RUSSELL INVESTMENTS

CMA Market Investigation into Investment Consultancy and Fiduciary Management services

Response to Working Paper (7) on Barriers to entry and expansion.

1. SUMMARY

1.1 This document outlines Russell Investments' response to the CMA Working Paper (7) on Barriers to entry and expansion, dated 26th April 2018. We welcome the opportunity to comment on the Working Paper and its emerging findings.

1.2 In summary, we support the CMA's assessment of the barriers to entry and expansion in the investment consultancy (IC) and fiduciary management (FM) markets. In our opinion, the structure of analysis and information presented in the Working Paper provides an accurate snapshot of the current barriers across both IC and FM markets, and acts as a useful reference point for discussions regarding potential adverse effects on competition (AEC) as part of the broader investigation.

1.3 We provide comments on the emerging findings, covering separately a) barriers to entry and b) barriers to expansion. We focus our comments principally on the FM market.

2. COMMENTS ON BARRIERS TO ENTRY (FM)

2.1 We agree with and highlight the fact that barriers to entry are not prohibitive neither for FM nor IC, but certainly higher for FM than IC (paragraph 10). We do not believe that the current barriers to entry in either market need be cause for concern.

2.2 We corroborate from our own experience that higher costs and greater economies of scale are achievable for FM versus IC (paragraph 35).

3. COMMENTS ON BARRIERS TO EXPANSION (FM)

3.1 We agree that smaller or less familiar providers not only face a greater uphill battle in developing awareness of their services but are also more constrained to do so, compared to incumbents converting existing IC mandates or larger firms with more established practices / reputation and access to broader resource bases (paragraphs 39 and 65). This may ultimately limit customers' ability to identify the best deals available to them, if fewer providers are able to engage effectively in the bidding process. We therefore believe that there is benefit in the use of third party evaluators and professional trustees to address this issue, given their broader familiarity with providers in the market and their skillset in being able to evaluate them accordingly.

3.2 We highlight and emphasise that reputation and relationships are strong features of the FM sector (paragraph 52), and that there is less scope to demonstrate reputation versus IC given the lower number of discrete projects available for FM (paragraph 13). We also agree with the comments around "comfort factor" when choosing providers as cited in paragraph 55. In many cases, we believe that this can result in customers choosing deals which are not necessarily in their best interests or missing opportunities to obtain a better deal elsewhere. We believe that effective ways to resolve these issues include a) the development of FM performance standards[1], which could help to normalise how FM providers' performance is compared by customers; and b) encouraging the use of third party evaluators and professional trustees, as discussed in 3.1 above and in our comments to previous Working Papers[2], which could help increase awareness of potentially better deals and improve decision-making for customers.

3.3 We acknowledge the fact that there does not appear to be a link between overall success rate during tender and the proportion of clients a firm has an existing relationship with (paragraph 71). However, we corroborate from our own experience that firms with pre-existing relationships have access to a greater number of bids (paragraph 70), and indeed go on to win a greater number of absolute mandates as highlighted in table 3.

3.4 We do not believe that the ability to provide multiple services or a "one-stop shop" is a particularly significant barrier to expansion (paragraph 82). For example, all of our current clients will seek actuarial and legal services from third parties, but we do not feel that this has been a significant competitive disadvantage. Neither do we believe this an issue if a firm is able to provide either one of IC or FM services but not both – we have found in many cases that clients prefer to keep separate providers in order to reduce the perceived conflict of interest. However, where providers have *pre-existing* relationships with clients, then in our opinion this can influence the client's decision to expand the relationship across other service lines.

[1] Source: CMA Working Paper (1) on information on fees and quality.
[2] Please refer to our comments to the CMA Working Paper (3) on the supply of fiduciary management services by investment consulting firms and the CMA Working Paper (4) on Trustee Engagement.