

# **REDINGTON RESPONSE TO CMA PROVISIONAL DECISION**

---

22 August 2018

## **TABLE OF CONTENTS**

---

<b>SUMMARY OF RESPONSE</b>	<b>2</b>
<b>POTENTIAL ADDITIONAL REMEDIES</b>	<b>3</b>
<b>RESPONSES TO IC-RELATED REMEDIES</b>	<b>5</b>
<b>RESPONSES TO FM-RELATED REMEDIES</b>	<b>8</b>

## SUMMARY OF RESPONSE

---

Thank you for this opportunity to respond to your provisional decision.

Redington is an independent investment consulting business and our principal activity is the provision of strategic advice to UK Defined Benefit and Defined Contribution pension funds as well as other long-term savings institutions. We do not offer fiduciary management.

Redington believes that trustee engagement and governance is a key determinant of ultimate member outcomes and so supports your efforts to improve engagement by trustee boards in choosing and monitoring their investment consultants and fiduciary managers, including improvements to the transparency and consistency of information available to both clients and prospects.

Specifically, we support the remedies the CMA proposes to introduce for investment consulting-only businesses which include:

- › Pension schemes should set strategic objectives with their investment consultant and the consultant should report on progress in meeting these objectives periodically
- › Investment Consultants should report the performance of recommended asset management products and their own investment products to an agreed set of standards
- › Government should extend the FCA's regulatory perimeter to include the relevant services provided by investment consultancy and fiduciary management firms

Since we entered the market in 2006, strategic objective setting and monitoring of performance have been two key elements of our client approach, so we are delighted to see the CMA has included this.

We support greater transparency of performance, fees and costs and are happy to provide the performance of recommended asset managers to clients and in RFPs.

We are already authorised and regulated by the FCA and support an increase in the perimeter of the FCA.

We do, however, believe that additional remedies would act to reduce barriers to entry and expansion and improve information for trustees; particularly as measuring only underlying asset manager performance risks misleading clients on the value added by individual investment consultants.

- › Investment Consultants should report the total net performance of their clients to an agreed set of standards (in line with Remedy 6 for fiduciary managers)
- › A hub should be established for trustees in order to improve the availability of information when comparing consultants and a way to reduce the costs of tendering for both trustees and advisors

# POTENTIAL ADDITIONAL REMEDIES

---

## Standardised total fund performance

We agree that there should be basic standards for reporting of recommended asset manager performance, however, manager selection has far less influence on end outcomes for members than other key elements such as the agreement of a specific long-term objective, putting in place a clear framework which trustees use to guide decision making, and getting the right policies in place regarding risk management and strategic asset allocation.

Therefore, we believe it is important to measure the performance of a whole fund relative to its liabilities, as ultimately this is what the consultant should take responsibility for, and is what clients should judge investment consultants on. Agreed performance standards for total fund performance would improve the transparency of investment consultant outcomes.

We are concerned that only requiring standardised performance for recommended asset managers could be misleading for schemes when assessing performance of their current and prospective investment consultants.

We are aware that a number of IC firms have indicated their support for providing standardised total scheme performance to IC Select to improve transparency, but we are concerned that this will fall away if the CMA only requires rated asset manager performance to be provided.

The CMA has an opportunity to ensure better transparency for pension schemes for generations to come. We understand that this remedy will have its challenges to set up but think that it would be worth the effort.

## A hub for trustees

We believe that a central, independent hub combining a form of standardised tender information with objective client reviews (two remedies discussed in the working paper regarding information on fees and quality) could act to reduce barriers to entry and expansion.

In the retail advisory space, we have seen the establishment of VouchedFor to help investors find financial or legal experts and in other markets we have seen Checkatrade and ratemybuilder and of course comparison sites like MoneySupermarket.

There are no such places for trustees to go.

We would support a rate my adviser type site, which would act to both:

1. Be a place for trustees to access comparable information on potential consultants as well as reviews from trustees; and
2. Be a place for consultants to give consistent and clear facts about themselves, including any information about previous experience if they are a new participant in the market.

We think this could improve trustee engagement and reduce the costs of tendering for both trustees and advisors.

We also think that this would provide trustees with a view of the breadth of solutions and consultants in the market, which should encourage greater competition and will potentially reduce barriers to expansion for newer participants in the market.

## RESPONSES TO IC-RELATED REMEDIES

---

### Remedy 7 – Duty on trustees to set their investment consultants strategic objectives

Since we entered the market in 2006, strategic objective setting and monitoring of performance have always been two key elements of our client approach, so we are delighted to see the CMA has included this.

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

Yes.

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

We believe that objectives should be reviewed and updated at least annually.

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

No, all schemes should agree and monitor objectives for both the scheme and its investment consultant.

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

This may in practice be completed alongside the triennial scheme valuation or as part of the review of the Statement of Investment Principles, but the timing should be left to a minimum timeframe rather than formally linked to one of these to ensure trustees have bandwidth to prepare these objectives with their consultants. As noted above, we believe that this period should be 1 year rather than 3.

### Remedy 8 – Establish basic standards for how investment consultants and fiduciary managers report performance of recommended asset management ‘products’ and ‘funds’.

We agree that there should be basic standards for reporting of recommended asset manager performance and would recommend the following:

- › We believe that these basic standards should include risk-adjusted performance and not just absolute and relative performance as client objectives differ, thus making it important to compare risk-adjusted performance to an appropriate universe for comparison purposes
- › You note that IC Select will transfer management and monitoring of its FM performance standards to the CFA and we believe that it is important to have an independent party for the maintenance and monitoring of the principles, practicalities and track records of this remedy too
- › Any oversight of this standard must require investment consultants to demonstrate an auditable system tracking ratings and performance

- **Should basic standards apply to the reporting of recommended asset management ‘products’ and ‘funds’.**

Yes.

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

As noted above, we believe that the reporting standards should require risk-adjusted performance and not just absolute and relative performance as client objectives differ, thus making it important to compare risk-adjusted performance to an appropriate universe for comparison purposes.

We would also like to see an additional reporting standard – similar to remedy 6 for FM - for total fund performance for IC.

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

Yes, this appears to be a practical solution for developing and maintaining appropriate performance standards.

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

As highlighted in our response to the working papers, the fees that Redington achieves through negotiation for its clients appear to be significantly lower than the industry wide fees that you outlined. In addition, asset managers may increase their rack rate fees prior to negotiations to show a higher discount given. Therefore, it is important to reflect actual rather than rack rate fees when presenting net performance comparisons to prospective or existing clients.

The complexity here though is that your performance standards will track performance from the time a manager rating is set and it may be some time before a client invests in this manager and an actual fee paid by clients of the investment consultant is demonstrated.

## **Recommendation A) Extension of FCA regulatory perimeter**

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

We are authorised and regulated by the FCA and support an increase in the perimeter of the FCA. We look forward to joining discussions about how this would be implemented.

We see the case for strategic (e.g. objective setting, strategic asset allocation and liability hedging), implementation (e.g. transitions) and transactional (e.g. buy-in/out and longevity swaps) advice to be included.

- **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?**

For IC-related remedies 7 and 8, this seems practical.

- › **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 not possible to predict the cost of an extension of the FCA's regulatory perimeter without knowing the extent of the activities, rules and principles that would apply.

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

Overlapping regulations and regulators can result in conflicting interpretations, reporting and costs so it is important to consider this when looking at how increasing the FCA's perimeter, rules and principles should be applied.

### **Recommendation B) Enhanced trustee guidance and oversight of remedy 1**

- › **Would trustees benefit from enhanced guidance?**

Yes, we are supportive of issuing toolkits or guidance in principle, believe that trustees will benefit from enhanced guidance and agree that tPR is well placed to issue enhanced guidance.

- › **What should the scope of any guidance include?**

As you have outlined, guidance regarding tenders, including some standardised questions, may ensure that schemes are able to better compare potential ICs and FMs to improve their ability to choose the most appropriate governance model and consultant as well as to negotiate fees.

- › **How detailed should guidance be and what form should it take?**

We would suggest that tPR look to whether they have enough information to distil current and enhanced guidance into a more practically accessible format. As a regulator in a complex industry with complex and varied stakeholders, they may look to consult with the industry. Redington has a specialist Governance team and we would be happy to participate in a working group to develop practical advice for schemes (particularly for smaller schemes that require help the most).

### **Recommendation C) Improving information on underlying asset management fees and performance**

We have not been a participant in the IDWG but support the development of industry standards for performance.

# RESPONSES TO FM-RELATED REMEDIES

---

As we do not offer FM, we have commented on the IC-specific remedies in detail and then noted comments to FM-specific remedies where appropriate.

## **Remedy 1 – Mandatory competitive tendering on first adoption of fiduciary management**

Redington believes that the fiduciary model may be exactly the right solution for some trustees. 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 investment consulting.

Therefore, we very much support the introduction of mandatory tendering on first adoption of fiduciary management but would also encourage the CMA to consider a remedy that ensures there are no AECs at both stages of choosing an FM provider i.e. (i) is the IC or FM governance model the right one and then (ii) if FM is the right model, who is the best FM provider for the scheme.

A potential remedy worth considering would be enhanced guidance for situations where the incumbent IC also offers FM. In these situations, guidance could encourage schemes to take independent advice as to whether FM is the right governance model in addition to any guidance on competitive tenders for FM.

## **Remedy 2 – Mandatory warnings when selling fiduciary management services**

We are supportive of the proposal for required warnings around marketing material in the provisional report. Marketing material should not be confused with independent investment advice, but the line between the two can and does frequently get blurry, particularly when firms have products to sell that may generate significant commercial upside. We believe that the effectiveness here will depend on how this is executed in practice. Disclaimers do not always have a large influence on behaviour.

## **Remedy 3 – Enhanced trustee guidance on competitive tender processes**

Although we are conscious that there is already a lot of guidance available, we agree that clear guidance on competitive tenders would be very valuable.