Peter Swan
Project Manager
Markets and Mergers Group
Competition and Markets Authority
Victoria House
37 Southampton Row
London
WC1B 4AD

8th May 2018

Dear Peter,

Investment Consultants Market Investigation,
Working papers: Barriers to Entry, Financial Performance, Competitive Landscape

In its latest trio of working papers, the Competition and Markets Authority (CMA) has outlined its emerging findings. Rather than comment on individual details, we would like to set out clearly our belief in the best way forward based on the findings published so far.

A code of practice for service providers – and guidance for consumers

The CMA's emerging findings and previous working papers have set the scene of a market which has a sufficiently diverse set of providers but needs to improve the balance of power between product providers and product buyers. Due to the technical nature of the services involved there is the potential for an unusually high imbalance of information between suppliers and purchasers which natural competitive pressures have not addressed.

In light of this, we believe the Fiduciary Management Industry (of which Charles Stanley Asset Management is one of the seventeen firms cited by the CMA as providing this service in their 'Competitive Landscape' working paper) should be asked to adopt a Code that governs a wide range of working practices. The Code should be sufficient in scope to tackle the concerns addressed so far by the CMA – such as transparency of fee information, presentation of performance, inconsistency of tender processes.

This 'Fiduciary Management Code' should be governed by a suitable regulatory body (such as the FCA) or independent council. It could be managed in a similar manner to the FRC's Stewardship Code; ie the code applies to signatories on a 'comply or explain' basis. The advantage of a 'comply or explain' regime is that rather than being overly proscriptive, it allows for differences in working practices that may make it impossible or impractical for firms to apply all standards. However, where this is the case it requires signatories to explain sufficiently why the standard does not apply. Adherence to the Code by signatories would be assessed by its governing body.

In order for the Code to be effective, however, service buyers (ie trustees) would need to be informed about the Code and given guidance on how to use it. This could come in the form of a Code of Practice for Trustees and accompanying Guidance issued by The Pensions Regulator that could:

a) Outline the aims and ambitions of the Fiduciary Management Code

b) Explain how trustees can use the Code to inform decisions about assessing Fiduciary Managers
c) Set out standards for trustees governing relevant processes such as tendering, assessing conflicts of interest and ongoing monitoring of providers

Measures that improve confidence in Fiduciary Management providers

We maintain the belief that for the vast majority of DB schemes – particularly those with limited investment expertise and governance resources – Fiduciary Management provides an efficient, cost effective way to implement the sophisticated long-term investment strategies that are needed.

It is largely down to lingering suspicions around conflicts of interest and lack of competitive pressures that the majority of schemes have not yet changed from their incumbent investment consultant model.

If the CMA concludes that neither of these are significant concerns, then confidence in the Fiduciary Management model will be improved. If the CMA is able to go further and adopt the measures described above or similar (a Code of Practice for FMs and Guidance for trustees) then this will be a significant step forward and one that is likely to benefit pension schemes as a whole.

Yours,

Bob Campion
Senior Portfolio Manager & Head of Fiduciary
Management Charles Stanley Asset Management