



FCA Interim Report

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Presentation to ACA

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In a nutshell

- FCA is taking its responsibilities seriously
- This is beneficial for our industry as a whole
- There is a risk of the headlines being popularised into stereotypes:

Fund managers



Investment Consultants



But implications are serious and reflect a need for change

Active Management under fire

“Actively managed investments do not outperform their benchmark after costs”

“Consultant ratings do not appear to ... identify better performing managers.”

FCA

This conclusion should not come as a surprise.



Skeletons in the closet

Passive fees

Active performance?

Active Fees

Active Performance

Passive Fees

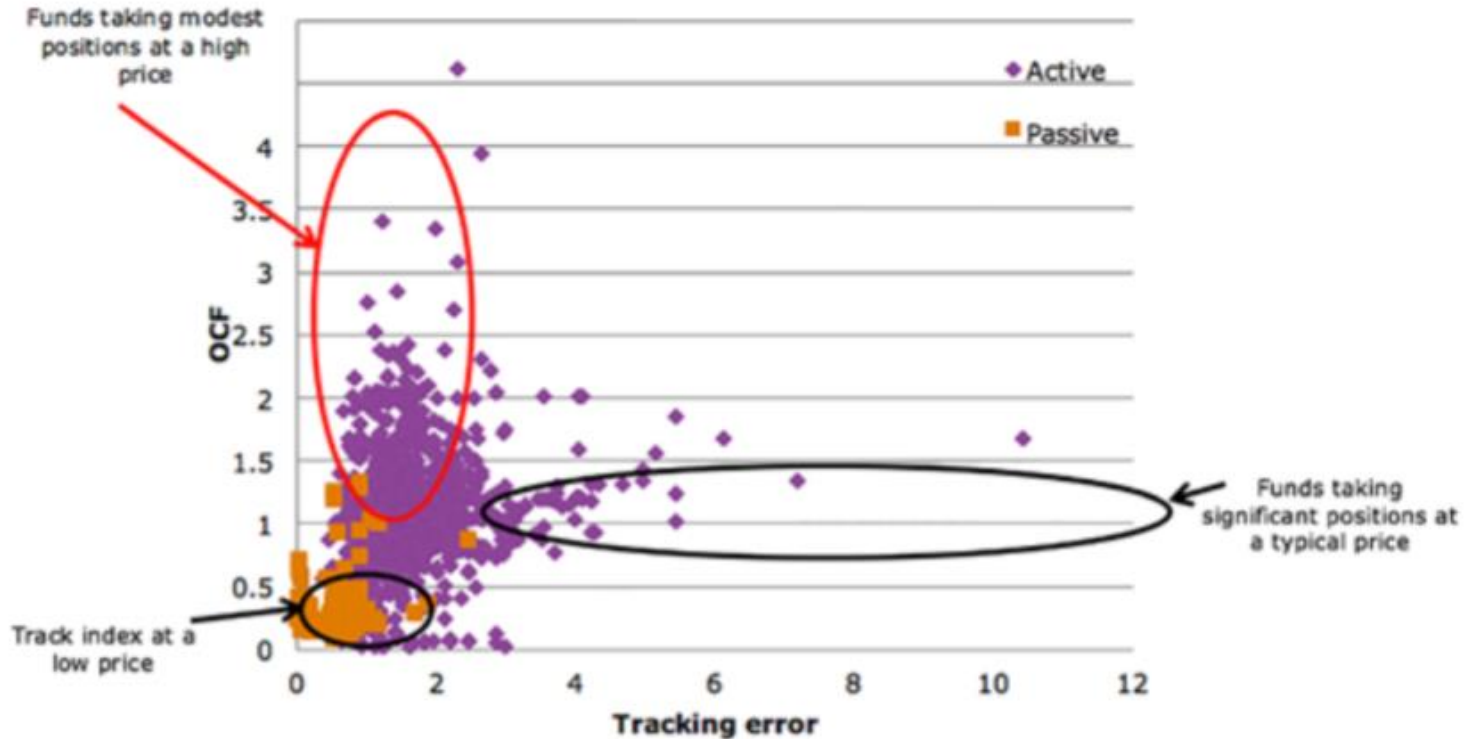
Passive Performance

Active Fees

Passive performance?

Skeletons in the closet

Figure 1.8: Tracking error against OCF for clean equity share classes over 2013-15



Source: Returns and benchmark data provided by Morningstar Direct. OCF data from a sample of asset managers, enriched with information on charges from Morningstar Direct.

Reassuringly expensive?

“We have found considerable price clustering for active equity funds priced at 1% or 0.75%.

This is consistent with firms’ reluctance to undercut each other”

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- Anti-competitive practice may not be to blame
- Fund management is a complex service, and pricing is also complex

...But it is an issue that we should still look to improve



Investment Consulting

“ratings do influence which asset managers institutional investors choose”

“...conflicts of interest ... could result in poor outcomes for end investors”

“We are consulting on making a market investigation reference to the CMA on the investment consultancy market”

FCA

- Perception is reality
- Hospitality
- Managing cost
- Fiduciary/Consultant independence
- Expanded regulatory coverage

How could the industry look 5 years from now?



Thank you



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