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Value For Money (VFM) Assessment in Asset Management Webinar

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Agenda

1. Introduction and overview
2. VFM and governance of pension funds
3. VFM and authorised funds
4. What actuaries bring to VFM of funds
5. Any questions?





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Introduction & overview



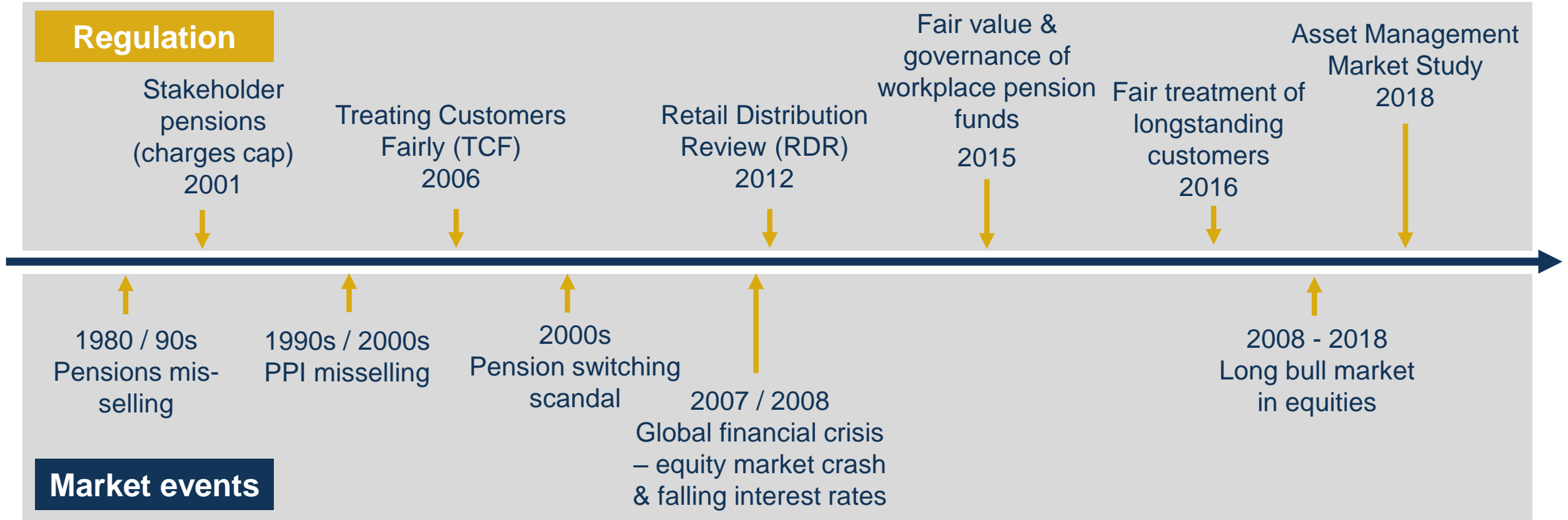
The journey from product sales to customer outcomes



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Timeline of regulation and key market events

Increasing focus on client outcomes, charges and value-for-money



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VFM and governance of pension funds





Pull down to refresh



Good morning
Welcome to My Vodafone



07944914327
Pay monthly phone

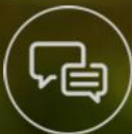
VeryMe Rewards



Data

18.4
GB of 20.0GB
left

24/7
support



- ✓ Comparable
- ✓ Dynamic
- ✓ Flexible
- ✓ Switchable



CAVEAT VENDITOR

The brave new world of auto-enrolment should be governed
by the principle of *seller* not buyer beware

A Pensions Institute report for policymakers, regulators,
providers, consultants, advisors, employers, and trustees

*Debbie Harrison
David Blake
Kevin Dowd*

October 2012

Defined contribution workplace pension market study

September 2013

OFT1505

Defined contribution workplace pensions: The audit of charges and benefits in legacy schemes

A REPORT FROM THE INDEPENDENT PROJECT BOARD

December 2014

Financial Conduct Authority



Final rules for independent governance
committees, including feedback on CP14/16
February 2015



Policy Statement

PS15/3

ulty
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Observations from implementing VFM frameworks



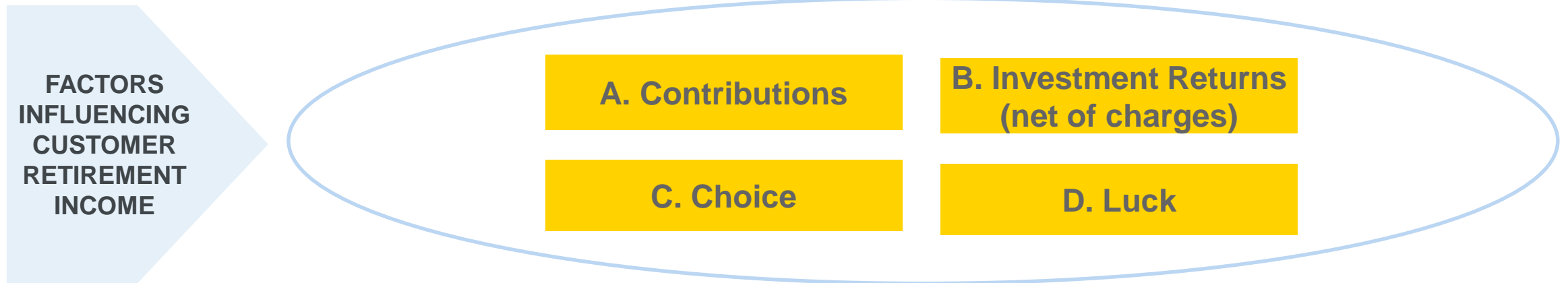
- Policy
- Methodology
- Data
- Quantitative benchmarks
- Cost
- Implications



Fund VFM – illustrative example



Looking to the future...could we see ESG as a VFM factor?



“If asked, “What world do you want to retire into and pass on to future generations?” most would surely opt for one that is more environmentally sustainable, fair and free.”¹

Sources:

1. “Pension funds and social investment: final response”, DCMS, DWP, June 2018, <https://www.gov.uk/government/publications/pension-funds-and-social-investment-final-response>



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VFM and authorised funds



Authorised funds

- An authorised fund is a type of collective investment scheme authorised by the FCA.
- The two most common structures are authorised unit trusts and open-ended investment companies (OEICs)
- Authorised funds enable individuals to invest in a diversified portfolio of securities and certain other assets. Investors' contributions are pooled and invested on their behalf by professional investment managers.
- The UK governance structure for authorised funds is built around the segregation of duties between the:
 - **Authorised Fund Manager (AFM):** who is responsible for investment decisions and compliance with relevant regulation, and
 - **Depositary:** who is responsible safeguarding of the assets of the authorised fund and oversight of key areas of AFM activities
- Life and pension funds (unit-linked funds) are similar economically to authorised funds, but fall under different regulation



FCA's Asset Management Market Study Findings

“We find weak price competition in a number of areas of the asset management industry”

“...analysis suggests that there is no clear relationship between charges and the gross performance of retail active funds in the UK”

“We have concerns about how asset managers communicate their objectives to clients, in particular how useful they are for retail investors”

“We consider value for money for asset management products typically to be some form of risk-adjusted net return. This can be broken down into performance achieved, the risk taken on to achieve it and the price paid for the investment management services.

Investors' awareness and focus on charges is mixed and often poor.

There are a significant number of retail investors who are not aware they are paying charges for their asset management services.”



FCA's VFM Remedies

“There is an existing duty on AFMs to act in the best interests of fund investors. In our view, as part of fulfilling this duty, AFMs should assess and **justify to their fund investors the charges taken from the funds they manage** in the context of the overall service and value provided.

We believe this is important as **AFMs are the agents of the investors in their funds;** they are not just product providers.

In CP17/18 we called this a consideration of ‘value for money’ (VfM). We have found that **AFMs generally do not consider robustly whether they are delivering VfM, despite their existing obligations.**”

“For many retail and institutional investors, making informed investment decisions can be hard. To protect those investors that are not well placed to find better value themselves, we consulted on proposals to strengthen and clarify **AFMs’ duty to act in the best interests of fund investors.**

Specifically, we said that **they must assess the VfM of each fund against a non-exhaustive list of prescribed elements, conclude that each fund offers good VfM or take corrective action if it does not,** and explain the assessment annually in a report made available to the public.”



FCA's Value Assessment Criteria

Service Criteria			Cost Criteria			
Quality of Service	Performance	Comparable Services	Comparable Market Rates	Economies of Scale	AFM Costs	Classes of Units
<i>"The range and quality of services provided to unitholders"</i>	<i>"The performance of the scheme, after deduction of all payments out of scheme property as set out in the prospectus (in this rule, COLL 6.6.23E and COLL 8.5.19E, "charges"). Performance should be considered over an appropriate timescale having regard to the scheme's investment objectives, policy and strategy."</i>	<i>"In relation to each separate charge, the AFM's charges and those of its associates for comparable services provided to clients, including for institutional mandates of a comparable size and having similar investment objectives and policies."</i>	<i>"In relation to each service, the market rate for any comparable service provided: (a) by the AFM; or (b) to the AFM or on its behalf, including by a person to which any aspect of the scheme's management has been delegated."</i>	<i>"Whether the AFM is able to achieve savings and benefits from economies of scale, relating to the direct and indirect costs of managing the scheme property and taking into account the value of the scheme property and whether it has grown or contracted in size as a result of the sale and redemption of units."</i>	<i>"In relation to each charge, the cost of providing the service to which the charge relates, and when money is paid directly to associates or external parties, the cost is the amount paid to that person."</i>	<i>"Whether it is appropriate for unitholders to hold units in classes subject to higher charges than those applying to other classes of the same scheme with substantially similar rights."</i>



Introducing independent Non-Executive Directors

“AFM boards must balance the interests of their fund investors and shareholders.

The market study suggests that this balance is not always being struck appropriately, and we believe this is in part due to the fact that AFM boards are generally staffed exclusively by executives of the firm.

To rebalance this and to help make sure that the best interests of investors are subject to greater scrutiny and challenge, **we proposed rules requiring AFMs to appoint independent directors to their board.**

We proposed that AFMs appoint a minimum of two independent directors and for them to **comprise at least 25% of the total board membership”**



Senior Managers & Certification Regime (SM&CR)

In CP17/18, we stated that we would consult on a new specific Prescribed Responsibility (PR) for AFMs, as part of the extension of the SM&CR to almost all financial services firms.

This PR would make clear that a **Senior Manager, usually the chair of the board of an AFM, must take reasonable steps to ensure that the firm complies** with its obligation to carry out the assessment of value, the duty to recruit independent directors, and the duty to act in the best interests of fund investors.



What are firms doing?

- Recruiting iNEDs
- Developing VfM framework including a 'balanced scorecard' of both:
 - Quantitative measures (e.g. performance, risk, costs), and
 - Qualitative measures (e.g. customer service, customer feedback, other value-added services)
- Reviewing fund ranges and 'rationalising' them (i.e. closing down funds which are unlikely to pass a VFM test)
- Drafting value statements (first ones are due Jan 2020)





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What actuaries bring to VFM of funds



Key actuarial skills

- From IFoA website:

Actuaries are problem solvers and strategic thinkers with a deep understanding of financial systems
Actuaries and analysts are experts in risk management. They use their mathematical skills to measure the probability and risk of future events and to predict their financial impact on a business and their clients.

- And so much more...
 - Actuaries are focused on client outcomes: designing solutions and measuring the effectiveness of solutions to meet client outcomes – both quantitatively and qualitative
 - Many actuaries are also investment experts and can design and oversee quantitative assessment of funds
 - Actuaries are able to make informed judgements based on quantitative and qualitative data to offer expert opinions
 - Actuaries act with integrity and in line with the requirements of the Actuaries' Code



Opportunities!

- Non-executive roles – both NEDs for authorised funds and members of IGCs
- Technical roles – fund analysis and building VFM frameworks
- Business roles – ask the right questions!



Questions

Comments

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