Willis Towers Watson

INVESTMENT CONSULTANCY AND FIDUCIARY MANAGEMENT SERVICES MARKET INVESTIGATION

RESPONSE TO WORKING PAPER ON FEES AND QUALITY

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22 MARCH 2018

INVESTMENT CONSULTANCY AND FIDUCIARY MANAGEMENT SERVICES

WTW RESPONSE TO WORKING PAPER ON FEES AND QUALITY[1]

1. Introduction

1.1 WTW welcomes the opportunity to respond to the Working Paper on fees and quality published by the CMA on 1 March 2018 (the "**Fees and Quality Working Paper**"). WTW broadly supports remedies to improve transparency in the advisory and fiduciary management ("**FM**") services market. Such measures, if appropriately designed, should help trustees better assess the value for money of different advisory and FM products and may facilitate greater trustee awareness by providing important information in a potentially simpler format.

1.2 However, WTW considers that there would be an opportunity here to develop more effective remedies if the CMA were to explore more explicitly the source of the problems that it has identified. In particular:

(a) The remedies should reflect an understanding of why trustees aren't satisfied with the present information that they have access to, or why trustees aren't currently getting the most helpful information. WTW does not think (and the evidence in the Fees and Quality Working Paper does not support) that this is obviously due to either a lack of information, or a lack of standardised information. Behavioural issues affecting trustees' decision making should also be taken into consideration.

(b) The two obvious behavioural issues that are likely to be relevant for some or many trustees are limited expertise and limited bandwidth, as we submitted in our Market Investigation Discussion Paper[2] of 2 March 2018. If these are present, then the diagnosis of the problem, as well as the relevant remedies, will differ, compared to what would be appropriate in a situation of full expertise but limited information. We note that the original Competition Commission guidelines for the "Access, Assess and Act" ("**AAA**") framework promote the consideration of behavioural factors such as those relating to limited bandwidth and limited expertise. However, the approach in the Fees and Quality Working Paper does not appear to take these issues into account.

(c) Moreover, at present, the Fees and Quality Working Paper does not explain why it is proposing the specific remedies identified when i) prima facie, the results of the survey of pension scheme trustees carried out by the CMA (the "**Survey**") seem to suggest that the vast majority of trustees are happy with the information they receive and ii) the CMA has not suggested that trustees are asking for the wrong type of information, or too little information, for their needs.

1.3 Given these issues, WTW considers that the CMA's proposed remedies would have more impact if they were more explicitly focused on resolving the underlying behavioural issues affecting trustees.

1.4 We provide comments on the emerging findings in Annex 1 and each of the remedies below. We look forward to working further with the CMA to develop remedies that will genuinely make a difference to trustees and hence to scheme outcomes.

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[1] In this response and all responses to the CMA, Towers Watson Limited is the main regulated entity. We refer to both this entity and the relevant general business as "We", "Willis Towers Watson" or "WTW" throughout.

[2] Market Investigation Discussion Paper, p. 5, paras 2.9-2.14; p. 9 paras 2.23-2.26; p. 12 paras 3.4-3.6

2. The Survey results and the AAA framework

The Survey results

2.1 The Fees and Quality Working Paper reports two sets of evidence. The first set of evidence relates to trustees' own views of the information that they have available as reported through the CMA's Survey. The second set relates to the CMA's own assessment of the information available to trustees.

2.2 Given these two sources of evidence, WTW considers that one might expect greater weight to be placed on the Survey evidence, since it directly reflects the views of trustees. The Survey indicates that the trustees are generally highly satisfied with the information available to them on the fees and quality of investment consultants and fiduciary managers. In particular:

(a) 89% of trustee boards say they find it very easy or fairly easy to monitor the fees they pay to their investment consultant;

(b) 74% of trustee boards say they find it very easy or fairly easy to monitor third party fees relating to their investment advisory work;

(c) 86% of trustee boards say they find it very easy or fairly easy to monitor the fees they pay to their fiduciary manager;

(d) 66% of trustee boards say they find it very easy or fairly easy to monitor third party fees relating to their fiduciary management work;

In relation to the four percentages above, it should be noted that most trustee boards rely on agents, typically pension managers, to monitor advisory, FM and third party fees. This significantly increases trustees' ability to monitor fees easily.

(e) 94% of trustee boards say they find it very easy or fairly easy to monitor the overall investment performance of their scheme in an investment advisory context;

(f) 91% of trustee boards say the find it very easy or fairly easy to monitor the investment performance of the scheme's asset managers;

(g) 92% of trustee boards say they find it very easy or fairly easy to monitor the performance of their scheme or investments in a fiduciary management context;

(h) 81% of trustee boards (who had tendered / invited proposals for advisory services in the last 5 years) say they found it very easy or fairly easy to understand and compare the fees of rival bidders;

(i) 57% of trustee boards say they found it very easy or fairly easy to understand and compare third party fees when tendering for advisory services (see footnote 3 below);

(j) 81% of trustee boards (who ran a tender / invited proposals when first purchasing FM services) say they found it very easy or fairly easy to understand and compare the level of fees of rival bidders;

(k) 62% of trustee boards say they found it very easy or fairly easy to understand and compare third party fees when first purchasing FM services;

(l) 56% of trustee boards (who tendered / invited proposals for advisory services in the last 5 years) say they found it very easy or fairly easy to understand and compare the investment track-record of rival bidders (see footnote 3 below);

(m) 82% of trustee boards say they found it very easy or fairly easy to understand and compare the overall quality of each proposal during a bid for advisory services;

(n) 74% of trustee boards (who tendered / invited proposals when first purchasing FM services) say they found it very easy or fairly easy to understand and compare the investment track-record of rival bidders; and

(o) 84% of trustee boards say they found it very easy or fairly easy to understand and compare the overall quality of each proposal when first purchasing FM services.

2.3 These results are striking in their consistency. Since many of the percentages are above 80% and the lowest still represents more than half, it is far from clear that the results of the Survey provide evidence of any concern, let alone evidence sufficient to give rise to a feature giving rise to an adverse effect on competition.[3]

2.4 We note with some surprise that the CMA does not provide any commentary on the Survey results, nor does it appear to place any weight upon them. The conclusions of the Fees and Quality Working Paper seem to be exclusively based on the CMA's own assessment of the quality of information included in the documents reviewed. In particular, the CMA does not address the difference between its own conclusions, and what it seems one should conclude on face value from the Survey results.

2.5 WTW considers that it is critical that the CMA clarify its position on the Survey results.

(a) If the CMA agrees that the appropriate interpretation of the Survey results is that trustees consider they are broadly satisfied with the information they receive, then what motivates the CMA's view that there is a concern about the transparency of the service, and so a competition concern?

(b) If the CMA concludes that the Survey results actually indicate that trustees do not fully appreciate that they are not receiving the right type or amount of information, then this suggests a more deep-seated problem (most likely a lack of expertise and bandwidth) and hence different remedies to those proposed in the Fees and Quality Working Paper.

(c) Alternatively, if the CMA's view is reflected in the reported public statement made by a CMA employee at the PLSA conference[4], that only the proportion of respondents who replied that they find the information "very easy" to monitor could be considered to be sufficiently well-informed[5], WTW considers that the CMA should be explicit about why it considers that to be the most appropriate interpretation of the Survey results. This interpretation would appear to conflict with a straight reading of the Survey results. In WTW's view, given the complex nature of the activities trustees oversee, a result that trustees find the information fairly easy to understand and use would appear to be a positive finding.

2.6 In addition, the CMA should note that a significant part of a trustee's assessment of advisory and FM services is often qualitative in nature, as it would be with any of the professional services that they employ (scheme actuary, lawyer, auditors etc). Many aspects of the service (such as familiarity, trust, communication and ease of personal relationship) do not lend themselves to quantitative measurement at the outset and will only be evident as the relationship develops over time.

[3] In relation to the two percentages in the 50-60% range, it is important to understand the nature of the services they relate to. For FM, the trustee is buying a set of services and therefore needs to understand price to understand value. However, for advisory, each project is typically subject to a bidding process (formal or informal) and it is not possible to know what services are required upfront before the important mission/beliefs/strategy work has taken place.

[4] https://www.professionalpensions.com/professional-pensions/news/3027656/cma-competitive-processes-not-providing-trustees-with-necessary-information-to-judge-the-value-for-money-of-investment-consultants-and-fiduciary-managers

[5] At the Pensions and Lifetime Savings Association's investment conference on 8 March.

2.7 Moreover, trustees' choice of advisor is driven not only by quantitative data and written tender submissions, but also by additional sources of information, such as beauty parades and pitches, Q&A sessions, interviews with key staff, and office tours. These additional data sources – which may be as important or more important in the overall decision making process – will not have been incorporated into the CMA's document review, but may have informed the results submitted by trustees in response to the Survey. If the CMA does not take the existence of these additional sources of information into account, it is in danger of drawing erroneous conclusions.

The CMA's use of the AAA framework

2.8 The CMA appear to have applied the AAA framework in a narrow way – assuming that trustees are fully rational, and simply do not have enough information (or appropriately presented information) to make the right decisions.

2.9 We note that Amelia Fletcher's research paper on demand-side remedies, produced for "Which?"[6], has highlighted that it is important to be as precise as possible about the problems that customers face. In particular, the demand-side analysis should be aimed at identifying the root causes of an observed outcome in order to design remedies that are fit for purpose.

2.10 As set out above, the CMA's conceptual approach is hard to reconcile with the evidence from the Survey. However, it would be possible to reconcile the Survey results with potential areas of concern, if the satisfaction revealed by the Survey was misplaced due to trustees having limited bandwidth and/or expertise. If these are the underlying demand side issues, then different remedies – focusing on dealing with the underlying causes of these issues – would likely be more effective.

2.11 Annex 2 to this paper illustrates how the same observed outcome could be explained by different root causes that would then warrant different remedies.

3. How could fee information be improved for current clients?

Proposed remedy (a): Mandating comprehensive disclosure of fees and charges with minimum frequency, including in relation to third party fees.

3.1 WTW recognises the benefits of ensuring that trustees are given an appropriate level of information on fees and strives to provide clients with detailed information on total fees on a regular basis in relation to both advisory services and FM. WTW believes that the standards for cost disclosure – in particular for the investment arrangements embedded in FM mandates – will ensure transparency of the fiduciary manager's fees and that of the agents they employ on their clients' behalf.

3.2 However, it is less clear that the need for this remedy has been identified by the Survey since trustees already appear satisfied with the level of information provided to them based on the results of the Survey, as set out on slides 20 and 21 of the Fees and Quality Working Paper and the points made above.

3.3 Having said that, WTW acknowledges that more could be done to provide additional information on third party fees, especially the total expense ratio (TER) of underlying manager fees and expenses, as well as any changes to fees as a result of portfolio changes. WTW does not currently provide both elements in all of its monitoring reports and would be happy to change its approach going forwards to assist trustees in monitoring third party fees.

[6] A. Fletcher, *The Role of Demand-Side Remedies in Driving Effective Competition: A Review for Which? - available at* https://www.regulation.org.uk/library/2016-CCP-Demand_Side_Remedies.pdf

3.4 Any attempt to standardise the presentation as well as the content of such information would need to be carefully considered and tightly defined. Standardisation could lead to greater costs for trustees and would raise difficulties in reporting on more complex fee structures and discounts. The current flexibility on presenting fees enables WTW to accommodate different trustees' requirements and abilities, thereby driving innovation in fee structures. The danger of a "one size fits all" approach is that it may end up not meeting client requirements, and therefore potentially negatively impact, rather than benefit, clients.

3.5 Finally, although WTW welcomes this remedy (with the provisos outlined above), we note that MiFID II, which recently came into force, will enhance pricing transparency in relation to fee reporting for FM and advisory clients (please see Annex 1 and Response to the Follow Up Questions on Investment Performance Fees, Asset Allocation and Manager Selection).

3.6 As a result of this, MiFID II and the Institutional Disclosure Working Group's recommendations should largely address any shortfalls in information on fees[7].

Proposed remedy (b): Guidance to trustees on requesting and interpreting fee information, potentially including templates.

3.7 WTW broadly supports this remedy and is of the view that it would be easy to implement. However, there is a question mark over how helpful the use of off-the-shelf templates would be due to bandwidth and expertise constraints. Indeed, the reference to "trustees' confidence and engagement" made by the CMA appears to recognise such issues.

3.8 In particular, WTW considers that there is a strong likelihood that the proposed remedy will give rise to the pitfalls set out on slide 36. The major concern is that additional guidance is unlikely to be effective in the absence of "trustee confidence and engagement". Additional guidance could even place further burdens on those trustees who are already stretched and unable to process high volumes of information. Such trustees may also be unable to identify what is most helpful to them in terms of fee information.[8]

3.9 In addition, firms will incur costs in changing their reporting frameworks which may be factored into the fees charged to trustees.

4. How could information on scheme performance be improved for current clients?

Proposed remedy (a): Introducing a standard baseline level of scheme performance information including frequency, requirement for net/gross returns and focus on member outcomes. However, there remains a question of how to measure the performance of advisory firms.

4.1 WTW supports standardising the information on scheme performance provided to current clients. However, WTW believes it would be more beneficial to trustees if the CMA required that firms provide a minimum level of performance information (total fund, manager level and risk analysis).[9] WTW has undertaken a bespoke set of analytical exercises to measure how its own services fare in this regard, and to test the statistical significance of the findings. The Performance Measurement Paper submitted to the CMA on 16 January 2018 has set out these exercises and results in detail.

[7] The Institutional Disclosure Working Group is also expected to make its final recommendations on the disclosure of costs and charges by July 2018 with the aim of ensuring consistent and standardised disclosure of costs and charges to institutional investors.

[8] In addition, it strikes WTW that this remedy is unlikely to provide any additional assistance to trustees if the proposed remedy (a) above is adopted such that disclosure of fees becomes clearer and more comprehensive. The CMA will wish to consider whether both remedies will be needed.

[9] A number of WTW's existing performance measurement tools can readily be adapted to further improve information on scheme performance.

4.2 WTW would like to reiterate that an approach to performance measurement should not simply focus on returns. In WTW's experience, some trustees place an excessive focus on monitoring short term manager performance, perhaps because it is relatively straightforward to do so, even if it is not the most important feature affecting fund performance. Instead, effective performance measurement should be a holistic analysis that covers as many of these sources of added value as possible, including both risk- and return-related benefits.

4.3 Of course, a drawback of mandating a standard baseline level of scheme performance information is that it would increase costs for trustees. WTW queries whether such an increase in costs would be justified based on the Survey results on slides 42 and 43 and the points set out above.

4.4 Finally, the CMA has rightly noted that it is easier to measure performance in FM than advisory due to the fact that FM managers usually benefit from a clear mandate and objective. Under the advisory model, the advice provided to trustees may not be taken, it may not be taken fully, it may not be taken in a timely fashion, it may be carried out in a less efficient or more expensive manner, and it may not benefit fully from buying power and aggregation benefits. Moreover, under the advisory model, trustees may not have set a goal or objective for fund performance, meaning it is hard to see how investment consultants could provide performance information designed to allow trustees to track progress towards that goal. Therefore, devising a standard baseline level of scheme performance information will inevitably be challenging for trustees using advisory services.

Proposed remedy (b): Guidance to trustees on requesting performance information and how to interpret it could help trustees ensure they ask for and receive the appropriate information, but is dependent on trustee engagement and confidence.

4.5 WTW recognises the benefits of providing guidance on requesting and interpreting performance information and in theory supports the potential remedy. Having said that, there is already a lot of guidance materials[10] available to trustees and there is little evidence that there is demand for additional materials or that such guidance will address the underlying issues (as discussed in Section 3(b) above).

5. How could information on fees be improved for prospective clients?

Proposed remedy (a): Introducing a duty for firms to provide a minimum level of fee information would standardise the information provided and ensure that trustees receive it.

5.1 WTW considers that there is merit in standardising the information on fees provided by parties during the process of appointing a new fiduciary manager[11]. However, WTW's view is that the nature of the investment advisory service, which is a much more bespoke service that is typically not well specified at the point of making the appointment, means that attempting to standardise information on fees or mandate the form that these should take during the tender process will be much more challenging.

Fiduciary Management

[10] Guidance on "Monitoring DB Investments" published by the Pensions Regulator http://www.thepensionsregulator.gov.uk/guidance/db-investment-six-monitoring.aspx ; "Investment guidance for defined benefit pension schemes" published by the Pensions Regulator: http://www.thepensionsregulator.gov.uk/docs/db-investment-guidance.pdf ; Guidance on "How trustees review asset manager performance" published by Professional Pensions http://www.thepensionsregulator.gov.uk/guidance/db-investment.aspx ; "A Comprehensive Guide to Selecting a Fiduciary Manager" published by Aon: http://www.aon.com/unitedkingdom/attachments/aon_hewitt/Selecting-Fund-Managers-And-Consultants-June-2017.pdf ; Willis Towers Watson's Guide to FM: https://www.towerswatson.com/en-GB/Insights/IC-Types/Technical-Regulatory/2014/Guide-to-fiduciary-management

[11] MiFID II Ex ante reports for fiduciary clients will address this to some extent.

5.2 WTW considers that its own information on FM mandate fees for prospective clients is entirely transparent, as the fee structure typically consists of a defined fee covering a specific list of agreed services. Therefore, the client faces no uncertainty over the fees paid to the fiduciary manager for the duration of the mandate.

5.3 However, WTW recognises that clients looking to appoint a fiduciary manager may struggle to compare the offers of different providers. For example, bundling of the fiduciary management service fees with third party fees and the use of performance fees are two fee structures that can make it difficult for clients to gauge what the total cost associated with the fiduciary management service of each provider is.

5.4 WTW therefore supports measures to improve the comparability of fees for FM services. Requiring fiduciary managers to provide information on fees on an unbundled basis and report the total expense ratio would be one helpful measure to improve prospective clients' ability to understand and compare the cost associated with each the fiduciary management service.

5.5 WTW notes, however, that excessive focus on and simplification of fee information may lead to distorted decision making given services are highly differentiated. A focus only on comparability of price leads to a risk that trustees will experience a bias towards taking up cheap and overly simplistic investment services, where these may not in fact be appropriate. This bias could be exacerbated by measures to further simplify information on fees.

Advisory services

5.6 In the case of advisory services, standardising information on fees is more problematic. For FM services, the investment consultant can estimate their service cost relatively accurately for a given set of scheme characteristics (which are typically well understood at the point of tendering). This is not the case for advisory services. The amount of work that the investment consultant will do is driven to a large extent by trustees' requirements, which may vary substantially and may generally not be clear at the point of tendering or may evolve through time.[12]

5.7 Different drivers of cost for advisory services include:

(a) Beliefs about and use of active management;

(b) Liquidity requirements that may encourage or restrict exposure to more complex private markets investments;

(c) Size of scheme and economies of scale;

(d) Complexity of schemes (eg multi-scheme or sectionalised arrangements);

(e) Sponsor strength which might reduce or increase the need to focus on more complexity to manage short term downside risks;

(f) Number of services required from consultant (e.g. the use of transitions teams, level and frequency of reporting/monitoring).

[12] As noted above, when an advisor is first appointed by a client, the two will engage in extensive discussions regarding the investment beliefs of the trustee, their preferred implementation approach, the level of hedging and risk management, the target level of funding to be reached, liquidity constraints, sponsor strengths and the likely number of manager selections that will be necessary. These discussions will inform the fees that are then incurred. For WTW, these fees are clearly communicated and specified contractually at that point in the relationship with the client. However, it would be difficult for investment consultants to commit to a level of fees at the point at which they were tendering for services with a new client and for which they had limited information.

5.8 Mandating the type of information on all fees that investment consultants provide for advisory services carries considerable risk. If providers are required to provide encompassing fee estimates before all the necessary information has been shared, this will likely lead to either a misleading fee level (as some of these services might not be required in practice) or a restricted service offer in order to reduce the reported fee level during the bid process (which again may be suboptimal for the client).

5.9 While there are many elements to the relationship that will vary on a case by case basis and cannot be well understood ahead of an appointment, it should be possible to provide indicative information on fees for prospective clients such that they are able to assess the broad pricing level of the service and the general quality of the proposition. For example, one possible option could be for advisors to provide their hourly rate card in addition to their pricing of a core retainer that covered the base level of service (meeting attendance, SIP review, trustee training etc), plus an explanation of what that level of service covers. WTW already operates on this basis.

Bundled fees

5.10 WTW never bundles fees for its investment advisory services with the fees of services provided by asset managers. Bundling of fees in this manner reduces transparency and potentially makes it harder for clients to evaluate the impact on overall fees from switching providers. Bundling of fees also creates perverse incentives for fiduciary managers to appoint the cheapest asset managers (rather than the best managers to meet their clients' needs) in order to improve their fee share and to the detriment of the client.

5.11 WTW strongly urges the CMA to consider whether bundled arrangements, where the fees for the FM or investment advisory service cannot be separated from third party fees, are appropriate.

6. How could information on performance be improved for prospective clients?

Proposed remedy (a): Adoption of a standardised approach to FM performance and use of composites.

6.1 WTW fully supports the CMA's proposals to improve the standardisation of information on FM performance provided to prospective clients. The industry has been working on a framework for measuring performance comparably across providers ("**the Performance Measurement Standard**")[13].

6.2 The Performance Measurement Standard consists of measuring the performance of full FM clients with similar characteristics (the "composites") against a simple, standard benchmark – the measure of performance used is net relative returns over liabilities. The composites are groups of clients with the same relative return targets, e.g. liabilities +1%, as these targets are indicative of the level of risk the client is willing to take to achieve higher returns. This approach enables comparison across providers as it controls both the precise performance measure and the client mix of the different providers.

6.3 There has been widespread acceptance of the proposed methodology for the Performance Measurement Standard for FM and providers are currently in the process of submitting their performance results for the period up to December 2017. WTW would welcome a remedy that required all FM providers to submit the information from the Performance Measurement Standard as part of any tender.

[13] The initiative was initially coordinated by IC Select and it is our understanding that it will now be taken forward by the CFA.

6.4 That said, the Performance Measurement Standard is not without issues. One is the time period over which performance is reported: some providers that entered the market more recently, and were not exposed to the fall in interest rates that took place in 2010, will likely have a relatively strong track record compared to providers that lived through the financial crisis and its aftermath.

6.5 Nevertheless, WTW agrees that the efforts to standardise FM performance reporting are an overwhelmingly positive development, and that in the long run this should improve competition and market outcomes in the sector.

6.6 Although WTW is supportive of standardising the methodology of FM performance reporting at points of procurement, a balance must be struck in terms of how this information is disseminated. There are potential unintended consequences of performance track records of FMs becoming publicly available. Publicly available track records of FM performance could have an impact on the behaviours of both FM providers and trustees such as herding, similar to those behaviours witnessed in the 1990s when league tables of balanced managers were regularly published.

Comparing FM with investment advisory services

6.7 The CMA focuses on improving trustees' ability to compare advisory services with other advisory services, and FM services against other FM services. This approach omits any discussion around comparing FM with advisory services. WTW considers this to be an important area, given that FM services appear to give rise to better outcomes for many pension fund trustees.

6.8 The Performance Measurement initiative outlined above allows for comparison between FM providers, but does not allow for a comparison of the overall performance of the FM service against investment advisory services. However, WTW and others do compare their FM track record against the performance of the average DB scheme. WTW considers that a useful additional remedy would be to develop a standardised method for comparing performance of fiduciary management to advisory services.

[✂]

6.9 WTW considers that it would be helpful for the CMA to explore whether more information could be provided by pension schemes that would allow the calculation of a more accurate and consistent benchmark.

6.10 An approach similar to WTW's would demonstrate the relative value of the two types of service: if there are significant benefits (on average) from schemes moving to the FM model, as we believe is clear from the evidence, such a remedy would help to quantify these gains more accurately and comparably, and allow trustees to make more informed decisions about which model to adopt.

6.11 We note that the issues of applying the Performance Measurement Standard to advisory clients mentioned in paragraphs 6.17 and 6.18 below do not apply in the case of a comparison of FM and advisory services since the comparison is at the level of the overall industry.

Proposed remedy (b): Introducing a standard baseline level of scheme performance information for advisory firms would standardise the information provided. However, there remains a question of how to measure the performance of advisory firms.

6.12 The industry has also been exploring the potential for a Performance Measurement Standard for advisory services. While WTW recognises that a standardised measure of performance would be helpful for clients looking to appoint a provider, this is more problematic for advisory services.

6.13 The main limitation is that, in the case of the advisory service, the performance of the scheme is the result of the quality of advice given by the investment consultant and the quality of the decisions made by the trustees. These two elements cannot be disentangled in the observed outcomes. An additional complication is that not all advisory clients have a clearly specified objective for the mandate, which means it is not possible to segment the client population into composites and control for risk appetite.

6.14 In addition, even if the trustees take on all the advice received, the speed at which they are able to implement it varies considerably between schemes and this can cause large differences in scheme performance.

Proposed remedy (c): Introducing a tender toolkit would potentially reduce the burden on trustees and improve the quality of the information requested.

6.15 WTW considers that while there is no obvious harm from introducing new materials and toolkits to help trustees assess performance as part of the tender process, there are already a lot[14] of guidance materials available to them and it is unclear that there is demand for additional materials. Therefore, it is not obvious that producing such a toolkit would have a material impact on trustees' ability and confidence to assess performance of providers.

7. How could information on service quality be improved?

Proposed remedy (a): A remedy that requires the collection of objective client feedback and dissemination to prospective clients would mean that trustees would be able to consider service levels on a comparable basis?

7.1 WTW supports the collection and dissemination of client feedback to enable trustees to compare levels of service quality and client satisfaction. Although there are no public measures of service quality currently available, WTW is committed to ensuring client satisfaction and uses the following inputs to assess quality standards:

(a) the Independent ClientFirst™ programme, a client satisfaction programme whereby clients are asked to provide feedback on WTW's services – including price – via an in-person interview. These clients will often have a perspective on WTW's pricing relative to competitors which is an input to our pricing decisions. Notes from these meetings are shared with the team delivering services and with senior management;

(b) feedback from tenders and re-tenders;

(c) data which WTW has prepared summarising the performance of its FM clients relative to the average UK pension fund (please note that this is not a comparison with other fiduciary providers as this data is not public); and

(d) assurance reports on internal controls prepared by WTW's Reporting Accountants.

[14] The Pensions Regulator's Trustee Toolkit includes training on introducing advisors and service providers and appointing advisors and service providers: https://trusteetoolkit.thepensionsregulator.gov.uk/mod/page/view.php?id=50 ; EY: http://www.ey.com/uk/en/services/specialty-services/pensions/fiduciary-management-5-how-might-i-select-appoint-a-fiduciary-manager- ; IC Select offers fiduciary manager selection services: http://www.ic-select.co.uk/services/fiduciary-manager-selection-discretetask.html ; "A Comprehensive Guide to Selecting a Fiduciary Manager" published by Aon: http://www.aon.com/unitedkingdom/attachments/aon_hewitt/dcs/Aon_Hewitt_A_guide_to_selecting_a_fiduciary_manager_Feb14.pdf ; EY ran in 2012 a series of webcasts including "Best practice in the selection of a fiduciary manager" http://www.ey.com/uk/en/services/specialty-services/pensions/fiduciary-management-10-webcasts ; Xafinity ran a webinar in December 2017 on "Making Fiduciary Management Work For You" which discussed, inter alia, "How to select the right Fiduciary Manager and ensure your selection follows best practice" http://www.xafinity.com/subscribe/22

7.2 WTW acknowledges that, even though measures to improve transparency around client satisfaction and service levels are welcome, the data collection process will involve a cost implication, regardless of whether the information is collated by the firm or a third party.

7.3 Trustees should be asked for feedback on the performance against client expectation, the responsiveness and skill of the client team, clarity of information and the cost of the services provided.

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Annex 1 - Emerging findings - brief commentary

Emerging finding	Commentary
Section 1: Current clients – information on fees • Advisory fees are typically clear, with simple regular invoices. Fiduciary management (FM) fees are generally less so; some clients do not receive regular invoices and it can be unclear exactly what services are included in invoices.	FM is a service that is clearly understood and, as the Survey evidences, easy to assess in terms of performance. Fees are generally agreed in advance for the period and typically include an encompassing list of services agreed at outset in the contract. As such our clients are invoiced regularly but we do not see the benefit of continually reiterating all of the services included in each invoice.
• For defined benefit (DB) schemes, regular information on third party fees (e.g. asset manager fees) is limited in both advisory and FM. This is particularly notable in FM, as trustees typically do not receive such information directly from underlying managers. Defined contribution (DC) schemes receive regular information on third party fees due to regulatory requirements (including annual Value for Members assessments).	WTW acknowledges that more information could be provided to trustees on a periodic basis on third party fees, especially the total expense ratio. In addition WTW agrees with previous observations from the CMA that there should be more clarity in written advice as to the impact on total fees that Trustee decisions might have. WTW notes that the MiFID II requirements will resolve this to some extent for fiduciary management as there is a requirement to disclose all costs and charges to clients on an annual basis.
• Information regarding expected changes to fees, resulting from a change to the investment strategy or underlying funds, is generally good for advisory clients. Such information is more limited for FM clients.	We believe that the fee for the FM provider should not change based on portfolio changes. This ensures that the only motivation for portfolio changes is generating the required return within the agreed risk parameters. This is the structure that WTW adopts and therefore we do not need to communicate any changes at the FM fee level for portfolio changes, although WTW acknowledges that the fees for underlying managers could change.
• We believe it is important for trustees to have clear and accurate information on the fees that they pay throughout the value chain, and from the documents we have reviewed, fee transparency (particularly third party fees) is in general below the standards which ought to be achieved through effective competition.	We agree with this as a general proposition and have suggested below a number of areas where we agree that an improvement would be beneficial. We believe we are transparent on fees with our clients but consider there to be an industry issue.
• There are important ongoing developments in this area, particularly MiFID II and related work at the FCA (such as the Institutional Disclosure Working Group). However it is too	MiFID II will enhance pricing transparency in relation to fee reporting for FM and advisory clients. As set out in the Response to the Follow Up Questions on Investment Performance Fees, Asset Allocation and Manager Selection submitted on 16 January 2018[15], it is anticipated that the reporting for current clients will

[15] Response to the Follow Up Questions on Investment Performance Fees, Asset Allocation and Manager Selection, p. 23-24, paras 4-6.

early for us to fully assess the effectiveness of these developments. •We have received some mixed responses from parties regarding the impact of MiFID II on fee reporting for advisory clients. We welcome further submissions on this point, and the impact of MiFID II more generally.	include total costs and charges (set out as an amount and as a percentage of the client's assets), along with a breakdown of WTW invoiced fees, investment manager fees and associated administration costs (e.g. custody fees), transition costs of moving assets between investment managers and transaction costs incurred in the day-to-day management of the assets. WTW will source the information on manager fees, administration costs, transition costs and transaction costs from various third parties (in the main, the investment managers employed by the client), and the sources of information reported to the client will be made clear in the report. For prospective clients, MiFID II will require WTW to report the expected total costs and charges to new clients that WTW agree to provide an investment service to, i.e. once a tender process has been completed and a contract entered into. This will be on an "ex ante" basis, and will necessarily involve making assumptions about the activities that will take place during the period. Although MiFID II does not require provision of all of that information as part of a tender process, WTW has volunteered to provide an equivalent to the MiFID II "ex ante" total costs and charges as part of tenders for FM contracts. For advisory contracts, as the service is often less defined at the point of tender, WTW intends to produce ex ante reports for all new product recommendations (but not for asset allocation decisions) and ex post reports for all products which are recommended.
Section 2: Current clients – information on performance • Regular performance reports provide information on the overall returns of the scheme and underlying funds. Information is generally clearer in FM than advisory, with a greater focus on the long-term (strategic) performance of the scheme. Regular reports often include little or no information on scheme risks. • Both advisory and FM clients generally receive detailed information on both performance and risk through strategic reviews and other ad hoc analysis.	WTW does not consider that there is a significant distinction between reporting on FM and advisory on the overall returns of the scheme and underlying funds. Having said that, WTW tailors the amount of information it provides to trustees on scheme risks based on clients' cost considerations, portfolio complexity and information requirements. WTW also has online monitoring tools which can be made available to advisory clients (which are automatically included in the FM service) that provide real-time information on funding level progression. If the CMA mandated that all trustees should receive the same information on risk and returns, this would raise costs for trustees and in some cases that is likely to be unnecessary.
Section 3: Prospective clients – information on fees • Information on fees is generally poor in advisory tenders. Many tenders ask only generic questions	WTW agrees with the principle of more transparent fee information. However it is important to recognise what is actually being agreed to when trustees appoint an Investment Consultant for an advisory service. There is rarely any commitment to a specific investment strategy or a specific list of services because the Trustees have yet to identify their long term mission, establish

and firms often respond with differing fee structures and non-comparable estimates. • Information is generally better in FM, with tenders often requesting specific fee breakdowns. This is particularly true when a third party evaluator (TPE) is used.	the right journey plan with those goals in mind and portfolio management requirements. Once those requirements are established (for example, levels of active manager selection, dynamic asset allocation and asset diversity), the fees for those services are scoped out, discussed and negotiated.
Section 4: Prospective clients – information on performance • Advisory tenders do not generally ask specific questions relating to past investment performance. Firms may be asked to provide examples or 'case studies' to demonstrate their investment capabilities. However, direct comparisons across different responses are very difficult. Questions regarding past investment performance (e.g . "track records") are much more common in FM tenders. Due to the use of alternative methodologies and time-periods however, responses are generally not comparable. This is also true in marketing materials, although past performance is not a major focus of such materials and direct comparability is less crucial here than in tenders.	An approach to performance measurement should not simply focus on returns. Effective performance measurement should be a holistic analysis that covers as many of these sources of added value as possible, including both risk- and return-related benefits[16]. For example, WTW believes that there is skill involved in manager selection that is not dependent on or correlated to past performance but that there are also other areas which are important. Due to the fact that, in advisory, many aspects of the scheme (e.g. the investment beliefs of the trustee, their preferred implementation approach, the level of hedging and risk management and likely number of manager selections) are not fixed at the point of tendering, it is not surprising that firms will respond to the tenders with different proposals. This makes it more difficult for comparisons to be made. Standardising the approach across tenders may lead to firms raising the price of the tender as firms would need to set the strategy upfront and also likely to result in sub optimal strategies (without much of the wider context that trustees can provide when setting strategy).
Section 5: Other information on performance • Most tenders ask for some information on a firm's overall quality of service. Such questions are generally 'open' and receive descriptive responses.	The use of "open" questions during tenders need not be detrimental to trustees. In the case of advisory in particular, a lot of the details (see above) will be discussed only once the advisor is first appointed by the trustee. Therefore, "open" questions can provide important information on a firm's general proposal. In the case of FM, although the characteristics of the service can be better understood at the point of tendering, general questions can be helpful in establishing the broad differences in the approach between FM providers. In our experience, the most robust FM selection exercises typically include on site meetings and even office tours in order to get some feel for culture of the FM firm. As mentioned above, the prime driver in comparing and

[16] Performance Measurement Paper, p. 2, paras 1.3-1.5

	evaluating services is a qualitative assessment undertaken by trustees. "Open" questions underpin this qualitative assessment and enable trustees to establish and compare different offerings on the market. WTW would also like to make the wider point that the CMA is drawing on a limited pool of documents in analysing the tender regime. The CMA acknowledges on slide 57 that its analysis of tender documents focuses almost exclusively on documents provided to trustees at the first stage of tendering. The CMA has only seen limited examples of documents provided during the second stage and has no knowledge of the discussions which took place during meetings between firms and trustees. In most cases, the information provided by WTW in the second or third stage of a bid is more refined and tailored to trustees' needs. Moreover, the CMA appears to rely on a limited number of examples of tender responses in order to make general extrapolations, for example in order to deduce that firms' responses are typically descriptive and lacking in detail on technical aspects (see slides 79 and 80). In addition, although WTW supports some level of standardising the information on fees and performance provided during the tender process, the fact that firms demonstrate diversity in their responses to tenders does not necessarily mean that trustees are unable to make meaningful comparisons between tenders. The approaches which different firms may adopt in response to a tender exemplify the multitude of offerings available in the market. Such diversity is beneficial for trustees whose needs and requirements can vary significantly. Therefore, the CMA's pursuit of a perfectly standardised tender regime is misguided.
Overview of emerging findings The evidence reviewed so far indicates that competitive processes are not providing customers with the necessary information to judge the value for money of investment consultants and fiduciary managers. The potential competition concern with this is that customers are not well-equipped to choose, and subsequently monitor the performance of, their provider and in turn to drive competition between investment consultants, and between fiduciary managers.	Based on the Survey, there is little evidence to indicate that trustees are not receiving the necessary information to make comparisons between the services provided by different firms. There is already a lot of guidance and information at trustees' disposal. As set out above and in the Market Investigation Discussion Paper previously submitted, WTW's view is that the reason why many trustees may struggle to generate optimal results is that they face constraints in terms of bandwidth and experience[17]. Remedies which assist trustees with these issues would likely be more effective in leading to better outcomes[18], although there is no evidence to date which suggests that the investment advisory and fiduciary management markets are not competitive.

[17] Market Investigation Discussion Paper, p. 5, paras 2.9-2.14; p. 9 paras 2.23-2.26; p. 12 paras 3.4-3.6
[18] Ibid, p. 10-11, para 3.2

Annex 2 - how an observed outcome could be explained by different root causes

Hypothetical observed outcome: Trustees do not select the investment consultant for advisory services that offers the best value for money.	
Potential root causes	***Remedies***
Scenario 1: The trustee is fully rational and has a high level of expertise / bandwidth, but only has access to partial information.	In this instance, a disclosure remedy to purely address the information asymmetry would be sufficient. Increasing the information available to trustees is likely to be effective in enabling trustees to select the investment consultant that offers the best value for money. This is because trustees have the ability and capacity to process additional information, and will factor that into their decision-making process.
Scenario 2: The trustee is lacking expertise, find it difficult to understand the information they receive, and struggle to compare providers even on the basis of the information they have.	In this case, a disclosure remedy that purely addresses the information asymmetry is unlikely to be fully effective, because trustees are unlikely to be able to properly assess the additional information that they are provided with. Indeed, increasing the information will not address the inherent lack of expertise, and might on the contrary reduce the quality of trustees' decision-making. With increased information to digest, combined with a lack of expertise, trustees might decide not to attempt evaluation of the evidence and instead employ heuristics, such as shortcuts or rules of thumb. This behaviour will introduce behavioural biases in trustees' decision making. An option would be to design remedies aimed at making comparisons across different providers easier. Standardisation of information on advisory services of investment consultants, however, would be difficult given the personalised nature of the service. In addition, such simplification may exacerbate the trustees' urge to over focus on easy-to-understand metrics such as fees, at the expense of quality considerations. Moreover, excessively prescriptive or "one-size-fits-all" type of remedies will limit providers' ability to tailor the communications to a client's level of expertise.
Scenario 3: The trustee has limited bandwidth to process information so they are forced to take shortcuts in the decision process, e.g. they only look at a small set of factors, or selects the first provider that meets a minimum standard.	In this example, a disclosure remedy would be at best ineffective, and at worst risks worsening the ability of trustees to compare investment consultants. This is because due to their lack of bandwidth, trustees might already be using heuristics in their decision-making. Therefore providing them with more information will either have no effect, because trustees will not adequately use this additional information; or might have the adverse consequence of exacerbating the existing behavioural biases.