PENSIONS AND LIFETIME SAVINGS ASSOCIATION

5th April 2018

Alison Gold
Project Director
Competition and Markets Authority
Victoria House
Southampton Row
London
WC1B 4AD

Dear Ms. Gold,

PLSA RESPONSE: CMA WORKING PAPER 2 – ASSET MANAGER PRODUCT RECOMMENDATIONS

Many thanks for the opportunity to respond to your Working Paper on asset manager product recommendations. We agree that manager selection can have a significant impact on investment returns and hence on the value of members' retirement savings and welcome the CMA's decision to focus on this area.

Owing to the timescales for responses, members have had little opportunity to respond. Our immediate comments are therefore drawn from some of the senior industry experts who sit on our Asset Owners' Committee. We would be happy to host any further conversations or meetings with members which the CMA might find helpful in order to allow greater engagement.

Benchmark use and costs

Member feedback was that the performance of funds net of all fees and costs to a benchmark could present challenges as benchmarks are typically not investible products and often the costs of investing in such benchmarks are not reflected in the return ascribed to them (these costs could include administration, operations, management and transactions). Although in liquid and competitive markets these costs may not be very high, in other markets, such as fixed income, such costs could be higher. A more meaningful analysis could compare the performance of consultants' recommended funds (net of fees/costs) relative to a benchmark which was also adjusted for these costs – although we recognise that doing so would not be straightforward.

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Upward and downward rating comparisons

A further issue that members felt had not been sufficiently addressed in the analysis was the value of 'downward' ratings by investment consultants i.e. where consultants move from a 'buy' rating to a 'hold' or 'sell' rating. The point was also made that upward ratings potentially add little value to the process as individuals slowly change investment allocations in response, but that downward ratings often drive action so have a more significant impact – and that it is this manager deselection role where investment consultants can add most value. This could be an important issue to consider in any further exploration of this issue.

Potential remedies

We believe that any information provided to trustees must be clearly presented and comparable, so that trustees are empowered as much as possible to hold their service providers to account. We therefore think it would be useful to develop an industry standard for assessing the performance of consultants' recommendations; however it should be noted that not every type of fund will have a benchmark or a comparable universe for which public data is available and this may cause challenges. A combination of metrics and narrative which places the figures in context might therefore be useful.

On the issue of whether performance should be disclosed on a net or gross basis, we would like to highlight similar discussions that have been taking place in the Institutional Disclosure Working Group (IDWG); as the CMA has highlighted in its previous Working Paper, it is important to align thinking on these issues as far as possible across policy initiatives.

We would also like to re-emphasise the need for any trustee guidance to be agreed upon by the industry and developed in consultation with the end user. There are many codes, guideline and regulations which aim to help trustees better understand the investment fee and performance information presented to them, but this proliferation of initiatives could end up being confusing for pension scheme decision-makers.

If you would like further information or any clarification, I hope you will not hesitate to get in touch.

Yours sincerely

Caroline Escott
Policy Lead: Investment and Defined Benefit

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