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Dear Peter,

Investment Consultancy Services and Fiduciary Management Services – CMA Market Investigation

River and Mercantile Investments Limited response to Provisional Decision Report 18 July 2018

Thank you for welcoming responses on the Provisional Decision Report (the "**Report**") relating to the CMA's Market Investigation, we are glad to take this opportunity to share our response with you. Unless specified otherwise, we are responding on behalf of River and Mercantile Investments Limited ("**River and Mercantile**"), part of the River and Mercantile Group ("**RMG**").

We are providing here our views on the potential remedies set out in the Report.

Overall we are supportive of the remedies set out in the Report. We set out first some high level views before responding in more detail in the appendix to this letter.

In particular, we support stronger performance standards and total fee disclosures as a key area of necessary improvement in the fiduciary management industry. We look forward to working with the CMA, FCA and the wider industry in continuing to improve reporting and disclosures in this area.

We continue to support competitive tendering in relation to Fiduciary Management. We have stated openly for a long time that this would be a good thing for the industry and believe it will be positive for client outcomes. We do believe that there are some areas of detail which will need significant consideration, and the emergence over the last 3-4 years of an increasing number of independent intermediaries advising on fiduciary management ought to be taken into account.

In particular, we are finding increasingly that many schemes who did not run a directly competitive process upon first appointing a fiduciary manager 5 years ago or more have instead been appointing third party intermediaries such as IC Select, KPMG, EY etc. to provide a thorough review of the fiduciary manager and in some cases perform a formal market test of fees, performance and mandate.

We think that this ought to be taken into account in the final remedies, in particular the proposed remedy requiring a competitive re-tender within two years for those pension schemes which did not appoint initially under a competitive process (Remedy 1, Box 2 in the Report). We believe that a pension scheme should be considered to have satisfied the objective of this remedy if they have used an external independent intermediary to review their fiduciary manager.

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We support the provisional decision not to seek separation between investment consulting and fiduciary management activities. We believe this is an appropriate decision because it affords clients a choice as to how they wish to engage with their investment partner, something which many have said they consider valuable. Many of our clients have valued being able to adapt their governance model with us as their circumstances have changed (or being able to appoint their provider without having to make an explicit decision on which route would be the best route for them in perpetuity at the start of the relationship). We therefore believe the CMA has taken the right approach in maintaining choice for pension schemes and investors.

Finally, the Report supports the broadening of the FCA's remit in relation to investment consultants. On this issue, we would go further. We believe it is essential for investment consultancies to submit to full FCA regulation. We have done so since the inception of our investment consulting activities in 2001 and consider that the disciplines it requires are highly supportive of good client outcomes. We also consider that advice given on the appointment of a Fiduciary Manager should be similarly regulated by the FCA.

The rest of this letter provides further details on our views and responses.

Yours sincerely

Ross Leach

Co-Head, River and Mercantile Solutions

Appendix – River and Mercantile comments on remedies

Box 1 – Remedy 1: Mandatory tendering – on first appointment

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

We believe that pension scheme Trustees should be given guidance on best practice for appointing a fiduciary manager ("FM"), which should involve either:

(1) Taking independent advice (i.e. from a third party intermediary); and/or

(2) Running a competitive tender process

We don't believe it should be wholly mandatory (for example a small scheme within a larger corporate group might be able to access relatively inexpensive but effective fiduciary management by using a fiduciary manager used elsewhere by a pension scheme within the wider corporate group; or an in-house team may have the skills to run a process without it being strictly competitive). However best practice ought to be to do 1 and/or 2 above with a requirement to comply or explain.

The details of the best practice guidance should be set by the Pensions Regulator (tPR), on consultation with the industry, but should include consideration of:

- Fees and costs (broken down by underlying component)
- Included services
- Exit terms
- Risks and how they are managed
- Investment philosophy
- Past performance
- Experience with similar clients
- Ongoing monitoring

1.2 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?

For pension schemes of a certain large size, a wholly open process might be appropriate.

We don't believe it is proportionate for most pension schemes however for either the FMs or the Trustees to invite all 15 or more "active" fiduciary managers to put forward a proposal.

We believe that a "competitive" process should be used instead of using the term "open".

In relation to minimum standards, setting a minimum number of providers seems less valuable. For example receiving 5 (ostensibly) marketing presentations from 5 providers may be less useful than a third party intermediary

overseeing the appointment of a preferred provider from the outset. We suggest the guidance includes these minimum requirements:

1. A competitive process (at least 3 providers) run without independent advice, but in line with a set of guidelines suggested by tPR that cover the best practice areas to consider when appointing an FM (as described above); or
2. Appointment of an independent adviser to assist the Trustees in selecting their FM, and complying with the best practice. In this case, the Trustees may make the positive decision to meet fewer than three providers, as the independent adviser can give summary information on the whole market.

1.3 Should firms be prohibited from accepting new mandates if no such competitive tender process has not taken place?

Given our suggestions above on the process, we believe the responsibility here is best placed with the Trustees as the fiduciary manager may not be able to confirm the process the Trustees have followed.

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

If the guidance is best practice, rather than mandatory, small schemes can adhere as much as is proportionate for them.

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

This would be very onerous, and hard to define. What is already part of the service and when is it expansion of the scope. E.g. increasing the level of liability hedging?

1.6 How should trustee compliance be monitored?

Similar to a chair's statement for DC schemes, Trustees could be required to include details of the process and how it complied with the best practice guidance in their annual report and accounts.

Box 2 – Remedy 1: Mandatory tendering for existing fiduciary management mandates

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

We are broadly supportive of best practice guidelines being that Trustees should review their Fiduciary manager if there was no competitive tender up front AND if the Trustees did not use and have not used to date an intermediary to assess the appointment/ongoing performance of the fiduciary manager.

However, we are increasingly finding that many schemes who did not run a directly competitive process upon first appointing a fiduciary manager 5 years ago or more have instead been appointing third party intermediaries such as IC Select, KPMG, EY etc to provide a thorough review of the fiduciary manager, and in some cases perform a formal market test of fees, performance and mandate.

We think that this approach ought to be taken into account in the final remedies. We believe that a pension scheme should be considered to have satisfied the objective of this requirement if they have used an external independent intermediary to review their fiduciary manager (or indeed if such an intermediary was involved in the initial appointment).

It may be appropriate for schemes to have to conduct a re-tender or a review within the next 2-3 years if the FM was appointed without competitive tender more than five years earlier and has not been reviewed by an independent party since (although again rather than a requirement it may be more appropriate for this to be brought in on a "comply or explain" basis i.e. if an internal team ran the process 5 years ago).

However, this should be in line with the guidance above on initial appointment i.e. either an independent review by a third party, or a competitive process. Both should be in line with best practice guidance.

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

As per our answer to 1.2 above.

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

Trustees should be asked to consider whether the initial process was in line with the (new proposed) best practice guidance or whether they have reviewed their fiduciary manager within the last 5 years by a competitive or intermediated process, and if not then consider doing something that meets this guidance.

This may be difficult to define, as Trustee boards may have changed substantially since initial appointment, and details of the initial appointment may not have been kept on record by the Trustees. If in doubt, Trustees could be required to carry out an exercise to demonstrate that their continued appointment of the FM is in line with best practice guidance.

As this may capture most schemes that have used FM for more than three years, it would seem that a requirement for at least an independent review could be more appropriate than requiring schemes to carry out a tender process for the sake of a tender process. Forcing tender processes on all existing mandates could be very onerous for the

fiduciary managers having to tender and the pension scheme trustees, particularly if the client is happy with their current provider.

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

There shouldn't be a maximum permissible tenure.

We suggest a requirement for Trustees to state that they are confident that the continued appointment of the chosen FM is appropriate and in line with best practice guidance.

This could be confirmed by a re-tender or by an independent review. It may be appropriate that if a re-tender, independent review or a review by a (investment capable) in-house team is not undertaken at least every 5 years then this would be outside of best practice guidance.

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

3 years may be appropriate for the market to be able to deal with the number of tender requests otherwise only the largest existing providers will be resourced sufficiently to respond to all the opportunities.

Box 3 – Remedy 2: Warnings when selling fiduciary management

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

The warning should apply to all firms.

In particular, firms that put themselves forward as independent advisers without FM capabilities should also be required to include a similar warning that identifies their conflict – i.e. that they would be more inclined to advise against fiduciary management if it meant them losing the Investment Consulting business for example.

Please note that we also have a strong view that this warning ought to exist for ALL investment management services, not just fiduciary management. i.e. it should include IC-FM firms or others advising on the use of any internal asset management funds, products or services.

2.2 What should the structure and form of the warning be? Should there be any separation of content?

The warning should identify any conflict of interest that exists, whether it is an IC-FM, an FM only or an IC only firm that is providing the advice around FM. Fully independent firms should also be required to highlight that this is their status.

2.3 Should there be any requirement to give a warning on oral advice and marketing?

This may be quite onerous, particularly given limited space in marketing material. Oral advice should be followed up with written advice by requirement.

2.4 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?

Yes, this warning (or a similar one) ought to exist for ALL investment management services, not just fiduciary management. i.e. it should include IC-FM firms or others advising on the use of any internal asset management funds, products or services.

Remedy 3: Enhanced Trustee guidance on competitive tender processes

We support enhanced Trustee guidance

Box 4 – Remedy 4: Report (of) disaggregated fees to existing customers

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

Yes, at appointment an estimate ought to be provided and at regular intervals afterwards.

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

This can be used as a starting point, and then adapted to the specifics of the fiduciary management market. A similar type of working group, including Fiduciary managers, should be used to determine the specifics.

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

Certainly annually, but possibly quarterly. It could be provided as part of the usual client reporting pack.

Box 5 – Remedy 5: Fee disclosure on sale of FM

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

Yes

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

No, we do not believe so, but we do think that a statement on the fees that the fiduciary manager receives directly at each level (including all associate or affiliated firms) ought to be made clear in any disclosure. This could be followed by a statement such as (in respect of our organisation for example): "We confirm that River and Mercantile Group plc and all affiliated firms do not receive any further revenue or income from providing this service to the Trustees".

Box 6 – Remedy 6: Standard methodology for performance reporting

6.1 Should there be a fiduciary management performance standard?

We support such a standard. We acknowledge the challenges of making genuine like-for-like comparisons, however we believe it imposes a consistency and discipline in reporting performance which is to be welcomed.

Here in particular the definition of fiduciary management must be clear. We believe that the cleanest definition is to only consider full fiduciary management mandates where the delegation is in respect of total assets. Partial fiduciary management is, in essence, just asset management, occasionally combined with advice. Performance and fees are rarely comparable for these more bespoke services. They should instead comply with asset management requirements, as recommended by the IDWG.

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

A significant amount of work has already been undertaken by the industry to consult on and comply with the IC Select performance standard that is being endorsed and taken over by the CFA institute to be aligned with the GIPS standard. Whilst there is still work to do to finalise it, we are supportive of this approach.

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

We are not convinced the implementation group is needed, if the above initiative is supported by the industry more widely. We are supportive of the CFA institute running the project, with consultation from the industry.

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

We do not believe a backstop is appropriate, given the complexity of the comparison methodology trying to be agreed.

Box 7 – Remedy 7: Setting strategic objectives for investment consultants

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

Trustees should be responsible for the objective, but in our experience most Trustee groups benefit from advice in this area.

Investment consultants should be required to advise on an overall strategy objective that is measureable and to explain to the Trustees why the objective has been set as it is, what it is meant to achieve and why it is reasonable.

Trustees should be made responsible for the objective, but will generally need assistance in setting it.

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

As a minimum, yes.

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

No. If Trustees only retain a consultant for project work, then it would be assumed that the internal team is large enough and experienced enough to set an overall objective directly. In this instance, the objective of the specific project can be defined by the client directly.

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

Investment performance can be measured on a quarterly basis, but the focus should be on the longer term. Even a well performing investment strategy may not meet the objective over a particular quarter or even a year if market conditions are difficult. However, Trustees should understand the reasons why the strategy has not met its objectives, and whether this is line with expectations having regard to prevailing market conditions and the agreed risk framework. This will enable the Trustees to keep the strategy and the consultant under review on an ongoing basis.

Box 8 – Remedy 8: Reporting of performance for products/funds

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

We think there is value in such an approach.

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

Yes:

(a) We believe that it is important that users of such information are better/more aware of the universe from which the recommended products and funds have been drawn and how they were included.

Therefore we believe that disclosures by investment consultants on such funds ought to include:

- Details of the universe from which the recommended funds were drawn;
- The criteria by which managers/funds are included in that universe and if any fees are paid by any managers to be part of that consultant's universe, directly or indirectly;
- The criteria by which managers were eliminated from the universe to get to the recommended funds/the criteria by which the recommended funds were drawn from the universe.

(b) Not all funds/strategies are seeking to outperform a benchmark or index all of the time, or at least such a fund when being recommended may not be being recommended to achieve such an aim within the client's portfolio under current and expected market conditions.

Adding a statement to the disclosures of the objectives of each cohort of funds/products used, may be useful including around risk, and downside risk management.

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

We think there is value in such an approach.

Box 9 – Recommendation A: Extension of regulatory perimeter

A.1 Should the FCA regulatory perimeter be extended and what activities should be included?

Yes. Advice that materially affects the investment of the assets should be regulated advice. We believe the perimeter responsibility should be reversed and any firm providing advice to pension scheme trustees on investment matters ought to be regulated by the FCA.

This should include asset allocation advice and setting strategic objectives as well as advice on funds, providers and investment transactions.

Importantly we also believe that where Trustees receive advice on the appointment of a fiduciary manager, this advice ought to fall under the FCA's regulatory perimeter.

A.2 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?

Yes, we believe they should.

We do not at this time have a view on how this should be incorporated.

A.3 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?

We don't believe that there is a material cost for firms who have already been applying the principles for good advice that we believe are consistent with FCA adherence. For firms who are currently regulated as a designated professional body via the Institute of Actuaries (say) and providing investment advice to pension schemes via this route, there may a number of costs for initial adherence, but we don't believe these should be excessive.

A.4 How should any changes be implemented to ensure consistency between regulators (including designated professional bodies) and to reduce costs to firms?

We do not at this time have a view on how this could be implemented, however we believe that this ought to be implemented by the FCA and tPR together rather than drawing additional bodies in and increasing complexity.

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Box 10 – Recommendation B: General enhanced Trustee guidance on engaging with consultants

B.1 Would trustees benefit from enhanced guidance?

Yes

B.2 What should the scope of any guidance include?

This should be set by a working party, perhaps with consultation, supported by the Pensions Regulator.

B.3 How detailed should guidance be and what form should it take

As above.