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London EC3R 7AE
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Mahin Choudry
Competition Division
Financial Conduct Authority
25 The North Colonnade
Canary Wharf
London E14 5HS

Dear Ms Choudry,

The CFA Society of the UK (CFA UK) welcomes the opportunity to respond to the **Financial Conduct Authority's Terms of Reference for the Asset Manager Market Study**. CFA UK is the professional body for the UK investment sector. Our mission is to educate investment professionals, to promote high ethical and professional standards and to explain the profession to our stakeholders. The society has more than 11,000 members, most of whom work in institutional investment management firms. The society is governed by a volunteer Board and committees. In recent committee meetings and calls, CFA UK's Market Integrity and Professionalism (MIPC) Committee has discussed the asset manager market and the FCA review and now wishes to communicate its observations and suggestions to the FCA.

Observations from CFA UK

In a recent member survey, 48% of respondents indicated that they view the UK market for investment management products and services as competitive. A further 39% view the market as highly competitive. Our survey respondents also indicated that barriers to entry in asset management are high (58%), whilst clients' ability to assess value in asset management is low (55%). In response to the question 'Is the current market for investment management products and services sufficiently efficient and competitive to operate in clients' best interests?' our members responded with 39% yes, 33% no, and 28% unsure.

These survey results suggest that the society's members believe that they work in a competitive, yet complex industry. Our interpretation of the results is that members believe that supply side investment firms compete aggressively across different segments of the market, differentiated by firm type, client type and product type, but that barriers to entry are getting higher (as scale and the ability to sustain the appropriate operational infrastructure become more important) and that clients and/or their representatives find it difficult to assess the relative value that investment managers will provide ex ante.

The complexity of the market makes it a challenging for regulators to assess the quality of the market on an 'apples to apples' basis, but we are not surprised by the regulator's interest in doing so. Financial data from UK quoted asset managers shows a history of robust operating margins - we note a current as well as historical average of 26% (main players excluding

MAN¹). However, looking ahead, it is clear that margins pressure is rising based on continued mix shift towards lower fee products, repricing, and cost of regulation, with some offset from cost cutting and asset growth.

Our position papers on “Termism”² and “Fees”³ outline a multi-dimensional approach for estimating value and explain how these can be used to align client and investment manager interests. In essence, the value delivered to clients is a combination of performance, fees and charges, risk and diversification benefit. We believe that any conclusions about the value of the asset management industry must use a multi-dimensional approach.

Our membership believes that asset managers are willing to control costs along the value chain and can control many relevant costs. Data demonstrates that asset managers have been able to reduce the costs of funds - both active and passive - to investors’ benefit. Technological advances have been effectively harnessed by the industry in many aspects of the investment and administration process to the benefit of end clients both in terms of cost, clarity and efficiency. However, there are areas where an asset manager is not able to exert full control such as distribution and management of the growing regulatory and compliance burden (a major area of headcount increase).

As a profession, the investment sector has taken many steps to ensure members understand the importance of placing client interests before their own both in clear, trustworthy investment reporting (see CFA Institute publication Principles for Investor Reporting⁴) and in dealing with conflicts of interest (see CFA Institute’s Code and Standards⁵ and Asset Manager code of conduct⁶).

Suggestions for the Study

CFA UK and its members have much to contribute to the FCA Asset Manager Market Study and we look forward to engaging with the regulator on the many points raised in their terms of reference.

Given the many dimensions involved with the asset management market, CFA UK would suggest that the FCA segment the study to assess the interaction between clients and providers and the complex market structure. We also believe that a case study approach is an appropriate methodology that could provide meaningful insights on where the market is working well and where regulatory attention may be required.

We offer the following suggestions as to possible elements for inclusion in case study-led analysis -

- **Client perspective is key** - When considering things from the client perspective, it is important start from the overall investment objectives suitable for that client including the overall portfolio. Further details can be found in CFA UK’s position paper ‘Fiduciary

¹ Aberdeen, Ashmore, GAM, HGG, Jupiter, and Schroders

² Termism – the long and short of it
<http://professionalism.cfauk.org/termism-long-short/>

³ Fees – the cost of investing
<http://professionalism.cfauk.org/fees-the-cost-of-investing/>

⁴ https://www.cfainstitute.org/learning/future/Documents/principles_for_investment_reporting.pdf

⁵ <http://www.cfapubs.org/doi/pdf/10.2469/ccb.v2014.n6.1>

⁶ https://www.cfainstitute.org/ethics/Documents/amc_outreach_flyer.pdf



Duty⁷.

- **Client segmentation** - Given the complex nature of the asset management market, a case study approach using multiple client segments (e.g. institutional, family office, endowment, retail) is required to provide a clear understanding of how the market is functioning.
- **Consistent basis for analysis** - We hope that the case study approach, by reviewing and comparing client experience from that starting point of investment policy through to the construction and management of the overall portfolio will also encompass the role of investment consultants and other relevant participants in the value chain.
- **Institutional and retail perspective** - Even though the FCA has already reviewed the wealth management sector⁸, a case study that includes a wealth management role segment would be relevant for this initiative.

Conclusion

The UK asset management sector is competitive and delivers social value by providing savers with access to returns from growth and by providing companies with the capital that they require to generate that growth. Relative to other countries, the UK has a strong position with a large and diverse investment management business (from small specialist firms to global mega-managers) that is recognised for being innovative.

While it is important for the regulator to consider the quality of the asset management market in case there are areas where competition is sufficiently flawed to merit regulatory intervention, it will also be important to bear in mind the costs of regulation and the impact of regulation on competition. Higher costs and lower levels of competition would not benefit the end investor.

The proposed study – which CFA UK welcomes – offers an opportunity for the FCA to ensure the UK Asset Management business remains competitive and successful.

We trust that these comments are useful and would be pleased to discuss them in person.

Yours,



Will Goodhart
Chief executive
CFA Society of the UK

⁷Fiduciary Duty

https://secure.cfauk.org/assets/4379/CFA1368_Pos_Paper_Fudiciary_v2.pdf

⁸ FCA thematic review of Private Banks and Wealth Managers (TR 15/12)

<http://www.fca.org.uk/news/tr15-12-wealth-management-firms-and-private-banks-suitability-of-investment-portfolios>