ShareSoc
UK Individual Shareholders Society

Suite 34, 5 Liberty Square, Kings Hill,
West Malling, ME19 4AU
Phone: 0333-200-1595 Email: info@sharesoc.org
Web: www.sharesoc.org

Financial Conduct Authority

Via Email: assetmanagementmarketstudy@fca.org.uk

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<u>Response to Consultation on Asset Management Market Study</u>

Sirs,

This response to the FCA's Asset Management Market Study – Interim Report is submitted by ShareSoc, the UK Individual Shareholders Society. We are a not-for-profit organisation representing the interests of our members who are individual investors from across the United Kingdom.

ShareSoc has found the FCA's report to be educational. This is an important time for the asset management industry who are being criticised by the FCA over charges and transparency; and by BEIS/Government for their poor stewardship of their investments and allowing poor governance to go unchallenged. We agree with the general conclusions of the study, and share the view that competitive forces alone do not seem to drive investors to deselect underperforming or inefficient managers.

We agree that poor reporting by managers, and partly due to a focus by managers and investment consultants on peer group analysis, and partly due to a lack of clarity in defining and tracking the benchmark against which a portfolio is managed. Historical data is also often misleading due to practices of incubating multiple funds, manipulation of survivorship bias, changes in strategy and fund mergers.

Improvements have been made to the transparency of the asset management industry in recent years, driven largely by the requirements of the Retail Distribution Review. This regulatory advance improved information standards and quality, and most importantly addressed conflicts of interest and associated practices which had previously obstructed the delivery of best advice. The positive effect of this can be seen in the increased IFA and private focus on investment trusts; investment trust shares have never paid trailer fees, and as a result financial advisers were financially motivated to recommend OEICs over investment trusts, regardless of product quality and of effective entry price.

The lesson from the RDR related improvements is that regulatory intervention is required to ensure that advisers and managers are subject to clearly defined duties towards the beneficial investor and that those duties are respected at all times. As has been seen in many sectors, self-policing simply does not work. Eventually unacceptable practices develop which are justified as "market standard" because there is no independent check or balance.

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The paper correctly focuses on conflicts of interest and unregulated practices within the investment consultancy industry, particularly in the institutional sector. Business models in this space have, for several years, been gravitating toward the provision of "outsourced CIO" fiduciary management services which in many cases compete directly with the asset management universe over which the investment consultants provide purportedly independent advice. There is significant financial incentive for an investment consultant to market its fiduciary services and to favour its own offering when recommending an investment solution.

We note that the study does not address the issue of financial education. It is ShareSoc's view that improvements in industry information and reporting standards should be accompanied by initiatives to improve financial education. In the UK there is little provision at schools or thereafter to provide the public with the understanding required to engage with financial professionals and to make informed decisions about their financial future. As pension arrangements become more flexible and as the range of products, styles and savings mechanisms becomes more complex it becomes increasingly important for private investors to understand the ramifications of their decisions. We recognise that this may not fall directly under the FCA remit, but we feel it should nevertheless be noted as part of the study.

Turning to the FCA's proposals on remedies, ShareSoc comments as follows:

- We support a strengthened duty on asset managers to act in the best interests of investors. We suggest that this duty should extend beyond the pure process of selecting investments to include execution and stewardship responsibilities.

- We support the concept of an all-in fee approach, although we recognise issues around the inclusion of execution costs (bid-offer and commissions) in such numbers.

- We welcome increased clarity of fund objectives and in particular an increased focus on performance measurement and explanation relative to a clearly defined benchmark / opportunity set. We welcome increased use of regression analysis to explain both out-performance and under-performance and to identify closet indexing.

- We welcome the further clarification of fund charges, particularly in relation to entry and exit charges (the application of which is often not clear and not understood by investors) and of fund costs.

- We support clearer and more standardised disclosure of fiduciary management fees and performance.

- We agree that the provision of institutional investment advice should be brought within the FCA's regulatory parameter.

We welcome the FCA's intervention and look forward to publication of the final report in due course.

Yours sincerely,

Mark Northway
Chairman