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Response to the CMA Investment Consultants Market Investigation *Working Paper: Competitive Landscape*

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1 Introduction

The *Working Paper: Competitive Landscape* ("the paper") contains a number of notable findings relating to the UK investment consulting (IC) and fiduciary management markets. We congratulate the CMA team for their work.

That being said, we observe two significant areas where the existing analysis may not be delivering a fully appropriate representation of the investment consulting market. These two areas are (1) **disaggregation of different IC services** and (2) **use of multiple consultants**. We would suggest that deeper consideration of these two issues may be helpful in promoting competition.

Both of these subjects were discussed in bfinance's official response to the *Working Paper: Information on Fees and Quality*. A short excerpt from our response to that paper is copied here:

> *"The majority of these concerns stem from one particular issue: the lack of granularity around the very different "Advisory" services, which are grouped as a unit in the Paper. … Defining and disaggregating the different Advisory services transparently would make it easier for investors to assess cost, performance and value-for-money in each. Clearer definitions would also reduce the potential for conflicts of interest between different Advisory services (e.g. recommending the introduction of a new asset class and then being paid to implement the new asset class)."*

The response encouraged the CMA to avoid the 'one stop shop' presumption from the perspective of assessing fees and quality. We would encourage the CMA to consider that the same points are also highly relevant to the competitive landscape as outlined in this working paper.

For this reason, we would recommend that the response below is read alongside the earlier response, which provided greater detail on the subject of disaggregation in particular.

2 Two areas for examination

On **disaggregation**: The paper notes that IC services "*usually include combination of discrete elements, such as strategic asset allocation advice, liability hedging or manager recommendation*s" (93). Yet no proper attempt is made to define the list of services that "investment consulting" can include in a systematic way.

In addition, no attempt is made to determine which of these services are discrete (e.g. involve different resources) or interconnected. For example, we note that ALM overlaps strongly with SAA, but both are quite distinct from manager selection. The strongest distinctions may be found, we would suggest, between services for "strategy" and those for "implementation".

bfinance would be happy to provide input for any attempt to map investment consulting services more rigorously.

On **the use of multiple consultants**: The paper notes that clients can "*employ multiple consultants simultaneously*" (6), yet it confirms that no analysis has been done to assess the number of pension schemes that use more than one consultant (footnote 29). In addition, no analysis has been done on the forms which multiple consultant usage can take (e.g. a roster of several advisors versus ad hoc project support), with only ad hoc projects mentioned (96).

In addition, the paper makes some assertions about the use of multiple consultants which are not supported by our market experience (see following section).

We would suggest that this subject is worthy of more consideration, particularly given that using multiple consultants can be of material benefit in facilitating competition: multiple provider usage allows more firms to develop the relationships with stakeholders that the paper acknowledges are particularly important, helps new entrants to build up track records, and may encourage more robust performance assessment since providers are competing alongside each other.

3 Use of multiple consultants: additional queries

As suggested above, the paper seems to make two assertions about the use of multiple consultants that are not supported by our experience.

The first is that this is a practice only employed by larger pension schemes, which is not explicitly stated but suggested by the text (6). While it is more common among larger funds, bfinance has a large number of cases where we have worked as an additional consultant for a fund with assets under £5 billion in the UK and internationally.

The second is the presumption that an investor would not use more than one consultant for a particular service. This is not explicit but is implied by the text, particularly the interpretation of the CMA trustee survey finding that “at least 70% of schemes purchase asset allocation, manager selection, reporting, operational services and advice on scheme objectives from their main IC provider” (97). The report appears to conclude from this finding that more than 70% of schemes only use one consultant for these five services. This may be a false interpretation. For example, in many cases where we provide manager selection support to an investor, that pension fund also uses a retained consultant for manager selection but has chosen bfinance for support on a particular asset class or project where the retained IC may not have the specialist expertise or where the IC has investment product offering themselves. Such a fund may well fall in the 70% but would also be a user of multiple consultants.

Separately from the re-interpretation of the finding, we would suggest that a group comprising even 25% of respondents is a very substantial minority and one that merits a more considered analysis.

4 Conclusion

We hope that this feedback is helpful to the CMA in considering the issues of disaggregation and multiple consultant usage. bfinance would be glad of the opportunity to provide any further detail to the CMA on these or other subjects.

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