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Response to the CMA's Investment Consultants Market Investigation Provisional Decision Report

29 August 2018

1. Summary

We welcome the publication of the CMA's Provisional Decision Report (PDR) as part of its market investigation into investment consultants. This is our response to the PDR and the remedies and recommendations set out in it by the CMA.

We agree with much of the PDR's findings and agree that there is a need for remedies to address the adverse effects on competition that the CMA has identified.

- The structure of the remedies, with very little overlap between remedies for fiduciary management services (FM) and investment consultancy services (IC), highlights that these are two very different services. In particular, this shows that FM is not merely an extension of IC services, but that FM is a different service. Clients will have different requirements and considerations in appointing and monitoring these providers.
- We support the proposed remedies to provide enhanced reporting of fees and performance to existing and potential FM clients.

We do, however, believe that some of the proposed remedies as drafted need amending and would not be implementable as proposed. We propose amendments to the remedies in our response.

- We do not think there has been a sufficiently clear definition of fiduciary management set out in the PDR or any of the working papers. We propose a definition in this response that may assist in refining the scope of some of the remedies; particularly remedy 1. The definition of what services are in-scope of the remedies is very important to their successful implementation as there are a number of asset management (AM) services that are very similar to FM.
- We have reservations about the benefits of Remedy 8 – publication of the performance of manager recommendations. We are supportive of measures to improve customer information when appointing an investment consultant, but we have concerns that requiring the reporting of this information could have some unintended consequences.

In the following sections we give detailed comments on each of the proposed remedies.

2. Definition of a fiduciary management service

We think the review would benefit from a clear definition of what constitutes an FM service, as it applies to the service delivered to an individual client, rather than a definition of a FM business as a whole.

The distinction between some FM services and some AM services are blurred. We maintain that much of FM is essentially a form of AM. Without a clear definition of FM, some of the remedies could be interpreted as applying to products and services that many would consider AM. We do not think it is the CMA's intention to apply the remedies to these services.

In the appendix, we propose a definition of FM services that could be used to capture only those services that we believe the CMA intends to be in-scope. We also give examples to highlight the issue that many FM services are very similar to AM services.

3. Remedy 1a – Mandatory competitive tendering on first adoption of fiduciary management

Remedy 1 proposes that clients should go through a competitive tender exercise when first appointing a FM. We support this remedy.

We suggest that a clearer definition of a FM service would help clarify when a service is in-scope of the remedy so as not to inadvertently include some AM services. We suggest that the definition of FM services proposed in the appendix is used.

We agree with the PDR's proposal that both full-FM services and partial FM-services are considered in-scope.

We make the following suggestions for to how Remedy 1 should be implemented:

- Do not limit the scope only to instances when trustees first consider using FM services, but extend the remedy to all new FM mandates. We can envisage a situation where, for example, scheme trustees appoint a FM manager for a partial-FM mandate, for a small part of their assets and do so under a competitive tender. The trustees subsequently consider adding additional asset classes to the existing partial-FM mandate. We think this second search should also be captured by the requirement to make this appointment under a competitive tender exercise.
- It should be made clear that where trustees are still considering whether a FM service or an AM service best meets their needs and have invited both types of firms to tender, this tender exercise is still in-scope of any detailed requirements set out by the expected guidance covering this remedy.
- Trustees should be required to demonstrate that they have met the requirements of this remedy by, for example, reporting in the scheme's report and accounts that

they have followed the best-practice guidance to be produced by TPR under remedy 3.

4. Remedy 1b – Mandatory tendering for existing fiduciary mandates

We do not think that the mandatory tendering of existing FM mandates is warranted. The process is likely to be costly and take up a considerable amount of trustee time. The frictional trading costs of moving a FM service to a new provider mean few schemes are likely to change providers, even if, when considered ex of these costs, a different FM is preferred.

We suggest that the CMA remedy be amended so that a review (rather than a full tender) of existing FM mandates that did not have a tender exercise at the time of appointment is mandatory.

The CMA could recommend that The Pensions Regulator (TPR) provides specific guidance to trustees about what this review should entail, but that it should not automatically include a potentially costly tender exercise. A tender exercise could, of course, be the outcome of that review. We note that existing guidance from TPR to pension scheme trustees is to monitor the advice received from third-parties and to monitor the performance of investment managers. This monitoring includes the FM providers.

The CMA remedy could include provisions that the trustees document their review of the existing FM appointment in the scheme's report and accounts and, where they consider no tender exercise is required, should give reasons.

We note that some FM mandates (full and partial varieties) invest in illiquid assets (eg private debt). It may be very difficult to liquidate them in any reasonable timeframe even if a review and tender exercise recommended it.

5. Remedy 2 – Mandatory warnings when selling fiduciary management

We support this remedy. We believe that IC-FM firms have potential conflicts in recommending and discussing FM services. We think this remedy goes some way to disclosing the potential conflicts to clients.

The PDR asks for comments on whether firms that refer to their service as something other than fiduciary management should be allowed to alter the wording of the warning. We think that there is the possibility of confusion if it is not clear that the service being offered is equivalent to a fiduciary management service. We think the term fiduciary management should be mandatory in the warning.

We note that the guidance on management of conflicts of interest in MIFID II rules suggests that disclosure of a conflict of interest is a "last resort" where other measures "are not sufficient to ensure, with reasonable confidence, that the risks of damage to the interests of the client will be prevented"[1]. We believe this remedy reflects the situation that IC-FM firms have not found other measures to manage this conflict and disclosure is the last resort to dealing with it.

6. Remedy 3 – Enhanced trustee guidance on competitive tender processes

We support this remedy. Guidance on running a tender process would be helpful to trustees and potentially reduce costs and governance time.

We agree with the proposals made under paragraph 12.63 of the PDR for what the guidance should include. We suggest that this guidance also covers other due diligence questions that trustees should consider as part of the appointment, such as the financial stability of the FM firm, the investment process, the team's experience and depth, the quality of the operational controls.

We suggest that the guidance makes clear that the trustees should not be advised on any competitive tender by any group linked to one of the FM providers under consideration.

7. Remedy 4 – Requirement to report disaggregated fees to existing customers

We agree that this remedy would be an effective way to address the AEC identified.

We do think that clients will be interested in disaggregated information and will find it useful to be able to compare FM providers.

We believe many clients would also be interested to see the fee broken down between the advisory services and the implementation services of the FM. These two services can be separated and provided by different providers. Information on the different fees would allow customers to assess the cost, and value, of the different services and compare directly to specialist providers.

It may be appropriate to extend this requirement beyond just FM services and include all investment products that invest in external products or funds. We understand that this will be part of the Institutional Disclosure Working Group's (IDWG) recommendations.

It is difficult to comment on the proposal in the PDR that the underlying asset management fees and costs should be based on the IDWG templates since the final version of these is not yet available.

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[1] FCA PS17/14 Markets in Financial Instruments Directive II Implementation – Policy Statement II. 10.1.9A. https://www.fca.org.uk/publication/policy/ps17-14.pdf

We expect these templates will be similar to those of the LGPS Investment Code of Transparency. Given the form of the LGPS templates, we think that only a few clients will want to see the full details of the fees and costs that will be available. We believe that high-level summary information in regular reporting should suffice for most clients.

We agree that the disclosure should, additionally, be made at the level of each of the FM's funds or products.

We agree disclosure should be annual or before any significant change in the portfolio.

8. Remedy 5 – Minimum requirements for fee disclosures to prospective clients

We support the remedy of a comprehensive fee and cost disclosure by FM providers to prospective clients. We believe this remedy will help trustees to understand the full costs of appointing a manager.

We expect some clients to compare FM products, particularly partial-FM products, with AM products. We suggest that the disclosures made under this remedy are set out so that it is possible to compare fees and costs consistently with those provided by AMs under their MIFID II requirements.

As per our comment on Remedy 4 above, we believe clients would be interested to see a disaggregation of the fee for advice services and implementation services from FMs. We think showing the costs of each of these services should be a mandatory disclosure. These two services can be separated and provided by different providers. Information on the different fees would allow customers to decide whether making separate appointments is more suitable for their circumstances.

We suggest information on the cost of exiting the FM service must be resupplied on any significant change in the asset allocation of a scheme's assets. This would allow trustees to consider the implications of this change on the fee and the split between the recipients of this total fee; and on changes to the costs of exiting the arrangements.

9. Remedy 6 – Standardised methodology and template to report past performance

We agree with the principle of the proposal that a standardised method and template to report past performance would be useful information for trustees and would enable them to better compare FM providers.

We do not, however, think there is a good case to establish an implementation group to develop and agree the performance standard for FM track records.

We recognise the potential benefits of establishing a performance reporting template under the terms described by the CMA. However, the IC Select template is a reasonable attempt to standardise FM performance reporting and we do not believe that the development of a separate reporting standard would result in a significantly different approach.

The IC Select standard is currently a voluntary one, but we expect most providers to adopt it. We believe it would be reasonable to make it mandatory, but, if TPR guidance (under remedy 3 and recommendation B) suggested that trustees should use extreme caution if a FM's proposed reporting does not meet the IC Select standard, then we would expect all providers to adopt it.

We understand there may be concerns that the IC Select standard has been designed primarily to suit the needs of the FM providers, rather than their customers. We suggest that future reviews of the standard are carried out by individuals from a range of interested parties, including customers of FM providers.

10. Remedy 7 – Trustees to set strategic objectives and firms to periodically report against them

We support this remedy. Trustees should monitor the effectiveness of all their advisers, set clear objectives and monitor them against those objectives.

Where a client receives a full set of investment consultancy services from its IC, it may be appropriate to set the strategic objective as a measure of the investment performance of the scheme.

We consider the IC's role as advising on balancing risks with achieving investment returns. It is far easier to measure the value of investment returns than it is to measure the value of risk management (since, like insurance premiums, risk management steps that have positive value can be a cost in cash terms). It is, therefore, likely that any quantitative strategic objectives will focus more on investment return than on risk management.

Care will be needed in implementing this remedy to ensure that ICs are not encouraged to focus on a single metric. Doing so could lead to unintended consequences as far as investment risk, non-investment risks and cashflow risk are concerned, as described in the three examples below:

- It may give investment consultants incentives to focus on the returns over "short periods", for example three years, at the expense of increasing the investment risk;
- It may lead to consultants focusing on the investment aspects in isolation with lower focus than at present on considering wider risks and possible mitigations, such as mortality hedging, or considering sponsor covenant risks; or
- A pension scheme can experience unexpected cashflows for a variety of reasons, such as large transfers out of the scheme. A focus on outperforming a

performance benchmark, which cannot easily allow for this cashflow risk, may lead to ICs prioritising investment returns over holding some portion of liquid assets that could mitigate the risk.

We do not think that making this mandatory for all clients who receive any form of service from an IC is sensible or proportionate. Some clients may use an IC for only a very limited service, for example: production of performance monitoring reports; or a single manager selection exercise.

For this reason, we believe that it would make sense to define the scope of remedy 7 as applying only when the IC provides one or more key services. The CMA may wish to define these key services consistently with the definition of regulated services the FCA determines under Recommendation A.

11. Remedy 8 – Reporting performance of recommended asset management products and funds

We believe this remedy could benefit from some amendments. We are particularly concerned that a track record of recommended asset management products may be used inappropriately as an overall proxy measure of the performance of an investment consultant.

We agree with the CMA's decision not to take forward the proposal to develop standardised investment consultancy 'track records' for **overall** scheme performance. We think the arguments used by the CMA in deciding not to take this proposal forward are relevant here. In particular, paragraph 12.183 of the PDR says that track records are not well suited to an advisory model since "a consultant's advice may be taken with a delay, or not at all, and the scheme sponsor and other advisors can all play an important role in decision making." These are all relevant factors in the selection of an asset management product as well.

We also note that the "increasing investment returns" was only given by 49% of respondents as a reason for using investment consultants in the CMA survey. This was less important than, in particular, reducing or managing risk (given as a reason by 72% of respondents) (PDR report paragraph 6.16).

Our concerns with remedy 8, as it applies to IC firms, are:

- Measurement of recommendations could lead to changes in investment consultants' behaviour that may not be in the best interest of clients. A focus on benchmark-relative investment returns could lead to the recommendation of higher risk products. We believe that it is hard to allow for these risks in a performance track record.
- Any remedy in this area could encourage an inefficient allocation of limited trustee time. Trustees have limited resource to manage and monitor their scheme's

assets. We try to focus trustees' time on strategy and asset allocation, which most commentators agree has a greater impact on returns than manager selection. Any remedy focussed on manager selection performance could lead to trustees spending more time on monitoring managers and investment consultants at the expense of more important strategic considerations.

- We only recommend asset management products that meet certain minimum criteria. Some of these relate to operational standards, others are comfort factors, for example that the manager will continue to trade and offer the product for the foreseeable future. Inclusion of criteria such as these in our assessment reduces risk for our clients, but also reduces the pool of asset management products that we will consider recommending. The extent that other consultants or benchmarks include or exclude these managers gives rise to a level of inconsistency in any comparative analysis and fails to address this hidden risk.
- The information sought here relates to the ability of investment consultants to select active managers. Many of the asset management products used by our clients are not actively managed and a track record of recommendations is not applicable. For example, passive equity, liability driven investments and buy-and-maintain bond products are mostly passively managed and have become increasing significant allocations in many DB pension scheme portfolios.
- Other asset classes, such as long-lease property or direct infrastructure, may not have a robust index benchmark. Comparing recommended managers against an imperfect index could provide misleading information. Again, these asset classes have become larger allocations in DB pension schemes' portfolios in recent years.
- Additionally, for some asset classes there may be no commonly accepted benchmark performance metric, for example for private credit. Bespoke targets may be agreed between the client and the fund manager for each appointment. Different ICs may select different benchmarks to compare their recommendations against in these asset classes, making it difficult to compare IC firms.
- The track record for those asset management products that can be measured, even imperfectly, could represent a relatively small proportion of the total assets that we advise. The information could, therefore, be unhelpful or misleading for clients when selecting an investment consultant.
- It is not straightforward to combine track records of asset manager product recommendations into a single track record – as it may not be clear what weight to attach to each. Investment consultants would, therefore, need to provide many track records, one for each asset class, over different time periods. We classify products into over 50 different asset classes. The information to be provided to trustees could, therefore, comprise a huge amount of data that may not be particularly helpful to the client. Providing selective track records only may raise concerns that only favourable results are included.
- Different investment consultancy firms will group asset classes together in different ways for the purposes of creating mandates for clients. For example, some may

use one global equity allocation; others may use regional equity mandates. This could lead to confusion and lack of comparability when reporting the track records.

- The categorisation of a manager's product into a particular asset class may not be consistent between investment consultants meaning the track records may not be comparable. For example, a manager who primarily invests in equities, but may use significant allocation to cash or bonds when it sees risk rising in equity markets, could be considered an equity manager by some consultants and a multi-asset manager by others. (Note: LCP always uses its own judgement of where to classify a manager's product; we would not necessarily use, for example, eVestment's classification.)
- We are making recommendations to individual clients; we are not running a portfolio – where the inclusion of an asset / security and its percentage allocation is clear. The returns of a list of recommendations creates a number of practical difficulties for calculating a track record:
    - The recommendation of asset management products is often client specific. We may recommend a particular product to one only client – for example, the client may have been offered a unique fee deal. Should we include or exclude this product from our performance track record?
    - Within an asset class, product recommendations do not easily combine to create a track record of performance. No method can accurately capture the performance of an average client. Equal-weighted or capital-weighted both have drawbacks.
    - The delay between a recommendation to change and the product being included or excluded from the track record cannot reflect the actual experience of clients.
    - Limited-life funds, such as private equity funds, pose particular difficulties for rules as to when to include or exclude in the track record.
- Some ICs may not have captured their historic recommendations in a way that allows them to create an accurate track record of performance. This could put them, at a disadvantage in the tender process. Similarly, new firms without a track record may be at a disadvantage and this could create a barrier to entry and expansion in the IC market.

We suggest the following to address some of these concerns:

- This remedy is not appropriate for FM providers and should not apply. A FM provider will be subject to remedy 5 to disclose its performance track record. The performance track record is unambiguous and does not suffer from many of the concerns identified above. It is, therefore, a far better guide to the value added by the FM than a performance record under this remedy (remedy 8). FM and IC are quite different businesses with different considerations and measures of value.

- Remedy 8 applies only to AM products where the objective is to outperform a market index ie actively managed.
- The requirement to report performance applies only to products investing in asset classes that have robust, market-wide indices that can be used as comparisons. This would include: listed equities – including global, regional and sector specialist mandates; government bonds; investment grade and high-yield non-government bonds.
- The mandatory reporting does not include combining the individual asset class performances into a single track record, since the method of aggregating and the weight used for each asset class is arbitrary and any aggregate performance would be difficult to interpret.
- The disclosure to clients or potential clients includes all asset classes and over specified time periods to allow comparison across ICs.
- There are clear rules for inclusion and exclusion of the AM's product from the track record.

12. Recommendation A – Extension of FCA regulatory perimeter

We welcome this recommendation. We believe regulating the provision of investment strategy advice and strategic asset allocation advice supports the continuation of high quality advice to UK pension scheme trustees.

The PDR states that an important part of this recommendation is the definition of what is in-scope for regulated advice. We suggest that the definition of the scope considers the following principles:

- The definition is as clear and unambiguous as possible.
- The definition does not capture incidental investment strategy and asset allocation discussions that trustees may have with other parties such as actuaries, lawyers or asset managers.
- Regular reporting of how a scheme and its assets are performing, including monitoring of the strategy and the asset allocation, are not captured. This is to allow comments and, potentially, minor adjustments to the asset allocation to be made outside of the FCA regulation.
- The definition does not capture advice on the Statement of Funding Principles, nor integrated risk management advice provided to trustees.

13. Recommendation B – TPR trustee guidance

We have given some comments on this recommendation under our response to remedy 1. In general, we find TPR guidance well drafted. Any future guidance should be in line with existing guidance in terms of scope, detail and use of examples.

14. Recommendation C – Improving information of underlying asset managers' fees and performance

We have no specific comments on this recommendation.

15. Remedies not taken forward or not discussed in the PDR

15.1. Preventing IC-FM providers from offering both services to the same client

We believe the CMA should reconsider its provisional view to reject this remedy. It is our view that the same firm should not be permitted to provide both investment strategy advice and the implementation services of FM (providing the decisions on asset allocation; providing manager selection decisions; and monitoring / adjusting the portfolio) to the same client.

The CMA has identified potential conflicts of interest in offering IC and FM services to the same client in Section 8 of the PDR. Additionally, Compass Lexecon submitted a paper to the CMA date 12 December 2017, "Analysing conflicts of interest in organisations offering both fiduciary management and investment consultancy services to the same client" (uploaded to the CMA investigation page on 1 March 2018). This discussed a number of other potential conflicts in offering a FM service.

This evidence leads us to believe that there is a potential conflict of interest in offering both IC services and FM services to the same client. Remedy 2 addresses this conflict through disclosure. As MIFID II rules indicate, disclosure is the measure of last resort in dealing with conflicts. However, it is not clear that disclosure will be sufficient to mitigate the adverse effect on competition resulting from these conflicts of interest. We therefore think this conflict can and should be managed by IC-FM firms not being permitted to offer both services to the same client.

In our experience trustees do not want their AM to advise on investment strategy or to monitor and report on its own performance. We think that these services should not be provided by a party that is also providing AM services. We have argued that FM is effectively bundling AM implementation services with investment strategy advice. With FM our view is that it is particularly difficult for customers to be confident that any advice received is truly independent.

If the CMA does decide ultimately to reject a remedy preventing one firm from offering both IC services and FM services to the same client, we believe that the CMA should request TPR to provide further guidance to trustees on this matter. This guidance should highlight the conflicts of interest of providing both FM implementation services and investment strategy advice, and should note that best practice is to appoint separate firms for these services.

15.2. An inherent conflict of interest in a FM service

We believe there is an inherent conflict of interest in FM services that is not fully addressed by any of the proposed remedies in the PDR.

This section highlights one the potential conflicts (conflict 1) from the Compass Lexecon paper that we believe deserves further consideration by the CMA.

An FM service is one that provides advice on investment strategy and implementation services to manage the portfolio in-line with that investment strategy.

The investment strategy effectively sets the objectives for the implementation services provided by the FM. There is, therefore, an incentive for the investment strategy advice to set easier objectives.

The implementation services of a full-FM service are usually provided under an investment management agreement that may include: the definition of a benchmark (typically this is a 'liability benchmark' set specifically for each scheme; a performance objective of outperformance of that benchmark; a set of programmed changes to the objective or benchmark (eg a flight-path to de-risk if the funding level improves); and risk constraints that the FM must adhere to (eg minimum and maximum permissible allocations or exposures to a set of asset classes; and, possibly, a maximum expected underperformance of the benchmark).

These objectives and constraints should closely mirror the scheme's overall investment strategy.

This creates a situation in which the FM provider is advising the client on the investment strategy, part of which is implicitly advising on the terms of the IMA given to the FM provider for the implementation services. The full-FM provider is therefore advising the clients on setting aspects of its own IMA (albeit possibly using the two-company structure described above). We believe this is an inherent conflict of interest that is not adequately addressed by the proposed remedies in the PDR.

We recognise that this conflict will be somewhat mitigated by competitive pressures, particularly if remedy 1 is introduced, and by remedy 2. We believe that the proposals in 15.1 are an alternative and more robust way to achieve the objectives underlying these remedies.

Historical background

It is essentially this very issue that led to the birth of the investment consulting industry in the UK in the late 80s and early 90s. At that time pension schemes commonly invested all their assets with one manager. The manager advised the client on investment strategy (and, therefore, advised on the terms of its own IMA); determined asset allocation; and selected securities for the portfolio. The conflicts of interest in this arrangement led many trustees to seek independent advice on selecting and monitoring their asset manager. Many schemes turned to their actuary for this service, and actuarial consulting firms began to offer specialist investment consulting advice to meet that demand. Similar conflicts to those in the 1980s are now present again with the growth of the FM industry.

Appendix

1. Definition of an FM service to a client

We give some examples below of AM products that are very similar to FM products and services which, in the absence of a clearer definition of FM, may be interpreted as being in-scope for some of the remedies. We do not believe the CMA intends to include these AM services as in-scope.

The examples are of implementation services offered by FM and a comparison to similar AM services. They are intended to highlight that the **implementation services** (the decisions on asset allocation, the decisions on manager selection and the decisions on monitoring / adjusting the portfolio) offered by a FM provider are a form of AM.

We have classified each example as to whether, in our view, the service is an FM service or an AM service. Our definition of FM services appears below the table.

Example	Description of mandate
Full-FM services and similar AM services	
1	**FM service**. A FM provider manages all of a scheme's assets. Investment strategy advice was provided by the FM. The objective agreed with the FM relates closely to the liabilities of the scheme. The FM provider may select external AM products or may use only its own AM products. Asset allocation restrictions may be set out in the IMA.
2	**FM implementation service only (AM service).** A FM provider manages all of a scheme's assets. The trustees used a separate firm to advise on investment strategy (including advice on the suitability of using a FM).
3	**Cashflow-driven investment mandate (AM service).** All of a scheme's assets are managed by a single provider. The objective given to the AM relates closely to the liabilities of the scheme. The AM may be constrained to hold the majority of assets in bonds or bond-like instruments.
4	**Diversified, multi-asset mandate (AM service).** All assets are managed by a single provider. The provider is given the objective of delivering an investment return loosely related to the liabilities, eg "return 3% pa above inflation". The provider has scope to adjust asset allocation within ranges set in the IMA.
Partial-FM services and similar AM services	
5	**Partial fiduciary, alternatives allocation (FM service).** The FM provides investment strategy advice and manages part of a scheme's assets. This allocation

	is invested in a portfolio of third-party hedge funds.
6	**Fund of hedge funds (AM service).** The scheme invests in a fund of hedge funds. This fund holds a portfolio of underlying funds following an "alternative" strategy. Each underlying fund is managed by a provider not related to the manager of the fund of funds.
7	**Partial fiduciary, illiquid assets allocation (FM service)**[2]. A FM provides investment strategy advice and manages part of a scheme's assets. This allocation holds exposure to a portfolio of illiquid assets (eg property, infrastructure). Investments may be made directly in the assets or through a fund structure. All underlying assets are managed by an entity not directly related to the FM.
8	**Property fund of funds (AM service).** A scheme invests in a fund that holds a portfolio of underlying funds investing in property. Each underlying fund is managed by a provider not related to the manager of the fund of funds.
9	**Multi-illiquid assets fund (AM service).** A scheme invests in a fund that holds exposure to a portfolio of illiquid assets. Investments may be directly in the assets or through a fund structure. All underlying assets are managed by an entity that is related to the provider of the top-level fund.
10	**Single manager wrap (FM service).** A FM provider gives investment strategy advice and advises the scheme trustees to invest in a single manager wrapped fund. For this fund, the FM provider selects a single AM to manage the assets of a fund. The FM provider promotes, oversees and appoints other service providers to the fund.
11.	**Single manager wrap (AM service).** An AM provider selects a single AM to manage the assets of a fund. The AM provider promotes, oversees and appoints other service providers to the fund.

[2] Examples of similar fund of funds in partial FM mandates include fund of hedge funds, active equity funds, multi-asset diversified funds, secure income funds, private equity funds and private debt funds.

To deal with this ambiguity and define more clearly the scope if its proposed remedies, we suggest that the CMA adopts the following definitions for FM services provided to a single client:

Full-fiduciary management service (full-FM service) comprises the provision to a pension scheme of all the following services by a single firm; investment strategy advice; decisions on asset allocation; the decisions on manager selection; and decisions on monitoring / adjusting the portfolio.

Partial-fiduciary management service (partial-FM service) comprises the provision to a pension scheme of the following services by a single firm: investment strategy advice and / or asset allocation advice (ie not taking the asset allocation decision); and the decisions on manager selection and decisions on monitoring / adjusting the portfolio for **some** of the assets.

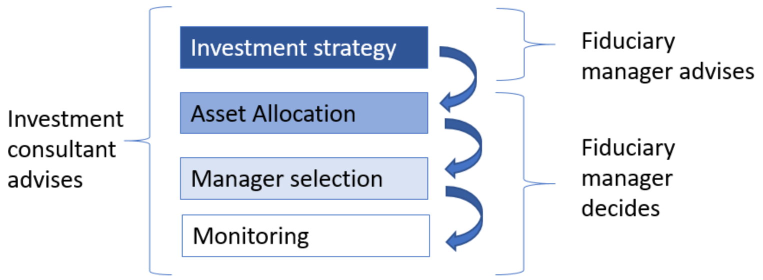
We highlight that the following situations are not included in the definition:

- Where, for a particular client, a single firm is responsible for the decisions on asset allocation, the decisions on manager selection and the decisions on monitoring / adjusting the portfolio, but without providing the investment strategy advice, then this is not a full-FM service. We provide some examples above to show that this should be considered an AM service.
- Where, for a particular client, a single firm provides the decisions on manager selection and the decisions on monitoring / adjusting the portfolio, without providing either the investment strategy advice or the asset allocation advice, then this is not a partial-FM service (since it is virtually indistinguishable from a fund of funds product offered by an AM).

We believe that the CMA should explicitly exclude these situations from being in-scope for the remedies to avoid unintentionally including many AM products and services.

An important part of the definition of FM services is “investment strategy advice”. We have reproduced figure 3 from the PDR below.

Figure 3: Overview of investment consultancy and fiduciary management services



Source: CMA

The left-hand side of the figure shows services that ICs provide advice ie ICs do not make decisions. The right-hand side shows services provided by FMs, and where this is advice or discretionary management.

With reference to the figure above, we do not believe that the CMA has defined "investment strategy advice" in any of its papers. We summarise it to be advice on[3]:

- setting high-level risk constraints and return objectives for a scheme's investments. This will take into account a wide range of factors including: sponsoring employer covenant's strength; actuarial funding level; trustee and sponsor's attitudes to risk; requirement for liquid assets; and environmental, social and governance considerations.

TPR provides detailed guidance on what trustees should consider when setting 'investment strategy: "A quick guide to defined benefit investment" August 2017.

We have considered other approaches to defining FM services. We find the definition above to be clear and unambiguous. Other definitions and descriptions we have seen have not adequately dealt with some aspects of FM and AM, such as:

- The use of third-party AM products is not exclusive to FM offerings.

- There are many AM offerings that could be used to invest a scheme's assets. Particularly where the benchmark given to the AM has some link to the liabilities of the scheme, this service is hard to distinguish from the implementation services of a FM offering.

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[3] We note that "investment strategy" can sometimes be used more loosely to include the asset allocation of the portfolio. In this response we refer to asset allocation advice as a separate service to investment strategy advice. In the PDR, there is some use of the term 'investment strategy' to include asset allocation. For example, paragraph 5.21 which is about changes in the 'investment strategy', should perhaps refer to changes in asset allocation; and in the box of paragraph 6.87, switching fiduciary manager does not necessarily involve a change in the investment strategy, which is decided by the trustees, but usually does involve a change in the asset allocation and underlying asset management products, which are determined by the fiduciary manager.

- The implementation services of a partial-FM offering are almost indistinguishable from those embedded in an AM fund-of-funds offering.

In paragraph 4.35 of the PDR, the CMA justifies its view that there are distinct markets for FM and AM. It says that AM offerings do not normally contain advice on **investment strategy** nor implementation of investment decisions regarding **underlying products not offered by the asset manager'.** (With the implication that FM offerings do contain these two elements). We do not recognise this description of AM offerings as not containing the "implementation of investment decisions regarding underlying products not offered by the asset manager" (4.35). We see many AM products that comprise solely external AM products or have significant allocations to external AM products. We do not see how this criterion can be used to define FM.

We do not agree with the CMA's view outlined in 4.36 that "trustees do not generally substitute fiduciary management for typical asset management offerings". Certainly when considering the implementation services of partial-FM (which is around a third of all FM mandates – paragraph 7.13) we think the substitutability is very high.

We have been asked by a number of clients to advise them on partial-FM offerings. In many cases an IC-FM firm has recommended an allocation to a particular asset class and has then suggested that the internal partial-FM offering is the most suitable product. In these cases, we have frequently compared the partial-FM offering to other AM products that achieve the same or similar economic exposure as the proposed fund.

In our experience of assisting clients to appoint a fiduciary manager, there are some IC-FM firms that separate the services so that they are contractually provided by two related companies – the IC and the FM, as described below.

For a full-FM service:

1. an IC to provide **investment strategy advice**; and
2. a FM to provide the **implementation services** of asset allocation, manager selection and monitoring of the portfolio.

For a partial-FM service:

1. an IC to provide **investment strategy advice** and **/** or **asset allocation advice**; and
2. a FM to provide the **implementation services** of manager selection and monitoring of the portfolio.

Our view is that if the different services are provided by companies with the same parent, this should be considered **in-scope** for the remedies and viewed as though they were provided by the same firm.