

# REDINGTON RESPONSE TO CMA WORKING PAPER - INFORMATION ON FEES AND QUALITY

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## EXECUTIVE SUMMARY

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### Fees

We support more comparable and transparent information on investment consultant and third party fees as these both impact investment outcomes and are controllable. Historically, the industry has not done a good job of making fees as transparent as they should be.

However, there are other considerations that are much more meaningful to investment outcomes than fees (such as investment strategy, risk management). Therefore we would caution against placing undue emphasis on fees, or viewing fees in isolation without considering the value-for-money they represent, as we believe that there is a real danger that this comes at the expense of focus on more important areas.

Investment consulting fees should always be viewed in the context of value-for-money.

### Performance

**For current clients:** We provide quarterly reporting to all our retained clients as standard which illustrates their total fund performance against their strategic objectives. We think that regular, up to date, precise monitoring is vital to staying on track for these goals and to allow trustees to make timely and effective decisions. Performance monitoring for existing clients should focus the mind first and foremost on the most important strategic factors, and afterwards on individual managers.

**For prospective clients:** We support the efforts to create a basis for investment consultant performance track records. In our original submission, we highlighted that the lack of a clear and tangible 'counterfactual'<sup>1</sup> to the investment outcomes a scheme has experienced is one reason that schemes have not switched advisor as often as they might have been expected to. A performance track record can provide this counterfactual.

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<sup>1</sup> A fact that may have changed trustees' minds if they had known

We believe that it is crucial that the primary focus of performance information to prospective clients should be on total fund performance, and that there is a real need for an independent third party to set and police standards. There is plenty of detail to be worked out here. We discuss this in the following section and would welcome the opportunity to be in a working party to develop this further.

### **Other information on quality**

We continue to support the availability of views from trustees regarding service levels and overall quality and believe that this should be published on a central hub administered by a third party in a similar way to comparator sites such as Checktrade and Ratemybuilder; although we acknowledge there are challenges to such a business model in this case.

We have provided details of the short customer service surveys that we carry out with our own clients in response to your questions on other information.

Overall, we support all the moves for greater transparency. To make increased transparency most helpful to outcomes, we think increased transparency should focus on the hierarchy that is most impactful to investment outcomes:

1. Total fund performance relative to objective
2. Individual manager performance relative to objectives, benchmarks and peers
3. Fees and other costs

# QUESTIONS ASKED IN THE WORKING PAPER

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## 1. Fees for current clients

### *Potential remedy - Mandating comprehensive disclosure of fees and charges with minimum frequency, including in relation to third party fees*

#### **Should a remedy specify presentation as well as content?**

We would separate the consideration of investment consultant fees and third party fees here as they are both important, but quite different issues.

#### **Investment consulting fees**

Yes.

Clarity and relative value on fees is as important, if not more so, than transparency when it comes to fees.

We think that a focus on disclosing quoted versus actual fees could go a long way to highlighting inconsistencies with fee approaches.

Focusing purely on a standardised set of fee disclosures is unlikely to drive the right behaviours or outcomes for clients. There is a significant risk that the focus moves to a commoditised service for a low fee ("hollowing out" of service model).

Being clear and having a consistent approach to how fees can be presented would also remove a lot of confusion. It would improve the ability to compare like for like.

Finally, in this area a single isolated focus on fees will not drive better outcomes. Focusing on a wider value-for-money context will really make a difference. There is some direct experience in the Defined Contribution world that we would be happy to share with the panel which we believe will lead to improved outcomes.

#### **Third Party fees**

We also think that better clarity and transparency over third party fees would be helpful as these are controllable and will have an impact on investment outcomes, but historically have not always been made as transparent as they could by the industry. Standardised definitions and calculation methodology would greatly benefit the ability to make consistent comparisons.

However, we think that proposals to mandate disclosure of third party fees should be mindful of the risk of focusing on fees excessively, ahead of more important issues such as strategic asset allocation and risk management (which are likely to have a greater effect on outcomes).

We would also highlight the fact that for some schemes (especially larger more complex schemes) the fees for all third parties and internal pension-related costs will not necessarily be visible to the investment consultant. There is also a risk that for small schemes with limited governance and consulting budgets, the work to compile third party fees might take time away from more impactful work on strategic asset allocation.

### **How to accommodate varying trustee abilities and requirements?**

In our view, much of the difficulty around trustee understanding of fees and charges relates to the lack of clear and consistent definitions and methodologies. We believe that with the help of an independent third-party, these could be set in an easy to understand format that caters for a broad range of trustee requirements, yet provides a consistent means for comparison.

As we have highlighted above, we believe that in addition to training or guidance documents it would be helpful if core principles are required to be produced right next to every output of standardised data.

### **How to incorporate different fee structures, service lines and fund types?**

In relation to investment consulting services, this could indeed be quite tricky as there are a range of fee structures in place and we don't necessarily think that encouraging standardisation would be a good thing (as it could lead to a focus on providing commoditised services and would prevent firms developing innovative fee structures).

Most of our clients pay an "all-in" fixed fee for all the services which they require from us over the course of a year. This fee is typically fixed for up to 3 years as our clients tell us that they greatly value the certainty that this provides. It also has the benefit of taking away the need to negotiate over scopes and individual fee invoices. This allows us to be "always on" in thinking of new ideas and proactively proposing improvements to the client's investment strategy without needing to be instructed or get a project fee signed off. We believe this fee structure helps promote alignment between the advisor and client.

### **To what extent are MiFID II and the outputs of the IDWG sufficient to address any issues identified?**

By themselves we do not see MIFID II and IDWG sufficient to address all the issues identified.

***Potential remedy - Guidance to trustees on requesting and interpreting fee information, potentially including templates***

**Should a toolkit based remedy specify presentation as well as content?**

Yes.

Whilst the working paper outlines potential toolkits and guidance, we think it would be helpful if core principles and explanations are also required to be produced right next to every output of data so that they are front of mind for trustees as they are analysing any data rather than enclosed in a document that is rarely referred to. We would be happy to participate in a working group or such to look at ways to add this to any standardised reporting formats.

**Would multiple templates need to be developed?**

Almost certainly; to allow for different fee approaches, different service models and different types of client.

**2. Performance information for current clients**

***Potential remedy - Introducing standard baseline level of scheme performance information including frequency, requirement for net/gross returns and focus on member outcomes***

**Should advisory firms have any responsibility to report on the performance of the investment decisions of trustees and AM providers?**

We would look at trustees and AM providers separately here.

We think it is very difficult or impossible to report on the investment performance of individual investment decisions by trustees. We believe it would be helpful and valid to report on the overall investment performance of the fund (relative to liabilities) under the remit of each advisor.

**Is there value in increasing the standardisation of information received?**

A standardised basis for performance would be helpful, but the information will always need to consider the specifics of the scheme (e.g. the scheme liabilities and the trustees' chosen funding and investment objectives), so complete standardisation here should not be the goal.

With regards to performance reporting for DC, we agree that defining the 'end game' on DC needs more work and should be reviewed regularly by trustees.

We would also highlight that transaction cost analysis should be included when performance is reviewed.

***Guidance to trustees on requesting performance information and how to interpret this information.***

**Are trustees able to request performance information in the format they require?**

In our experience, yes they are. We provide quarterly performance information to all our retained clients. We think regular monitoring is an essential part of keeping them on track to meet their objectives.

**For guidance to trustees: How to draft useful and meaningful guidance to cover a range of scenarios?**

As we set out in the following section, guidance should include whether any differences are meaningful in each context. We also believe that including core principles and explanations in any template design right next to the data might improve the ability for trustees to analyse any data.

**Would additional guidance be useful to trustees and would it be used?**

Yes, we think guidance would be helpful here and the CMA can play a useful role in setting the standardisation of certain parameters and features of the data put forward.

**3. Fees for Prospective clients**

***Potential remedy - Duty of firms to provide minimum level of fee information***

**Should this be in a fixed template?**

A more standardised format would be very helpful in aiding comparability, guiding trustees to the right decisions and removing the scope for bad outcomes later. However, any methodology should consider the range of fee models currently in use and allow for innovation.

We would also note that innovation in fee models can be a good thing – historically, this has included all-in fixed fees rather than fully time-cost fees, in future it might mean a move to more performance-based fees. We have a concern that a fixed template could reduce scope for fee model innovation.

**Should there be a detailed calculation methodology provided?**

Subject to the requirement to consider a range of different fee models, we believe that standardised calculation methodology would be helpful.

***Potential remedy - Tender toolkit for trustees including template documentation***

As we set out in the following section, guidance should include whether any differences are meaningful in each context. We also believe that including core principles and explanations in any template design right next to the data might improve the ability for trustees to analyse any data.

**4. Performance information for prospective clients**

***Potential remedy - introducing a standard baseline level of performance information including frequency, requirement for net/gross returns and focus on member outcomes and firms to provide example performance reporting information***

**Is standardised performance for advisory meaningful given that the responsibility for decisions ultimately rests with trustees? Would it be feasible to design comparable performance metrics?**

Yes, we believe it is vital to measure the performance of the whole fund relative to its liabilities, as ultimately this is what the consultant should take responsibility for.

We view the consultant's role as including the appropriate training and advice needed to get recommended changes implemented in a timely way. Therefore, much of the decision making is at some level under the control of the consultant.

There will always be some decisions that are outside the control of the consultant but we believe this should "wash out" in a large sample. Consultants should be prepared to accept this potential impact, recognising that overall investment outcomes are what matters to the client and that the consultant can be a significant factor in driving these.

We think measuring anything other than total fund performance risks focusing minds on the wrong things (tending to those easiest to measure like fund manager performance). This has happened routinely in the industry in the past.

**Could this be supported by firms providing indicative reporting up front?**

Yes.

**How should any standard be developed and maintained?**

There would need to be quite a lot of work done to determine the standards. We think involvement of a third party is key. We are aware of the work done to date by IC Select and we support in principle the

approach they are taking for determining methodologies and standards for performance data going forward.

Unfortunately, it is not likely that smaller or new entrant consultants will be able to provide these monthly returns historically, or at least without significant costs and/or assumptions. This means that it would be years before meaningful data would be available.

It would, therefore, be good if a transition arrangement could be found that made some sort of historical track records available until third party performance benchmarks become meaningful.

A funding level record, perhaps using 'buckets' agreed for long-term third party benchmarks for stratification and comparison purposes, might be a deliverable option here and could reduce any impact on barriers to entry or expansion for smaller consultancies or relatively new entrants.

***Potential remedy - a tender toolkit for trustees including template documentation and a duty on firms to provide information in accordance with the toolkit or other minimum standards on a comparable basis and against relevant benchmark***

We are in favour of this as we think that standardisation of certain parts of the tendering process could improve competition. However, we would caution that over-standardisation could result in excessive focus on those areas that lend themselves best to measurement, particularly head counts and resources, which would act in favour of larger firms.

Again, we believe that including core principles and explanations in any template design right next to data might improve the ability for trustees to analyse any data on top of guidance and training that may only be referred to periodically.

We also think any toolkit should have a free-form element for the consultant to provide a message conveying the uniqueness and key attributes of their firm in their own words and style. We believe philosophical alignment is crucial in selecting an investment consultant as it leads to an effective relationship and tangible impact on outcomes.

**Who should develop, maintain and promote a toolkit?**

This role could be played by a third-party evaluator (TPE) firm or independent trustee firm or independent body made up of trustees and/or TPEs.

**Should it be supported by an obligation on firms to provide information according to the toolkit?**

This seems reasonable to us.



## 5. Other information on quality

### *Potential remedy - a remedy that requires the collection of objective client feedback and dissemination to prospective clients*

#### **Should this be published on a supplier website, a central hub or just on request?**

We think to be most effective this should be published on a central hub (independence from suppliers is key). We think good comparator examples for this are the success of sites such as Checkatrade and Ratemybuilder.

#### **Should the firm be responsible for collation or a third party?**

We think this will be most effective if administered by a third party, however, we acknowledge the business model challenges of firms that currently try to provide such a service.

#### **What would the potential cost impact of this be?**

The cost would vary depending on the approach chosen of which there are a variety. If a commercially viable model were available, then a third party could be incentivised to provide this as a service. The cost could either be borne by schemes or by a fee to the suppliers.

#### **What areas of service should trustees be surveyed on?**

To be most effective, we think that such a survey should be short and focus on the most important service factors.

To track our own service levels, and to help identify any issues as early as possible, we survey our clients asking them to rate the following:

1. Redington thoroughly prepares our Board (and sub-committee members) for the decisions that need to be made.
2. Redington helps our Board (and its sub-committees) make decisions effectively.
3. Redington regularly explores and brings new ideas that are tailored to our Scheme.
4. My Redington team delivers papers on time.
5. Redington's communication, papers and reports are error-free and high quality.
6. Redington explains things to me clearly, taking account of my technical knowledge and the complexity of the subject matter.
7. I feel confident that Redington's recommended strategies and managers will perform well to deliver planned outcomes for the Scheme.
8. The working relationship with my Redington team is excellent.

In addition, we track a Net Promoter Score by asking them to rate "How likely is it that you would recommend Redington to another Pension Scheme?".

# HOW TO HELP TRUSTEES ‘TRANSLATE’ FEE AND PERFORMANCE INFORMATION

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We would highlight that whatever routes are finally taken, accurate interpretation and meaning of data should be a focal point of the process; together with standardisation and comparability of data.

It is our experience that, whilst almost all trustees will understand much of the numerical data at some level, they may be unable to extract relevant meaning that will allow them to make good choices unless given clear context.

Whilst the context will be different for each choice, we believe that it is sensible to provide clear guidance in the following areas:

› **Clarity on whether any differences are meaningful.**

Whilst we can rank order the outcomes of manager performance, or some measure of consultant ‘value-add’, the differences may not be significant statistically. This needs to be made clear in language that all trustees can understand.

› **Help for trustees to focus on what is important.**

In the context of fees for strategy advice, for example, trustees should look at costs versus potential value rather than cost alone. Where a £1 billion fund looks to select a strategic adviser and Firm A quotes £100,000 per annum more than Firm B, our experience is that trustees can often look at the absolute magnitude of difference – and for most trustees £100,000 is a large sum of money. However, in the context of the overall cost drag on the scheme, the cost differential is tiny (0.01% per annum). To the extent that firms have different abilities to help clients deliver member outcomes, then these numbers need to be put in context.

› **Keep the guidance close to the data.**

Whilst the working paper outlines potential toolkits and guidance, we think it would be helpful if core principles and explanations are also required to be produced right next to every output of data so that they are front of mind as trustees are analysing any data rather than enclosed in a document that is rarely referred to. We would be happy to participate in a working group or such to look at ways to add this to any standardised reporting formats.