KPMG

FCA Interim Report

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Presentation to ACA

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In an 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

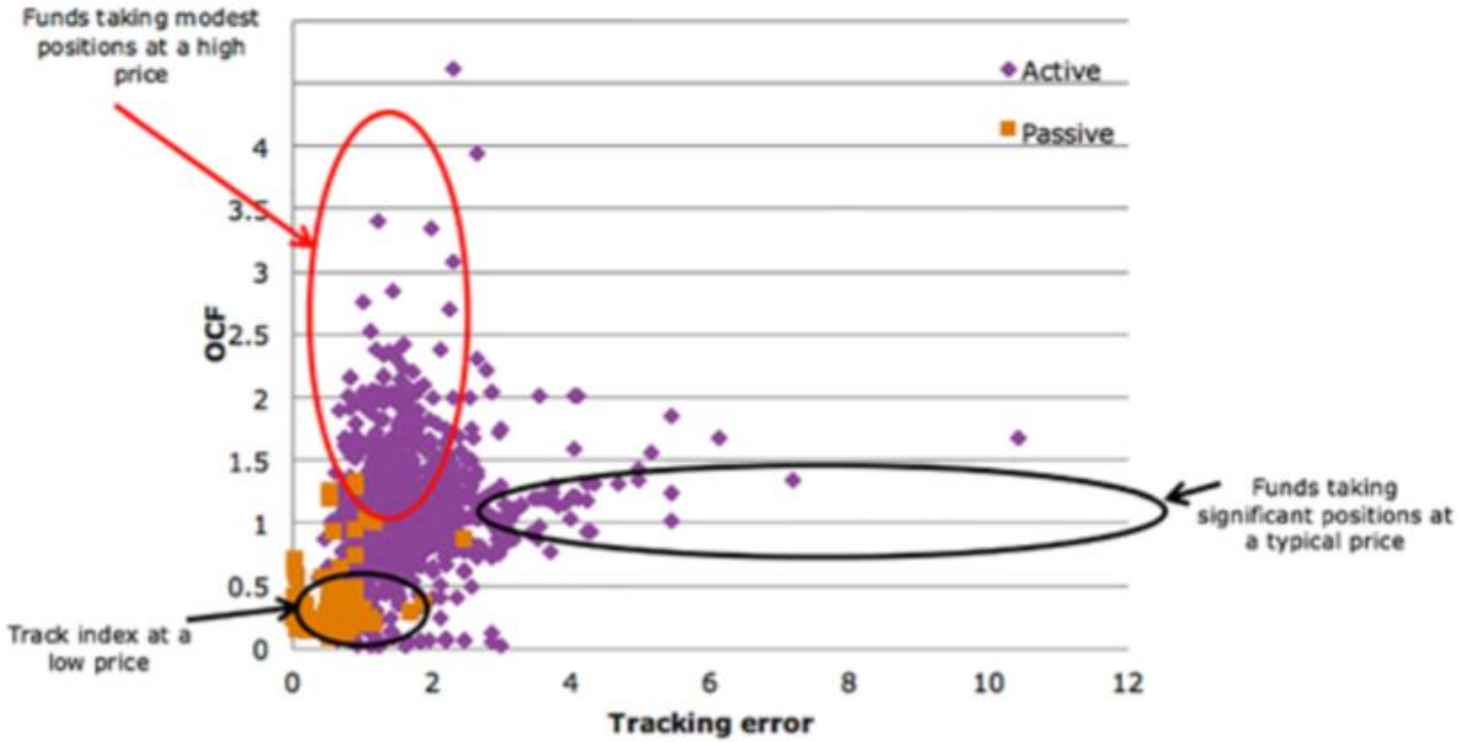
This conclusion should not come as a surprise.

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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