CHARLES STANLEY
Asset Management

Peter Swan
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Competition and Markets Authority
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26th April 2018

Dear Peter,

Investment Consultants Market Investigation,
Working paper: Trustee Engagement

In its working paper "Trustee Engagement" the Competition and Markets Authority (CMA) seeks feedback on potential remedies considered.

Consistent with previous feedback from Charles Stanley Asset Management, we believe a combination of voluntary standards for Fiduciary Managers (and potentially Investment Consultants) and guidance for Trustees concerning these standards (such as issued by the Pensions Regulator) would be the most effective mechanism for change. These voluntary standards would be best organised as 'comply or explain' regime for organisations that claim compliance.

Responding to the specific questions in this paper:

1) How can switching costs be reduced?
a) Are there measures which trustees or FM providers could implement which would reduce the costs of switching providers? For example, the structure of contracts or the ownership of underlying assets.
b) How do switching costs vary by the type of FM service provided, and where specifically are costs incurred?

The best way to avoid transaction costs is to avoid trading – such as taking in existing assets in specie. Any trading will involve costs and the Fiduciary Manager should be responsible for minimising costs and disclosing them afterwards where they are responsible for the transition. The danger of being proscriptive about transaction costs is that delays, out-of-market periods and retaining inferior investments can be much more damaging than fractional trading costs.

We believe that consistent disclosure of transaction costs by FMs would be the most effective tool. This should be covered by guidance to trustees and voluntary standards for FMs.

2) Can FM providers present better information on switching and exit costs in advance?
a) What are the challenges for FM providers in providing accurate exit or switching costs in advance, e.g. when tendering?

Defining consistent methods of measuring and disclosing implicit costs (eg trading spreads).

b) What are the key drivers of the cost of switching and should these be disclosed separately?
Explicit costs (exit charges, dilution levies, swinging prices, commissions) and implicit costs (trading spreads – ie slippage) should be split out and stated separately.

c) How could anticipated switching costs be presented to trustees in a meaningful way, for example relative to other drivers such as asset base, net or gross returns or annual fees and charges?

£ cost and per cent of trade amount

e) Could the provision of information on switching costs to trustees discourage tendering or switching?

Not if it is done consistently. There is no downside to transparency so long as it is a level playing field for all providers.

3) Potential remedies in other working papers and ongoing developments
a) Would any of the remedies included in other working papers be an effective and proportionate way of driving engagement either individually or collectively?

As referenced in the working paper on Conflicts of Interests, while we do not believe mandatory tendering is appropriate, trustees should be supported to adopt effective tendering for FMs, reviewing a wide range of providers and seeking a consistent set of information that allows them to assess value for money. Switching costs are not the main issue here, and while we think disclosure is important we do not believe that focusing undue attention on switching costs is helpful. Template tender documents or guidance from TPR that achieve the same objective will be the most useful mechanism.

In addition, resolving the lingering concerns of trustees over wider conflicts of interest will go a long way towards improving trustee engagement in the overall process. If trustees were confident that the inherent conflicts of interest between FMs and ICs were being managed across the industry and that there was an agreed consistent process for reviewing providers and comparing them during a tender process, then trustees will engage more readily in all areas. The remedies should not just be about standards but also practical support to help trustees with this difficult and complex area.

b) Could any amendments be made those potential remedies to more effectively drive trustee engagement?

Guidance for trustees on the tendering process (as well as practical support for trustees managing their own process). This should in particular draw attention to the potential for conflicts of interest where the trustees are considering the FM service of their existing IC.

Additional Comments

- 129. In our experience the governance of pension schemes – including the extent to which ICs and FMs are held to account – is significantly improved by the involvement of a professional trustee. However, mandating this could be difficult and potentially expensive for smaller schemes.

Yours,

Bob Campion
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