CAMBRIDGE C|A ASSOCIATES

To: Project Manager
Investment Consultancy Market Investigation
Competition & Markets Authority ("CMA")

From: Cambridge Associates Limited

Date: 24 August 2018

By: Email to investmentconsultants@cma.gov.uk

Dear Sirs

Responses to CMA's Provisional Decision Report (the "PDR")

We refer to the PDR and the CMA's invitation for input on its proposed package of remedies. Please see our written responses attached.

As you will see, we are broadly supportive of the CMA's proposals. More specifically (and at a very high level), we believe that:

- the remedies would be effective and proportionate if implemented efficiently, enforced and reviewed/refined periodically;
- the remedies should apply to *all* market participants uniformly and simultaneously in order to avoid unfair competitive advantage;
- scheme trustees should hold closed tender processes for all fiduciary appointments and re-appointments subject to proportionality criteria in limited circumstances;
- fiduciary management and product performance reporting standards (and associated methodologies) would benefit scheme trustees and should be developed by one or more third party professional bodies; and
- whilst there is no need for significant additional regulation, the FCA's regulatory perimeter should be expanded to include services that are currently unregulated (e.g. strategic asset allocation advisory services).

We have endeavored to respond to your requests as fully, constructively and thoughtfully as possible. However, should further clarification and/or elaboration be helpful, we would be very happy to discuss these responses further.

We would also welcome the opportunity to meet with you to discuss these matters (and wider industry concerns) in the near term. We will contact you shortly in this regard.

Yours Sincerely

[redacted]

Alex Koriath
Head of Pensions

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CAMBRIDGE ASSOCIATES LIMITED

RESPONSE TO CMA PROVISIONAL DECISION REPORT (JULY 2018)

24 AUGUST 2018

BOX 1 Consultation questions for mandatory tendering on first appointment

Should trustees be required to hold a competitive tender process when first choosing fiduciary management?

We believe the trustees should hold a competitive tender for any fiduciary appointments (both first appointment and re-appointment). This will ensure the trustees engage pro-actively with the market, understand the different approaches and fee models.

Should the tender process be open? In what circumstances would a closed tender process be an effective alternative and how should we define the minimum standard for a tender process?

We would propose a closed tender process whereby the trustees have completed initial homework/market screening and invite a shortlist of relevant providers (a minimum of three (3) providers). In addition to the initial market screening the trustees could involve an independent third party (not associates to another provider) who can provide a clear framework to compare the different offerings. Such third-party tender managers should have a level of experience in the marketplace to provide complete, balanced and effective information to trustees. This is an area where the Pensions Regulator might be involved in in developing minimum standards for tender managers.

Should firms be prohibited from accepting new mandates if no such competitive tender process has taken place?

Yes. However, in situations where the time for a tender process is actually not possible (e.g., a provider terminates a relationship suddenly (for cause or other)) we believe that there should be a contingency mechanism that would not penalize a new provider for stepping in on a short-term basis.

Should there be a minimum threshold either for size of schemes or scope or scale of the mandate?

Each pension has unique needs and requires differing level of services and types of solutions. Thus, minimums could be arbitrary and of little value.

Should trustees be required to hold an additional tender process for any expansion in the scope of fiduciary management?

We support the requirement for an additional tender process (i) for material expansions of scope of fiduciary management (with 'materiality' defined by reference to appropriate, objective and ascertainable criteria) and (ii) where the benefit of such an additional process is proportionate to the financial cost and business impact to the client.

How should trustee compliance be monitored?

The responsibilities and obligations of trustees should continue to be overseen by TPR. We believe that TPR could add value to the marketplace by increasing trustee awareness and education – leveling the playing field among large and small pension schemes.

BOX 2 Consultation questions on mandatory tendering for existing fiduciary management mandates

Should trustees be required to hold a competitive tender process if they did not previously do so?

Yes, trustees should review service providers on a regular basis to ensure that their objectives are being met and the providers continue to add value.

Should the nature of the competitive tender process be the same as for those schemes adopting fiduciary management for the first time (eg should this be an open or closed tender process)?

If they decide to review their adviser it should be a closed tender process as outlined in Box 1.

What should be the qualifying criteria of a previous competitive tender process, such that trustees are not required to hold an additional tender process?

A previous tender process should be unrelated to a subsequent tender. After a tender process and a decision to hire a provider, the pension scheme should be able to enjoy the services unfettered until such time as the trustees believe the scheme would be better served by looking closely at other providers through a tender process.

What should the maximum permissible tenure without holding a competitive tender process be?

Trustees should review service providers on a regular basis (in some form, at least annually). They should be able to satisfy themselves in their role as trustees that providers are achieving objectives and adding value. We believe that prior to the end of the second complete actuarial cycle after the initial hire, the provider should be formally reviewed and a decision to continue or to go to tender should be made by the trustees.

What should the grace period for schemes which have already reached the maximum permissible tenure be?

If a scheme has reached the maximum period, it should be required to commence a formal tender process within 12 months of the effective date of the rule/regulation/remedy.

BOX 3 Consultation questions for warnings when selling fiduciary management

Should this remedy apply only to IC-FM firms, or to other investment consultancy and fiduciary management providers?

The marketplace will benefit if disclosure requirements are broadly applied.

What should the structure and form of the warning be? Should there be any separation of content? Should there be any requirement to give a warning on oral advice and marketing?

We believe a clear disclosure statement, in the form of a letter or notice which clearly discusses the key concerns and risks is a best approach. This is a relatively sophisticated sales process (as opposed to retail relationship) and all parties will benefit most with open, honest and appropriate discussion regarding matters related to investment consulting and fiduciary management services, fees, comparables.

Should firms have flexibility in changing the description of the service in the warning to a term other than 'fiduciary management' to reflect the description of the service being proposed? Are any additional safeguards necessary?

Flexibility is appropriate for the market. Strict boilerplate disclosure may not be very effective. Our view is that there should be a required standard language briefing (i.e., "In this material fiduciary management may be referred to as discretionary management, asset management, etc….") after which a firm may set forth the disclosure in its own voice.

BOX 4 Consultation questions for fiduciary managers reporting disaggregated fees to existing customers

Should fiduciary management firms be required to provide disaggregated fee information and how should they do this?

We would be supportive of providing disaggregated fee information to existing clients. These disclosures would be consistent in form and scope with mandatory MIFID II costs and charges disclosures, including:

- *ex-ante disclosure of aggregated expected costs for proposed investment services and financial instruments;*
- *ex-post disclosure of aggregated costs which have actually been incurred where discretionary portfolio management services have been provided (e.g. investment services and financial instruments); and*
- *ex-post disclosure of detailed costs which have actually been incurred on request from client.*

Should asset manager fee information be based on the IDWG templates?

We support the concept as a best approach and the IDWG proposal in principal, however, full agreement will come with review and understanding of the final IDWG report and templates.

What should the frequency of reporting such fee information to customers be?

We propose that the ex poste reporting on fees, costs and charges should take place at least on an annual basis.

BOX 5 Consultation questions for fiduciary managers reporting disaggregated fees to new customers

Should firms be required to provide a fee breakdown to prospective customers?

We would be supportive of providing disaggregated fee information to prospective clients. These disclosures would be consistent in form and scope with mandatory MIFID II costs and charges disclosures, including ex-ante disclosure of aggregated expected costs for proposed investment services and financial instruments.

Should any other fees or costs be disclosed in addition to those mentioned in this remedy?

We view the MIFID II ex ante costs and charges reporting requirements as appropriate and proportionate in the frame of services relating to illiquid alternative investments.

BOX 6 Design questions for fiduciary management performance reporting

Should there be a fiduciary management performance standard?

We agree that a fiduciary management performance standard would be a benefit for the pension schemes. However, we acknowledge that significant challenges exist to come to a standardized approach that ALL firms would be able to utilize on a level playing field. We would not support a performance standard until there is full acceptance and adoption in the marketplace as until such time the standard would be a competitive advantage to those firms with the resources to be able to comply most timely.

Who would be best placed to develop and implement a fiduciary management performance standard?

To achieve industry-wide cooperation, an external professional body such as the CFA institute would be most effective. We suggest that TPR may be helpful in mandating the organization and structure of such a group.

How do you envisage the implementation group working: how should it be funded, who should be part of it, etc?

The group should include qualified industry participants on a rotating or lottery basis but should be led by full-time independent members. It should be industry funded.

What backstop would be appropriate in the event that the group is unable to agree on the standard in the required period?

If organized and structured appropriately, we believe that a backstop would not be necessary. However, TPR Board could provide a setting for final arbitration should agreement not be complete.

BOX 7 Consultation questions for setting strategic objectives for investment consultants

Should pension trustees be responsible for setting objectives for their investment consultant?

We believe trustees should be responsible for setting objectives including risk and return targets for investment consultants. Minimum guidelines / best practice objectives could be set by TPR.

Is review and agreement of objectives every three years a suitable timeframe?

We believe the objectives should be reviewed every three years with annual check-ups.

Should there be a minimum threshold based on pension scheme size or the scale of the consultancy contract?

Each pension has unique needs and requires differing level of services and types of solutions. Thus, minimums could be arbitrary and of little value.

When do you consider that the formal review of an investment consultant against the scheme's strategic objectives should take place?

It would make sense to bring this in line with the review and agreement of the pension schemes' objectives every three years with annual check-ups.

BOX 8 Consultation questions for performance reporting

Should basic standards apply to the reporting of recommended asset management 'products' and 'funds'.

Definitely. There should be a standard methodology for reporting the performance of funds along with standard, plain-English disclosure as to how the figures were calculated.

Are there any other areas that we should include in the reporting standards?

Should standards be developed and agreed by an implementation committee similar to Remedy 6?

What fees should be used to make the gross to net fees conversion?

The gross performance tracks underlying fund NAVs which are by definition net of fund fees.

BOX 9 Consultation questions on extension of the regulatory perimeter

Should the FCA regulatory perimeter be extended and what activities should be included?

We observe that a lack of FCA regulation in this market has not been a primary or secondary driver of the issues and concerns raised in the CMA's investigation. Further, the FCA provides nearly comprehensive regulation over fiduciary management services. Thus, we do not see a need or room for a significant increase in regulation. That said, there are unregulated areas that could be brought into the FCA mandate, such as over the provision of asset allocation advice, which would increase the comprehensiveness of coverage without significant cost or disruption to providers. However we question the efficacy of such expansion. We do support the expansion of the FCA's conduct rules as a method to enforce any relevant CMA remedies that are mandated. In fact, we see few other ways in which such remedies could be monitored and enforced.

Should specific rules or principles related to remedies 1-2 and 4-8 be included within the FCA's overall conduct requirements? If not, how should those remedies be best implemented in the regulatory regime?

We do support the expansion of the FCA's conduct rules as a method to enforce any of relevant CMA remedies that are mandated. In fact, we see few other ways in which such remedies could be monitored and enforced.

What is the anticipated cost of an extension of the regulatory perimeter to firms? What is the marginal cost to firms already subject to FCA or designated professional body regulation?

It is difficult to assess cost until more clarity on expansion is provided, however, as providers are currently regulated, the costs would be incremental. For smaller providers, marginal costs may be more profound and could increase barriers for new entrants.

How should any changes be implemented to ensure consistency between regulators (including designated professional bodies) and to reduce costs to firms?

Perhaps a bridge too far, but coordination among the FCA (and HMS Treasury), TPR and the CMA to ensure a clear path and effective implementation would be the ideal approach.

BOX 10 Consultation questions on enhanced trustee guidance

Would trustees benefit from enhanced guidance?

Yes

What should the scope of any guidance include? How detailed should guidance be and what form should it take?

We believe meaningful dialogue with TPR on assessing trustee needs and development of minimum standards and guidelines would be of great value to pensions schemes and their participants.

BOX 4 Consultation questions on our remedy package

Is our package of remedies effective and proportionate in addressing the AECs and resulting customer detriment?

Yes we believe the remedies are effective and proportionate if the changes are enforced, implemented efficiently and reviewed.

How should we define the scope of our remedies?

What are the expected costs to schemes and firms of implementing our remedies and reporting compliance?

Generally, the costs appear to be minimal when taken as a whole. It is difficult to assess cost until more clarity on expansion is provided. For example, working through performance standards and the ongoing calculation and reporting could be a significant marginal cost depending on the final requirements. and , however, as providers are currently regulated, the costs would be incremental.

Are any transition provisions needed?

For some remedies, a significant transition will be needed (e.g., standardized performance), For most others, shorter transitions could be appropriate with clarity on implementation.

How should compliance with remedies be demonstrated and how should they be supervised by the relevant regulators?

We support the expansion of the FCA's conduct rules as a method to enforce any of relevant CMA remedies. I addition, coordination with TPR to better oversee trustee behavior would add value to the remedies

Should any remedies be time-limited?

There are no remedies that we believe have room for a time limit or sun set provision.