

CMA Market Investigation into Investment Consultancy and Fiduciary Management services

Response to Working Paper (5) on Competitive Landscape.

- 1.1 This document outlines Russell Investments' response to the CMA Working Paper (5) on Competitive Landscape, dated 26th April 2018. We welcome the opportunity to comment on the Working Paper and its emerging findings.
- 1.2 In summary, we agree with the CMA's account of the competitive landscape, market definition and levels of market concentration in the supply of investment consultancy (IC) services and fiduciary management (FM) services. In our opinion, the information presented in the Working Paper provides an accurate picture of the industry, its key competitors and trends in market share, and therefore acts as a useful anchor for discussions regarding potential adverse effects on competition (AEC) as part of the broader investigation.
- 1.3 One of the key findings we would like to emphasise is the trend in growth for the three largest FM providers, whose combined market share has increased by 40% over the last 10 years (paragraph 140). We welcome further analysis around this, particularly historical data for the Herfindahl-Hirschman Index for FM as per the chart presented in Figure 9 for IC.
- 1.4 We acknowledge that it is difficult to predict whether the trend described in 1.3 above will continue in the near future (paragraph 142). However, we believe that it is still reasonable cause for concern today given 71% of FM mandates awarded to the three largest IC-FM providers were cases where the provider was already supplying IC services to the client¹; that is to say there is reason to suggest that the observed gains in these providers' market share have been largely driven by conversion of IC mandates to FM. We highlight from our own experience that many mandates have moved from IC to FM over time but often through a closed tender process. This topic is discussed at length in the CMA Working Paper (3) on the supply of fiduciary management services by investment consulting firms, and we emphasise that the potential remedies set out in this Working Paper to address conflicts of interest may help to resolve the concentration issue ahead of time. Please refer to our official response to this Working Paper for further details on our thoughts on these potential remedies.
- 1.5 Finally, we agree with the emerging finding that the supply of FM services and IC services are separate, relevant markets and should be considered as such (paragraph 52). We also agree with the emerging finding that the FM market is more concentrated than IC but not "highly" concentrated, based on the information provided in paragraph 147.

¹ Source: CMA Working Paper (3) on the supply of fiduciary management services by investment consulting firms.