

FYI – another response sent to ourselves.

IMA Statement of Recommended Practice

I would like to urge you to require full transparency over fund management costs, especially when funds are actively managed.

This is because there is a whole array of hidden costs which are not captured in the headline charge which impact on realised investment returns to the detriment of the investor.

One estimate of these hidden costs has been expressed in a diagram which has become known as the Plexus Iceberg, after a piece of research by the Plexus Group in 2005. The research breaks down costs as follows:

- a. Visible costs = 9 bp
- b. Bid-offer spread, market impact costs, information leakage = 12 bp
- c. Delay costs = 21 bp
- d. Missed trade opportunity costs = 9 bp

The visible costs (commissions, taxes, fees, custodial charges etc) comprise 18% of total costs. The hidden costs (bid-offer spreads, and other costs due to market impact effects and inefficient market timing) comprise 82%. The hidden costs are therefore of material significance.

The Plexus Iceberg is discussed by Madhavan, A., J. L. Treynor, et al. (2007) "Execution of portfolio decisions", Chapter 10: p637-681 in Maginn et al (2007) "Managing Investment Portfolios".

Yours sincerely

David Blake

Professor David Blake
Director
Pensions Institute
Cass Business School
106 Bunhill Row
London EC1Y 8TZ
United Kingdom