P-Solve

Private & Confidential
Peter Swan
Project Manager
Investment Consultancy Market Investigation
Competition and Markets Authority
Victoria Row
London
WC1B 4AD

April 2018

Dear Peter,

Investment Consultancy Services and Fiduciary Management Services – CMA Market Investigation

P-Solve Investments Limited response to Working Paper 3 (Supply of FM services by IC firms 29 March 2018).

Thank you for welcoming responses on Working Paper 3 (the "**Paper**") relating to the CMA's Market Investigation, we are glad to take this opportunity to share our response with you. Unless specified otherwise, we are responding on behalf of P-Solve Investments Limited ("**P-Solve**"), part of the River and Mercantile Group ("**RMG**").

We are providing here our views on the potential remedies set out in the Paper. Numbers below relate to paragraph references in the paper, and are generally divided between comments on previous remedies (which we have tried to keep to a minimum as we have provided our thoughts on most of these in our response to the Statement of issues in October 2017) and the new remedies set out.

Based on our direct experience, we don't agree with the premise behind the theory of harm that investment consultants steer their advised customers towards FM when an alternative solution could have been in such customers' best interests. However, given that full fiduciary management (in particular) represents the most important investment decision that customers choosing an FM solution make, we do support improvements in regulatory coverage and best practice guidance around investments made in such mandates.

However we note that a large number of the potential remedies in the Paper appear to be weighted more towards either preventing a service provider from offering a broad range of services to the same customer, or prescribing the manner in which customers engage with service providers. It is our view that customer choice in how they wish to engage with their investment providers is important and has value, especially in periods of change; and that choice on how to change their engagement from an IC to FM route (whether with existing providers or new providers) ought to be at the customers' discretion given their needs, rather than set by mandatory processes.

Rather, we believe that any new burden from the potential remedies ought to be borne more by the providers (such as ourselves) that offer a wide and/or integrated suite of IC and FM services. We believe that increased transparency discussed in the SOI is one part of this, together with increased disclosure and obligations on firms' conduct as described in the Paper. We have a strong preference for FCA regulation to be extended over all parts of investment advice so appropriate advice being given before and during an IC or FM engagement is well regulated with strong ongoing governance and if necessary sanctions on firms and individuals giving advice.

P-Solve

This can be twinned with strong guidance and best practice to users (pension scheme trustees) but retains the ability for end users to be flexible and commercial in their engagements.

As a final point, we have raised in our response to the SOI, and note further that we believe that separation of IC and FM services is likely to have particularly negative impacts.

We discuss these below:

a) We expect that such a move will adversely impact the number of providers in this space. Many firms outside of the biggest 3 consultancies who currently operating an integrated approach may struggle to operate two separate business lines (IC and FM) without the cross economies of scale possible from an integrated firm. This would be poor for competition in our view. We believe that the impact of separation of IC and FM on the breadth of providers in this space would need to be considered in much greater detail before any such moves were made.

b) Separation of IC and FM assumes that these services are provided in a fashion which lends itself to such separation or that they are clearly separable services in the value chain for the client. In reality, most integrated firms operate a different model to each other, and even within those firms, different clients have chosen to implement an integrated or partially integrated model different ways and/or using a different engagement model. In practice, for many clients we believe that such separation will create results that are not best for them in terms of having to engage with a separate provider for some services, losing access to a trusted adviser within their process, or potentially having to change providers completely (especially as in (a) above if some providers walk away from providing some services).

We believe that other remedies are more likely to reduce the risk of poor outcomes for clients using FM services as we set out in this letter.

However, if separation of such services is the preferred option, then we believe that care needs to be taken in any implementation to limit the risk of reduction in competitive choice in terms of providers in the market or in impairing clients' abilities to engage in a way that meets their current processes and preferences. A phased implementation process would therefore be critical.

The rest of this letter provides further details on our views and responses.

Yours sincerely

Ross Leach

Co-Head, P-Solve

P-Solve

Comments on selected potential remedies (outside of or in addition to comments requested under paragraph 132)

(a) *Paragraph 128 (a), (c) – Mandatory tendering on first adoption of FM services; Provision of guidance to trustees*

As set out in our response to the SOI, we support that guidance ought to be provided on best practice that upon putting in place a full FM mandate for the first time, a market review or tendering process is undertaken and we strongly support the emergence of third party intermediaries. However, we don't believe that this ought to be a mandatory requirement for trustees, nor that rules ought to be put in place for how such an exercise has to be undertaken by pension scheme trustees or who ought to run it for them. The pension scheme trustees (and to the extent relevant, the sponsoring employer) ought to be able to run an appointment process they regard appropriate given their experience, internal process and size.

(b) *Paragraph 129– Mandatory re-tendering, mandatory switching*

As per our previous comment above, we support guidance and believe it is appropriate to have best practice for at least a review of provider after 5 years (or some other relevant period). However mandatory retendering is likely to absorb significant time from providers and trustees which may not be proportionate. Mandatory switching reduces trustee choice and may lead to significant transaction costs incurred on replacement a FM manager and then appointing a new one with significant regularity. Worse than this is the risk that the incumbent is and remains the best choice of provider for that client. Moving from the best provider is not the best outcome for clients.

We believe that the overall package of remedies ought to deliver a result where trustees or intermediaries on their behalf have the information they need to make informed decisions about the quality of their service providers. Mandatory switching / tendering suggests that there will be some enduring inefficiency and that trustees and their professional intermediaries will not be able to determine that for themselves absent re-tendering or switching.

(c) *Paragraph 130 (c), (d) – Regulatory disclosure, regulatory obligations on firms' conduct*

We strongly support these measures.

We believe that to make these work it will require all investment consulting activities to have to fall within the FCA's regulatory perimeter, something we support strongly.

We comment on 130 (a), (b) in response to paragraph 132

Comments on your specific questions in paragraph132

1. Mandatory Tendering

(a). We don't believe that there ought to be any mandatory minimum set. However best practice guidance could be given to suggest that at least three firms are involved, but we don't believe it is unreasonable for a trustee group (especially one whose scheme is part of a wider corporate sponsor with other schemes which use FM Manager A and FM Manager B for example) to put only FM Manager A and FM Manager B in direct competition with each other from the start.

(b). We think best practice guidance here might be 5 years. Any less than that risks excessive transition cost if there is change too often.

(c) and (d). We don't believe there ought to be a mandatory open tender exercise. We do support the use of third party evaluators, but believe that the trustee group ought to have the choice of how to choose to undertake its process if they choose to do it themselves. In our recent experience, two of the best run processes we have been involved in were where the trustee group (with an independent trustee) ran their own process with a limited number of managers (around 4 each time). In each case they appointed a firm who was not the incumbent. For the avoidance of doubt, we did not win either mandate.

(e) and (f). Partial FM or expansion/change of existing FM is often highly scheme specific and bespoke and trying to set mandatory rules around this is in our opinion, even more challenging than for full FM. However we do support guidance for trustees similar to full FM, plus improved disclosure from providers, but ultimately believe that trustees ought to be able to run their own processes based on their own circumstances.

(g). we suggest some best practice guidance could be set which recommends a review within 5 years. Where schemes have already been in FM for more than 5 years to avoid a rush of reviews and retenders that the industry and third party intermediaries may not be able to deal with it may be appropriate to suggest that schemes look to undertake such a review after the next actuarial process is completed.

2. **Segregation of marketing materials from advice**

(a) and (b). In our view an integrated offering requires pension scheme trustees to be able to decide to appoint a firm who can offer both IC and FM, but without the pension scheme trustees having to choose at that appointment the exact engagement they wish the relationship to develop to (instead identifying if they are comfortable with the investment process, the controls, the consulting engagement, reporting and delivery under an IC method before choosing whether to progress to implementation being in part or in full via that firm). Preventing a trustee group from making such a decision restricts competitive choice. We believe that a widening of the FCA's regulatory perimeter, and the enhancements to disclosure and requirements on firms' code of conduct as described in paragraphs 130(c) and (d) should be sufficient.

(c). in our experience, trustee groups who choose a FM route often want to progress quickly, especially on risk management moves. Introducing a delay would frustrate this effort and we believe creates risk.

3. **Reporting to members**

(a) and (b). Trustees currently have responsibility to invest the scheme assets and have a fiduciary responsibility in respect of investing these assets in the best interests of the members. We don't believe that extra reporting requirements are likely to incentivise trustee groups to fulfil their fiduciary responsibility more than they do today.

DC schemes are already required to report on value for money and the DWP is currently consulting on adding requirements to DB schemes too. Demonstrating value for money to members will include the choice of FM as a route and the choice of provider as well as appropriate ongoing review and fee review. Imposing further onerous requirements on Trustees does not seem necessary or proportionate.

P-Solve

4. **Restrictions on selling both advisory and FM services**

(a). We have provided our thoughts on this as part of the repose to the SOI. However we believe that preventing FM and IC being provided from the same provider is likely to have cost implications for Trustees as well as probably slowing down implementation, especially of market-timing based investments.

The impact on the competitive environment ought also to be considered. Integrated providers typically use a single investment and manager research process across IC and FM as well as a trading and transition team. This has huge benefits in terms of efficiency and scale. If this was not possible it is not clear that integrated firms could continue to offer both FM or IC (or in some cases may not be able to offer either). The larger integrated firms are probably best placed to deal with this change and we believe it could lead to a reduction in providers in these markets, which would likely be restricted only to the larger players. We believe that a full assessment of the competitive impact assessment would be needed before progressing down this path.

In addition, and as previously noted,, separation of IC and FM assumes that these services are provided in a fashion which lends itself to such separation or that they are clearly separable services in the value chain for the client. In reality, most integrated firms operate a different model, and even within those firms, different clients have chosen to implement an integrated or partially integrated model different ways and/or using a different engagement model. In practice, for many clients we believe that any such separation will create results that are not best for them in terms of having to engage with a separate provider for some services, losing access to a trusted adviser within their process, or potentially having to change providers completely (especially as in the paragraph above if some providers walk away from providing some services).

(b). We believe that best practice guidance for trustees as we have discussed earlier in this response relating to the appointment of new mandates should cover this point.