

PROFESSIONAL PENSIONS

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A wooden signpost stands in a grassy field, with several directional signs pointing in various directions. The background features a mountain range under a sunset sky with warm orange and yellow tones. The signpost has several signs, including one that says 'ZADALANDI 2,5 km' and another that says 'URKIOLA WENZEL'.

Return to Tender:

What do trustees
make of the CMA's
fiduciary management
proposals?

Sponsor's foreword



David Curtis,
Head of UK & Ireland Institutional
Client Business,
Goldman Sachs Asset Management

In our opinion, the CMA got its review into fiduciary management right. This report highlights that there were clearly some major issues with the way fiduciary management services were being marketed and acquired, such as the incumbency advantage for investment consultants who offer fiduciary management, the lack of comparable information on fees, the lack of information on performance, and the difficulty of assessing the proposition.

The trustees who participated in this research study were rightly concerned by the status quo. We are pleased to see that the CMA has addressed some of those concerns head-on through a mandatory and retrospective tendering process, which we believe is a positive step forward for the industry, as well as mandating greater transparency in regard to fees and performance.

In a market that has a lot to offer pension schemes and trustees, we see greater benefit in having more providers working on a level playing field to help ensure suitability, and we believe that increasing competition will reduce costs – resulting in more competitive fees for pension schemes.

We think that there is still room for further improvement. For example, the CMA's review could have gone further in mentioning the use of skilled third-party evaluators to assess suitability of fiduciary managers for trustee schemes. We are strong advocates of the need to get suitable advice to ensure a broad view of the market whilst making significant choices, and it would have been good to see that incorporated into the CMA's remedies.

Overall this review has been a beneficial experience, shining light on poor historic practices and providing a framework for future improvements which should drive greater adoption of fiduciary management for UK pension schemes. It increases the attraction of fiduciary management services by introducing a greater degree of competition – helping people to make better choices and have a deeper understanding of the services that they choose.

Executive Summary

This report summarises the findings of research into fiduciary management, conducted by *Professional Pensions* and sponsored by Goldman Sachs Asset Management.

The research began with a series of six qualitative interviews with professional trustees of pension schemes, in which we discussed their views on the CMA's review of fiduciary management. The responses to those interviews, which have also been published online on *Professional Pensions* as a series of Q&As, were used to construct a quantitative survey which was sent out to *Professional Pensions'* trustee audience and accrued 107 responses.

Our findings show that the vast majority of trustees (67%) support the CMA's decision to conduct an investigation into fiduciary management procurement, citing the lack of transparency around fiduciary management fees and performance as their most pressing concerns. Schemes simply aren't getting the information they need from fiduciary managers to be able to objectively assess their value for money and meaningfully compare them to the wider market, which effectively leaves them in the dark.

Trustees are broadly supportive of the CMA's remedies, with the strongest backing given to those remedies which demand action from the fiduciary manager rather than the scheme, such as the demand for greater fee transparency, fee disaggregation and standardised reporting.

However, the CMA's mandatory tendering requirements, although welcomed by most trustees, attract comparatively far less support. This suggests that trustees would like to see responsibility for improvements as something that chiefly lies with the providers. However, although we agree that providers need to improve their transparency, this doesn't necessarily absolve schemes from discharging their end of things: our research found a high incidence (45%) of schemes had recruited their existing consultant as their fiduciary manager, and whilst though three quarters of this group ran a competitive tender to select the mandate, nevertheless the data suggests that trustees need to exercise more scrutiny over their consultants' advice, and that it's not enough merely to look to their provider for solutions.

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Introduction

The task of being a trustee has become ever more onerous in recent years. This is not only because of an increase in regulatory red tape, although that has undoubtedly played a role. Trustees have had to enter more complex financial waters in order to ensure optimal outcomes for their members, incorporating more sophisticated investment strategies and requiring faster asset allocation and investment management decisions.

The UK's trustees are, in the main, lay trustees – meaning that they don't always possess the investment insight or expertise needed to navigate these waters on their own. So it comes as little surprise that fiduciary management has grown in recent years in commensurate proportion with this increase in investment complexity. Fiduciary management is the delegation, by the trustees of pension schemes, of some of their investment powers and decisions. Definitions vary widely, but in essence the service may include (but is not limited to) responsibility for asset allocation and fund/manager selection.

Choosing a fiduciary manager is an important decision for trustees to get right. Aside from the fact that a trustee who delegates responsibility to a fiduciary manager still retains liability for that manager's actions (and is therefore not off the hook), their manager fees and performance can have a large effect on member outcomes. And, as the CMA pointed out, investment consultancy and fiduciary management providers together manage over £1.6 trillion of UK pension scheme assets, meaning that schemes and their members are hugely exposed to the consequences, both good and bad, of fiduciary management.

Competition failures

A recent investigation by the CMA into the processes schemes go through to select fiduciary managers has found that not everything is as it ought to be.

It concluded that some pension trustees will choose their existing investment consultant to be their fiduciary manager, even if a better deal may be available elsewhere, with only a third (34%) of pension trustees asking fiduciary managers to compete for their business through a tender.

Investment consultants who offer fiduciary management services have an advantage when it comes to getting business from existing clients, as they can steer customers towards their own service, says the CMA.

Many pension trustees do not have sufficient information on the fees or quality of investment consultancy and fiduciary management to be able to judge if they're getting a good deal from their existing provider, or if they could do better elsewhere.

Arguably these issues reduce pension trustees' ability to effectively compare their options whilst at the same time reducing providers' incentives to compete. The CMA considers that this could lead a worse deal for pension trustees and the people whose pensions they manage.

Investment
consultancy
and fiduciary
management
providers together
manage over
£1.6 trillion of
UK pension
scheme assets

The headline issues in the CMA's review

- Incumbency advantage enjoyed by investment consultants selling their fiduciary management offering to existing clients.
- Difficulty comparing one fiduciary manager with another.
- Lack of clarity on fees and investment performance.
- Costs involved in switching between fiduciary management providers.

CMA remedies

To deal with these concerns, the CMA will require pension trustees who wish to delegate investment decisions for more than 20% of their scheme assets to a fiduciary manager to run a competitive tender with at least three firms. Trustees who have appointed a fiduciary manager without a tender must put the service out to tender within five years. This, says the CMA: "will increase competition and reduce the competitive advantage held by incumbent investment consultants when it comes to getting new business."

In order to ensure that these tenders are run as productively as possible, the CMA introduced further provisions around cost and performance disclosure. Fiduciary management firms will also have to provide potential clients with clear information on their fees and use a standard approach to show how they have performed for other clients, so that pension trustees have the information they need to effectively compare different providers.

What do trustees make of all of this? Do they think that the CMA's investigation was necessary in the first place? What are their views on the proposals put forward? And do they think that the CMA's review will ultimately help or hinder pension schemes?

In this research paper, we put the above questions to of a sample of 107 trustees who look after DB schemes or hybrid schemes with a DB element.

The CMA's remedies

- Mandatory competitive tenders for first-time fiduciary management mandates of 20% or more of their scheme's assets
- Fiduciary management providers must disaggregate fees for current customers, including provider enhanced disclosure for underlying investment fees
- TPR should provide guidance to pension schemes on running competitive tenders for fiduciary management and investment consultancy services
- Fiduciary management firms will be required to report their performance track record to prospective customers using a standardised methodology
- Investment consultancy firms also offering fiduciary management services must clearly separate their marketing of fiduciary management from their provision of investment consultancy advice
- Fiduciary management providers must provide more information about their fees to prospective customers, including costs relating to transition or exit
- Mandatory competitive retendering within five years of any existing fiduciary management mandates of 20% or more of the scheme's assets.

107

Number of trustees who answered questions for this research paper

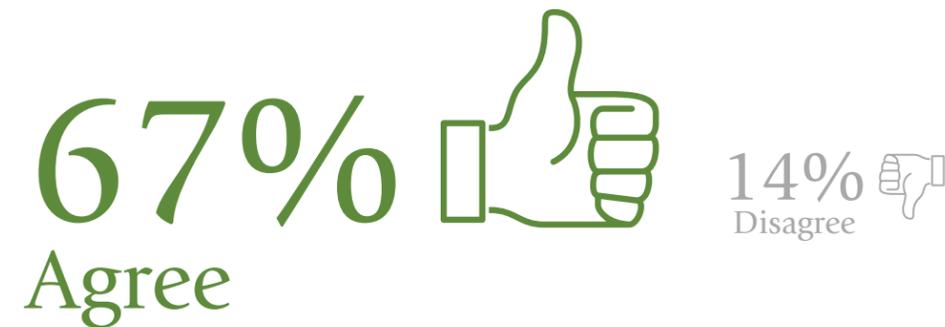


High time for a review?

The CMA's review was originally concerned with assessing the competitiveness of the fiduciary management market, but as it dug deeper it emerged that many pension schemes and fiduciary managers have engaged in problematic practices around procurement - conduct which could potentially have adverse affects on those schemes' chances of finding the best fiduciary manager for their needs.

We started our research by asking trustees whether they agree with spirit of the CMA's review and share the concerns voiced by the review.

How far do you agree with the following statement? "The pension industry was in need of an official review into the way that pension schemes procure their fiduciary managers?"



A lid that needed lifting

The majority (67%) of trustees agreed that the pension industry was in need of an official review into the way that schemes procure their fiduciary manager – and, of those, just under half (31%) said that they strongly agree with the above statement.

Trustees expressed several reasons for their agreement. Some criticised the culture of opacity in the industry, arguing in one instance that “real competition and real transparency in this particular procurement process are needed but are largely absent at present.”

They also spoke of the ease with which advisory relationships can migrate into fiduciary ones, with some laying the blame at the doors of the fiduciary managers themselves, remarking that “there does seem to be a trend of advisors promoting their own service when presenting to trustees. There is a potential conflict of interest which needed to be addressed”, and others expect more from the schemes themselves, believing that “too many schemes have sleep walked into fiduciary management by using their investment consultant.”

Elsewhere, other trustees talked of “the extreme difficulty of benchmarking various offerings” and that “fiduciary manager performance is hard to measure relative to others”. As one respondent put it: “It’s all one big mess.”

To find which concerns are troubling trustees the most, we asked trustees to rank the major problems raised in the CMA’s report - the chart on the following page summarises their answers.



Trustees' main concerns: cost, performance, transparency

Trustees are worried most by the lack of clarity from fiduciary managers on their fees, with half of the respondents to our survey (49%) describing this opacity as “very concerning”. Clarity around investment performance was the second highest ranked issue, with 35% viewing it as “very concerning”.

When trustees were asked to elaborate on those concerns, their criticism of the fiduciary management industry was scathing.



There is virtually no information available on fees or on service quality to make an assessment



Not all the advisers reveal their costs. There are hidden costs which you get a surprise from later on

The view on transparency was not limited to trustees of schemes using fiduciary management services. When we compared the views of trustees who use fiduciary management with those who say they would not consider using it, the percentage of those who found transparency ‘very concerning’ rose from 35% to 50%.

A similar pattern appeared when we asked about investment performance. 25% of fiduciary management users found the lack of transparency “very concerning” compared to 44% of non-users, both of these data points suggest that the lack of transparency on manager fees and performance is putting off many schemes from considering using fiduciary management in the first place.

Comparing providers is challenging

Our research finds that comparing one fiduciary manager with another is a case of ‘apples with oranges’. Over a third of respondents (34%) described the lack of information for making such comparisons as “very concerning”. The same proportion again felt that it was “moderately concerning”.

Again, respondents were forthright in their opinions:



This whole area of activity/ advice is currently so shrouded in impenetrable mystery that trustees frequently default to sub-optimal decisions

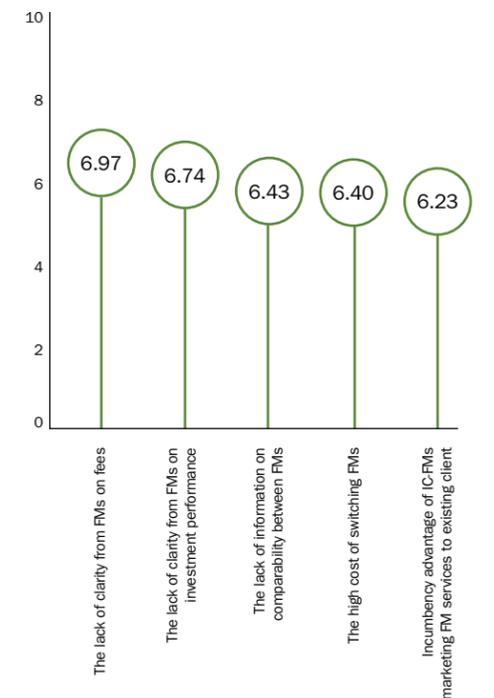


At the moment there is no standardised information which I think is important. The firms offering fiduciary management are all very different, so they are very difficult to compare



It is a very muddy scene with a scarcity of facts. No two schemes are the same nor are the offerings of the fiduciary managers. Opinions and relationships rule supreme

How concerning are the following issues, raised by the CMA in their investigation?



*Scores are an average based on the following weightings: Very concerning = 10, Moderately concerning = 6.67, Mildly concerning = 3.33, Not a concern = 0, Unsure = not counted

WHAT ARE TRUSTEES' MAIN CONCERNS?

The professional trustees we spoke to took a similar view. Hugh Nolan of Dalriada Trustees explained in more detail why so many trustees find themselves comparing apples with oranges:



The fiduciary management situation is quite complex...it's quite hard, I think, to be able to pick with any confidence a better fiduciary manager. So, you can look at the fees, you can look at the transaction charges, you can look at the returns that people have received for the last three years, you can look at their strategies and their suitability of staff and so on, but it's quite hard to know what you're getting because, with a lot of these things, you have to be persuaded by the strategy behind it. For example, a high turnover rate in a portfolio of assets might reflect a churning and an unnecessary cost, but it could simply reflect an active approach by the manager to get opportunities and make the most of that



Establishing like for like comparisons may be inherently difficult, being rooted in the nature of the game rather than the tactics of the players. However, this is not a reason for fiduciary managers to ignore the importance of transparency. As trustees' views on cost and performance transparency show, fiduciary managers can do a lot to help by being as forthcoming and lucid as possible.

Cost of switching fiduciary manager

The CMA's review highlighted that the cost of changing fiduciary manager can be significant. The 'planning phase' alone, which involves the development of investment objectives and investment strategy, can take several months to complete. And the 'implementation phase' which involves transferring assets over from one portfolio to the next, typically incurs charges in the order of 0.1% to 1% of the value of the assets being managed – which can be as high or even higher as the full annual cost of fiduciary management.

It comes as little surprise, therefore, that 35% of trustees in our survey feel that the cost of switching is "very concerning" and a further 34% believe that it's "moderately concerning."

Heather McGuire of BESTrustees believes the cost of switching issue is particularly onerous for smaller schemes:



And then there's getting somebody to manage it for you, a transition manager to make sure it's done properly and you've got the right assets at the end of it as at the beginning. And the new fiduciary manager might have a different way of delivering the same results. So, it might need a complete remodelling of the portfolio. And if you're a small scheme, you might be sitting there thinking I don't want to disrupt it that much and pay hundreds of thousands of pounds for transition costs





3/10

Trustees feel very concerned by the competitive advantage that investment consultants have when offering their own fiduciary management services to existing consultancy clients

The CMA's calls for more competition in the fiduciary management market are all well and good, but until the cost of switching issue is resolved, it seems likely that schemes could elect to stay with their incumbent fiduciary manager, even if they go to the trouble of putting the mandate out to tender.

Incumbency advantage

Three in ten trustees feel very concerned by the competitive advantage that investment consultants have when offering their own fiduciary management services to existing consultancy clients – a situation which potentially affects nine firms (IC-FMs) in the market. The advantage incumbent providers have could also effectively act as a disincentive to competing fiduciary managers from entering tendering processes. Such processes are expensive for the fiduciary manager, requiring time, effort and resource: how enthusiastic will a competitor's bid be in the face of unknown barriers? What competitive pressure is there on an incumbent IC-FM to tender their most competitive offering if they know that they are likely to retain the mandate anyway? IC-FMs are able to take advantage of their position; and, as the CMA identified, this is not merely a potential abuse of power, but one which some IC-FMs have taken real advantage of – a view supported by trustees we spoke to:



Too many schemes had been led on a journey to fiduciary management by their consultants without consciously considering the implications



Too many schemes have sleep walked into fiduciary management by using their investment consultant



There needed to be some support for trustees that were being "lead" by their in-house consultancy



There is a potential conflict of interest which needed to be addressed

The results of our survey appear to support the view that schemes using fiduciary management are at risk of sleepwalking from an advisory to a fiduciary relationship with minimal scrutiny. 53% of trustees using fiduciary management view the incumbency advantage of IC-FMs as very concerning or moderately concerning. Among non-users, this rises to 64% if you'd consider using fiduciary management, and 72% if you wouldn't consider using it.

It would appear that trustees who don't use fiduciary management (and who are therefore not at risk from the incumbency advantage) are far more switched on to the potential for IC-FMs to abuse their position than trustees who do.

Trustee action: a mixed picture?

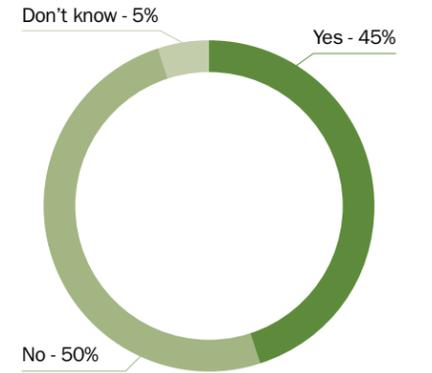
Trustees clearly support the CMA's review and share the concerns it raised. They want greater clarity on fiduciary managers' fees and performance, they want to be able to compare fiduciary management providers with greater certainty and ease, and they are concerned by the advantage which incumbent IC-FMs have when it comes to promoting their fiduciary management offering.

But are trustees concerns translating into 'better best practice' on their part?

At first glance, things look positive. Our research found that, of those respondents who use fiduciary management, 75% conducted a competitive tender to select their current mandate. That's a much higher rate than in the CMA's findings where, "in 2016, just 34% of customers buying fiduciary management had carried out a formal tender."

However, dig a little deeper, and the picture deteriorates.

For example, 45% of respondents using fiduciary managers say that they are buying it from their existing investment consultant – almost half of the market. That's basically the same as the CMA found in its own review.



Prior to using a fiduciary manager, did you use the same firm as your investment consultant?



We also found that half of pension schemes using fiduciary management appointed the firm that was already their investment consultant

More worrying still is that three quarters of this group said that they actually ran a tender. For so many to have gone with the default IC-FM option, even after running a selection process, doesn't say much for the quality of the tender process they went through.

Why are so many schemes opting for their incumbent consultant even after running a selection process? As we've seen from our research findings, many trustees are too trusting of their consultants – relying heavily on them while failing to exercise a commensurate level of scrutiny over what they're being told. And that's a problem if that investment consultant has a vested interest in selling you bundled services like fiduciary management.

Think about it this way. Would you go into a car dealership and ask the salesman what qualities make for a good hatchback? You could, but the answer you get is likely to paint the salesman's brand in a much more favourable light than if you'd gone to an independent third party.

Trustees are concerned about the right things, but our research suggests that they need to be judicious with who they turn to for help.

69% of respondents using fiduciary management said that they got professional help with running their tender. But listed among the companies respondents say that they've turned to, we found both actuaries and consultants – neither of which is guaranteed to act independently. Much as with tenders, trustees need to understand that the action of getting help isn't itself the cure – it's getting the right help that matters.

69%

Percentage of respondents using fiduciary management who said that they get professional help with running their tender

The trustee viewpoint on the CMA's remedies

As we have seen, trustees clearly feel that there is a need for reform around fiduciary management procurement, but has the CMA put forward the right ones or has it used a sledgehammer to crack a nut?

We asked trustees to rate each of the CMA's main remedies*:



The findings show that all of the proposals score more than zero on average, which means that, on balance, trustees support all of the CMA's proposals. But they also show that, while some of the remedies are welcomed with open arms, others receive a more lukewarm reception. In fact, there's a notable fault line between the scores of the four most popular remedies and the remaining three at the bottom – one which seems to correspond with where the onus lies for implementing the remedy. In other words, trustees are strongly supportive of those remedies where the burden falls on the fiduciary managers – i.e. remedies around cost and performance transparency and the separation of marketing and advice – and are less supportive of those remedies where the burden falls on schemes – i.e. mandatory tendering.

Fee transparency

The remedy which trustees support the most is the demand for fiduciary managers to provide more information about their fees to prospective customers (including costs related to transition or exit). 87% of respondents support this measure, with 62% rating it an 'excellent idea'. This comes as little surprise given that, as discussed in the previous section, the costs of switching from one fiduciary management provider to another, both in terms of time and finances, can be sizeable.

Elsewhere, 85% of trustees support the disaggregation of fees for current customers, including providing enhanced disclosure of underlying investment fees. Here, 50% of respondents described it as an 'excellent idea', making it the fourth highest rated of the CMA's remedies.

It's abundantly clear from our research that cost transparency is a huge issue for pension schemes. When we asked respondents what fiduciary managers can do to help make their lives easier, transparency emerged as the single biggest issue in their comments.



The most important thing they could do is implement a greater level of transparency with regard to their fees



Fiduciary management need to adapt the transparency of reporting



Be more transparent in telling what the real performance is versus the fees being paid. Explain why they can perform better than more traditional investment consultants

However, when we asked respondents whether they thought that the disaggregation of fiduciary managers' fees would result in lower overall cost for schemes, only 36% said "yes" – a figure which hardly chimes with the near unanimous support for the remedy. Why such little faith then? The implication seems to be that, while transparency measures are important, and indeed welcomed, they are viewed as being only part of the solution required to tackle the problems identified by the CMA, and must be buttressed by other measures in order to be effective, rather than being a silver bullet on their own.

Separation of marketing

60% of trustees think it's an excellent idea for those investment consultancy firms which also offer fiduciary management services to have to clearly separate their marketing of fiduciary management from their provision of investment consultancy advice.

The main reason they take this view is because of their concerns around the potential for conflicts of interest from IC-FMs – a theme which was referenced in several comments:



As I understand it, incumbent investment advisers were marketing their own fiduciary management products



I think that it has been too easy for investment advisers to encourage clients to use their own fiduciary management services



I agree that the report was needed and it is because of the conflict that investment consultants have in marketing their fiduciary management service and separate from their investment advice

Clearly, trustees feel that IC-FMs have been able to exploit their position when marketing their fiduciary services, and that the CMA's intercession is a positive step. However, our research also suggests that schemes which are currently using fiduciary management may not be as alive to the potential for abuse as they should be.

60%

Percentage of trustees that think that the separation of investment consultancy advice from fiduciary management marketing is a good idea

When we segmented trustees' views according to whether or not they use fiduciary management, we found that 45% of users thought this remedy was an excellent idea. However, among non-users who would consider using fiduciary management, 61% thought that this remedy was an excellent idea; and among non-users who would not consider using fiduciary management, an astonishing 74% thought that this was an excellent idea. The stark differences in agreement could suggest that many fiduciary management users are asleep at the wheel when it comes to scrutinising their consultant's advice.

We saw earlier that users of fiduciary management were notably less concerned than non-users by the incumbency advantage of IC-FMs, indicating a blindness on their part to the seriousness of this issue – a conclusion which chimes with other findings from the research – such as the fact that although 75% of fiduciary management users said that they ran a competitive tender to select their fiduciary provider, 45% ended up using their incumbent consultant's fiduciary offering.

Those closest to the danger appear to be the ones exercising the least caution. Any trustee whose consultant also offers fiduciary management should scrutinise the advice which that provider offers in respect of moving into fiduciary management, and that provider should be happy to have their recommendations subjected to scrutiny.

Mandatory tendering

Mandatory tendering in respect of first-time mandates was largely welcomed, with 65% of respondents thinking it either an excellent idea (36%) or a somewhat good idea (29%). Praise was a little more muted for the re-tendering requirement, with just 48% saying the same.

But trustees felt that there needed to be caveats to these requirements.

Some took issue with the five-year time frame for retendering existing mandates, believing that a longer window was preferable. "[I would change] the 5-year need. Because of the cost this should be 8 or 10 years," commented one respondent. Another told us that "a full retender every five years is costly and time consuming. A review every five years and a full retender every 10 years would be sufficient."

Other trustees took issue with the 20% of AUM threshold, believing that it was set too low. "The 20 per cent threshold, wherever it occurs, should be raised to 30 per cent." A second went further still, commenting that the CMA should "raise the mandatory competitive tendering limit to 40%"

Respondents also took issue with the CMA making this requirement mandatory rather than discretionary. "It is for the Trustee Board to decide when a tender process is required and not have a mandatory 5-year period. Why change a good manager!?" complained one very vocal trustee. Another remarked "if it ain't broke, why fix it?"

The CMA may have got the right idea around tendering, but trustees think that the thresholds need to be more nuanced.

Small schemes shoulder the burden

Trustees think that mandatory tendering requirements will come with cost for schemes. When we asked respondents how much of a burden mandatory tendering would place on their scheme's resources, only 9% said that it wouldn't be a burden at all, and only 19% felt that the burden would be either small or negligible.

The majority will have to shoulder extra weight, as Hugh Nolan explains:



If trustees are sold on the benefits of fiduciary management, and then they say 'yeah, can you please do that for us' they would have made those changes very quickly. If they then have to go through a huge parade with several providers and consider the pros and cons, which is a challenging issue to do anyway, then you're talking about perhaps at least another six months, maybe 12 months, where the trustees aren't able to benefit from the practice as a whole before they move into it

Those with the narrowest shoulders, or in pension terms the lowest assets under management, seem least equipped to deal with that load. Our study found that, among schemes with under £200m in assets, 29% said that mandatory tendering would be either a massive burden or a large burden. That compares to just 14% among schemes with over £2 billion in assets.

And the weight imposed by mandatory tendering could be the straw that breaks the camel's back – at least in the case of smaller schemes. When we asked respondents whether the mandatory tendering requirement would make them less likely to consider using fiduciary management in future, only 18% of schemes with over £2 billion in assets said yes it would (or might). Among schemes with less than £200m in assets, that figure rises dramatically to 48%

It's with some irony that the CMA's proposal on mandatory tendering may actually end up alienating the very sorts of schemes which could stand to benefit most from fiduciary management.



of schemes with assets under £200m would find mandatory tendering a massive/large burden

“If it ain't broke, why fix it?”

Value for money guaranteed?

Other trustees remarked that mandatory tendering could actually undermine the competition it's designed to promote, and disadvantage schemes in the process.

For Wayne Phelan, managing director of Punter Southall Governance Service, this centred on structural flaws – like the fact that many smaller schemes are simply too small to attract the interest of every fiduciary manager in the market, which limits the scope and competitiveness of the field they then select:



Let's be realistic, there's no point going to some of the larger providers because they'll only want you if your mandate's £100 million. If you've got £20 million, you're wasting your time talking to those people

Huw Evans, director of BESTrustees, echoes this view – explaining that, while it is likely to be the very smallest schemes that will benefit most from fiduciary management, these schemes may struggle to find fiduciary managers willing to take on their fund:



The sort of concern I'd have is that I see fiduciary management adding the most value for small schemes that have limited access to lay trustees with enough investment knowledge to do the job, which makes them ideal candidates to delegate more to the managers – but it's exactly those schemes who may find that they struggle to find three managers willing to pitch because the potential fee income from a small scheme isn't enough to justify the expending the resources required to prepare and then present a tender. Because the market is growing rapidly fiduciary managers will be able to pick and choose which schemes they pitch for, which may result in small schemes being prevented from hiring the most suitable managers



And there are other causes for doubt beside this. As we discussed earlier in this report, a high percentage of schemes, even after running a discretionary tender, still default to selecting their incumbent IC-FM. If schemes are forced to go through a tender exercise involving other providers, then what pressure is their existing IC-FM under to tender the most competitive price when they know there's a high likelihood of them winning the mandate anyway? And, what pressure is there on those new providers to offer their most competitive offering when they know that they're likely to be rejected in favour of the incumbent IC-FM?

Engaged trustees conduct tenders, but making these tenders mandatory could not only put harmful pressure on the very schemes fiduciary management could help them, it could potentially lead to schemes getting lower value for money.



What needs to happen now?

Trustees support the CMA's remedies on fiduciary management procurement, but were not without criticism – not just in terms of what the CMA said, but also what they failed to say.

The CMA's remedies are designed to help foster better competition in the market and, to that end, they only really help those schemes that have already decided to use fiduciary management, and which are now getting providers to compete for the mandate. But for those schemes which are trying to figure out whether it makes sense to go down the fiduciary route at all (let alone which specific provider they should use), the remedies aren't particularly helpful at all.

Where, for example, is a push for clearer information to be provided to schemes to enable them to decide whether fiduciary management is something that could benefit them? Whether or not you think it's the CMA's job to put such a proposal forward, the fact remains that that's a huge blind spot for trustees.

And when we asked trustees about the amount of balanced information out there to help them decide whether fiduciary management is the right thing for them, 49% said that there wasn't enough such information vs. only 26% who said the opposite.

A key theme both of our research and the CMA's review is that schemes can be easily misled into using fiduciary management by an IC-FMs who acts in their own business interests rather than those of the scheme. And, equally, there's a risk that schemes who could benefit from using fiduciary management are actually put off of considering it by consultants who don't offer fiduciary management themselves, and who are therefore wary that they could lose their consultancy mandate to a bundled service from an IC-FM. So a lack of clear and impartial information on whether fiduciary management is suitable for a given scheme is a major gap in trustees' armour; one which is open to all manner of exploitation and one which still needs to be urgently addressed.

But the task of protecting members isn't just about giving schemes trustees better information. Trustees also need to know who to trust, and to exercise more scrutiny around their consultant relationships in particular. One of the most troubling findings from our research is the uncomfortable ease with which advisers can become fiduciaries. In our study, 45% of schemes admitted to buying fiduciary management from their incumbent investment consultant, even though 75% of those schemes ran a supposedly competitive tender.

It's not that such transitions are prima facie bad. Isolated instances of advisory relationships migrating into fiduciary ones are to be expected to a degree – sometimes the incumbent IC-FM will be the best offering available for that scheme, and entirely appropriate to hire. But 45% is closer to a rule than it is to an exception, and it's hard not to think that many IC-FMs are exercising undue levels of influence over their clients both when it comes to whether to use fiduciary management in the first place, as well as which provider to go with.

Having more information at your disposal means little if the people interpreting that information on your scheme's behalf are doing so selectively, in a way that benefits their needs over yours. So, although there does need to be more transparency and impartiality in the industry on the part of provider, responsibility ultimately cuts both ways.

49% of schemes say there's not enough balanced information to help them decide whether to use fiduciary management

Appendix

How far do you agree with the following statement? “The pension industry was in need of an official review into the way that pension schemes procure their fiduciary managers”

Strongly agree	Agree	Unsure	Disagree	Strongly disagree
49%	32%	9%	7%	4%

How concerning are the following issues, raised by the CMA in their investigation?

	Very concerning	Moderately concerning	Mildly concerning	Not a concern	Unsure
The lack of clarity from fiduciary managers on fees	49%	32%	9%	7%	4%
The lack of clarity from fiduciary managers on investment performance	35%	33%	18%	7%	8%
The lack of information on comparability between fiduciary managers	34%	34%	22%	3%	8%
The high cost of switching fiduciary managers	35%	34%	21%	4%	7%
The ‘incumbency advantage’ enjoyed by investment consultants who market their fiduciary offering to an existing advisory client	29%	35%	20%	12%	5%

Do trustees support the CMA’s remedies?

	Excellent idea	Somewhat of a good idea	On the fence	Somewhat of a bad idea	Very bad idea
Mandatory competitive tenders for first-time fiduciary management mandates of 20% or more of their scheme assets	36%	29%	15%	9%	8%
Mandatory competitive retendering within 5 years of any existing fiduciary management mandates of 20% or more of the scheme’s assets	21%	27%	28%	13%	8%
Investment consultancy firms also offering fiduciary management services must clearly separate their marketing of fiduciary management from their provision of investment consultancy advice	60%	27%	10%	3%	0%
TPR should provide guidance to pension schemes on running competitive tenders for fiduciary management and investment consultancy service	24%	39%	24%	8%	5%
Fiduciary management providers must disaggregate fees for current customers, including providing enhanced disclosure of underlying investment fees	50%	36%	9%	2%	0%
Fiduciary management providers must provide more information about their fees to prospective customers, including costs relating to transition or exit	62%	33%	5%	1%	0%
Fiduciary management firms will be required to report their performance track record to prospective customers using a standardised methodology	51%	38%	8%	2%	0%



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