

CMA INVESTMENT CONSULTANTS MARKET INVESTIGATION

23 May 2018

Redington response to CMA working paper - Gains from trustee engagement

Redington believes that trustee engagement and governance are key determinants of ultimate member outcomes. We provided a detailed response to the previous working paper on trustee engagement and have enclosed this as an appendix.

This working paper on gains from trustee engagement highlights that where pension funds move into full Fiduciary Management (FM) from Investment Consulting (IC):

- › They are paying multiples of the level of fees that they were paying in IC;
- › Approximately 50% are still choosing the same provider for FM that they used for IC;
- › Most choosing the same provider are doing so without a formal tender; and
- › Engaged schemes pay less than disengaged customers. While the CMA has not looked at other aspects of the outcome, such as risk or performance, we would expect that good engagement with investment consultants also benefits these as well.

Redington believes that that the Fiduciary model for some trustees may be exactly the right solution. However, we also believe that **in many circumstances an Investment Consultant provider can deliver a better and more cost effective solution for pension funds**. We believe this is supported by the CMA data which shows that clients in full FM are likely to be paying around 6 times more than they were paying for their previous IC.

We would, therefore, encourage the CMA to consider competition and potential remedies needed at both crucial stages of trustee decision-making

1. How pension funds determine whether FM or IC is right for them. What framework are they using to base their decisions?
2. How pension funds choose the best FM manager for them. What framework are they using to base their decisions? Are they including an alternative IC manager if they haven't carried out a thorough review for determination of the first stage?

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.

Therefore, as we have noted in our response to your working papers on the competitive landscape and barriers to entry and expansion, 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

Comments regarding potential remedies

In practice, ensuring that at least one non-incumbent IC provider is included in a tender process alongside potential FM providers where a scheme is considering moving to FM will help to ensure that they have at least considered the alternatives available rather than moving to FM. It should be made clear to any IC providers being considered that the scheme is also considering FM providers.

We think it would be also good practice for Trustees to consider FM as part of their review process when selecting IC providers, so would recommend the same practice of considering FM as part of a selection process when considering alternative IC providers.

In addition, we would reiterate our previous recommendations regarding trustee engagement that we have enclosed in the Appendix.