

# CMA INVESTMENT CONSULTANTS MARKET INVESTIGATION

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14 May 2018

## Barriers to entry and expansion

Redington response to CMA working paper

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As we have previously noted, we believe that some barriers to entry and expansion do exist but we think that the growth of our firm from a start-up 12 years ago to our position today shows that these can be overcome. We agree with the CMA's emerging finding that potential barriers to winning clients and expanding are potentially greater than those of setting up a new firm or business line. In the early years of our business, we were not always invited to make a submission in a tender process, or even made aware of the existence of such tender opportunities.

## BARRIERS TO EXPANSION (WINNING CLIENTS)

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Barriers to expansion include the following:

› **Brand recognition and reputation**

In our experience, trust and excellent relationships between us and our clients are essential if we are to achieve the client's desired outcomes. This is because the issues at stake are technically complex and there are significant consequences to pension scheme decisions. It is vital that clients trust their advisors to help them make good decisions. In any event, our experience has been that prospective clients often find it challenging to entrust a newcomer firm with the role of advisor. We have invested in building and strengthening brand and trust throughout the past twelve years.

› **Strategic advantage of incumbents**

We agree with the point raised by the CMA that incumbent firms are at an advantage when it comes to a position of re-tendering. Our specific concern here relates to the frequency with which an IC mandate may be replaced with an FM mandate without consideration given to opening the existing mandate up to other IC firms. We do not see the IC and FM markets as separate from each other, rather there is a degree of overlap where such services may replace each other.

From a client outcome perspective, we believe that in many circumstances an IC provider can deliver a better and cheaper solution for pension funds versus an FM provider. Reading your working papers, and from our own experience, we agree that it is important for the CMA to consider competition at the stage of choosing an FM provider (particularly the first) but that it is at least as important to consider competition issues at an earlier stage where the pension schemes consider the alternative types of provider i.e. whether to use an IC provider or an FM provider.

We have concern in relation to the frequency with which an IC mandate may be replaced with an FM mandate without consideration given to opening the existing mandate up to other IC firms.

Therefore, as we have noted in our response to your working paper on the competitive landscape, we consider it essential that the CMA considers:

- › The interrelationship between IC and FM services rather than simply viewing them as separate services; and
- › Competition factors at both appropriate decision-stages
  1. Whether to stay with the incumbent IC versus moving to another IC or alternatively an FM provider
  2. What is the right FM provider for them if they have decided appropriately to move to FM rather than IC

› **Bundling of strategic investment advice and manager recommendations**

When we launched Redington, we didn't offer Manager Research initially. It can be an expensive world to operate in and reach scale. We found after a few years that we needed to offer this to become a real competitor in the market as IC services are purchased with strategic advice and manager recommendations bundled. Not offering managing research was a significant barrier to our expansion and so we introduced our manager research offering during 2013.

We build high-conviction, best-in-class, Preferred lists of managers. We started with a small number of asset classes and then broadened this out to our full coverage with a team today of 17.

## POTENTIAL REMEDIES VIA A HUB FOR TRUSTEES

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We have outlined below some thoughts on potential remedies which could improve trustee engagement materially and reduce the costs of tendering for both trustees and advisors. We also think that this would provide trustees with a view of the breadth of solutions and consultants in the market, which should encourage greater competition and will potentially reduce barriers to expansion for newer participants in the market.

We believe that a central, independent hub combining a form of standardised tender information with objective client reviews (two remedies discussed in the working paper regarding information on fees and quality) could act to reduce barriers to entry and expansion.

In the retail advisory space, we have seen the establishment of VouchedFor to help investors find financial or legal experts and in other markets we have seen Checkatrade and ratemybuilder and of course comparison sites like MoneySupermarket.

There are no such places for trustees to go.

We would support a rate my adviser type site, which would act to both:

1. Be a place for trustees to access comparable information on potential consultants as well as reviews from trustees; and
2. Be a place for consultants to give consistent and clear facts about themselves, including any information about previous experience if they are a new participant in the market.

We think over time this could materially improve trustee engagement and reduce the costs of tendering for both trustees and advisors.

We also think that this would provide trustees with a view of the breadth of solutions and consultants in the market, which should encourage greater competition and will potentially reduce barriers to expansion for newer participants in the market.

We think that it should also have a free-form element for the consultant to provide a message conveying the uniqueness and key attributes of their firm in their own words and style. We believe philosophical alignment is crucial in selecting an investment consultant as it leads to an effective relationship and tangible impact on outcomes. It could also act as a filter prior to a formal tender so that greater trustee engagement would hopefully lead to increased participation in tenders for smaller and newer consultants but only if the trustee agreed with their philosophy and so adding them to the tender was not a 'tick the box' exercise.

Below are some examples of the type of information that could be held. We would be very happy to work with the CMA and others in the industry to create this.

- Firm Name
- Whether independent or part of a wider group
- Number of Employees focused on the service
- Services offered (a tick list)
- Number of clients
- Assets under management
- Revenue
- Bands of clients by size
- Any performance and fee information resulting from CMA remedies