RUSSELL INVESTMENTS

CMA Market Investigation into Investment Consultancy and Fiduciary Management services

Response to Working Paper (8) on Gains from engagement.

1.1 This document outlines Russell Investments' response to the CMA Working Paper (8) on Gains from engagement, dated 10th May 2018. We welcome the opportunity to comment on the Working Paper and its emerging findings. We focus our response predominantly on the findings for Fiduciary Management (FM).

1.2 In summary, we support the CMA's methodology and analysis to evaluate whether there is a link between market outcomes (particularly fees) and engagement. The emerging finding that engaged schemes pay significantly lower prices than disengaged ones (paragraph 5) corroborates our own experience that more engaged schemes are likely to experience better outcomes. Based on the emerging findings, we maintain our view that more effective trustee engagement can be achieved in FM through mandatory tendering; greater use of third party evaluators (TPEs); and greater inclusion of professional trustees (PTs) on scheme boards[1].

1.3 We acknowledge that "Internally Acquired" schemes exhibiting at least one engagement indicator receive prices which are on average 25% lower than those with no engagement indicators (paragraph 88). However, we welcome the opportunity to see the results if all three forms of engagement, i.e. tendering, use of TPE, and use of PT, are employed simultaneously, and to what degree this would further enhance customer outcomes[2].

1.4 We would add that part of the disengagement issue may also be one of education around best practice, in that many schemes may believe themselves to be "engaged" with their provider but do not necessarily pass the CMA's definition of engagement, i.e. demonstrating at least one of the three suggested indicators. We believe that provision of guidance to trustees may be a suitable way to address this issue[3].

1.5 Finally, we agree that fees are a suitable metric for assessing client outcomes (paragraph 56). However, we would also highlight that the "target return[4]" could be a suitable metric for assessing return outcomes, particularly for full fiduciary mandates across different providers.

[1] For further details on our views on potential remedies around trustee engagement, please refer to our responses to the CMA Working Papers on the supply of Fiduciary Management services by Investment Consulting firms, Trustee Engagement, and Barriers to entry and expansion.

[2] By the same token, we recognise the impracticalities from applying the suggested criteria of "all 3", given this might significantly limit the sample dataset and capture considerable noise in the results.

[3] Please refer to our responses to the CMA Working Papers on the supply of Fiduciary Management services by Investment Consulting firms, and Trustee Engagement for further details.

[4] The "target return" is a liability-based objective which is adjusted for the scheme's target hedge ratio and growth premia. By definition, the target return metric removes hedging as a confounding factor.