**NORTHUMBERLAND COUNTY COUNCIL PENSION FUND**
**Pension Fund Panel Meeting 4 September 2017**

HYMANS ROBERTSON

**About Hymans Robertson:**
We are the 4th largest investment consultancy operating in the UK market. We provide investment advisory services to trustees and corporate sponsors of DC and DB schemes and, as a smaller part of our business, fiduciary oversight services. We do not provide asset management or fiduciary management services.

**Our response:**
Improving outcomes for our clients and the members of their pension schemes (DB and DC) is the focus of all our activities. We welcome any measures that help support the industry in fulfilling that objective.

It is right that the FCA has consulted more broadly on the Undertakings in Lieu put forward by the three largest investment consultants. We are generally supportive of the measures proposed as UILs (encouraging more frequent market testing, wider adoption of advisor performance measurement, etc) but it is right that the FCA should seek wider input from other interested parties in relation to the issue of firms carrying out both investment consulting and asset management activities, the conflicts of interest that arise from this and whether any additional measures are needed.

If the purpose of the review is to look at measures to increase competition, with the ultimate aim of improving outcomes, we would urge the FCA (and CMA) to consider what impact any measures will have on increasing barriers to entry. Competition in the market has improved in recent years. The market share of the largest three consultancies, Willis Towers Watson, Aon Hewitt and Mercer, has been reducing. We and other market participants have been increasing our market shares. This increase in competition is to be welcomed and we must ensure that an environment where this trend can continue, and crucially where new participants can enter the market, is maintained. This is essential if competition is to be increased and outcomes are to be improved.

There are two major unintended consequences that could arise from more regulation that need careful consideration. First, even if measures are put in place to encourage more regular review of fiduciary and advisory providers, if barriers to entry increase we may only see increasing competition amongst those already in the market who have the infrastructure in place to support more onerous regulation. Second, there is also a risk that, if the focus is purely on lower cost solutions, this will inevitably lead to service consolidation and the greater use of combined advisory and fiduciary services through a single entity, with the inherent conflicts we already see in that model.

The DB market continues to represent the majority of investment consulting revenue, but the lifetime of DB business is limited with most schemes now closed. In light of this, increasing barriers to entry through greater regulation could be a risk both to competition and to meeting the FCA's objectives.

While fiduciary management can make sense for schemes with lower governance budgets, particularly smaller schemes, we do share the FCA's concerns on conflicts of interest around firms offering independent investment advice whilst also providing the underlying investment product. Fortunately disclosure of potential conflicts is now more widespread, and the use of external

Hymans Robertson LLP — t 020 7082 6000
One London Wall — f 020 7082 6082
London EC2Y 5EA — hymans.co.uk

HYMANS ROBERTSON

oversight growing. However, more can be done. For example a standardised approach to declaring the potential conflicts where both services are provided by one firm would be beneficial, alongside guidance recommending oversight from an independent party.

If strategy advice given by actuaries and others (as well as investment consultants) does come into the FCA regulatory perimeter, we would urge widespread, whole of market consultation on what would be appropriate. If this is a path the FCA follows, there will need to be clarity on where the line is drawn between regulated investment advice and actuarial advice.

The measurement of the effectiveness of advice must comprise both qualitative and quantitative elements and cover all aspects of the advisory spectrum. There should be industry-wide consultation on what works best for clients to ensure that a consistent approach is adopted and that there is no detriment to outcomes for members.

While we agree with moves towards the provision of better information to help decision-making when appointing investment consulting firms, there needs to be a distinction between asset management/fiduciary management and advisory appointments. The measurement of effectiveness of asset managers and fiduciary managers, where full responsibility is given to the manager to make decisions, and advisory business where ultimately the client makes decisions, should be different.

In dealing with the issue of how to measure and assess the performance of investment advisers who also offer fund management services, we could end up in a situation where an industry that already adheres to incredibly high professional standards (for example via membership of the actuarial profession) is brought into a different regulatory regime more appropriate for fund management, perhaps unnecessarily and at an ultimate cost to pension scheme members.

Hymans Robertson LLP
One London Wall
London EC2Y 5EA

t 020 7082 6000
f 020 7082 6082
hymans.co.uk