Verus Advisory Limited

Submission to the CMA

In response to their

Provisional decision report on the Investment consultancy market

21 August 2018

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Verus Advisory submission to the CMA on the Fiduciary Management aspects of their investigation

Background

Verus Advisory is a company established in 2011 which provides independent assistance to trustees and sponsoring employers based in the Republic of Ireland who either:

a) Are considering the appointment of a Fiduciary Manager, or

b) Have already appointed a Fiduciary Manager and require independent assessment of that Manager.

The Irish marketplace for Fiduciary Management has a number of close parallels to the U.K. market. In particular, the pension plan structures, the main providers, and the regulatory environment are all very similar to the U.K. In addition, the competition concerns raised in both the CMA's Provisional Report and the earlier FCA report are more pronounced in Ireland than in the U.K.

While any decisions or recommendations by the CMA will not have legal effect in Ireland, we believe it may be of use to provide you with our perspective on the competitive issues and possible remedies based on our experiences.

Issues and possible remedies

Firstly, we believe that Fiduciary Management can be a successful investment model for some pension schemes and our experience has been that where trustees have gone down the Fiduciary Management route they are generally satisfied with the outcome. Of course given the difficulties which your report highlights around performance assessment, in many cases the trustees may not have a solid basis for making such a judgment.

However, it has been the case here, as in the U.K. that most trustees have appointed their Fiduciary Manager without going through a formal tender process. In the large majority of these cases the appointee has been the trustee's incumbent investment consultant. In addition, having appointed a Fiduciary Manager, most trustee boards draw on their own expertise to assess the on-going performance of the manager rather than use outside expertise to do so.

It is our view that many trustees do not fully appreciate the fundamental change in their investment governance which arises when they adopt the Fiduciary Management model. This exacerbates the competition weaknesses which are highlighted in your report. Hence part of the remedies involved should include assistance to trustees to ensure a greater appreciation of governance issues and how they can be managed.

The specific issues and remedies set out below are based on the Verus Advisory experience of working in the Fiduciary Management market over the last seven years.

1. Issue: How to ensure that trustees have sufficient objective information when considering appointing a Fiduciary Manager for the first time?

Possible remedies:

1.1 The Pensions Regulator to provide specific guidance on Fiduciary Management for trustees.

We believe this would be helpful; in particular setting out what would be best practice when considering Fiduciary Management for the first time and also emphasising and explaining the fundamental change in the investment governance structure.

1.2 Ensure independent expertise is available to the trustees before the decision is made.

This could be provided in-house where such expertise is available, or alternatively by an external firm.

2. Issue: How to ensure, when appointing a Fiduciary Manager, that the trustees are aware of the various providers in the market and what they each have to offer?

Possible remedies

2.1 Trustees to obtain independent advice

Trustees could seek independent advice on the various Fiduciary Managers. This could be provided in-house where such expertise is available, or by an external firm.

2.2 Tender process

A full formal tender process is the best way to obtain clarity on what each provider can offer to the trustees. However, we are aware that some tenders can take up a lot of trustee time and may be costly. Our recommendation would be for the Pensions Regulator to issue guidelines on how to do a tender (and this may vary depending on the fund size and trustee resources available.)

We note the recommendation in your report to make tenders mandatory. We would suggest that where a fund is small or has limited resources, the trustees may excuse themselves on proportionate grounds but, in any such case, they must consult an independent source for a comparison of basic features of alternative providers and approaches.

2.3 Ensure comparable information on investment performance and costs is available

We fully support the proposal to have standardised investment performance information available and also of requiring Fiduciary Managers to disclose their various costs in a specified manner. We believe the development of an investment performance comparison model currently led by IC Select is worthy of support.

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Our experience has been that the detail involved, particularly in the area of costs, is complex and we would expect that most trustees would still require some level of independent assistance when interpreting the information.

3. Issue: How to ensure that trustees-- who have already appointed a Fiduciary Manager-- can effectively assess the services provided by that manager on an on-going basis? In addition how can they compare the costs and investment performance to those of alternative providers?

Possible remedies:

3.1 Trustees to obtain independent oversight

Trustees could seek regular independent oversight on how their Fiduciary Manager is delivering the contracted service. This should include checks and assessment of the performance information being provided, the benchmarks being used, and the fees being deducted. In addition comparable information from other Fiduciary Managers should be provided from time to time.

This oversight could be provided in-house where such expertise is available, or by an external firm.

3.2 Tender process

Our comments in 2.2 above regarding the tender process equally apply here. We would also suggest that where trustees receive regular independent oversight of their Fiduciary Manager, the mandatory requirement to have a tender could be required less frequently.

3.3 Ensure comparable information on investment performance and costs is available.

Our comments in 2.3 above equally apply here.

Conclusion:

We welcome the efforts by both the CMA and the FCA to bring greater clarity and competition to the Fiduciary Manager market. We believe this can only be to the ultimate benefit of the hundreds of thousands of scheme members whose pension benefits are dependent on the investments managed by these Fiduciary Managers.

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