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Dear Peter

Investment consultants market investigation

KPMG Response to CMA Working Paper 2 – Asset manager product recommendations

Please find enclosed the response submitted on behalf of KPMG LLP ("**KPMG**") to the CMA's Working Paper dated 22 March 2018 on Asset manager product recommendations.

Yours sincerely

KPMG LLP

Enclosures: *KPMG response to Working Paper*

KPMG response to Working Paper

Introduction

Thank you for affording us the opportunity to comment on the CMA's 'Working paper: Asset manager product recommendations' (the "**Working Paper**"), published on 22 March 2018.

We note the Working Paper's analysis is part of the CMA's assessment of whether investment consultants ("**ICs**") are providing value and attempts to quantify the impact of fund manager recommendations as part of that assessment. We would note that ICs provide a wide range of services and the impact of other elements of advice (such as the client's strategy) are likely to have a greater effect on the client's outcome. We would suggest that the findings of this assessment have merit but are not given undue weight in the CMA's overall assessment of IC services, which deliver significant value to clients.

Overall, we think that the Working Paper is supportive of our views that, specifically in relation to Investment Advisory services[1]:

- We agree that it is difficult for any adviser to identify active managers who can outperform a market benchmark net of fees over a sustained period of time. This is particularly true in liquid markets such as quoted equities;
- For completeness (and not directly related to the findings of the CMA's analysis), we are not convinced that the solution is to employ a large range of active managers to diversify the risk of those that might underperform; rather, we believe such approaches typically mean managers nullify each other and provide little or no aggregate outperformance, particularly after fees;
- For many years, we have been strong advocates of passive or "low maintenance" active management where possible (such as "buy and hold" bond strategies) in the belief that investment success comes primarily from the strategy decision. It is better for clients to be invested in the right asset classes and approaches and employ a competent manager who is, where possible, given time to do their job;
- Greater use of passive or low maintenance active management approaches also releases substantial trustee governance and monitoring time, which can instead be employed in taking, monitoring and adjusting the strategy decision;
- We would draw a distinction between public and private markets. We believe the latter can be very well suited to pension funds (who often have low liquidity requirements and can thus harness the premium that comes from longer term investment). Private market strategies by definition require some active management although this can be limited in nature (e.g. origination of loans in a direct lending portfolio which are otherwise largely left to pay out); and
- We are supportive of remedies which bring market consistency to how past performance of recommended managers is calculated. We would also support the use of external independent auditing of any quoted performance statistics.

In this response, we outline our more detailed views (where appropriate) on each of the Working Paper's five substantive 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

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

do however note that despite consideration of potential remedies in the 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 the specific questions in the Working Paper. We look forward to the opportunity to engage further with any proposed remedies, as appropriate.

Section 2: Recommendations/ratings processes

We have no substantive comments on this section and would concur that the general approach used to arrive at a rating for a manager is common across the industry.

Section 3: Quantitative analysis

Notwithstanding our earlier comments about the use of active management, we acknowledge that KPMG data is included in the CMA analysis, as there are certain occasions, in the markets that have been analysed, where active management is either desirable, necessary or requested by clients. We support the methodology the CMA has applied in its quantitative analysis, and in particular the refinements to the approach taken in the FCA study, such as more detailed treatment of the fees that clients will typically pay.

We are supportive of analysis and conclusions which focus on net of fees performance as this is more reflective of the “real world” experience for clients. We would also note that significant time and cost can be incurred when changing investment managers.

We note the stronger results that emerge for hedge funds but note that the absence of a market return in this asset class (and as such the lack of a passive option for clients) means that these results may not be unexpected.

Section 4: Parties' claims

We agree that ability to select active managers that consistently outperform is more relevant for fiduciary mandates where there are typically multiple managers in any one asset class. In our experience, advisory mandates are more likely to make use of passive options and so there is less reliance on a need to justify the success of the manager research process.

We agree that different advisers have the ability to select how the information is presented (in terms of which time periods, which sub asset classes, net or gross of fees) which makes the task of identifying, and comparing, suitable providers difficult for trustees. We consequently support any remedies which can standardise this, to enable trustees to make informed choices and thus drive competition more effectively.

Section 5: Emerging findings

We have no comments on this section.

Section 6: Potential remedies

We would agree that changes could be made which allow trustees to more easily compare claims regarding the success of recommended manager ratings. Issues arise currently due to different calculation methodologies, different asset class categorisation, different time periods etc.

We would suggest that providers be requested to quote any past performance data net of fees because the amount of fees can materially distort, and also make it harder for trustees to meaningfully assess, investment performance.

Where any past performance data is quoted, we would support (if possible) the use of a common approach in terms of methodology, time periods, net/gross etc. There are precedents for doing this (the GIPS standard in fund management and the work IC Select is doing for fiduciary mandates). We are supportive in principle of a mandatory common methodology should advisers or fiduciary managers want to quote past performance data.

We also support in principle the use of independent external audit of quoted performance data as we believe this will reduce potential for selective presentation of data and will give greater plausibility to the industry. We are however nervous of the costs that may be incurred and whether these are simply passed on to clients.

Finally, we would caution on placing too much emphasis on this aspect of consulting advice to trustees. As we have stated above, the biggest decision trustees make with respect to investments is strategic asset allocation.