THE INVESTMENT ASSOCIATION

COSTS AND CHARGES

FOR INVESTMENT MANAGEMENT

Investment management sits at the heart of the UK economy, helping millions of households save for the future while supporting businesses with the finance they need to grow. Today, 75% of households use the services of an investment manager, largely thanks to their savings in pensions or stocks and shares ISAs. The role of investment managers is to invest people's savings in different ways (e.g. stocks and shares, corporate bonds, or infrastructure projects) to help their money grow over the long-term.

When people use the services and expertise of an investment manager, there are two types of costs and charges: **ongoing charges** paid for the professional services of running the fund and **transaction costs**, incurred to generate an investment return.

- **Ongoing charges**: these are the fees for running an investment fund and include charges for investment services, administration and the safe keeping of investments. They are usually expressed as a single percentage of the total money in the investment fund. The level of the ongoing charge depends on the exact services provided and the complexity of the types of investments that the saver has chosen.
- **Transaction costs:** these are the costs incurred each time investments are bought and sold in the financial markets. The most significant transaction costs are taxes (stamp duty is paid to HMRC when shares are traded), but they also include the commission charged by brokers who buy and sell the shares, and implicit costs.

  'Implicit costs' refers to the difference between the prices at which assets such as shares and bonds are available to buy and sell in the market at the time of a transaction. Just like when buying foreign currency in a bureau de change, shares are offered to buy at a slightly higher price than that at which they could have been sold.

Figures for illustrative purposes, actual figures may vary.

The Investment Association (IA) supports UK investment management, supporting British savers, investors and businesses. Our 250 members manage £7.7 trillion, £1.7 trillion of which is on behalf of European clients – providing the UK with an important economic contribution in the form of export earnings, tax paid, and jobs created.

April 2019

Investment managers use their judgement to buy or sell investments at the right time – and therefore incur transaction costs – with the goal of generating the best possible outcomes for their customers. Investments are bought with the aim of making a profit for investors, which will exceed both the level of the transaction costs and the returns available in other types of savings.

The level of transaction costs paid is largely determined by the **frequency with which investments are bought and sold**.

Trades will happen more often if an investment manager assesses that there are new opportunities to invest in or if existing investments should be sold to avoid losses or lock in profits. This means it isn't possible to predict the level of transaction costs in advance.

Investment managers have exactly the same objective as their customers: to grow the investments. Investment managers do not make a financial gain from transaction costs, so they have no incentive to trade more than needed.

EXPLAINING COSTS AND CHARGES TO SAVERS

Because transaction costs cannot be predicted, customers (and investment managers) can't know precisely how much they will be in advance. This makes it particularly important for the ways in which costs and charges will be calculated are explained in a clear and meaningful way.

Since January 2018, people who invest in Packaged Retail Investment and Insurance-based Products (PRIIPs), such as investment trusts and insurance bonds, have received information about the costs and charges in a document known as a **Key Information Document (KID)**. The IA is wholly supportive of the principle behind KIDs, which is to provide savers greater transparency and comparability across funds.

However we are concerned that the regulations currently mean that investors are presented with a confusing picture. The method used to calculate implicit costs in particular is so confusing that it can even suggest 'negative costs', implying that investors are receiving money rather than incurring a cost when investments are bought or sold.

The IA believes that this can be dangerously misleading for investors, and we are urging regulators to change the methodology so costs and charges are communicated in a reliable, clear and meaningful way.

The Investment Association
Camomile Court, 23 Camomile Street, London, EC3A 7LL

www.theinvestmentassociation.org
@InvAssoc