FCA Asset Management Study - Interim report

What does it mean for institutional investors?

November 2016

What is the FCA Asset Management Study?

The Financial Conduct Authority (the regulator of financial firms in the UK) is looking into the competitiveness of the asset management industry in the UK. Their aim is to ensure the market works well and that the investment products consumers use offer value for money.

In November 2016 they published a comprehensive interim report. The report investigates many areas of the asset management industry, and will be followed by a full report in 2017. The FCA is inviting comments by 20 February 2017.

The full document can be found at:
www.fca.org.uk/publications/market-studies/asset-management-market-study

The report is wide ranging and we have highlighted those areas we consider to be of greatest relevance to institutional investors: in particular those covering asset managers and investment consultants.

What does it say about asset managers?

The FCA highlight a number of areas where they think that investors may not currently get value for money, these include:

- Active funds do not outperform their benchmarks after costs
- Higher cost active funds do not tend to provide higher performance
- Active management fee clustering around 0.75% p.a. and 1% p.a. implies a reluctance to compete on price
- Scope for greater clarity on fees and underlying costs and better cost management
- Lack of clarity around performance versus objective and difficulty in assessing success

"The most expensive funds do not appear to deliver high returns"

FCA Interim Report November 2016

What does it say about investment consultants?

The report highlights that the investment consultant industry is concentrated, with the top three accounting for 60% of the market.

The FCA is concerned that it is not easy for investors to assess the performance of their investment consultant in relation to asset allocation advice, with investors instead judging success based on less critical aspects such as quality of service.

The FCA have also said that they did not find evidence that active funds recommended by consultants performed better than non-recommended funds and highlight the scope for hospitality in the consulting industry to pose a conflict of interest in advising on manager selection.

It also raised concerns about the potential for conflicts of interest in respect of providing fiduciary fund management services whilst also advising on the selection of asset managers.

What happens next?

The conclusions from the report are not yet finalised but the FCA has set out proposed remedies including:

- Strengthening the duty on asset managers to act in their clients' best interests
- Greater clarity on fees and charges
- Clearer disclosure of fees and performance
- Possible reference to the Competition and Markets Authority in relation to the operation of the investment consulting market
- Possible FCA regulation of asset allocation advice

We are supportive of the FCA's focus on delivering value to improve outcomes and increased transparency for investors

For more information please contact your usual KPMG consultant or:

Simeon Willis 020 7694 4408 Simeon.Willis@KPMG.co.uk