap or gilt rate) along with associated risk statistics<br><br>The IC Select (soon to be GIPS) standard should be sufficient, but further standardisation is required to ensure a consistent application across all firms<br><br>Investment Advisors should be required to share performance information |
| b             | Yes                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| c             | Yes                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| d             | None                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| e             | It is proportional                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| f             | Testing should occur with the firms involved along with a sample of trustees                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| g             | Guidance from the tPR on what to expect should allow pension trustees to enforce consistency<br>Oversight by the FCA                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |

Table 5: Stronger service quality metrics

| Consideration | Our thoughts                                                                                                                                     |
|---------------|--------------------------------------------------------------------------------------------------------------------------------------------------|
| a             | The Greenwich survey is already being used and covers the industry<br><br>However, there is not a requirement on firms to share this information |

| Consideration | Our thoughts                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|---------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|               | Independent assessment has more validity than the information collected by each firm                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| b             | A standardised survey can work as long as there is guidance and deals with the different types of services offered by the different firms in the industry. However, if a pension fund is completing the Greenwich survey or another existing survey, then any new survey will be a duplication of effort                                                                                                                                                                                                                                                |
| c             | No                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| d             | <p>Services are not homogenous or a commodity and therefore comparison sites may not be providing useful information or allow reasonable comparisons</p> <p>There may also be confidentiality issues and legal advice may need to be sought on what could/could not be shared. This could either increase cost or lead to insipid comments being provided – none of which would lead to a good outcome for all those involved</p> <p>There is no link to outcomes and therefore by itself may not be helpful</p> <p>Increase costs for the industry</p> |
| e             | The use of a public register is not proportional given the issues raised above                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| f             | Testing should occur with the firms involved along with a sample of trustees                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| g             | <p>Guidance from the tPR on what to expect should allow pension trustees to enforce consistency</p> <p>Oversight by the FCA</p>                                                                                                                                                                                                                                                                                                                                                                                                                         |

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