

**PENSIONS AND  
LIFETIME SAVINGS  
ASSOCIATION**

**CMA INVESTMENT CONSULTANTS MARKET INVESTIGATION – WORKING  
PAPER – INFORMATION ON FEES AND QUALITY: CONSULTATION RESPONSE  
BY THE PENSIONS AND LIFETIME SAVINGS ASSOCIATION**

Date 23 March 2018

## **INTRODUCTION**

**We're the Pensions and Lifetime Savings Association; the national association with a ninety year history of helping pension professionals run better pension schemes. With the support of over 1,300 pension schemes and over 400 supporting businesses – including investment consultants and asset managers - we are the voice for pensions and lifetime savings in Westminster, Whitehall and Brussels.**

**Our purpose is simple: to help everyone to achieve a better income in retirement. We work to get more money into retirement savings, to get more value out of those savings and to build the confidence and understanding of savers.**

The Pensions and Lifetime Savings Association (the Association) welcomes the decision of the Competition and Markets Authority (CMA) to focus its first Working Paper on the information provided by advisory and fiduciary management firms to current and prospective clients. We believe that transparency of costs, performance and service quality information at each stage of the value chain is vital in enabling trustees and other pension scheme decision makers to hold their service providers to account. This includes the quality, clarity and consistency of the information offered by institutional advice service providers to schemes; we believe this is a key factor in ensuring a market which works effectively.

Our response draws on feedback and comments from members including investment consultants, pension scheme investment managers as well as trustees and trustee board chairs. Given the timescale for responses, some organisations may not have been in a position to share or develop their views fully and we would happy to provide a forum for the CMA to engage with our members on this or any related issue, should the CMA be interested in further feedback. For similar reasons, we have been unable to gather significant amounts of feedback on some of the more granular splits highlighted by the CMA in its paper, including between fiduciary management and investment consultancy firms and the information provided to prospective or current clients.

We agree with the broader findings of the CMA that there is some evidence that “customers are not well-equipped to choose, and subsequently monitor the performance of, their provider and in turn to drive competition”. We agree that this is down to issues on both the supply- and the demand- side. With this in mind, we think the general focus of the CMA on remedies which would a) incentivise consultants to provide better and comparable information where possible and b) help trustees work with and use the information they are provided with, is correct.

Our response is split into two sections:

- Remedies which aim at ensuring firms provide better, comparable information
- Remedies which aim at empowering trustees to request better information

## **A. REMEDIES WHICH AIM AT ENSURING FIRMS PROVIDE BETTER, COMPARABLE INFORMATION**

We agree with the analysis that transparency on fee/costs and performance information is of variable quality throughout the investment chain. We have supported the work of the FCA and others to improve this, particularly through our role on the IDWG and have also fed in to DWP's work on disclosure of investment and cost information to members in DC schemes.

We think transparency is vital to enabling clients of investment services to make better-informed and appropriate decisions. Given the important role that investment consultants play in impacting the asset allocation and manager selection decisions which specifically affect investment returns, it is particularly important that trustees are given the tools they need to assess their investment advisers on cost, performance and service quality.

On the CMA's trustee survey results, we note the relatively high proportions of trustee boards saying that they find it straightforward to monitor investment consultants' information on fees and performance. Analysis from The Pensions Regulator (TPR)<sup>1</sup> and elsewhere would indicate that there remain significant gaps in knowledge and understanding on many trustee boards.

It is the widespread acceptance of this variation that has been the driving force behind much of the templates and guidance being produced in this area. We await the full breakdown of the results of the CMA's trustee survey, but think a reason for the results may be that it is currently hard for trustees and others to gauge what 'good' looks like in this area.

### **FEES AND COST INFORMATION**

#### **The impact of other cost transparency initiatives**

We welcome the CMA's recognition of the work already being undertaken on cost transparency including the IDWG, MiFID II and LGPS/Investment Association<sup>2</sup> initiatives; it is important that the different initiatives are aligned (and lessons learned) as much as possible to avoid confusion and the proliferation of multiple standards, templates and guidelines.

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<sup>1</sup> TPR *Trustee Landscape Quantitative Research* – October 2015

<sup>2</sup> The LGPS Code of Transparency

We believe that the IDWG and MiFID II initiatives have been fundamental in raising awareness of, and encouraging debate around, the importance of costs as a factor in net investment returns and the need for clear and comparable cost information.

The extent to which there is overlap between these initiatives to those on investment consultants and fiduciary managers' disclosure of fee information is as yet unclear. Currently the IDWG templates – still in development – provide relatively little in the way of contextual information and we do not yet know how far the final versions will go in incorporating such data. Furthermore, at present the cost focus is primarily on investment of assets as opposed to the processes involved in undertaking and managing asset allocation; this would include advisory, transition, or monitoring services – which are all an increasingly important component of investment consultants' commercial offerings.

### **Better fee and cost information**

We support the provision of clear, consistent fee and charges information – including on third party fees – to clients. The trustees who fed in generally thought mandatory disclosure of fees and charges would be very helpful in informing their decision-making. However, we note that the inherent difficulties in mandating just one type of disclosure: unlike the actual asset management process, which can be broken down into (many) similar constituent parts, investment consultancy services vary significantly – including the operating models, the wide range of possible services provided, and the basis on which they charge.

We also think that it is a useful exercise for trustees to be encouraged to think about what kind of disclosures and information would be most helpful. We therefore believe that there could be value in the creation of a variety of off-the-shelf templates from which the trustees can choose and which would shape how consultants present their information. These templates must be straightforward to use and we would urge in-depth consultation with trustees – with different levels of investment experience and understanding – as well as the broader industry in their creation; this should help mitigate any concerns about the difficulty in designing a remedy which accommodates varying trustee abilities and requirements.

There was also support amongst trustees for further guidelines and specifications on how the information is *presented* as well as a mandatory explanation of calculation methodologies behind the fee information.

### **Value for money vs. low cost**

Any cost template should provide contextual information and clearly highlight that information on costs must be considered together with performance and service quality information and how these together contribute to achieving the scheme's strategic investment objectives. We are concerned that otherwise consideration of cost information might occur in isolation and lead to a 'race to the bottom' focus on

costs instead of a consideration of what offers the best value for money for scheme members.

## **PERFORMANCE INFORMATION**

As for fee information, there was member support for a standard baseline of performance information with our trustee audience in particular saying they would find it helpful –and that information on the performance of the providers of asset management services would also be useful<sup>3</sup>. However, we note that there would be particular challenges in finding the appropriate performance benchmark metrics as any standards would need to be comprehensive to ensure comparability but also allow flexibility for the extremely wide variety of investment strategies and approaches undertaken by schemes.

A further factor which would need to be considered would be how to measure and compare performance where clients have acted against their consultants' advice. We think that this would need to be highlighted in any accompanying documentation or performance metrics. Ultimately, any framework would need to be agreed upon after close consultation with the industry.

## **B. REMEDIES WHICH AIM AT EMPOWERING TRUSTEES TO REQUEST BETTER INFORMATION**

It is not enough to simply provide better information on the fees and performance of investment consultants and fiduciary managers; pension scheme decision-makers also need a level of knowledge and understanding which enables them to make use of the information they are given and make appropriate investment decisions.

Although there are many trustees who are very capable of understanding complex investment decisions and information, it is generally agreed that there is a variety of investment knowledge on trustee boards. Some larger schemes have been able to 'fill' this gap through appointing panels of advisers, as well as providers of advice oversight services. However, many schemes do not have the resources to be able to do so.

We think that well-targeted, well-designed and impartial guidance on how trustees can tender for, appoint, monitor and assess their investment consultants has a significant role to play in ensuring a more effective market. The range of different 'off the shelf' templates as previously suggested could be part of any new toolkit, alongside guidance which could include case studies, notes such as a glossary and potentially access to interactive media learning e.g. webinars. It is important to highlight that any guidance will be entering what is a crowded space; there is a

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<sup>3</sup> Any such information on asset manager performance should also be standardised – subject to the caveats we express on investment consultant performance in the main text – to ensure comparability; this could perhaps make use of or build upon existing performance benchmarks such as the Global Investment Performance Standards (GIPS).

significant amount of information and guidelines available to trustees – both generally and on cost transparency specifically – and we feel guidance should be user-friendly and simple to understand, potentially including practical tips such as how to push consultants to reduce fees, or what factors should be considered when thinking about changing provider should be a key part of any guidance.

### **RFP DOCUMENTS**

It is worth emphasizing here the positive role that good guidance could play in helping solve a broader potential range of institutional advice market issues than fee and performance information. In particular, we agree that there would be merit in providing guidance around the design of Request for Proposal [RFP] documents, for instance through designing a series of standard RFP templates for use by schemes. We note that consultancy firms have to respond to a wide variety of different RFPs asking for a wide variety of information; not only does this present a potential competitive barrier for smaller firms who may not have the resources to devote to responding or digging up lots of different information in different formats, but we also understand that the design of RFPs is an area that many trustee boards find complex and time-consuming. Standardised RFPs would further enable easier comparison between investment consultancy and fiduciary management providers.

The framework for such guidance should be agreed upon by the industry but provided, governed and updated by an impartial body.

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Caroline Escott

Policy Lead: Investment and Defined Benefit

**Pensions and Lifetime Savings Association**

[caroline.escott@plsa.co.uk](mailto:caroline.escott@plsa.co.uk)