KPMG LLP

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Dear Peter

Investment consultants market investigation

KPMG Response to CMA Working paper 1 – Information on fees and quality

Thank you for affording us the opportunity to comment on the CMA's "Working paper: Information on fees and quality" (the "**Working Paper**"), published on 1 March 2018. Overall, we think that the paper is supportive of our views that, specifically in Investment Advisory[1]:

- Current clients have easy *access* to information on fees, although we agree more could be done to enable our clients to *assess* that information. Information is also available to current clients looking to assess performance, and some thought to standardisation of how that information is reported would be welcome. However, there are certain difficulties on how to measure performance across firms, which the CMA is correct to note as a risk area.
- While we consider that fees are fiercely negotiated by trustees when reviewing potential Investment Advisory providers, we agree that more could be done in terms of standardisation of how fee quotes are provided to ensure like-for-like comparisons across providers. Our experience has been that trustees will firstly focus on narrowing down potential providers that they believe can best help them meet their objectives. They will then negotiate on the level and scope of fees prior to making their decision on who to appoint using information they have acquired during the review process to get best terms. On performance information, we believe that trustees are highly capable of assessing providers,

[1] KPMG do not provide fiduciary management (FM) services, nor do we plan to enter the FM space. Our commentary is therefore limited to the CMA's findings in relation to Investment Advisory unless stated otherwise.

and that a move to standardisation of past performance through some form of composite (similar to that used in FM) is not possible given product features. We would be highly supportive of the development of tendering toolkits to further aid trustees when assessing current and prospective providers.

We note that throughout the Working Paper, the CMA places reliance on its survey evidence. Based on the sample of survey evidence presented, we were pleased to observe that trustees appear to be highly engaged, with only very small proportions having difficulty accessing and assessing information on their current or potential providers. In our experience, trustees often review our relationship across a range of factors when we are the existing adviser, including reviewing fees against their view of the market (including when that view changes), how they use us within their governance structure, and often to reflect changes to their investment arrangements, particularly if these are lower risk and lower governance arrangements compared to their current strategies. Independent trustees will often focus heavily on fees at any point a new piece of work is scoped. This is supportive of our observations that trustees have improved in their effectiveness in recent years, including through the appointment of independent trustees.[2] We look forward to engaging with the broader survey evidence in due course.

In the attachment, we outline our more detailed views on each of the Working Paper's five sections. We split our commentary into views on the findings where relevant, and more detailed views on the CMA's potential remedies were it to find an AEC. We do however note that despite consideration of potential remedies in this working paper, it remains an open question (on which the CMA has yet to reach a provisional view) as to whether an AEC has been found to arise in relation to the provision of investment consultancy or fiduciary management services. At this stage we have provided initial views on certain proposed remedies below without considering all of the specific questions in the Working Paper. We look forward to the opportunity to engage further with any proposed remedies, as appropriate.

Yours sincerely

KPMG LLP

Enclosures: *<u>KPMG views on sections of Working Paper</u>*

[2] KPMG Hearing Summary, page 3

KPMG views on sections of Working Paper

Section 1 – current clients: information on fees

We are pleased that the CMA agrees Investment Advisory fees presented to clients are generally clear.

We believe that MiFID II will have an impact in improving cost transparency of asset management services, which will in turn assist trustees in assessing the best value for money and where appropriate in switching services and suppliers. We also consider that MiFID II could lead to a reduction in costs to clients as fees will inevitably receive greater focus with greater reporting.

In relation to the potential remedies set out in the Working Paper:

- On remedies **to improve the quality and utility of fee information to current advisory clients**: we consider that recording the asset management costs associated with a client's investment strategy could be completed in a document like the Statement of Investment Principles (or similar). This would be updated when any changes are being recommended. Recording asset management costs data in this manner would help to ensure fee information was readily available at all times and reduce the need for regular reporting. We believe that clients should also understand the one off costs (e.g. expected transaction costs) of making investment changes to their investment strategy and not just the impact on ongoing costs.
- Use of templates to record information is worth exploring as advisers may interpret or place data in different places, leading to potential confusion for trustees. We would be supportive of exploring such an approach and how it could be implemented. For example, use could be encouraged through a declaration by the Chair of trustees in an annual statement that fees have been reviewed and considered as part of the investment strategy.
- We agree that **guidance to trustees on requesting and interpreting fee information** would be helpful.

Section 2 – current clients: information on performance

We are pleased that the CMA has observed that Investment Advisory generally keeps reporting in line with TPR best practice guidance. This observation is supported by the CMA's survey evidence, which found that 94% of respondents considered that it is very or fairly easy to monitor the investment performance of their scheme. We are supportive of maintaining reporting of performance data in a format that shows investment performance relative to the scheme's liabilities, and hence the impact on the funding position over the short and long term. As the investment strategy will be the biggest driver of this progression we believe it is useful for the attribution of this movement to be shown. This can help trustees understand where they should focus their time in order to best manage risk and increase the certainty of their outcome e.g. when assessing the decision to hedge interest rate risk or not. We believe focussing solely on asset performance over a short timeframe (like the last quarter) would lead to an incomplete and incorrect focus on purely short term fluctuations which would affect good decision making. We advocate reporting over the "longer periods" set out by the CMA.[3] We also consider, along with TPR guidance[4] that returns *net* of fees should be used in reporting. While we support the

[3] See Slide 45 of the Working Paper.
[4] *Ibid*

inclusion of risk metrics in regular reporting, we note that these vary infrequently each quarter, and are typically covered in more detail during strategy reviews.

While the Working Paper notes that the CMA has not seen examples in which overall scheme performance is benchmarked against other schemes[5], we think this is for good reasons as the CMA has acknowledged. We do not believe comparing performance to other schemes is helpful given the likely very different circumstances. To our mind, focussing on the impact on the funding position on a scheme specific basis at key intervals (such as at 3 years, 5 years and since inception, as suggested by the CMA) is the most important issue.

The Working Paper also notes that risk analysis in reporting was often not present. We consider that greater use of scenario analysis would better inform trustees of the robustness of their investment strategy to adverse market environments (both historical and forward looking).

In relation to the potential remedies set out in the Working Paper:

- On the **remedy to improve the quality and utility of scheme performance information to current advisory clients,** we support remedies which would enable schemes to regularly receive key information, with the focus on long term performance relative to scheme liabilities, and on a net returns basis. However, we think that increasing the standardisation of that information, or mandating its provision, may lead to unintended consequences. Specifically in relation to mandating its provision, we note that many schemes choose to receive little or no regular reporting to avoid incurring additional fees. The CMA is correct to recognise that this would impose a cost on these schemes and affect the scope of services received (even though we recognise this is useful information which would be likely to benefit them, albeit a decision that needs to be considered vs. costs). KPMG has developed a proposition for smaller clients (where cost is an issue) which provides for quarterly factual performance reporting from the fund manager with the impact on funding positions available on a daily basis via an online monitoring tool. We believe such tools are a more cost-effective way to provide long term performance impact than longer and more costly written reports. We offer access to such a tool as standard in this service. While the CMA noted that it considered our uptake rates to be "low"[6], we note that this is likely due to other tools being available to trustees that they are likely to be using instead.
- On the **remedy to provide guidance to trustees** on requesting performance information and how to interpret it, we would support guidance for trustees on the level and type of performance they should demand. This would help focus trustees' attention on the key issues and provide better context for the success (or otherwise) of the chosen investment policy.

Section 3 – prospective clients: information on fees

We consider that the fee estimates we provide to prospective clients during tender processes are transparent and allow trustees to make informed choices with respect to KPMG. However, we do agree that at present it is possible for advisers to interpret fee questions asked by trustees differently, meaning in some cases trustees' ability to make like-for-like comparisons requires significant further work.

[5] See Slide 46 of the Working Paper.
[6] See Slide 51 of the Working Paper

In relation to the potential remedies set out in the Working Paper:

- On the **duty for firms to provide a minimum level of fee information**, we strongly support the concept of a standardised tender toolkit with minimum levels of fee information. We think that, were the CMA to look further into this option, it should consider whether encouraging Investment Advisory providers to quote a single fixed number which anticipates the workload expected over the course of the appointment (not limited to core work such as meeting attendance) would be appropriate. At present, some providers' fee estimates are provided under a narrow scope, excluding categories that other providers may include as standard, which a minimum standard would overcome. Furthermore, a fully inclusive fee mitigates the risk of overly complex strategies or advice that may reward the adviser more than is beneficial to the client. There would, however, need to be certain exceptions, such as advisory costs for transitions associated with a change in arrangement which are impossible to accurately predict.
- We appreciate the CMA's consideration as to whether such a remedy could hamper innovation in the ways fees are set. For example, in relation to how we set our fees, we think the concept above would not prevent us from applying a performance related element on top of a fixed fee quote.

Section 4 – prospective clients: information on performance

We appreciate the CMA's concerns that prospective advisory clients may face difficulties in conducting like-for-like comparisons of advisory providers' past performance. However, we consider that there are some inherent difficulties in quoting past performance data in a format that could be compared on a like-for-like basis. First, trustees take the final decisions for advisory mandates and these decisions, whilst owned by the trustees, are typically reflective of the views of other parties such as the sponsor. Second, decisions are also impacted by factors such as planned liability management exercises which are not driven by investment strategy. Third, additional challenges that inhibit a like-for-like comparison of past performance include a) how the comparison accounts for the risk being taken, b) what adjustments are made for different levels of contributions (which improve funding positions), and c) the time period(s) that are covered.

In relation to the potential remedies set out in the Working Paper:

- On **a standardised approach to FM performance and use of composites,** we believe the work being led by IC Select will help better comparison of past performance for fiduciary mandates. There will be full disclosure of performance of individual mandates (rather than just aggregate data) and it will be clear on the hedging levels (agreed with the trustees) which can be a very significant component of performance that is not down to manager "skill". No additional remedies are required at this stage to facilitate use of the IC Select performance standards.
- On **introducing a standard baseline level of scheme performance information for advisory firms,** as outlined above we continue to believe the issues with interpreting past performance of advisory mandates precludes any form of standardised reporting. However, we do consider that more could be done to ensure trustees are able to accurately assess potential advisory providers, as we outline below.
- We strongly support **introducing a tender toolkit** for trustees (and pension managers) to make the tendering process easier and more efficient to undertake. Our experience is that trustees are more than capable of assessing providers and a tender toolkit for trustees would only assist in this undertaking. The Pensions Regulator would be a clear

choice for developing and maintaining this toolkit with industry consultation. Specifically in relation to assessing past performance, we consider that encouraging trustees to ask providers for examples of performance of schemes in similar situations to theirs would be helpful, and remove the requirement for option (b) (although it would be important to emphasise the limitations of comparing performance between different schemes, as stated in our response to section 2 above).[7] We would be happy to explore further with the CMA how such a toolkit could be designed, including the key questions trustees could ask advisory providers.

Section 5 – other information on quality

We agree with the CMA that information on overall service quality is often not provided in materials provided by Investment Advisory firms to prospective clients. As previously noted[8], KPMG's practice receives a significant volume of new business through word-of-mouth and referrals by trustees, which provides a clear signal as to both our service quality and performance in terms of investment advice.

In relation to the potential remedies set out in the Working Paper:

- We would be supportive of **the collection of objective client feedback and dissemination to prospective clients.** We would support the use of a third party to undertake such a survey on an annual basis. While there could be some overlap with the Greenwich Survey, we understand firms should not be using the results of that survey for marketing purposes. We would be happy to engage with the CMA on how such a survey could be designed in due course. Our initial view is that such a survey would need to be relatively straightforward (e.g. a score of 1-10 across some key areas), to simplify comparisons and ensure low costs.
- We agree with the CMA that this could have an impact on firms' existing client satisfaction work, and note that each firm may have its own feedback mechanism (which is used for clients of other disciplines). However, we believe a third party comparison would be helpful to trustees.

[7] I.e. the introduction of a standard baseline of scheme performance information for advisory firms set out on slide 91.
[8] KPMG Hearing Summary, page 3 and Market Information Request, Page 57