

**NORTHUMBERLAND COUNTY COUNCIL PENSION FUND  
Pension Fund Panel Meeting 10 September 2018**

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# Sixty second summary

## Reforms proposed for investment consultancy & fiduciary management

The Competition and Markets Authority has published a report detailing the decisions it has reached, provisionally, on the basis of its market investigation into the investment consultancy and fiduciary management sector.<sup>1</sup> The report makes a number of proposals intended to increase competition in this sector and help trustees assess and compare firms, especially in the fiduciary management market.

### Provisional findings

The Competition and Markets Authority (CMA) started its market investigation in September 2017 following a reference from the Financial Conduct Authority (FCA)<sup>2</sup>. Its provisional conclusion is that neither the investment consultancy market nor the fiduciary management market is highly concentrated, with a sufficient number of providers in both markets, and that barriers to entry are not high. However, in both markets it has identified weaknesses that lead to potential adverse effects on competition in the sector.

The CMA seeks feedback on its provisional decision report by 24 August 2018. The statutory deadline for the publication of its *final* report is 13 March 2019.

### Fiduciary management

The CMA's more serious concerns were found in the fiduciary management market. They are that:

- many scheme trustees do not shop around when first moving into fiduciary management;
- a lack of clear and comparable information on performance and fees that will help trustees make a good choice when picking a fiduciary manager or assessing their existing one;
- firms that offer both investment consultancy and fiduciary management enjoy an incumbency advantage when selling fiduciary management to their existing consultancy clients;
- investment consultants steer their customers to their own fiduciary management service making it less likely that they shop around; and
- it can be very costly and time-consuming to switch fiduciary manager.

### Investment consultants

It found that the following factors weaken the competitive pressure on investment consultancy firms:

- there are low levels of engagement on investment matters by some trustees, especially in defined contribution and smaller schemes; and
- as with fiduciary management, there is not enough information on the quality of investment consultancy services for trustees to judge whether or not they are getting a good deal.

<sup>1</sup> <[https://assets.publishing.service.gov.uk/media/5b4f4db2e5274a730e4e273b/investment\\_consultants\\_market\\_investigation\\_provisional\\_decision\\_report.pdf](https://assets.publishing.service.gov.uk/media/5b4f4db2e5274a730e4e273b/investment_consultants_market_investigation_provisional_decision_report.pdf)>.

<sup>2</sup> <[www.gov.uk/government/news/cma-launches-market-investigation-into-investment-consultants](http://www.gov.uk/government/news/cma-launches-market-investigation-into-investment-consultants)>.



## Proposals

The CMA proposes a number of changes to address these provisional findings:

- trustees selecting their first fiduciary manager must run a competitive tender and those that have appointed a fiduciary manager without going through a tendering process must put the role out to tender within five years<sup>3</sup>;
- so that trustees have the information they need to make meaningful comparisons between different providers, fiduciary managers must provide disaggregated information on fees, greater information on costs, and how they have performed for other clients;
- adoption of common standards for reporting on performance by both investment consultancy and fiduciary management firms;
- trustees will be required to set strategic objectives with their investment consultants and the consultant should report on progress in meeting these periodically;
- the Pensions Regulator should provide new guidance for trustees on how to choose and scrutinise providers; and
- the Government should broaden the FCA's regulatory scope to include the main activities of investment consultants and fiduciary managers.

The proposals appear to have a greater impact on fiduciary managers than investment consultants although the initial reaction from both groups has been broadly welcoming. The CMA is not proposing the sort of radical shake-up of the market that had been mooted at some points during the process, and the industry will be well placed to deal with its proposed changes.

Mandatory competitive tendering for schemes considering a move to fiduciary management is a sensible step in the right direction. Ensuring that there is independent advice on selection and appointment of a fiduciary manager would be another.

Encouraging competition within investment consultants is also important. However, the CMA notes that in its view the five-yearly switching rate of 27 per cent does not raise major concerns. It also notes that the cost of switching is not acting as a barrier. Given the availability of independent trustees and expert procurement firms, most schemes do have the resources to assess investment consultants and in its analysis the CMA reports that 75 per cent of schemes not changing advisers are happy with the service they receive, the quality of advice and the relationship.

More transparent material around the value that investment consultants are adding can help trustees, and it is encouraging to see that trustees will be required to set their investment consultants strategic objectives and firms must report against them. We already help clients set strategic objectives and are very happy to be measured against them. It should be standard practice. The CMA recognises that the material and measures must reflect the long-term nature of the decisions and the relationship. A focus on short-term measures would lead to an industry focused on short-term advice, which would go against the key principles set out in the 2001 Myners Review.

<sup>3</sup> We note that in its online summary of the Report, the CMA suggests that competitive tendering should be required after *seven* years: [www.gov.uk/government/publications/investment-consultancy-market-investigation-summary-of-provisional-findings/serving-uk-pension-schemes-better-provisional-findings-from-the-cmas-investigation-into-investment-consultancy](http://www.gov.uk/government/publications/investment-consultancy-market-investigation-summary-of-provisional-findings/serving-uk-pension-schemes-better-provisional-findings-from-the-cmas-investigation-into-investment-consultancy).