



FBC REPORT

**ASSESSMENT OF VALUE:
AN IMPACT STUDY**

June 2023

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INTRODUCTION

Fund Boards Council (FBC) is a corporate membership-led governance consulting and research organisation wholly dedicated to supporting fund boards and the teams crucial to their success, to improve governance, transparency and value on behalf of investors, in the UK and Europe.

Assessment of Value (AoV) is at the heart of FBC's work, having been established in 2019 to help fund boards navigate and implement the Financial Conduct Authority's (FCA's) requirements emerging from the Asset Management Market Study.

With many firms having published three years' worth of AoV reports already, it felt appropriate to reflect on the impact of implementing AoV on authorised fund managers (AFMs).

FBC are proud to present this impact study, researched by Brandon Horwitz, FBC Senior Adviser and non-executive chair of our board.

The findings paint a picture of a phenomenal amount of positive change prompted by AoV, resulting in stronger and more effective fund boards.

FBC sees evidence of significant culture and process change in AFMs, with a clear driving role for fund boards and independent non-executive directors (iNEDs) in particular.

We think this puts fund boards in a better place now than three years ago to deliver value for end investors, but acknowledge there is still some work to be done.

While many firms have improved their oversight of fund performance, there remains wide variation in how AFMs assess the value of actively managed funds.

Approaches also vary in how AFMs assess whether charges are justified in light of underlying costs (i.e. profitability) as well as if and how economies of scale should be shared.

FBC's research also suggests lessons to be learned for firms implementing the Consumer Duty, including work required for many firms to get closer to end investors and intermediaries (to understand and influence customer outcomes).

We hope that you find this research useful as you evolve your firm's approach to AoV (and as you implement the Consumer Duty), and we look forward to hearing your thoughts.

About the author

Brandon Horwitz is a Senior Adviser and non-executive director at FBC and is involved with FBC's consultancy and thought-leadership work, with a focus on product governance, assessment of value and investment governance, including oversight of sustainable investments.

He is also a qualified actuary and Principal Consultant at NomBon Consulting, a boutique management consultancy focused on helping firms to design, manage and distribute regulated products and advice services which deliver good outcomes for retail customers.

Brandon also chairs the Appointments Committee of the Financial Reporting Council's Tribunal Panel and has experience as a Non-Executive Director of organisations regulated by the Financial Conduct Authority (FCA), The Pension Regulator (TPR) and the Gibraltar Financial Services Commission (GFSC).

ASSESSMENT OF VALUE AND THE ASSET MANAGEMENT MARKET STUDY

The Financial Conduct Authority's (FCA) Asset Management Market Study¹ resulted in a number of findings including:

1. Weak price competition in a number of areas of the asset management industry.
2. No clear relationship between charges and the gross performance of retail active funds in the UK.
3. High levels of industry profitability and evidence which suggested that firms do not typically lower prices to win new business, which combined with other factors indicate that 'price competition is not working as effectively as it could be'.

This resulted in the FCA introducing AoV² as a remedy for the issues identified, reminding AFMs that they have an existing duty to act in the best interests of fund investors. New rules were introduced for AFMs, requiring them to 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.

The specific details require AFMs to:

1. Assess the value for money of each fund against a non-exhaustive list of prescribed elements (the 'seven criteria').
2. Conclude that each fund offers good value for money or to take corrective action if it does not, and
3. Explain the assessment annually in a report made available to the public.

The FCA's market study also found that AFM boards were not always striking the right balance between the interests of their fund investors and shareholders. They attributed this, in part, due to the fact that AFM boards were generally staffed exclusively by executives of the firm.

Rules were therefore introduced requiring AFMs to appoint independent non-executive directors (iNEDs) to their board and for them to comprise at least 25 per cent of the total board membership.

¹Source: FCA's Asset Management Market Study Final Report 2017: <https://www.fca.org.uk/publication/market-studies/ms15-2-3.pdf>

²Source: FCA's Asset Management Market Study remedies and changes to the COLL handbook: <https://www.fca.org.uk/publication/policy/ps18-08.pdf>

STUDY METHODOLOGY

The FBC Report: Assessment of Value is a study of the impact of introducing Assessment of Value (AoV) on authorised fund managers (AFMs) over the past three years.

AFMs are the FCA regulated entities responsible for open-ended investment funds in the UK. Two common types of AFM are authorised corporate directors (ACDs) and unit trust managers. AFMs are governed by a board of directors, commonly referred to as the 'fund board', who are responsible for all the funds offered by the AFM.

The study is primarily qualitative in nature and was conducted through in-depth interviews of up to 90 minutes. The interviews took place over a three-month period in the first half of 2023. Interviewees' answers were coded to allow for further analysis, with some subjective assessment required as part of this coding.

INTERVIEWEES

FBC interviewed executive directors, independent non-executive directors (INEDs) and senior executives involved in AoV activities and represented the plurality of the fund governance professionals across UK fund management. The interviews covered 21 AFMs and involved 35 individuals.

COVERAGE

The study sample covers around 50 per cent of UK AFMs by funds under management and includes around 50 per cent of the top 30 largest AFMs in the UK³.

³ Source: IA Monthly rankings (Nov 2022) and FBC research.

SECTION SIX: FUND BOARDS COUNCIL AND AOV ADVISORY SERVICES

FUND BOARDS COUNCIL

About FBC

Fund Boards Council is a corporate membership-led governance consulting and research organisation wholly dedicated to supporting fund boards and their teams crucial to their success, to improve governance, transparency and value on behalf of investors, in the UK and Europe.

AOV Advisory

AoV Reports – only available to FBC corporate members

Fund Boards Council's corporate members have access to a central bank of all the published AoV reports from UK-authorized asset management firms. This is updated periodically, and the Report Bank is fully searchable, making it easy for members to view the full range of reports available in the market – all in one place.

AoV Review – only available to FBC corporate members

Every FBC corporate member AFM is offered a complimentary discussion of their report with FBC's advisory leadership. The discussion will reflect on key points gleaned from the member's report and reflected upon in the context of regulatory expectations as well as FBC's industrywide analysis of AoV reports.

AoV Desktop Review (AoVDR)

Made up of two parts, the review starts with a desktop analysis and research of the latest AoV report, and, where appropriate, will also reflect on the previous report.

This will result in a formal written report which will be made up of analysis based on benchmarking the AoV report against the FCA's expectations and current industry best practice. FBC will highlight where it thinks the report displays strengths against the benchmark, as well as identify areas for improvement.

Part Two involves a presentation of the key findings from the desktop report, answer any questions and engage in a discussion to give the attendees the benefit of FBC's ongoing engagement with industry best practice as well as the regulator.

AoV Assurance Review (AoVAR)

The FBC AoVAR is a full-service audit-like review of an AFM's AoV process, resulting in a formal written report and board presentations and discussions.

The AoVAR is conducted from the perspective of the regulator and seeks to help the AFM and its board to be prepared for an FCA visit/discussion on the AoV report and the underlying process.

In addition to interviews with key stakeholders on the fund board, AoVARs include an evaluation of the firm's:

- AoV framework
- Board packs and MI
- Board discussions
- Audit trail, product governance and interaction with AoV
- The AoV report/statement

The FBC AoVAR typically takes six to eight weeks to complete.

For more information on FBC or any of the AoV-related services listed on the previous page, please visit fundboards.org, or get in touch at contact@fundboards.org.

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