CAPITA

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Investment Consultancy Market Investigation
Competition and Markets Authority
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Dear Praful

INVESTMENT CONSULTANTS MARKET INVESTIGATION: CONSULTATION ON THE DRAFT INVESTMENT CONSULTANCY AND FIDUCIARY MANAGEMENT MARKET INVESTIGATION ORDER 2019.

We welcome the opportunity to respond to the Consultation on the Order published by the Competition and Markets Authority (CMA) on 11th February 2019.

This response is made in relation to Capita Employee Solutions comprising of Capita Employee Benefits Limited (CEBL) and Capita Employee Benefits (Consulting) Limited (CEB(C)L). These are the two companies within Capita plc that provide services within the scope of the Market Investigation. The business is managed as a whole under the trading name of Capita Employee Solutions.

Our services include the provision of investment consultancy services as defined by the market investigation. However, we do **not** provide fiduciary management services. As such we are only providing comments and observations on the proposed parts to the order relevant to investment consultants and in specific to part 7 of the Order.

Part 7 – Prohibits Pension Scheme Trustees from receiving Investment Consultancy Services unless the Pension Scheme Trustees have set Strategic Objectives for their Investment Consultancy Provider.

The stated aim for this part of the Order is that Pension Scheme Trustees better monitor the performance of their Investment Consultancy Provider by setting and measuring them against an appropriate set of Strategic Objectives.

We support the setting of an appropriate set of strategic objectives by the Pension Scheme Trustees against which their investment consulting provider can be measured. Whilst in our experience, many Pension Scheme Trustees already have in place such a process (albeit informally), we agree that a formal process will focus minds and ultimately lead to better outcomes for all.

We would make the following observations with respect to implementing the Order:

- In our experience the reason why Pension Scheme Trustees have not been able to set formal objectives for their Investment Consulting Provider is due to the difficultly in capturing what is essentially an advisory relationship in specific or quantitative terms.

- Ultimately Investment Consulting Providers exist to provide support and guidance to Pension Scheme Trustees in their decision making, rather than to take those decisions, therefore the link to observable/measurable outcomes for the Pension Scheme can be weak.

- The impact of manager selection and asset allocation advice can only be measured over the long-term. Time horizons would be at least 3 to 5 years for impact of manager selection and up to 15 years for the asset allocation. It is difficult to see how setting objectives over a three year period, as set out in the notes to the order, effectively covers this type of advice.

- We would like to highlight that what is appropriate for one scheme may not be for another. Scheme context will be important. As such the Order needs to implement a more proportionate approach that reflects differences in a Scheme's size / governance capacity and the nature of the service provided by the Investment Consulting Provider.

While the above are points that do need to be considered, we very much agree with the general principle of encouraging Pension Scheme Trustees in developing a framework for evaluating their Investment Consulting Provider's performance.

Below we have taken the services provided by an Investment Consulting Provider (as defined in the consultation), and for each service we have provided some thoughts and comments on how, in practice, the setting of such objectives could work and thoughts on any cost implications for Schemes and Employers.

a) *Investments that may be made:*
The investment advisor will need to ensure that advice is provided that complies with any restrictions in the Trust Deed Rules.

b) *Any matters in respect of which the Pension Scheme Trustees are required by law to seek advice in relation to the preparation or revision of the statement of investment principles;*
The investment advisor will ensure that any advice is framed in line with the current statement of investment principles, or, if not, clearly state where it differs and why. In addition the investment advisor should notify the Trustees when the signed statement of investment principles is three years old. (A point that should be noted is that it is the responsibility of the Trustees to update their statement of investment principles.)

c) *Strategic asset allocation*
The investment advisor should advise the Trustees on an investment strategy that aims to generate investment returns to achieve, in combination with sponsor contributions, full funding on "x" basis over "y" years, subject to an acceptable level of risk (Please note "x" is likely to be in the range 0% to 2% p.a. and "y" is likely to be at least 10 years but more reasonably 15 or 20 years. This will not be measurable if the Trustees do not follow the advice – which is not uncommon. Reporting to measure against these objectives is

available, but it is not a trivial exercise and is a service that only a proportion of clients currently pay for. There will therefore be additional costs to relevant Pension Schemes.

d) Manager selection:
The investment advisor would look to assist the Trustees to select managers who the Trustees believe can achieve targeted objectives (returns and volatility) after fees for the asset classes in which the scheme invests. Not all Trustees currently request a report showing the outcome of these manager decisions. There will therefore be additional costs to relevant Pension Schemes of providing these reports.

For the reasons outlined there is a risk that setting a set of strategic objectives for each of the above services could become a box ticking exercise that does not achieve the stated objective. As such it will be important to develop a framework around strategic objectives to evaluate the Investment Consulting Provider. Pension Scheme Trustees will need support in developing such framework, which then would come at an additional cost to some Pension Schemes.

An alternative approach to address some of the issues of effectively measuring investment advice would be to engage a second (and independent) Investment Consulting Provider to provide a high level second opinion on the main Investment Consulting Provider's advice – either on an ongoing or periodic basis. Again, this would come at additional cost to schemes.

We look forward to continuing to work with the Competition and Markets Authority as it works to conclude the final Order.

Yours sincerely

Tim Green
Risk & Compliance Director