18 October 2013

Secretariat of the Joint Forum (BCBS Secretariat)
Bank for International Settlements
CH-4002 Basel
Switzerland
baselcommittee@bis.org

Dear Sirs

RESPONSE TO CONSULTATIVE DOCUMENT: Point Of Sale Disclosure in the Insurance, Banking and Securities Sectors, Joint Forum (IOSCO, BCBS and IAIS)

1. **General comments on the Recommendations**

I am contacting you on behalf of the True and Fair Campaign, initiated by SCM Private in the UK in 2012 to raise awareness of the lack of transparency within the UK investment management industry, in response to the above consultation document.

The True and Fair Campaign has developed a code and labelling scheme which is designed to:

- Enable consumers to compare products and providers on a like-for-like basis without hidden costs or fees
- Make companies accountable by forcing full disclosure of all holdings within any investment fund, online, on at least a quarterly basis
- Help consumers make better informed investment decisions
- Create a truly competitive investment management market
- Reduce future mis-selling or financial scandals through greater transparency of fees and investments
- Generate a new gold standard for best practice
- Restore confidence to this important part of financial services
- Provide a roadmap to regulatory reform to improve outcomes for consumers
- Detail a model to deliver fundamental change in the investment management industry

In the light of this, we warmly welcome the approach taken by the Joint Forum in relation to Point of Sale Disclosure, and in particular we strongly support:

- Recommendation 3 calling for the disclosure of key characteristics including costs,, risks and financial benefits or other features of a given product and any underlying or referenced assets, investments or indices, irrespective of the financial sector from which the products are derived;
- Recommendation 4 stating that the POS disclosure document should be clear, fair, not misleading and written in a plain language designed to be understandable by the consumer.
- Recommendation 5 stating that POS disclosures should include the same type of information to facilitate comparison of competing products.

We consider that Recommendation 5 is the most critical of all, but needs to be further developed. Consumers are increasingly overwhelmed with information which is not comparable. Furthermore, purchases are increasingly made online, which means that the Point of Sale is actually a computer screen, and this is the point where a consumer needs further tools to make meaningful comparisons in relation to fees and charges.

2. Promotion of POS disclosure and comparability through an online fund calculator

In order to address this issue and to promote the real comparability of products in the internet age, the True and Fair Campaign launched its own fund calculator on 22 May 2013, called the True and Fair Calculator: www.trueandfaircalculator.com.

The True and Fair Calculator is a free online calculator that will empower investors and savers by revealing the impact of costs and fees on their investments, in one number. It will provide users with an estimate of the full effect of charges and other costs on their investment returns, in pounds and pence and as a percentage.

It is the first tool of its kind globally to offer the following features:

- Enables investors to fully analyse the total costs of all investment products available in the home country, e.g. in the UK
- Has two levels – Standard and Advanced Bespoke - both levels can be tailored but the Advanced level allows more sophisticated and professional users, such as advisers, consultants and trustees to enter data at every level of the investment chain – fund costs, wrapper costs, platform costs and adviser costs
- Gives the user one total cost of investing number, in pounds and pence, as well as a percentage
- Allows users to compare up to three completely different products, side-by-side, for example a Unit Trust, an ETF and an Investment Trust.

The True and Fair Calculator is based on data streams from Morningstar and uses a robust reasoned calculation methodology to identify costs and fees based on a series of investment assumptions. In the Advanced Bespoke mode the Calculator allows users to change all entry fields to precisely match their own portfolio structure and performance. It builds on elements of a simpler web calculator developed by the SEC in the US which was used by over one million consumers in its first three years.

It uses the tried and tested Reduction in Yield (RIY) method which calculates the overall effect of charges on an investment as the difference between the return you would have received with and without costs.

In terms of the operation, the True and Fair Calculator is a completely stand-alone not-for-profit business, with profits earned going to support small grassroots charities in the UK undertaking vital work in the areas of financial education and care and support for the elderly. No member or partner organisation will benefit from the True and Fair Calculator, with the founders and suppliers providing their services either pro-bono or at reduced cost.

3. Rationale for developing online fund calculators in Europe and other jurisdictions

We believe that there is a compelling rationale for fund calculators in Europe and other jurisdictions based on the following:

- A fund calculator can provide consumers with a free public information service giving details of the investment fees and costs they pay, so they can make better informed decisions prior to purchase. When The True and Fair Campaign was launched 18 months ago, 92 per cent of the British public said they wanted to know the cost of their investments in one number, which is what a fund calculator can allow them to do;

- It can drive new levels of cost transparency which would result in greater competition among product providers, give information to aid better decision making by consumers and their advisers and provide a foundation for more realistic investment expectations;

- Those firms offering good products, that deliver strong performance at competitive fees, will presumably welcome the fact that consumers will have the ability to clearly see the value that their products deliver;

- Some providers will have to reform their practices or consumers will vote with their feet. Companies offering poorly performing products that charge large, hidden fees have no place in a modern financial services industry.

- The US has had a similar calculator since 2005, with very positive results, and this should be extended into Europe and beyond. We note that the European Parliament is already discussing the introduction of a fund calculator at European level, to be operated by relevant European supervisory authorities, in the context of its work on legislation on packaged retail investment products (PRIPS) which we strongly support.

In the light of the points above, we would urge the Joint Forum to further develop its thinking in relation to Recommendation 5 to promote online tools such as a fund calculator, in order to put consumers in the driving seat when making investment decisions., and we believe that a combined comparison and calculator tool can be widened to cover most financial products.

I am attaching further documents with details of the True and Fair Campaign and the True and Fair Calculator for the reference of the Joint Forum, and remain at your disposal for any further assistance or information required.

Yours faithfully

Gina Miller

NEWGATE

True and Fair Calculator Launch

Press coverage – as at 29th July 2013

The following document contains a round-up of coverage of the True and Fair Calculator, launched on the Wednesday 22nd May. Coverage of the build-up in the Financial Times is included, and articles since the launch have appeared in the following:

- Financial Times (06.02.13)
- Financial Times (10.03.13)
- This Is Money (11.04.13)
- Every Investor (22.05.13)
- Fund Web (22.05.13)
- Reuters (22.05.13)
- Portfolio Adviser (22.05.13)
- FT Adviser (22.05.13)
- This is Money (22.05.13)
- The Times (22.05.13)
- What Investment (22.05.13)
- Your Money (22.05.13)
- London South East (22.05.13)
- The Vision of the Pension Ploughman (23.05.13)
- Love Money (23.05.13)
- Mindful Money (23.05.13)
- The Wealth Net (23.05.13)
- Touch Stone (24.05.13)
- Your Money (24.05.13)
- Yorkshire Post (25.05.13)
- Money Box (26.05.13)
- Financial Times (26.05.13)
- Sunday Times (26.05.13)
- This is Money (31.05.13)
- Huffington Post (05.06.13)
- The Vision of the Pension Plowman (09.06.13)
- This is Money (10.06.13)
- Investors Chronicle (19.06.13)
- The Steeple Times (24.06.13)
- The guardian (online) (06.07.13)
- FT Money (13.07.13)
- Which? Money (01.08.13)

FT FINANCIAL TIMES

February 6, 2013 5:55 pm

MPs support campaign for fee transparency

By Chris Flood

UK parliamentarians expressed their support for the "True and Fair" campaign for an end to hidden costs and charges in the UK savings and investments industry at a reception at the House of Commons on Tuesday.

Mark Garnier, conservative MP for Wyre Forest, Tom Blenkinsop, labour MP for Middlesbrough South and East Cleveland, and Gregg McClymont, shadow pensions secretary, all welcomed the campaign being led by SCM Private, a wealth manager.

More

ON THIS STORY

US pension funds sue BlackRock

S&P Dow Jones eyes potential partners

Edhec tries to redefine risky funds

Shareholders resist political donations

Reality dawns for alternatives sector

IN REGULATION & GOVERNANCE

Dargnat appointed president of Efama

Private banking industry could lose $4bn

Fund industry backs pay overhaul

Fund industry rejects aggressive lobbying claims

SCM is calling for 100 per cent disclosure of all costs and fees charged by investment and pension fund managers.

It also wants all costs and fees to be reported as a single figure, using a common format across the investment industry so that consumers can make meaningful comparisons between products.

Speaking at an event to mark the first anniversary of the campaign, Mr Garnier, described fund management as "an opaque industry" and complained that it was difficult for consumers to understand what fees they were being charged.

Mr Garnier likened the True and Fair campaign to efforts to improve food labelling in the UK, emphasising that greater consumer empowerment would lead to improvements in the products on offer.

Gregg McClymont, shadow pensions secretary, said that proper disclosure of charges was "absolutely critical" to restoring the reputation of the fund management industry.

"The failure to make the true cost of savings into a private pension clear to consumers brings the whole system into disrepute," said Mr McClymont.

Gina Miller, founding partner of SCM, said UK savers were paying £18.5m a year in hidden costs and fees.

She reiterated the need for urgent action to stop the fund management industry maximising profits at the expense of consumers.

Ms Miller said the Investment Management Association (IMA), the UK fund body, had radically altered its public position, retreating from its assertion that hidden fees were "a myth".

The IMA, said Ms Miller, faced a serious conflict of interest in acting as both "rulemaker and cheerleader" for the UK fund management industry.

Promising to redouble the efforts of the True and Fair campaign in 2013, Ms Miller said that if the fund management industry remained unable or unwilling to reform, then a new regulatory framework requiring the disclosure of all costs and fees would be required.

An online survey of more than 2,000 adults conducted in January by Research Plus on behalf of SCM Private found that 92 per cent of those surveyed believed that investment companies should be legally obliged to reveal all costs and charges.

Alan Miller, chief investment officer at SCM Private, pointed out that 62 per cent of those surveyed said that they would be encouraged to save more if there was full transparency on fees and costs.

"Genuine transparency will lead to higher savings," said Mr Miller, adding that there was an overwhelming public demand to stop opaque, anti-consumer behaviour by the financial services industry.

Noting that US regulators had introduced a fund analysis tool in 2008 to help investors make smarter decisions, Mr Miller argued that UK investors should not be treated as second class citizens compared with their US cousins.

SCM Private is planning to launch a True and Fair calculator in March that will help investors more clearly understand the charges levied by fund managers.

FT FINANCIAL TIMES

March 10, 2013 3:43 am

Calculator to show fund value after fees

By Ellen Kelleher

Politicians in Brussels are backing plans to introduce an online calculator that permits Europeans to see the value of their funds after fees and costs.

Sharon Bowles, chairwoman of the European Parliament's economic and monetary affairs committee, argues for an online calculator to be added to the website of the European Securities and Markets Association in a pair of amendments to regulatory proposals for retail investment products.

More

ON THIS STORY

Crackdown on cash for access begins

UK funds dumping up to £1bn of costs

Fund managers silent over cash for access

Managers look on as bonus cap begins

Business Blog Shock at 'cash for access' is overstated

Ms Bowles threw her support behind the creation of the calculator – in existence in the US already – after the True and Fair Campaign, a lobbying group that supports transparency on fund fees and charges, approached her.

"The introduction of an online fund calculator at a European level ... would allow investors to check for themselves, and to directly compare, the information which is provided to them by fund managers," Ms Bowles said.

The True and Fair campaigners were instrumental in pushing for two amendments in Mifid II, the revised Markets in Financial Instruments Directive, which force fund managers to offer clarity about hidden costs, ranging from performance fees and dealing costs to distribution fees.

'Our assumptions were too low': Campaigners warn of 'horrendous' true fund costs as firms mull plan to make them declare all fees

By TANYA JEFFERIES
11 April 2013

Campaigners for clearer charging on investment funds have warned their initial predictions for the total fees investors pay were proving too low and that the true cost was 'horrendous'.

The warning comes as industry proposals to make fund houses cough up a simple pounds and pence total of investor costs are being considered by companies.

The True and Fair campaign, run by the founders of investment management firm SCM Private, is scheduled to launch a fund fee calculator - showing the likely charge if you make an investment - in early May.

In constructing their calculator, True and Fair said 'horrendous' costs have been revealed that were above their initial estimates.

Gina Miller, who along with husband Alan created the True and Fair Campaign, cited one popular fund where number crunching showed publicised annual costs of 1.7 per cent were more like 4.5 to 5 per cent once all factors were included.

The True and Fair calculator is under wraps until its launch. But its designers say they are drawing on methodology already being used by American regulators that gives investors clear information on the total charges they can expect to pay.

Investors have been frustrated for years that this information is not available. Asset managers must give details of their set management charges but dealing, administration and other charges can add significantly to the cost.

Industry proposals outlined last week are aimed at making this information available.

Daniel Godfrey, boss of the Investment Management Association, called on the fund industry, consumer representatives and others to work together on a solution to give investors 'a simple once-and-done number' for their costs.

He hopes they can agree on a methodology by the end of 2013 at the latest, although it might take another year after that for fund houses to start making their figures available.

Godfrey admitted that not doing this before 'has left us accused of obfuscation - that we must have hidden charges and we want things to stay that way' and said he wanted 'to move on in an environment of trust'.

Funds already publish a 'total expense ratio' (TER) but critics say even this disguises the actual amount being taken.
The investment industry strongly disputes claims that it hides charges from investors.
In an earlier response to accusations that charges were not clear, the IMA launched a voluntary 'enhanced disclosure' scheme under which fund managers give a rundown of their entry and exit fees, on-going charges, performance fees and transaction costs in a single readily accessible place.
The scheme has enjoyed only limited success so far. Take-up is behind schedule, although the IMA says members representing 93 per cent of funds under management are now doing this or have agreed to do so in future. It has published a list of firms that are signed up the initiative here.

'Our assumptions were too low. The costs are quite horrendous.'

Gina Miller, who along with husband Alan created the True and Fair Campaign, said she was pleased Godfrey was trying to get the fund industry to reveal full details of costs.
'It's surprising it's taken them this long to discuss one figure. I really hope he can get his members to some agreement,' she said.
She was disappointed it was going to take so long for the IMA to get its plans in place, but added: 'We would love it to be put to bed.'
Miller said the True and Fair calculator was currently 'on track' for launch on May 1, and the cost figures would be based on historical charges.
'You can't predict what a fund manager is going to do in the future,' she said. 'It's the only way to do it.'
The extra information fund firms were publishing under the IMA's 'enhanced disclosure' initiative was proving helpful in creating the calculator, according to Miller. But she added: 'Our assumptions were too low. The costs are quite horrendous.'
She also claimed that firms were not making their data easily accessible, as the IMA guidelines suggested.
'It's not easy to find where they have put it. They have not put them on the [fund] fact sheets so you can't find them very easily. We knew what we were looking for and we found it hard to find them.'
Miller and her husband, who in addition to running the True and Fair campaign are co-founders of investment management firm SCM Private, say they have sunk £100,000 of their own money into building the calculator.

'These ideas can be developed'

The IMA proposals have been welcomed by independent financial services provider Hargreaves Lansdown.
'The IMA has proposed a solution to the vexed question of bringing simplicity and clarity to the disclosure of the cost of investing in retail funds. These ideas can be developed into a workable and effective solution,' said Hargreaves.
'An industry driven solution which works in the interests of consumers is often better than regulatory intervention. Even when well-intentioned, solutions designed by regulators or politicians tend to be heavy-handed,'
Hargreaves has written to major fund management bosses suggesting they consider the IMA proposals.
Hargreaves chief executive Ian Gorham said: 'We support this IMA initiative and we hope that fund management companies will do the same. It is an opportunity to reform cost presentation to make it simpler and more comprehensive.
'We believe with some additional work Mr Godfrey’s suggestions could be evolved into a single, all inclusive total cost figure which is comprehensive and easily understood by the public.'

Gorham added that a backward looking charge analysis, as proposed by the IMA, made more sense than a forward looking prediction of costs.
Fund house and fund supermarket operator Fidelity said: 'We support any initiative that helps to provide greater clarity around charges and feel that the IMA raises some interesting ideas here.
'We agree with the sentiment around exploring other ways of describing charges and share the concern that there is a perception that the cheaper the price, the better customer outcome.
'Investors need help to understand that the value created by their investments is just as important as the headline cost.
'The IMA's ideas are certainly worth exploring, but do need further consideration. For example, any illustration would need to take into account income generated in order to account for the full value created.'
Fidelity is among IMA members which have not yet published its costs under the body's 'enhanced disclosure' scheme, although it has committed to following the guidance in future.
The Association of British Insurers, whose members include many big investing institutions, said:
'The industry welcomes the IMA's proposals for investment fund costs which will provide greater transparency for consumers and enable them to be better informed about their investment choices.
'We look forward to seeing further details of the proposals.'

NEWGATE

every investor

Simple investment charges calculator launches

By Sarah Davidson

on Wednesday, 22 May 2013 at 12:14

An online calculator allowing investors to see exactly how much they are paying in fund management, investment, platform and advice charges in one simple number has launched today.

The True and Fair Calculator works out the cost of investments shown in pounds and as a percentage, giving an estimate of returns after costs and fees.

Consumers can use the calculator for free and will be able to see the likely profit and costs from their investments.

The tool has two levels – standard and advanced bespoke – both of which can be tailored but the advanced level allows more sophisticated and professional users to enter data at every level of the investment chain including fund costs, wrapper costs, platform costs and adviser costs.

It allows users to compare up to three completely different products, side-by-side, for example a unit trust, an ETF and an investment trust and is based on data streams from Morningstar, using "robust reasoned calculation methodology" to identify costs and fees based on a series of investment assumptions.

In the advanced bespoke mode the calculator allows users to change all entry fields to precisely match their own portfolio structure and performance.

"We've created the True and Fair Calculator to provide UK consumers with a free public information service giving details of the investment fees and costs they pay, so they can make better informed decisions prior to purchase," Gina Miller, spearhead of The True and Fair Campaign and one of the originators of the calculator, said.

"When we launched The True and Fair Campaign 18 months ago, 92% of the public said they wanted to know the cost of their investments in one number. This tool allows them to do exactly this.

"We hope this drives new levels of cost transparency which results in greater competition among product providers, gives information to aid better decision making by consumers and their advisers and provides a foundation for more realistic investment expectations.

Ultimately it should result in better consumer protection."

Miller said her ultimate aim was to force investment providers and platforms to display the comparison tool on their sites at point of purchase.

To this end she revealed she is in discussions with the financial regulator which she hopes will lead to making this cost comparison mandatory for all investment providers.

And she added: "Those firms offering good products, that deliver strong performance at competitive fees, will presumably welcome the fact that consumers will have the ability to clearly see the value that their products deliver via the calculator.

"Some providers will have to reform their practices or consumers will vote with their feet. Companies offering poorly performing products that charge large, hidden fees have no place in a modern financial services industry."

NEWGATE

fundweb

Transparency campaign group launches investments charge calculator

22 May 2013 | By Sam Macdonald

The True and Fair Campaign group has launched an online calculator aiming to show clients the full extent of what they pay for their investments.

The group says the global calculator enables investors to fully analyse the cost of all investment products available in their home country.

It gives users the total cost of the investment in pounds and pence as well as a percentage and can take into account fund, wrapper, platform and adviser costs.

The calculator uses the reduction in yield method to calculate the overall effect of charges on an investment as the difference between the return you would have received

True and Fair Campaign founder Gina Miller says: “We hope this drives new levels of cost transparency which results in greater competition among product providers, gives information to aid better decision making by consumers and their advisers and provides a foundation for more realistic investment expectations.

”Ultimately it should result in better consumer protection.”

The True and Fair Calculator is based on data streams from Morningstar and uses a ”robust reasoned calculation methodology” to identify costs and fees based on a series of investment assumptions.

'Investment calculator' offers UK investors transparency on fees

Wed, 22nd May 2013

LONDON, May 22 (Reuters) - A new tool launched on Wednesday promises British investors a way to cut through what its authors call the "smoke and mirrors" used by investment firms to charge hidden fees and get a more realistic valuation of their investments.

The True and Fair Calculator works out the cost of investments in pounds and as a percentage, giving an estimate of returns after all costs and fees.

It is based on data streams from investment research firm Morningstar and was devised by True and Fair, a campaign to boost transparency in the industry spearheaded by Alan and Gina Miller, founders of wealth management boutique SCM Private.

It builds on a similar tool created by the United States' Securities and Exchange Commission in 2005, which was used by more than a million consumers in its first three years.

The investment industry has come under mounting scrutiny in recent months as the public and regulatory backlash since the 2008 financial crisis spreads beyond the banking industry.

Britain's financial watchdog has already called for an end to hidden fees levied by asset managers.

"We hope this drives new levels of cost transparency which results in greater competition among product providers, gives information to aid better decision making by consumers and their advisers and provides a foundation for more realistic investment expectations," said Gina Miller.

Profits raised by the Calculator will be donated to charities for financial education and care for the elderly, True and Fair said.

PORTFOLIO ADVISER

Investments charge calculator launched in bid for transparency

MAY 22 2013 SAM SHAW

SCM Private founders Alan and Gina Miller have launched a free online calculator as part of their True and Fair campaign, which serves to enlighten consumers as to the true cost of their investments.

The calculator will reveal the impact of costs and fees on their investments, represented as 'pounds and pence' and as a percentage of the initial investment.

The tool has two levels - Standard and Advanced Bespoke - and enables investors to fully analyse the costs of all investment products in the UK. The standard level is designed for consumers and strips out the fund manager charge from the investment return.

The Advanced Bespoke version is aimed at more sophisticated users, such as advisers, consultants and trustees and also isolates the charges incurred at fund manager, platform or stockbroker, product or wrapper, and adviser stages in the distribution process.

Backed by Morningstar data, the tool allows investors to compare three different products side by side, for instance a unit trust can be cross-referenced against an ETF or investment trust with similar investment characteristics.

The husband and wife team launched the True and Fair campaign in early 2012 to raise awareness of the lack of transparency of fund charges across the asset management industry.

Gina Miller said she hoped with greater transparency would come greater competition between product providers, ultimately resulting in better consumer protection.

She said: "Those firms offering good products, that deliver strong performance at competitive fees, will presumably welcome the fact that consumers will have the ability to clearly see the value that their products deliver via the calculator. We look forward to these companies endorsing our initiative and hosting the True and Fair Calculator on their websites."

The True and Fair Calculator is a standalone not-for-profit business, instead delivering its profits to small grassroots charities in the UK involved in financial education and care and support for the elderly.

NEWGATE

FT ADVISER

SCM launches fund cost calculator

Latest step in True and Fair cost campaign sees online tool for investors and advisers to calculate a 'pounds and pence' fund cost figure.

Nick Reeve May 22, 2013

SCM Private has launched an online calculator for fund costs as part of its 'True and Fair' campaign for fund cost disclosure.

The free calculator is designed to show in one number the total cost of investing in a fund, displayed in 'pounds and pence' terms. It uses industry average figures for trading costs and portfolio turnover rates to estimate how much money would be lost in charges over the life of an investment.

Gina Miller, co-founder of SCM and the True and Fair campaign, said she hoped the calculator would "drive new levels of cost transparency" and encourage more competition on price among fund managers.

"Those firms offering good products, that deliver strong performance at competitive fees, will presumably welcome the fact that consumers will have the ability to clearly see the value that their products deliver via the calculator," Ms Miller added. "We look forward to these companies endorsing our initiative and hosting the True and Fair calculator on their websites."

SCM, which is run by Ms Miller and former New Star chief investment officer Alan Miller, first announced plans for the calculator in February.

Their True and Fair campaign, launched in January 2012, has gained the backing of several politicians and has put pressure on the IMA to change its approach to fund costs.

Last month new IMA chief executive Daniel Godfrey announced his plan for a 'single figure' cost calculation based on the annual performance of fund units.

SCM said the calculator was "a completely stand-alone not-for-profit business", and any profits made by the project would be given to charity.

This is MONEY.co.uk
FINANCIAL WEBSITE OF THE YEAR

NEWGATE

Online calculator exposes hidden investment fees that can see you charged double

By DAN HYDE

PUBLISHED: 10:36, 22 May 2013

Fees help: The calculator will tell you if the fund you're investing in has extra fees other than those advertised. Investors can use a new cutting-edge gadget to find out, in pounds and pence, exactly how much of their nest eggs disappear in fees each year.

The online calculator, launched today by campaigners True and Fair, exposes how some funds cost more than double their advertised annual charges.

It is another step forward for Money Mail's Get Britain Saving campaign, in which we called for fund managers and investment supermarkets to come clean on fees deducted from savers' pots and display them in pounds and pence.

The tool, available at trueandfaircalculator.com, allows you to compare three funds at a time.

You enter how much you intend to invest in each, the time period and how much you expect the pot to grow each year. The calculator then works out your total cost of investing.

Your final pot is split to show how much the money will grow after fees, and the total deducted in charges and expenses. Crucially, the tool uses three years of fund data to calculate how much the manager is likely to spend chasing a good return.

Until now these bafflingly complex figures have been almost impossible to find and work out.

While some funds justify extra costs by producing top returns, the figures will show just how much harder a manager has to work to beat cheaper rivals.

If you pay fees to a fund supermarket or adviser, you can factor these in.

THE TIMES

Investors given fresh look at fund charges

Gina and Alan Miller, of SCM Private, who have launched an online tool to calculate the true cost of fund charges.

Gina and Alan Miller, of SCM Private, who have launched an online tool to calculate the true cost of fund charges. Mark Atherton

Published May 22 2013

A new online calculator that goes live today is set to provide investors with a clearer picture of the total charges they are paying on their funds.

Alan and Gina Miller, the brains behind trueandfaircalculator.com, reckon the new tool will trigger a shake-up in the industry as investors realise just how much they have been paying and will dump high-cost, poor-performing funds.

You will be able to see, at a glance, not only the annual charge levied by the fund but also the transaction costs it incurs in buying and selling investments such as shares or bonds. The calculator will also pinpoint how much is being pocketed by intermediaries such as financial advisers and investment platforms and provide a single figure that includes all charges in pounds or as a percentage.

It will also be possible for investors to compare up to three different products side by side, such as a unit trust, an investment trust and an exchange-traded fund.

Most of the data used by the calculator comes from Morningstar, the fund research group. However, the Millers have had to rely on industry estimates for transaction costs because not all fund groups have provided the information required.

Mrs Miller, who along with her husband heads SCM Private, the fund group, said: “The US has had a similar calculator since 2005 and we believe there’s no reason why UK savers should be treated as second class citizens compared to their US counterparts.”

There will be no charge for private investors who use the calculator, though the Millers hope to earn money by licensing it to organisations in the investment industry. Profits will go to support charities working in the fields of financial education and care for the elderly.

Annabel Brodie-Smith, of the Association of Investment Companies, the trade body for investment trusts, said: “We welcome increased transparency and disclosure of charges. This is a tool which will help private investors to find out what a fund is actually costing them.”

A spokesman for the Investment Management Association, the trade body for unit trusts, said: “We support any genuine effort being made by the industry to help investors better understand fund charges and costs.

“We are developing a proposal for a single, simple, pounds and pence measure of all costs that would be presented alongside performance to give clients a good understanding of what they’ve paid and received. We are moving ahead as quickly as possible to start presenting costs and performance in this way.”

The calculator is introduced as the investment industry undergoes a radical overhaul of its charging structure as a result of the Retail Distribution Review, which has abolished commission payments to financial advisers for new business. The aim is to ensure that all charges investors pay are identified clearly and separately, so that you have a clearer idea of what you are paying and to whom.

Calculator revealing full cost of investment funds launched

Rebecca Jones 22 May 2013

Gina Miller, co-founder of the True and Fair Campaign who have launched a new investment fund cost calculator

A new online calculator that allows users to see the costs of individual investment products and compare them against each other has been launched today.

The True and Fair Calculator is the brainchild of Gina and Alan Miller, who have been calling for more transparent fees and charges with their True and Fair Campaign since 2012.

The calculator uses data collected from Morningstar to show users how much they will be charged on their investments as a single figure or a percentage.

The figure will include annual management charges, dealing fees (based on portfolio turnover rate), taxes, broker's commission and performance fees, all of which are not widely advertised by fund houses appealing to new customers.

Commenting at the launch of the calculator, Gina Miller said: 'This is about helping consumers to make the best decisions prior to purchase, because once someone is in a product they don't tend to change, even if they are unhappy.

'This gives them the tools to make the best decision before that point, and that I think is incredibly good for consumers.

The calculator has both a standard and advanced function. The advanced function allows users to compare platform/stockbroker fees, different wrapper charges, (for example a SIPP or an ISA) as well as adviser charges on both an initial and ongoing basis.

Gina and Alan Miller said some of the data, particularly for funds of funds and bond funds, is based on 'conservative' estimates of charges to avoid making too high an estimate.

However, they insisted that outside these asset classes the data was accurate to within seven basis points (0.07 per cent).

The Millers claimed that the True and Fair calculator is a stand-alone, not-for-profit product, with profits earned going to charities focusing on financial education and care for the elderly.

Concluding the launch, Alan Miller commented: 'It's a bit like buying a car: you don't really care how much the engine costs, you just want to know how much the whole car costs.

'If everybody is competing on what the total cost is, then you have an incentive to have a more efficient system, and that's got to be to everybody's advantage.'

The True and Fair Calculator can be found at www.trueandfaircalculator.com

New investment calculator to show 'true and fair' cost of funds

Tahmina Mannan

22nd May

A free online calculator has been launched to 'empower' investors and savers by revealing the impact of costs and fees on their investments.

The calculator has been created by the True and Fair Campaign, a not-for-profit organisation, founded to 'revolutionise cost transparency in the investment world' by highlighting just how much fees and charges can eat into an investor's pot of money.

The calculator - the first of its kind in the UK, according to the campaign's founders - highlights the full effect of charges and other costs on investment returns, in pounds and pence as well as a percentage.

The Calculator:

• Enables investors to fully analyse the total costs of all investment products available in the home country, e.g. in the UK.

• Has two levels - Standard and Advanced Bespoke - both levels can be tailored but the Advanced level allows more sophisticated and professional users, such as advisers, consultants and trustees to enter data at every level of the investment chain - fund costs, wrapper costs, platform costs and adviser costs.

• Gives the user one total cost of investing number, in pounds and pence, as well as a percentage.

• Allows users to compare up to three completely different products, side-by-side, for example a Unit Trust, an ETF and an Investment Trust.

The Calculator uses the Reduction in Yield (RIY) method which calculates the overall effect of charges on an investment as the difference between the return you would have received with and without costs.

Gina Miller, of The True and Fair Campaign, said: "We've created the True and Fair Calculator to provide UK consumers with a free public information service giving details of the investment fees and costs they pay, so they can make better informed decisions prior to purchase.

"When we launched The True and Fair Campaign 18 months ago, 92% of the public said they wanted to know the cost of their investments in one number. This tool allows them to do exactly this.

"We hope this drives new levels of cost transparency which results in greater competition among product providers, gives information to aid better decision making by consumers and their advisers and provides a foundation for more realistic investment expectations. Ultimately it should result in better consumer protection."

A similar calculator has been available to US

investors since 2005. Investors can access the

calculator here.

LSE LONDON SOUTH EAST

'Investment calculator' offers UK investors transparency on fees

Wed, 22nd May 2013 11:53

LONDON, May 22 (Reuters) - A new tool launched on Wednesday promises British investors a way to cut through what its authors call the "smoke and mirrors" used by investment firms to charge hidden fees and get a more realistic valuation of their investments.

The True and Fair Calculator works out the cost of investments in pounds and as a percentage, giving an estimate of returns after all costs and fees.

It is based on data streams from investment research firm Morningstar and was devised by True and Fair, a campaign to boost transparency in the industry spearheaded by Alan and Gina Miller, founders of wealth management boutique SCM Private.

It builds on a similar tool created by the United States' Securities and Exchange Commission in 2005, which was used by more than a million consumers in its first three years.

The investment industry has come under mounting scrutiny in recent months as the public and regulatory backlash since the 2008 financial crisis spreads beyond the banking industry.

Britain's financial watchdog has already called for an end to hidden fees levied by asset managers.

"We hope this drives new levels of cost transparency which results in greater competition among product providers, gives information to aid better decision making by consumers and their advisers and provides a foundation for more realistic investment expectations," said Gina Miller.

Profits raised by the Calculator will be donated to charities for financial education and care for the elderly, True and Fair said.

(For more detail on the investment calculator please click: www.trueandfaircalculator.com)
(Reporting by Clare Hutchison; editing by Patrick Graham)

The Vision of the Pension Plowman

The true and fair way to "cost" your investments

Blog Posted on May 23, 2013 by henry tapper

Alan and Gina Miller are good people. They have invested their money, experience and time to develop a website that allows you to work out what you are really paying for your investments- whatever the wrapper you put them in.

www.trueandfaircalculator.com

It’s free to consumers (the fund managers will eventually pay to be listed) and it works. You need to know a little about what you invest in to be sure you are keying in the right fund and you need to understand the mechanics of the platforms to use the advanced section but even I can work things through the Standard approach without any practice!

What it shows is what we’ve been finding out through work published by the FSA (as long ago as the early noughties) and subsequently by Which, Terry Smith‘s Fundsmith organisation and Norma Cohen of the FT.

In a low inflation/low growth world, we can pay as much to have our money managed as we can reasonably expect in growth on our money.

While in nominal (eg pounds shillings and pence) terms, the cost of investment doesn’t increase, the impact of charges in terms of the reduction in “real”growth has increased as real returns have fallen (matters could be even worse if inflation hadn’t been artificially depressed by quantitative easing).

Looking through the assumptions that sit behind the machine, I am quite surprised at how generous Alan and Gina have been to the fund managers. The estimates of the “spreads” that managers pay when buying and selling investments within the funds are much lower than other research has suggested (or in some cases the managers admit to). These guys may actually be under-cooking their own arguments – a pleasant change from normal practice!

“True and Fair” get their data from Morningstar and builds on work pioneered by the Securities and Investment Committee in the USA. I have to say, their site is rather more user-friendly than the American versions – especially as you don’t have to trespass on a lot of Government property to get to it!

Best of all, the machine allows you to make comparisons between your funds and similar funds that do the same job. I was speaking with a lady yesterday whose company has a DC scheme whose default fund is priced at five times the cost of my default fund. We agreed that her fund probably did more but I’ll be sending her the link this morning to show her the impact over five, ten , fifteen and twenty years of the extra cost her staff are auto-enrolling into.

This is the big point here. You would not go into a shoe shop and buy the prettiest shoes in the window without reference to price. You would weigh up the “opportunity cost“, those Jimmy Choo look great but could you ever afford to show them off at an expensive event?

The benefit to the consumer is obvious; the benefit to the investment management industry is not so obvious, but it’s there all the same. This machine will increase competition, drive out inefficiencies, increase respect for managers (with an eye to costs) and encourage those with the wealth to save to serve themselves.

Let’s hope that organisations who run funds platforms - Hargreaves, Fidelity and the like, grab this model with both hands. I am in a state of “tremor-cordens” at the prospect of housing this engine in the “costs and charges” section of www.pensionplaypen.com and I will be thoroughly recommending it to all visitors to our new site as I do to you!

Alan and Gina Miller- good people

NEWGATE

loveMONEY

New investment calculator could save you thousands

Ed Bowsher 23 May 2013

Most fund management companies are very good at hiding the true cost of investing in their funds. A new calculator can help you peel away the confusion and find the cheapest options. You could end up saving thousands!

If you've ever invested in investment funds, and tried to pick a fund yourself, you'll know that it can be tough.

Somehow you've got to trudge through all the marketing literature and figure out which funds will perform best in the future – not easy – and just as important, which funds have the lowest charges. Comparing charges can be very confusing as you may see different figures being used with different jargon. The most widely used figures are the Annual Management Charge (AMC) and the Total Expense Ratio (TER). Of the two, I prefer the TER because it includes some admin costs that don't show up in the AMC.

However, even the TER doesn't tell the whole story. For example, the TER doesn't include the costs that the fund has to pay every time it buys or sells shares. Many popular investment funds have TERs around the 1.5% mark, but in reality the true cost of investing in many funds is more like 2% a year.

It's very confusing and I suspect that the fund management industry like it that way. If investors are confused, it's easier for the fund management companies to levy rip-off charges.

Calculator

However, things are changing. The True & Fair campaign has launched a new calculator this week which makes it easier for ordinary investors to see a fund's true cost. Although some of these extra costs are estimates, the launch of the calculator is fantastic news!

Here's how it works.

Let's say you're evaluating three different funds as possible investments. One is a cheap index tracker fund, the second is an investment trust (which also tend to have low costs), and the third is a more expensive 'actively managed' OEIC. Here are the funds:

HSBC FTSE All Share Index fund (an index tracker fund)

JP Emerging Markets Investment Trust

Invesco Perpetual Income (OEIC)

With the True & Fair calculator, it's easy to see how much each fund charges, and you can also compare the funds' past performance. What's more, if you think you can predict how the different funds will perform in the future, you can see which fund will make you the most money.

Here is a table showing how the different funds compare:

	Invesco Perpetual Income	**HSBC FTSE All Share Index**	**JP Morgan Emerging Markets investment trust**
Amount to invest	£11,520	£11,520	£11,520
Number of years to invest	Five	Five	Five
Investment return before costs (annual)	5%	5%	5%
Annual fund charges	1.68%	0.27%	1.18%
Estimated annual cost of fund managers's buying & selling	0.07%	0%	0.09%
Annual total cost of investing %	1.84%	0.28%	1.33%
Estimated total costs £ (over five years)	£1,242.25	£197.42	£910.21
Projected total gains over next five years	**£1,940.00**	**£2,985.00**	**£2,272.00**
Performance over last five years	44.11%	28.92%	34.72%

Source: True & Fair investment calculator

All the above figures come from the True&Fair calculator. Crucially the calculator gives you a cost figure for each fund in pounds and pence. So it's easy to spot that the Invesco Perpetual fund is the most expensive, costing £1,242.25 in total charges over five years. The HSBC fund is by far the cheapest – that's what you'd expect of an index tracker fund. As a result it delivers the highest projected gain in the above table.

That said, some people would argue that the Invesco Perpetual Income fund is the best one to invest in. That's because the fund is managed by Neil Woodford, perhaps the best stock picker in the UK. He has an excellent track record and has delivered strong performance over many years. Indeed the table shows that Woodford's Invesco fund has grown by 44% over the last five years compared to just 29% from the HSBC index tracker.

Investment return before costs

Let's look at the 'Investment return before costs' row in the above table. In that line, I've assumed that all three funds will grow by the same amount over the next five years – 5% a year. However you could argue that, thanks to Neil Woodford, the Invesco fund will probably outperform the other two.

And if that outperformance is large enough, it could outweigh the extra costs you have to pay to invest in the Invesco fund. Using the True & Fair calculator, you can see how that might happen. All you need to do is plug in different numbers in the 'investment return' row.

Let's assume that Neil Woodford's Invesco fund grows by 6.6% a year for the next five years, the JP Morgan fund grows by 5.5% a year and the HSBC index tracker sticks at 5% a year. Here's the table showing how the funds would perform:

	Invesco Perpetual Income	**HSBC FTSE All Share Index**	**JP Morgan Emerging Markets investment trust**
Amount to invest	£11,520	£11,520	£11,520
Number of years to invest	5	5	5
Investment return before costs (annual)	6.6%	5%	5.5%
Annual fund charges	1.68%	0.27%	1.18%
Estimated annual cost of fund managers's buying & selling	0.07%	0%	0.09%
Annual total cost of investing %	1.87%	0.28%	1.33%
Estimated total costs £ (over five years)	£1,339.82	£197.42	£932.09
Projected total gains over next five years	**£2,997.00**	**£2,985.00**	**£2,604.00**

	Invesco Perpetual Income	HSBC FTSE All Share Index	JP Morgan Emerging Markets investment trust
Performance over last five years	44.11%	28.92%	34.72%

Source: True & Fair investment calculator

Now you can see that the Invesco fund delivers a slightly higher projected gain (£2,997) than the HSBC index tracker (£2,985).

Of course, when I say that the Invesco fund will grow by 6.6% a year, I'm just guessing.

There's no guarantee that the Invesco fund will outperform over the next five years.

It's that lack of certainty which makes me prefer index tracker funds and investment trusts. I prefer the certainty of lower costs over the possible outperformance from an 'actively managed' unit trust or OEIC such as Invesco Perpetual Income. But others may disagree, and that's fair enough.

The point is this calculator gives everyone more accurate information about costs, and that should help us all make more informed investment decisions. It could save you thousands of pounds!

NEWGATE

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The social news and knowledge network for the investment community

True and Fair campaign creates charges calculator to back its campaigning views

23 May 2013

A group that campaigns for transparency of fund management charges has created a new calculator to help you and your adviser consider the total cost of investing.

The calculator from the True and Fair campaign, www.trueandfaircalculator.com requires you to enter various costs and fees. It will then will provide you with an estimate of return after those costs and fees.

True and Fair was set up by SCM Private, a fund manager that holds itself out as providing transparent investment products. It uses a lot of passive instruments in its funds, which are obviously low cost and makes much of its low turnover and dealing costs, though asset allocation is managed actively led by veteran fund manager Alan Miller. The campaign and manager have been fiercely critical of hidden costs and dealing charges in the fund sector.

Mindful Money brings you its arguments below. Neither the campaign nor the fund manager exactly hide their light under a bushel. We would say that the fund manager and the campaign do have an agenda which is worth bearing in mind. But if you are focused on costs, that agenda may coincide with yours.

We have taken some of the arguments from True and Fair in italics below.

The True and Fair Calculator will provide users with an estimate of the full effect of charges and other costs on their investment returns, in pounds and pence and as a percentage.
The Calculator is the first tool of its kind globally to offer the following features:

- *Enables investors to fully analyse the total costs of all investment products available in the home country, e.g. in the UK*
- *Has two levels – Standard and Advanced Bespoke – both levels can be tailored but the Advanced level allows more sophisticated and professional users, such as advisers, consultants and trustees to enter data at every level of the investment chain – fund costs, wrapper costs, platform costs and adviser costs*
- *Gives the user one total cost of investing number, in pounds and pence, as well as a percentage*
- *Allows users to compare up to three completely different products, side-by-side, for example a Unit Trust, an ETF and an Investment Trust*

The True and Fair Calculator is based on data streams from Morningstar and uses a robust reasoned calculation methodology to identify costs and fees based on a series of investment assumptions.
In the Advanced Bespoke mode the Calculator allows users to change all entry fields to precisely match their own portfolio structure and performance. It builds on elements of a simpler web calculator developed by the SEC in the US which was used by over one million consumers in its first three years.
The Calculator uses the tried and tested Reduction in Yield (RIY) method which calculates the overall effect of charges on an investment as the difference between the return you would have received with and without costs.

Gina Miller, spearhead of The True and Fair Campaign, and one of the originators of The Calculator said: "We've created the True and Fair Calculator to provide UK consumers with a free public information service giving details of the investment fees and costs they pay, so they can make better informed decisions prior to purchase. When we launched The True and Fair Campaign 18 months ago, 92 per cent of the public said they wanted to know the cost of their investments in one number. This tool allows them to do exactly this.
"We hope this drives new levels of cost transparency which results in greater competition among product providers, gives information to aid better decision making by consumers and their advisers and provides a foundation for more realistic investment expectations. Ultimately it should result in better consumer protection. "Those firms offering good products, that deliver strong performance at competitive fees, will presumably welcome the fact that consumers will have the ability to clearly see the value that their products deliver via the Calculator. We look forward to these companies endorsing our initiative and hosting the True and Fair Calculator on their websites.
"Some providers will have to reform their practices or consumers will vote with their feet. Companies offering poorly performing products that charge large, hidden fees have no place in a modern financial services industry. "The US has had a similar calculator since 2005 and we believe there's no reason why UK savers should be treated as second class citizens compared to their US counterparts. We want to see the UK re-established as the gold standard for transparency, and for trust in financial services products and providers to be rebuilt, and to do this we must prevent another generation of investors sleep walking their way into buying inappropriate investment products. The Calculator has the added bonus that future profits will go directly to benefit financial education and care for the elderly, something we are also passionate about."

Anyway, Mindful Money thinks it may be worth checking out the calculator to see how it applies to your portfolio and funds though you may have to do some digging to get all the information from your fund manager/s. So maybe the campaign has a point.

thewealthnet
Essential wealth management information

NEWGATE

23rd May 2013

True and Fair launches online investor calculator

08:02 GMT , News Team

BACK EMAIL PRINT FEEDBACK + ADD TO FAVOURITES

Fee transparency advocates The True and Fair Campaign (www.trueandfaircampaign.com) have launched a free online calculator which they say can reveal the costs and fees of an investment, in one number.

The True and Fair Calculator will provide users with an estimate of the full effect of charges and other costs on their investment returns, in pounds and pence and as a percentage.

True and Fair say the calculator is the first tool of its kind globally, which enables investors to fully analyse the total costs of all investment products available in the home country. It has two bespoke levels – Standard and Advanced. The Advanced Bespoke level allows more sophisticated and professional users to enter data at every level of the investment chain. The calculator also allows users to compare up to three completely different products, side-by-side.

TOUCH
STONE

NEWGATE

Making financial products True and Fair

24TH MAY 2013

Gina Miller

Delivering a fair deal for savers and pensioners is something the TUC has long championed and it is also a topic I am determined to focus a spotlight on. I feel particularly passionate because I believe pensioners and savers in the UK are being failed, dare I say those who are acting prudently are being exploited, by many in the sector that I work in, the fund management industry.

While some pension and investment fund managers have delivered excellent growth, for others the profit generated for customers is being significantly eroded by fund fees and charges. Many of these costs are 'hidden' and not disclosed to savers, or are so confusing that even those in the industry find it hard to quantify what they are.
Our analysis shows that savers and investors in the UK are paying around £18.5 billion a year in hidden costs and fees. This is completely unacceptable and significantly reduces the opportunity for the majority seeking to build a nest-egg for themselves and their families.

Don't get me wrong, I'm not against fund managers charging a fair fee for the service they deliver but it is critical that they disclose, in full the total cost, so that savers can compare the amount they pay for a pensions or investment fund, with the returns they are likely to receive.

Savers then have the option to decide whether they think the price they are paying represents fair value. In many cases the fees and charges paid deliver a healthy pot for the fund manager and others on the investment chain but an unhealthy pot for savers and investors.

If a pension or investment is growing by 5% a year, you assume inflation is running at 2.5% per year, and costs and fees are another 2% of top of this; there wouldn't be a lot of return left in an investor's pocket.

In real terms this would mean that the 5% growth you think you're getting for your pension or savings is actually just 0.5% after charges and inflation are factored in – and in many cases the real return can be reduced to zero, or worse.
Eighteen months ago we launched The True and Fair Campaign with the aim of ending the shoddy practice of hidden costs, and called for the fund management industry to act in the interests of

consumers by publishing, in full, 100% of their fees, in one number. Research we conducted in January 2013 found that 92% of people wanted these costs in one number.

Our call was initially met with ridicule and derision, and with bankrupt intellectual arguments. We persevered, and the fund management industry, the Investment Management Association and the Financial Conduct Authority have now acknowledged that hidden fees and charges are an issue that needs to be addressed.

This is welcome but it does not equate to action.

Pensioners and savers still have no idea what they pay in fees and charges for their investments. In no other industry would it be acceptable to hide the cost of purchasing, or the ticket price, from consumers.

To address this and ensure there is a practical solution that gives consumers transparency sooner rather than later, we at The True and Fair Campaign have spent the last five months developing a free-online clarity tool that launched on the 22nd May, The True and Fair Calculator – www.trueandfaircalculator.com

This tool allows savers for the first time to see what they are really paying for investments and how these costs can impact the likely returns back in their pockets. The costs and returns are presented in one figure, in pounds and pence, and as a percentage. The Investment Management Association has recently been saying that they now support initiatives designed to 'help investors better understand fund charges and costs'; a very welcomed step forward from their earlier claim that hidden charges were a 'myth'. The True and Fair Calculator is unique as it also shows the relationship between cost, risk and returns; as well as allowing users to compare completely different investment or savings options side by side.

We very much hope that savers, company pension administrators, consultants, trustees and the financial advice industry will use this Calculator to gain a better idea of the costs of investing in pension and investment funds and make their own judgement about whether these are justified by the performance.

For those pension and investment funds that deliver value, the True and Fair Calculator is presumably something they will welcome. Driving transparency is after all something that their customers want. For those with less than impressive performance which is being eroded by high fees, then the calculator ensures there is nowhere left to hide and will protect consumers by empowering them with more knowledge.

Continuing to withhold details on the costs and fees paid by savers is utterly unacceptable and does nothing to re-build trust in financial services. It will not help us plug the pension and saving gap that exists in the UK.

If people need to save more for their future, then they need confidence in the financial services industry that they entrust to manage and build their money. We hope the True and Fair Calculator advances this cause and starts a consumer movement for change and value.

GUEST POST: Gina Miller co-founded SCM Private, a specialist modern investment manager. She starting the True and Fair Campaign in 2012 calling for 100% transparency on all fees and holdings in a uniformed format across the UK savings and investment industry. In May 2013 she launched

the True and Fair Calculator, which is a free-online cost analysis and comparison tool for investors and savers.

YourMoney.com

How much are fund charges eating in to your returns?

Joanna Faith 24 May 2013

Ignoring the costs of investing and focusing purely on performance could lead to disappointment, writes Joanna Faith.

It's not easy to work out the real cost of investing in a fund thanks to the array of charges applied by product providers - initial fees, annual charges and trading costs to name just three.

Complicated charging structures can leave consumers confused and left in the dark about how costs will impact their returns.

But knowing how much you are paying is just as - if not more - important than making sure your investment is performing.

And it's crucial to find out how much an investment is really going to cost before handing over any money.

That's why the launch this week of a free calculator which tells investors and savers how much fees and charges can eat into their pot of money is such good news for consumers.

The calculator is the brainchild of the founders of the True and Fair Campaign, a not-for-profit organisation, created to 'revolutionise cost transparency in the investment world'.

Suitable for investors of all levels of sophistication, the calculator fully analyses the total of costs of investing in a particular fund and highlights the full effect of charges and other costs on investment returns, in pounds and pence as well as a percentage.

According to the True and Fair Campaign, there is extensive research to show the less you pay in fees, the more your investment tends to grow. So the higher the costs incurred the lower the statistical probability that an investor will receive healthy returns.

This does not stop an exceptionally talented or lucky fund manager beating the market but the level of total costs incurred in any investment essentially represents the headwind facing that particular manager which they may or may not overcome.

I've spent a bit of time testing out the new calculator and it appears to be slick and user-friendly. And although it doesn't profess to be 100% accurate, it offers a reasonably good estimate.

Tools like this are essential in creating the much-needed transparency consumers so desperately need and deserve. I'd like to see more of these types of devices in other parts of the financial services space. It would be valuable, for example, for consumers to know exactly how much the add ons are costing them on their insurance policy or when they switch to a new current account.

Financial firms shouldn't be afraid of more educated consumers. They should actively encourage them.

Yorkshire's National Newspaper
YORKSHIRE POST

Tool to cut through 'smoke and mirrors'

25th May 2013

A NEW online tool launched this week promises investors a way to cut through what its authors call the "smoke and mirrors" used by investment firms to charge hidden fees and get a more realistic valuation of their investments.

The True and Fair Calculator works out the cost of investments in pounds and as a percentage, giving an estimate of returns after all costs and fees.

It is based on data streams from investment research firm Morningstar and was devised by True and Fair, a campaign to boost transparency in the industry spearheaded by Alan and Gina Miller, founders of wealth management boutique SCM Private.

It builds on a similar tool created by the United States' Securities and Exchange Commission in 2005, which was used by more than a million consumers in its first three years.

Mrs Miller said: "We've created the True and Fair Calculator to provide UK consumers with a free public information service giving details of the investment fees and costs they pay, so they can make better informed decisions prior to purchase.

"We hope this drives new levels of cost transparency which results in greater competition among product providers, gives information to aid better decision-making by consumers and their advisers and provides a foundation for more realistic investment expectations," she added.

Profits raised by the Calculator will be donated to charities for financial education and care for the elderly, True and Fair said.

The investment industry has come under mounting scrutiny in recent months as the public and regulatory backlash since the 2008 financial crisis spreads beyond the banking industry.

Further moves to strip away 'hidden' charges so investors can compare costs more easily and shop around for the best deal were announced by regulator the Financial Conduct Authority (FCA) last month.

The new rules mean that fees for investors using online 'platform' services will be more transparent because they must be clearly shown upfront and agreed by the investor instead of being disguised in other costs.

Platform services act as middlemen and give people an online view of their investments in one place.

The new rules are expected to come into force in April next year, but platforms are being given an extra two years' grace until April 2016 to move existing customers to the new model of making charges explicit.

Mrs Miller said that these plans are to be welcomed, but added that it is important to “keep up the pressure” on the regulator so that they don’t “just become rhetoric”.

She added: “We want to see the UK re-established as the gold standard for transparency, and for trust in financial services products and providers to be rebuilt, and to do this we must prevent another generation of investors sleep walking their way into buying inappropriate investment products.

“Those firms offering good products, that deliver strong performance at competitive fees, will presumably welcome the fact that consumers will have the ability to clearly see the value that their products deliver via the Calculator.”

Announced the latest changes last month, Christopher Woolard, the FCA’s director of policy, risk and research, said that platforms provide a valuable service, but that investors are often unclear on what that service costs.

“These changes will allow both investors and advisers to compare the costs of investing through different platforms and make an informed decision on whether using a platform represents good value for money.”

Radio 4 Money Box

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Undead direct debits, mortgage repayments, the marriage of unequals, the cost of investing

DIRECT DEBITS

Hundreds of people who agreed to pay a computer maintenance contract in the past but then cancelled it have had their direct debits restarted without their permission. The firm says it cannot find them to refund the money. We investigate how direct debits can come back from the dead years after they were cancelled.

BANK OF IRELAND

Lawyers representing Bank of Ireland customers are asking the Financial Conduct Authority to stop the Bank trebling the monthly mortgage payments for 13,000 customers. This week just over a thousand were given a reprieve but what hope for the others.

IT COSTS HOW MUCH?

A new online calculator shows the true cost of investing. One fund claims a 1% upfront charge and a 1.25% annual management charge. But the calculator shows the total cost of investing as 2.28% a year. Which means on any modest return the fund share equally in any gains. Two Money Box listeners 'test drive' the calculator and we speak to the co-founder Gina Miller and Lawrence Gosling, Editor of Investment Week.

FINANCIAL TIMES

IGNITES EUROPE May 26, 2013 4:39 pm

UK fund managers under pressure to reveal hidden fees

By Attracta Mooney

More

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IGNITES EUROPE

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UK fund managers are facing mounting pressure to end a culture of hidden fees and provide investors with a total cost figure.

Organisations including the True and Fair Campaign, a non-profit that has the backing of fund house SCM, and the UK-based Investment Management Association are calling on asset managers to be more open about the total costs consumers face.

Daniel Godfrey, chief executive of the IMA, says the industry has to face up to the demand or risk regulators' introducing rules that asset managers have little say over.

His comments come as the True and Fair Campaign says it is speaking to European regulators about a newly launched online calculator that promises to increase transparency on charges.

The calculator, which was unveiled yesterday, aims to show investors the total costs of investing in different funds as a single figure in pounds and pence, as well as in percentage form.

"The push is for this to be made mandatory, with companies putting the calculator on their site," says Gina Miller, a founding partner of SCM Private and one of the founders of the True and Fair Campaign.

She says the non-profit is speaking to the Financial Conduct Authority, the UK regulator, and the European Securities and Markets Authority about the calculator.

Mr Godfrey, who recently put forward a proposal for a new fund fee disclosure method, says the industry has been under "constant pressure" to provide investors with clear figures.

"A lot of people have been asking for better disclosure but the industry has been saying you can't have this because it is too difficult," he says.

"In order to prepare the accounts of the fund you have to know every penny that is being spent, and what I'm saying is, we give this to the consumer."

Mr Godfrey wants firms to provide a single total cost figure using a retrospective calculation. It would look at the average number of units of a fund in issue on a daily basis over the year and divide the figure into the total costs charged to the fund.

In contrast, the True and Fair calculator works out total costs over the life of an investment by using industry average figures for trading costs and portfolio turnover rates, as well as performance rates -- which can be entered by the user.

Ms Miller says if the non-profit has taken a cautious approach with estimates because it does not have disclosure from funds.

The True and Fair Campaign's calculator shows stark differences in the total cost of investing in similar funds, as shown in the table below.

Ms Miller says managers offering high-quality products that generate good returns and charge competitive fees will welcome greater transparency of costs, but adds that it could lead to the closure of some funds.

"It will highlight and cause a clearout of those products that are high cost and low performance," she adds.

Although asset managers are aware of the campaign, Ms Miller says they have not been willing to speak to the group.

In contrast, a number of firms have lent their backing to Ms Godfrey's proposal, including Kames Capital and Henderson Global Investors.

The FCA declined to comment.

THE SUNDAY TIMES

Called to Account: Let's be clear, investors need clarity on fees

James Charles 26 May 2013

The dip in markets last week following a breathtaking surge came almost as a relief to many analysts. The longer a market goes up, the bigger the fall is likely to be. Indeed, in Japan, which has seen a much bigger surge in recent months than the FTSE 100, the fall was one of the biggest on record.
It is notoriously difficult to time investments, but you can profit from volatility by drip-feeding into a fund that will pick up stocks on the dips as well as the peaks, balancing out returns over the long term.

Those paying into a fund should focus on the ability of the manager to capitalise on rising stock prices in order to outperform the wider market. It isn't easy, which is why so many managers fail to beat cheaper tracker funds. It is also why good managers that can are worth paying for.

But alongside performance, one of the important factors for investors trying to pick which fund to put their money in, is cost. Over time, the amount deducted for fees, transaction costs and other charges can have a huge impact.

The fund management industry has been transparent about performance for some time, but on costs it has been frustratingly opaque.

Most funds list an annual management charge, though this does not include all the costs paid by investors. The total expense ratio, another measure of costs, is also not comprehensive. Things are slowly changing, however.

Last week saw the welcome launch of a fund charges calculator that is designed to reveal the true cost of investing in a fund. You can find it at trueandfaircalculator.com.
Simply type the name of a fund you are considering and how much you plan to invest. The calculator then tells you how much will be deducted in annual charges, dealing costs, the amount of buying and selling of stocks carried out by fund managers (which adds to overall costs) as well as other details — and shows you how much will be left as profit.

The calculator reveals, for example, that the total cost of investing in the Jupiter Merlin Growth Portfolio, a particularly expensive type of fund that holds other funds rather than stocks, is just over 3% a year — much higher than the 1.5% annual management charge listed in its literature.

(Then again, this fund is up 25% over the past year, so maybe investors can forgive these higher costs.)

The drawback is that the calculator may serve only to baffle investors with too much detail. And the figures are based on a combination of historic data and estimates, which may not be an accurate guide to future deductions.

The Investment Management Association, a trade body for fund managers, is working on an alternative solution. It is devising a single figure for total costs incurred over the year, which could be listed next to performance. Assuming the details are ironed out in the coming months, it is likely to start appearing over the next year.

So, investors should expect to find more information about fund costs at their finger tips, which will, hopefully, put further pressure on the industry to drive down fees.

James Charles is editor of the Money section

This is MONEY.co.uk
FINANCIAL WEBSITE OF THE YEAR

Web calculator finally exposes true size of investment fund costs - but is cheapest always best?

By TANYA JEFFERIES

PUBLISHED: 10:47, 31 May 2013 | **UPDATED:** 11:48, 31 May 2013

A simple tool for totting up investment costs is now available: the True and Fair Calculator, launched by campaigners for more transparent fund charges.

The calculator seeks to expose the true size of investment charges - widely considered to be too high by investors - after criticism of established measures that leave out significant portions of the cost.

The idea is that if these are known upfront, people will at least be putting money into products with their eyes open. And it is expected that they will 'vote with their feet' if they encounter poorly-performing products with high costs.

Reduced returns: Calculator focuses squarely on costs, which mount up over the years and can leave a big hole in your savings pot

The calculator focuses squarely on costs. While often only small percentage figures these mount up over the years and can leave a big hole in your savings pot.

But cost is not the only criteria when it comes to choosing investments. Cheap is not always best - it is about overall value for money too. (Although cheap is sometimes best - see box

NEWGATE

CHEAP CAN BE BEST

The Scottish Mortgage investment trust is up 300 per cent over the past ten years, 40 per cent over five years, 57 per cent over three years and 39 per cent over one year

It's ongoing charges are just 0.5 per cent.

Here we take a look at how the True and Fair Calculator works.

We've also asked some industry players what they think of it, and what factors aside from cost people should take into consideration when choosing an investment.

How does the True and Fair Calculator work?

The calculator works out the total costs of an investment product for you and comes back with a single figure in either pounds or as a percentage.

It gives you an estimate of what the potential returns might be after costs are subtracted.

You can compare up to three different products side by side, and they don't all have to be the same type.
For example, you can look at a unit trust, investment trust and exchange-traded fund (ETF) at once. Some 6,227 products available in the UK are covered.

The calculator has two levels - 'Standard' and 'Advanced Bespoke'. The more advanced version is aimed at experienced investors and professional users who can enter data at every level of the investment chain: fund costs, wrapper costs, platform costs and adviser costs.

It is modelled on a simple web calculator launched a few years ago by US regulator the Securities and Exchange Commission, which wanted American investors to see the fees they were paying on their investments.

The UK version was created by Gina and Alan Miller, founders of investment management firm SCM Private, who also spearhead the True and Fair Campaign calling for transparent fund charges.

They plunged their own money into the project, which ended up costing nearly £200,000 - double what they originally estimated.

The calculator will be run as a standalone not-for-profit business, with any earnings going to support small charities working on financial education or care and support for the elderly.

The Millers plan to develop the calculator further, for instance by looking to add products like defined contribution pensions in the future.

Gina and Alan Miller: Sank nearly £200,000 of their own money into the project, which will be run as a standalone not-for-profit business

What does the industry say?

'The simple calculator is a clean and simple way of comparing certain charges of an investment,' said financial adviser Philippa Gee of Philippa Gee Wealth Management. 'I can't see it being harmful and should indeed help focus investors' attention on the impact of charges, which has to be positive.

'Where it falls short is in considering the other criteria for the suitability of an investment; such as the objective of a fund, the performance, volatility, allocation, experience and fund size (which in itself can impact on charges) as these are all crucial points.

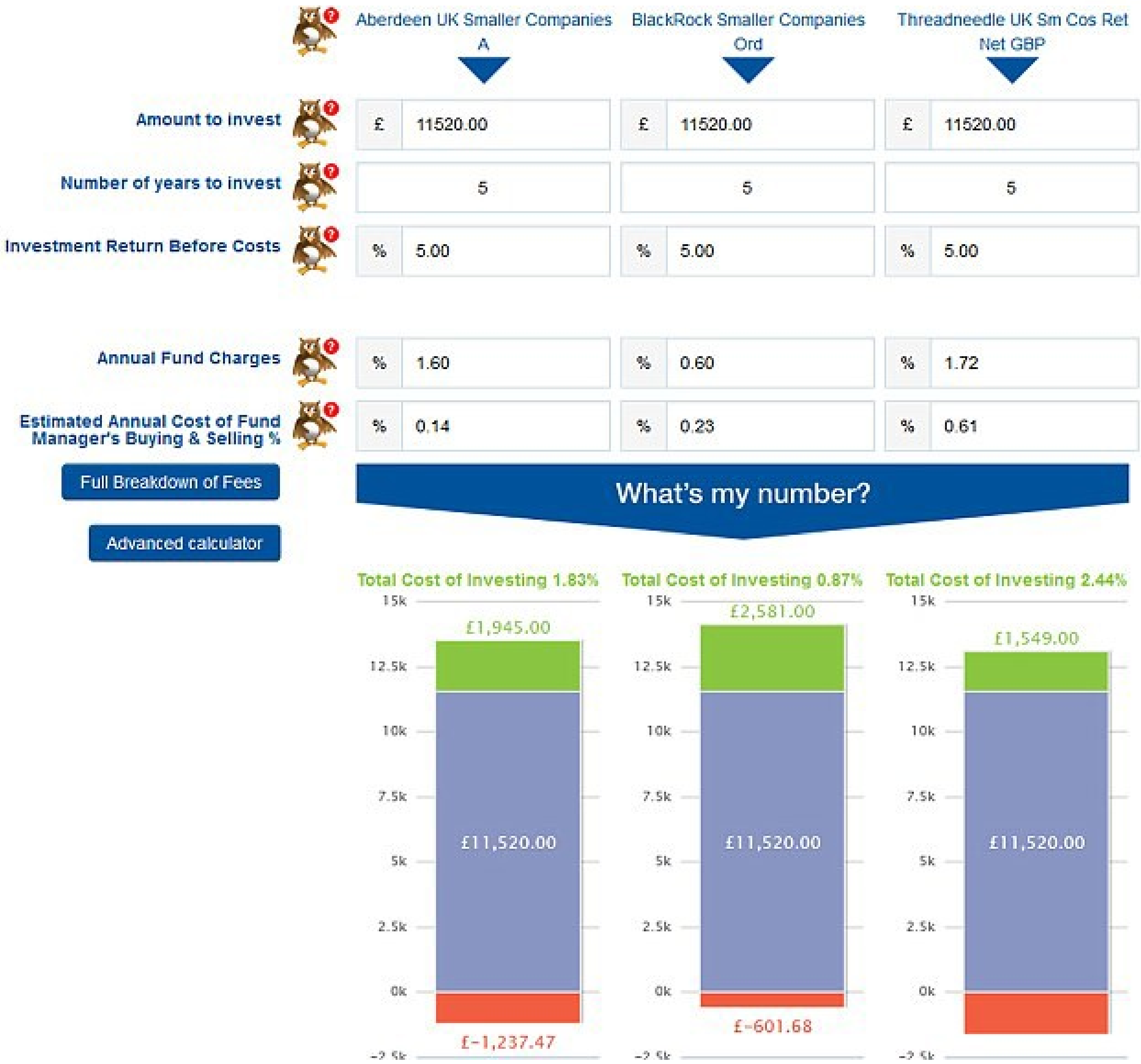
'The more advanced calculator allows you to go to town on charges and in the new world of RDR [the Retail Distribution Review, an industry overhaul which banned advisers from taking commission from last January onwards] where advisers have different levels of charges and different approaches, such as one- off/hourly/percentage fees, I think that this would be useful.

'So this is a good tool to help you perhaps choose an adviser and consider the impact of different charges and how it all adds up.

'Personally we do this for our clients, as we breakdown each cost element to make it as transparent as possible.

'However, the site does not make itself out to be a full comparison website and is clear about its focus on charges, which is admirable.

'Providing investors know that this is just one element of consideration, then it will no doubt be helpful.'



Fund and games: Users can compare up to three funds and see the total cash and percentage values they can expect to lose through charges.

Fund management industry body the Investment Management Association is working on separate plans to give investors 'a simple once-and-done number' in pounds and pence for their costs.

It wants to agree methodology by the end of 2013 at the latest, although it might take another year after that for fund houses to start making their figures available.

Following the launch of the True and Fair Calculator, boss Daniel Godfrey said: 'The IMA believes that it is very important that consumers are provided with simple information that they can understand which gives them
a comprehensive view of costs.

'That is what we have proposed, a historical single all-inclusive pounds and pence figure to be available alongside actual performance. We believe that using actual historical data is a better way to make people better informed.'

He added: 'I think it's important people know what costs are but it's equally important that people don't just look at costs but at value. Cost is just one factor. It's a very important factor but it's not the only factor.'
Godfrey said if you look back you can assess relative performance against costs - taking a view on how well a fund has done in absolute terms, relative to goals and relative to competitors.

This can help an investor decide if an active fund is likely to add value above a tracker, and where a fund has high transaction costs whether the skill of the manager will overcome them.

GINA MILLER: WHY INVESTMENT COST CALCULATOR IS NEEDED

'We've created the True and Fair Calculator to provide UK consumers with a free public information service giving details of the investment fees and costs they pay, so they can make better informed decisions prior to purchase,' says Gina Miller of The True and Fair Campaign.

'When we launched The True and Fair Campaign 18 months ago, 92 per cent of the public said they wanted to know the cost of their investments in one number. This tool allows them to do exactly this.

'We hope this drives new levels of cost transparency which results in greater competition among product providers, gives information to aid better decision making by consumers and their advisers and provides a foundation for more realistic investment expectations. Ultimately it should result in better consumer protection.

'Those firms offering good products, that deliver strong performance at competitive fees, will presumably welcome the fact that consumers will have the ability to clearly see the value that their products deliver via the calculator. We look forward to these companies endorsing our initiative and hosting the True and Fair Calculator on their websites.

'Some providers will have to reform their practices or consumers will vote with their feet. Companies offering poorly performing products that charge large, hidden fees have no place in a modern financial services industry.

'The US has had a similar calculator since 2005 and we believe there's no reason why UK savers should be treated as second class citizens compared to their US counterparts. We want to see the UK re-established as the gold standard for transparency, and for trust in financial services products and providers to be rebuilt, and to do this we must prevent another generation of investors sleep walking their way into buying inappropriate investment products.

'The calculator has the added bonus that future profits will go directly to benefit financial education and care for the elderly, something we are also passionate about

HUFFPOST LIFESTYLE

Ripped-Off Investment Britain

Posted: 05/06/2013 14:01

Imaging sitting with friends on a relaxed night out and asking if any of them want to keep working until they're
70: there will be a purveying glumness and descent into depression at the thought.

However, this is the reality facing many people today in the UK, with statistics showing that less than half the population (48%) are actively saving for retirement by paying into a pension (Department of Work and Pensions Survey), and a quarter of Brits are relying on winning the lottery to improve their personal finances (YouGov survey commissioned by the Institute for Financial Planning (IFP) and NS&I Planning Week, 2009).

There is one way out of this unpleasant conundrum and that's to save more. But this is a tough ask when there is deep-seated mistrust of financial institutions and when we are seeing near zero-wage growth and incomes are being squeezed by rising bills and inflation.

However for many, hope appears to be on the horizon. Despite the recent dip, economic growth and stock market performance have been strong so far this year, so it should follow that those with pension funds and retirement savings can expect to see healthy returns to help achieve their retirement dreams. Right?

Sadly, this may not be the case. UK consumers are the victims of a great rip-off perpetrated by the industry in which I work, the UK investment and pensions sector.

Many people glaze over at the mention of fund management but bear with me.

Here's the picture - you decide to behave responsibly by saving and investing and you hope your nest-egg will grow by say 5% a year but actually inflation is taking around 2.5% off that growth and the fund manager is taking 2% or more in fees and charges; not to mention adviser or platform fees.

The result is that your hard earned money could be producing as little as 0.5% or less in real terms. At that rate when would retiring be an option?

But this blog is not a personal finance story; it's a story of a massive consumer rip-off conducted by an industry that' has lost its moral compass.

Unlike any other industry, the UK investment industry denies its consumers the basic right of knowing the full total cost of buying the product they are purchasing (in this case an investment or pensions fund) before they part with their money. Instead the cost is shrouded in half-truths, convoluted language, and misleading numbers and marketing.

Even though research from its own regulatory body (the then Financial Services Authority, FSA) conducted as long ago as 2000 found that on average only 50% of fees were being disclosed prior

to purchase, the industry continues to refuse to disclose the full cost of fees and charges to its consumers.
In the days of high-growth, fund managers could justify higher fees because the good ones made money hand over fist for investors.

That isn't the case today. Finding a fund manager who can deliver better returns than you'd get from a solid low cost fund is like searching for a needle in a haystack.

It is widely acknowledged that we are likely to see lower growth for investments and pensions in the future, so fees suddenly become more critical, and their impact on investment returns (i.e. when you can retire), fundamental.

This is rip-off Britain on a colossal scale. No other industry would expect consumers to buy a product without knowing the price they pay before they purchase. Yet that is precisely what happens in the pensions and investments sector.

The True and Fair Campaign we launched 18 months ago has been calling for an end to these anti-consumer practices and for a new era of transparency. Put simply we want consumers to know 100% of the likely TOTAL cost of the fees and charges they pay, up front, before they put their hard earned cash into a pension or investment product. The other call is for 100% transparency on holdings so savers and investors know exactly where their money is being put; something that has happened online in the US since 2004.

For 18 months the industry has procrastinated and ridiculed us, and now acknowledges that action is needed to end hidden fees - but they are still failing to announce any concrete measures that go beyond mere rhetoric.

I know it seems incredible that a multi-billion pound industry is allowed to behave in such an anti-consumer manner but ask yourself a simple question: do you know how much your pension costs you? Not just the annual management fee but all the transaction costs and trading fees, dealing costs, administration costs, performance fees, platform charges and financial adviser fees? My guess is that your answer would be no.

In the face of this vacuum of information and the on-going excuses being fielded by the industry as to why they cannot offer consumers a 'ticket price', we have launched an investment calculator and comparison tool
to showcase the full costs and fees for UK investment products, which underpin many pensions and retirement planning portfolios - www.trueandfaircalculator.com.

Even though this can be a confusing topic, we have tried to make it simple and understandable, by producing a true and fair total cost of investing in one number, in pounds and pence, as well as showing the impact of this on investments.

Will the calculator help you stop work before you're 70? Maybe. What it will definitely do is to empower you to understand how much you pay for investment funds and compare this cost against growth of the fund. The hope is that for consumers the True and Fair Calculator will drive better decision making, more realistic expectations and give consumers the tools to challenge the numbers presented to them by the 'experts' . From an industry perspective
Some funds are excellent and deliver strong, market-beating growth for the investment. Some are dire and will erode your savings faster than a rip-tide.

However we hope this Calculator marks the beginning of the end to this huge rip-off and ensures more of us can save enough to retire when we want. It's a bold claim, but big change starts with a single step.

By Gina Miller, Founder, the True and Fair Campaign and trueandfaircalculator.com

The Vision of the Pension Plowman

In a muddle about investment management fees

June 9 2013 Henry Tapper

I am a fan of a firm of investment consultants called Lane Clark &Peacock LLP, who true to their brand statement provide “insight, clarity and advice” on pensions matters.

I am also a recurring pain in their neck and I expect one dark night on Old Burlington Street I will be bashed over the head with one of their weighty actuarial tomes for my insolence and rank ingratitude.

Nevertheless I am returning once again to do some mild LCP -bating; starting with thepreamble to their 2013 “investment management fees survey”

Focusing on fees has never been more important than today. Against the background of an uncertain and low growth environment, paying high fees will significantly impact your fund’s performance. The survey reveals that pension funds are losing out as market movements generate more than 2.5x in fees for managers than their performance.

Fallacy one; fees are more important in a low growth environment. This is tosh; 1% of £1m is £10,000 whether it represents a quarter of the growth of the fund or one tenth. £10,000 has to be earned and paid by the sponsor of the pension fund and it is no easier or harder to earn that money in a low growth than high growth environment. It’s a lot easier to get people to pay attention to a fee that represents 25% of growth than 10% but the fee is equally important whatever the environment.

And if anyone thinks that all this fees hull-a-bulloo will blow over when we get somemarket growth back, they are sorely mistaken

Fallacy two; The survey reveals that pension funds are losing out.

The survey reveals nothing unless LCP let you read it. To read it you have to fill in a form which is vetted by LCP.

The form has a number of compulsory fields;

- First name is mandatory
- Last name is mandatory
- Title is mandatory
- Email address is mandatory
- Email address type is mandatory
- Company is mandatory

- Job title is mandatory

Whoah – and I just wanted to find out what I was paying for my funds like I'm told to!

There are a number of voluntary fields including one that asks your relationship with LCP with the following drop-down options "Client, Ex-Client, Intermediary, None".

Sounds a bit like linked in who will ban you if you try to link with people you don't know!

I wonder how many intermediaries are going to risk being rejected by submitting a form to "register for the download". I wonder how many people who have **no** relationship with LCP will dare?

Well I am a lucky one and I have had the pleasure of reading this survey including this message from Will Goodhart

Clients and potential clients should know about the full range of types of fees and charges which will be applied against their assets.

Will is the CEO of the CFA Society of the UK, which, according to its website

"serves society's best interests through the provision of education and training, the promotion of high professional and ethical standards and by informing policy-makers and the public about the investment profession".

Which begs my question

"if what we are all trying to do is be transparent about fees, why can't everyone see the report?"

TM (pending) Henry Tapper (not to be reblogged or even read by anyone I don't like or I'll jump up and down and cry a little)

The report itself is beautifully presented over 38 pages; it contains a particularly nice photo of Andrew (Andy) Cheseldine who sounds as public-spirited as Will Goodhart

Pension charges will continue to be put under the microscope by politicians and press alike and rightly so. Our job at LCP is to help ensure as much transparency as possible , identifying what separate charges and costs apply.

The substance and value of the report is some great data crunching and data presentation that shows just how wide the gap is in charges between the "cheap as chips" beta managers and the hedgies.

"The annual management charge for a fund of hedge funds mandate is 10 times the equivalent fee for either a passive equity or bond mandate"

The report points out that we can only guess at the true costs incurred by hedge fund managers who for the most part can't even bother to have the conversation.

To test this I did a little market research on a group of three "hedge fund managers" parenting children playing in a cricket game yesterday. In answer to the question "do you tell your clients what you charge them?" I got a unanimous response *“f**k off”*

It is a truth , universally acknowledged, that the more money you make, the less inclined you are to tell people how you made it.

I am not quite sure what the CFA has in mind as “best practice”, but the response appears to be “market practice”

And while the report is brilliant in charting the “knowns”, it admits to not knowing much about “transactional costs” (aka hidden fees)

Over 65% of respondents provided no transaction cost information and, as such, there is insufficient data to conduct a meaningful analysis.

“As such?” – as what?

Can I direct the honourable gentle people to this link

http://www.trueandfaircalculator.com/

If they press this link, they will be able to find the data that is provided by Morningstar on the funds of the fund managers listed on pages 36 and 7 of their report.

The true and fair calculator will give LCP data on the “Estimated Annual Cost of Fund Manager’s Buying & Selling” going into the detail of portfolio turnover rates and dealing charges.

This information is provided free by the owners of the Calculator (Alan and Gina Miller) and there is absolutely no need to “register to download”. It is total nonsense to suggest there is not enough “meaningful data” to conduct a meaningful analysis. Just ask!

Which begs a further question

If the information that LCP cannot publish in a report that we cannot access is freely available on the web, could LCP be doing its job better?

I’d say

“No and yes”

No, because this is a great report and I’d love to scan every page below to show you what it shows me about the behaviours of differing types of investment managers. I don’t because I have read the disclaimers on the back and am probably pushing it as it is.

Yes, because LCP (and other consultancies) need to stop being so anal about their “intellectual property” and share it with all of us as Alan and Gina do.

There is still stuff that commands a premium price, some market intelligence which I and others would pay for. LCP produce a fair amount of it.

However, the cost of the funds that we as retail investors, institutional investors or those who advise investors, are in the business of using, is not something that anyone need pay for and the ABI, IMA, NAPF, SPC, FCA, CFA and I suspect in the final analysis LCP, know that to restore confidence in funds investment, we need to be TRUE AND FAIR.

Who are the fund superheroes? What happens when top investment trusts and big-name funds go head to head?

By Tanya Jefferies

PUBLISHED:13:35, 10 June 2013| **UPDATED:**13:35, 10 June 2013

The typical costs of top-selling investment trusts and funds are laid bare by the new True and Fair Calculator, which now offers the chance to compare them directly in pounds and pence.

We put five popular trusts up against five big-name funds operating in the same sectors to test which would be best value for investors - check out our findings below.

The results also highlight that the published cost of investing, called the 'total expense ratio' or sometimes the ongoing charge, significantly underestimates the real amount once dealing and other admin fees are included.

Trusts are a popular choice among savvy investors - there is no initial charge and smaller annual fees mean they eat up much less of your returns than funds. And they often outperform their fund counterparts, while carrying a slightly higher degree of risk and volatility.

Who are the investment superheroes? Our challenge pitted five popular trusts against five big-name funds to test which would bring greater rewards for investors

We tested trusts against funds using the True and Fair Calculator, a free online fee comparison tool recently launched by campaigners for more transparent investment costs.

The default settings assume you are investing a lump sum of £11,520 - the full annual allowance for a stocks and shares Isa - for five years and that returns are 5 per cent. We went with along with these in our test, although in practice users can adjust the figures as they like.

The results list the annual fund charge/ongoing charge/TER, plus the estimated annual costs generated by a manager's buying and selling of stocks, before showing the costs and returns in pounds and pence and also as a percentage.

Underneath this, the calculator gives a performance figure for the investment over five years.

Income: Invesco Perpetual Income vs Edinburgh Investment Trust

We put the hugely popular Invesco Perpetual Income fund head to head with the Edinburgh Investment
Trust (price and charts), both of which are run by star manager Neil Woodford.

Although the performance figures over five years are, unsurprisingly, pretty similar, the costs are lower and the returns higher if you choose to invest with Woodford through the Edinburgh trust

One important thing to note is that we used the 'no trail' or clean fund version of Invesco Perpetual Income fund in our test.

If we had used the traditional version of the fund, which still includes commission to middlemen, it would look much worse value against the Edinburgh trust. The costs come out at a higher £1,245.23.

THE TRUE AND FAIR CALCULATOR

The True and Fair calculator seeks to expose the true size of investment charges - widely considered to be too high by investors - after criticism of established measures that leave out significant portions of the cost.

It works out the total costs of an investment product and comes back with a single figure in either pounds or as a percentage. And it gives you an estimate of what the potential returns might be after costs are subtracted.

You can compare up to three different products and they don't all have to be the same type. For example, you can look at a fund, investment trust and exchange-traded fund at once. Some 6,227 UK products are covered.

The calculator was designed by Gina and Alan Miller, founders of investment management firm SCM Private, who also spearhead the True and Fair Campaign calling for transparent fund charges.

'Clean funds' are simply versions of existing funds that include no commissions for financial advisers, supermarkets or brokers - just the fee levied by the fund manager. Even after admin charges are added back in again they offer the opportunity for higher returns over time.

They were introduced due to the huge shake-up in the way money advice is delivered and paid for, officially known as the Retail Distribution Review or RDR, which means advisers are now prevented from taking commissions.

Supermarkets and brokers will be banned from taking commission too from April 2014 for new clients, although they will have until April 2016 to move existing customers to the new transparent charging model.

Read more here about clean funds, and check out our guide to fund jargon such as 'no trail' below.

We asked Invesco Perpetual for a comment about the differences in cost and performance but received none by the time of publication.

Emerging markets: Aberdeen Emerging Markets vs Templeton Emerging Markets

The Aberdeen Emerging Markets fund is one of the big beasts in the hunt for investing returns outside the
Western world. It's distinguishable from other big names by being run by a team rather than led by a single
'star'.

We put it up against the popular Templeton Emerging Markets Investment Trust (price and charts), launched in 1989 and run by Mark Mobius, who has £2.1bn of funds under management.

Aberdeen's performance figure is better than Templeton's over five years, but this is no guarantee of future returns. You have to weigh up whether its higher costs represent good value for the risk involved.

As can be seen below, had both Aberdeen and Templeton vehicles performed the same, an investor would save £429 over five years by opting for the Templeton trust. However, the superior performance of the Aberdeen fund could outweigh this.

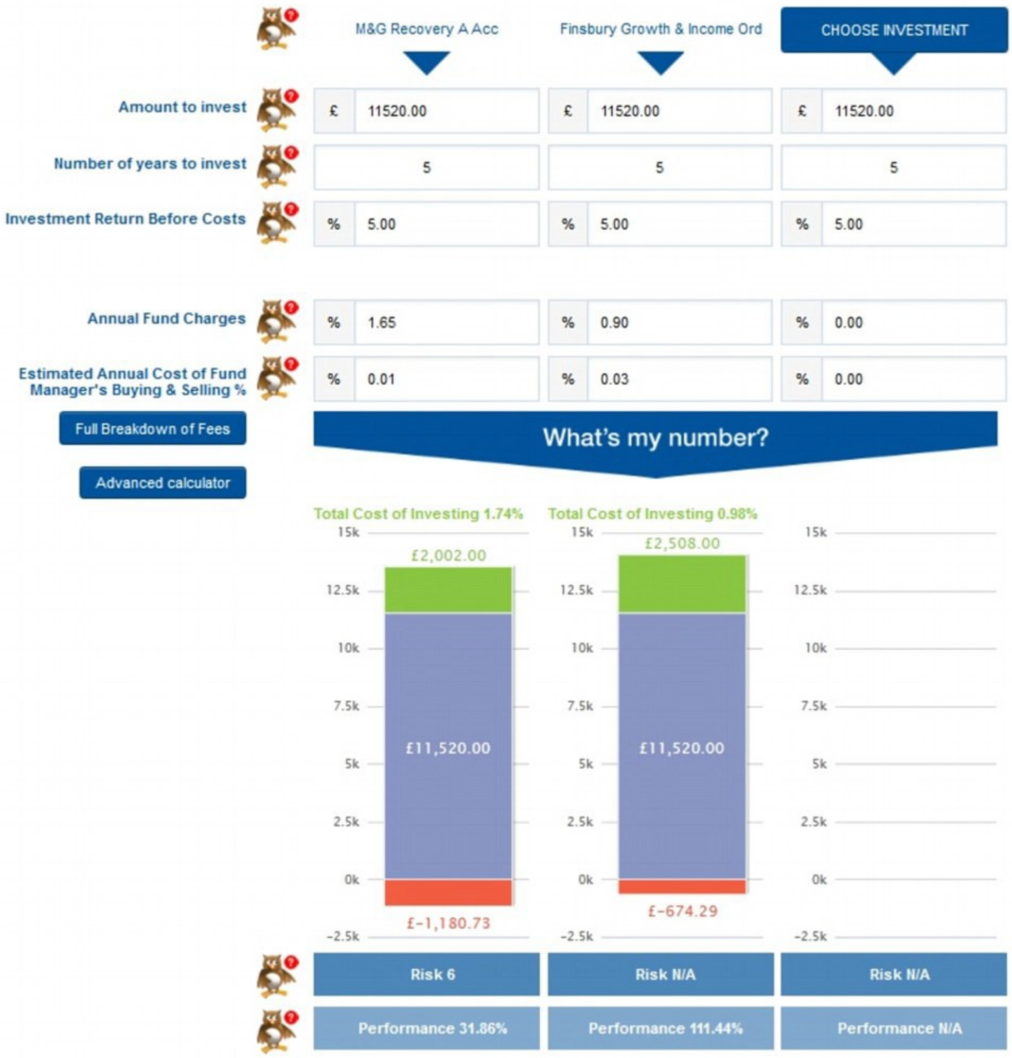
We asked Aberdeen for a comment about the differences in cost and performance but received none.

Aberdeen Emerging Markets vs Templeton Emerging Markets (Source: True and Fair Calculator)

UK: M&G Recovery vs Finsbury Growth and Income

M&G Recovery manager Tom Dobell has achieved consistent index-beating success by ferreting out companies with potential that are out of favour with the market for one reason or another.

His fund goes head to head with Nick Train's Finsbury Growth & Income Investment Trust (price and charts), which has racked up triple-digit growth over five years.



M&G Recovery vs Finsbury Growth and Income (Source: True and Fair Calculator)

M&G response: A spokesman said that over the life of the M&G Recovery fund, set up in 1969, it has outperformed the FTSE All-Share by an annualised 4.1 per cent.

'The current fund manager has been in place for over a decade and he has also outperformed the index,' he said.

Regarding costs, he added: 'The costs are as stated. The cost of buying an open-ended investment always differs from the cost of investing in a trust. This fund is designed to be a long-term performer and over the long term it has performed.'

This fund is designed to be a long-term performer and over the long term it has performed.'

WHAT ARE INVESTMENT TRUSTS?

Investment trusts are **listed companies** with shares that trade on the stock market. They invest in the shares of other companies and are known as **closed end**, meaning the number of shares or units the trust's portfolio is divided into is limited - unlike unit trusts or open-ended investment companies (OEICs) where investors' money is pooled to invest in shares, bonds or other funds.

In an investment trust, investors can **buy or sell shares** to join or leave the fund, but new money outside this pool cannot be raised without formally issuing new shares.

Investment trusts can be riskier than unit trusts/OEICs because their shares can trade at a premium or discount to the value of the assets they hold, known as the **net asset value**.

For example, a trust's price can fall below the total value of its holdings if it is unpopular and people do not want to invest but do want to sell. This pushes down demand and drives up the supply of its units for sale.This gives new investors the **opportunity to buy in at a discount**, but means existing investors' holdings are worth less than they should be.

Investment trusts tend to be a **lower-cost option** than funds, with no initial charge and lower annual fees. However, buying them incurs share-dealing charges. A good DIY investment platform will cut these.

Europe: Jupiter European Special Situations vs European Investment Trust

The Jupiter European Special Situations fund goes after investments considered by the manager to be undervalued, and it can boast of positive growth over five years despite the ravages of the eurozone crisis.

The European Investment Trust (price and charts) has struggled by comparison - its costs are much lower, but it is down 4.66 per cent over five years. We asked Jupiter for a comment but received none by the time of publication.

Jupiter European Special Situations vs European Investment Trust (Source: True and Fair Calculator)

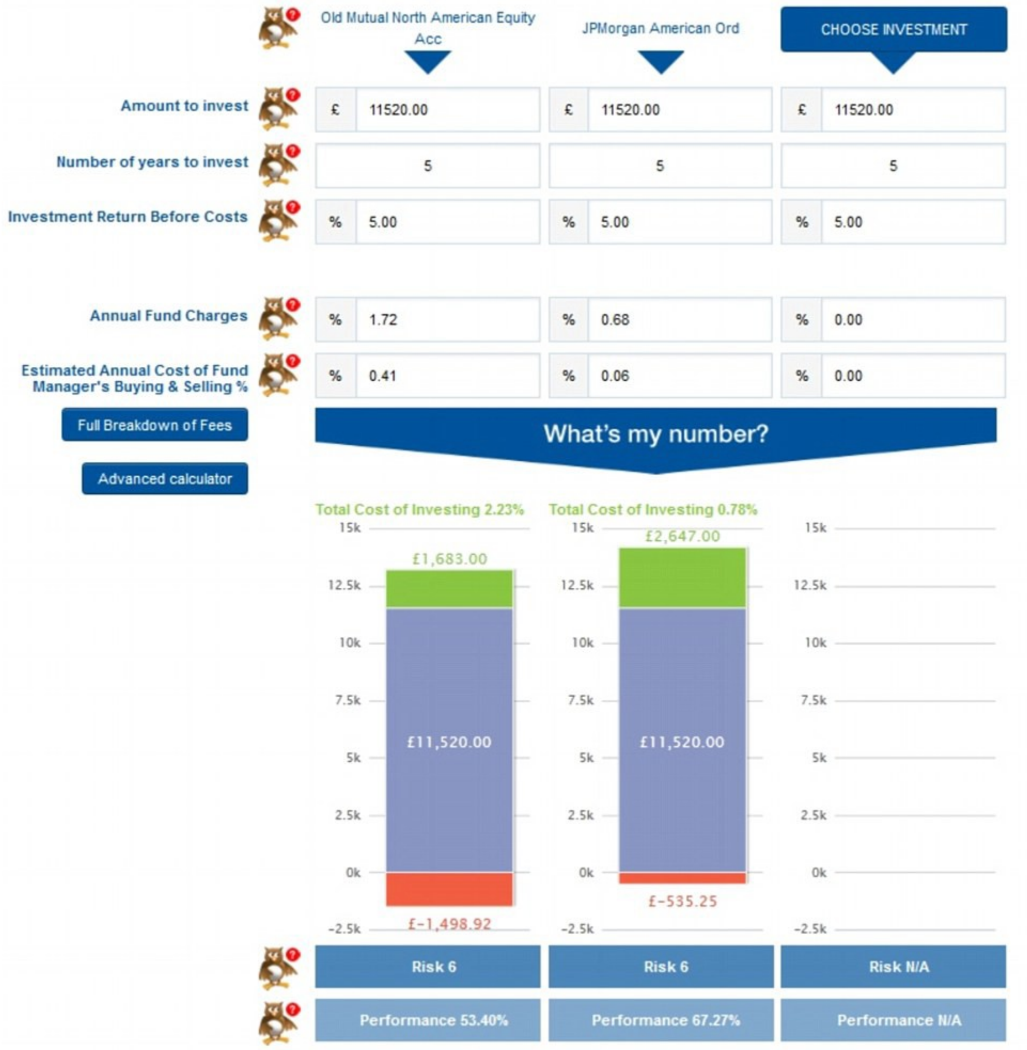
US: Old Mutual North American Equity vs JP Morgan American

The Old Mutual North American Equity fund, which has a solid record of outperforming the market average, is managed by OM Asset Management's 'quantitative strategies team'.

Their investment process is designed to exploit market inefficiencies, and the resulting portfolio is 'optimised in terms of risk, cost and return'.

We compared it with JP Morgan American (price and charts), a trust run from New York by Garrett Fish, which has £612.9million of assets under management and focuses on cash generative companies with the ability to grow earnings.

We asked Old Mutual for a comment but received none by the time of publication.



Old Mutual North American Equity vs JP Morgan American (Source: True and Fair Calculator)

GUIDE TO FUND NAME JARGON

Acc: Accumulation means any income generated by the fund like dividends or interest is automatically reinvested.

Inc: Income means any income generated is distributed by the fund instead of being reinvested.

Dis: Distribution means any income generated is distributed by the fund instead of being reinvested.

R: Retail means the fund is aimed at ordinary investors.

I/Inst: Institutional means the fund is aimed at corporate investors like pension funds.

A, B, M, X etc: Different fund houses use letters for different things so check what they stand for with them or a financial adviser.

NT/No trail: Some fund houses use this name on clean funds which carry no commissions for financial advisers, supermarkets or brokers, just the fee levied by the fund manager. But other fund houses use different letters - I, D or Y, for example - so you need to find out for yourself which are clean funds.

GBP/£: Fund is denominated in pounds.

EUR/€: Fund is denominated in euros.

USD/$: Fund is denominated in US

dollars.

Compiled with help of online stockbroker The Share Centre.

investors CHRONICLE

Don't hand over half your growth in fund fees

By Moira O'Neill,
19 June 2013

No issue is thornier today than the cost of investing. Yet no issue is more pressing than the need to invest despite the costs - £400,000 will buy a retirement that meets the minimum standards of comfort.

All investors can hope for is to try to get a true picture of the costs and then decide whether to buy. You may be able to reduce costs by buying UK direct shares, but if you are investing in overseas shares, many Investors Chronicle readers report that they are left out of pocket by the spreads on the exchange rates (please email me at moira.oneill@ft.com if this has happened to you).

While exchange traded funds (ETFs) can be a cheap way of getting exposure to overseas shares, there is no chance of outperforming the index. But investors who choose active funds in the hope that they will benefit from better performance are often hit by performance fees and the costs of trading within the fund. Even if you can drill down to find out the true picture of costs on active funds, this usually comes in the form of a percentage charge on your investment.

Percentages are easier to dismiss than pounds and pence because they obscure the end result. It may seem logical to say: "I'm going to try to get a 6 per cent annual return on my funds and I'm willing to pay 1 per cent of that return to the manager who I think has the best chance of getting me that return." But let's look at the actual monetary effect of those percentages on a £10,000 investment.

You hand over your £10,000 to the fund manager. After 10 years of consistent 6 per cent annual return, the manager has turned your £10,000 into £17,908. But every year (for simplicity's sake we make this the end of the year) you have paid out 1 per cent of your fund as an annual fee to the manager. That 1 per cent annual charge comes to £1,393 over the 10 years, equivalent to 17 per cent of the £7,908 gain.

The compounding of returns that has been the friend of the investor has also been the friend of the fund manager.

But the compounding of annual management fees on actively managed funds is just the tip of the iceberg - the bit we can see easily. Less visible beneath the waters lie many 'hidden' factors. One of the largest of these is fund dealing costs that are not included in the manager's fee.

Along the way, the fund manager will have incurred costs in buying and selling the underlying investments in the fund. This is reflected in the portfolio turnover rate.

Research into average portfolio turnover rates is thin on the ground. The most recent data I could find is a report by Lipper, which found that the average annual portfolio turnover rate on a UK equity fund is 59 per cent. This can add considerable costs as every time the fund manager buys or sells a holding he pays at least 1 per cent.

Since 2011, fund groups have not been required to report their portfolio turnover rate - a step backwards for transparency.

However, new calculator http://www.trueandfaircalculator.com shows the total cost of investing - in pounds and pence - taking into account an estimated portfolio turnover rate. Anyone considering investing in a fund should visit the calculator first to see how much their investment (there are 3,187 unit trusts, 574 investment trusts and 508 ETFs on the calculator) could be reduced over the years based on the total costs.

Say you put this year's individual savings account allowance of £11,520 into Invesco Perpetual High Income fund, which has relatively low portfolio turnover, and it grew on average at 6 per cent a year. The calculator shows that over five years your investment would have grown by £3,227, but over the same period you would have incurred total costs of £1,410 - that's 43 per cent of your growth.

If you opt for funds with higher portfolio turnover, you could be giving up more than half your growth in costs.

THE STEEPLE TIMES
Wit and Wisdom in Equal Measure

Amazonian takes on the City
June 24th 2013
Gina and Alan Miller launch the True & Fair Investment Calculator

Already well known for their groundbreaking True & Fair Campaign, Gina and Alan Miller have recently launched a free online calculator that enables investors and savers to easily discover the impact of costs and fees on their investments.

The first of its kind, the True & Fair Investment Calculator is based on data streams from Morningstar and uses a robust, reasoned calculation methodology to identify costs and fees based on a series of assumptions. Simplification and ease of use are key to this not-for-profit calculator and ultimately investors can see one total cost of investing in pounds and pence and as a percentage.

The True & Fair Investment Calculator

Of it, Gina Miller, who grew up in Guyana in South America, commented:

"We've created the True and Fair Calculator to provide UK consumers with a free public information service giving details of the investment fees and costs they pay, so they can make better informed decisions prior to purchase. When we launched The True and Fair Campaign 18 months ago, 92 per cent of the public said they wanted to know the cost of their investments in one number. This tool allows them to do exactly this".

"We hope this drives new levels of cost transparency which results in greater competition among product providers, gives information to aid better decision making by consumers and their advisers and provides a foundation for more realistic investment expectations. Ultimately it should result in better consumer protection".

"Those firms offering good products, that deliver strong performance at competitive fees, will presumably welcome the fact that consumers will have the ability to clearly see the value that their products deliver via the Calculator. We look forward to these companies endorsing our initiative and hosting the True and Fair Calculator on their websites".

"Some providers will have to reform their practices or consumers will vote with their feet. Companies offering poorly performing products that charge large, hidden fees have no place in a modern financial services industry".

"The US has had a similar calculator since 2005 and we believe there's no reason why UK savers should be treated as second class citizens compared to their US counterparts. We want to see the UK re-established as the gold standard for transparency, and for trust in financial services products and providers to be rebuilt, and to do this we must prevent another generation of investors sleep walking their way into buying inappropriate investment products. The calculator has the added bonus that future profits will go directly to benefit financial education and care for the elderly, something we are also passionate about".

In the wake of the fallout from the banking crisis, it is transparency that is required in the financial industry. *The Steeple Times* wholeheartedly endorses this excellent tool and urges readers to put it to use as they consider their investment decisions.

Client: SCM Private
Source: The Guardian (Money)
Date: 06 July 2013
Page: 6
Reach: 204271
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Value: 11625.9

Confused about what investment advice will cost? You will be now

Fees A shake-up of the commission structure to make charges cheaper and simpler hasn't quite worked out that way, reports Liz Phillips

Working out the cost of investing in funds such as unit trusts is a minefield. On 31 December the main financial regulator brought in new rules on the fees that investors are charged, but, ironically, this has made matters more confusing, it was claimed this week.

The aim of this shake-up, known as the retail distribution review (RDR), is to make the true cost of investing clearer. It means financial advisers will have to charge upfront fees to their customers rather than receive commission from companies supplying financial products. The aim is that consumers will see clearly the cost of advice which may previously have appeared to be free since the charges were part of the commission paid to the adviser.

But because it is being phased in over three years, brokers and advisers are using two methods: the old one, which includes the provider and investment "platform" fees, or the new one, which strips these out, leaving only the fund manager's charges. Investment platforms allow you to buy, sell and manage all your investments in one place online.

Nick Curry at online investment firm rplan says: "RDR is a great attempt at clearing up some of the confusion around the charges in the industry. It's unfortunate that its introduction is temporarily creating so much confusion around the cost of investing – the very problem which it was supposed to solve."

It was thought that costs would come down once all the charges were explicit, but Gina Miller of SCM Private, who is spearheading the True & Fair Campaign to make the industry come clean about charges, claims: "It's more expensive since RDR was introduced than before. The costs are incomplete. There should be one ticket price that investors can trust. Some fees are absolutely outrageous."

Where your money goes

While some charges are clearly stated

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upfront, others are hidden when you invest in unit trusts or open-ended investment companies (Oeics).

● **Initial charge.** This is typically 5%, but is easy to avoid. Discount brokers and advisers such as Bestinvest, Cavendish Online, Chelsea Financial Services, rplan and Hargreaves Lansdown, refund you most, if not all, of this charge when you invest. This would save you £633 if you put in your full Isa allowance of £11,520, and would increase your investment by £2,000 over 10 years.

● **Annual management charge (AMC).** This is often around 1.5%, and again you may get a small proportion of it back from discount providers.

● **Total expense ratio (TER).** This includes the AMC, administration costs, other charges and the exit fee if there is one. It may include the provider and platform fees or not, depending on whether your provider has already moved to the new method, where these costs are removed.

● **Turnover.** There are costs every time your fund manager buys and sells shares; how much this will eat into your returns depends on how often it's done. It's possible for the entire portfolio to be changed in a year. Funds do not have to supply the turnover rate, and Miller says it is often buried in a 100-page accounts report rather than being in the key facts.

● **Performance fees.** Some funds charge these if the fund does particularly well against a benchmark or target figure set at the start. If it beats this, it may well claw back between 10% and 20% of the profits – rplan says the average is 15.8%.

"This is absolutely outrageous," says Miller. "You're paying them to do a job, and if they do it well they take more." And, of course, if you use an adviser to guide you in your investment decisions, you will pay either a flat fee or a percentage of the amount you invest.

Cheaper funds

Investment trusts and exchange traded funds (ETFs) tend to be cheaper than unit trusts and Oeics, but they are not marketed as heavily as they don't pay commission to the seller.

● **Investment trusts** quote an ongoing charge which is similar to the TER. The typical equity fund charges 1.21%, according to the Association of Investment Companies (AIC), with around a third charging less than 1%. Again, this does not include information on how high the turnover is, or performance fees. If there is a performance fee, it is displayed on the AIC website.

Buying an investment trust is like buying shares, so there will also be a stockbroker charge of 0.5%, and the margin between the buying and selling price.

● **Exchange traded funds** simply track an index such as the FTSE 100. Because you are not paying for a manager to make decisions for you, they tend to charge less than 1%. Again, they are like buying shares, so you will have broker fees and the buy-sell spread to take into account.

The best buys

When choosing a provider to buy your funds from, be aware that this can make a significant difference to how much you pay. It all depends on its fees and how much it pays for the platform to administer the purchase, as well as the rebates it pays. In some cases, such as Fidelity and Hargreaves Lansdown, they are both the provider and the platform.

Research by rplan shows that you could be charged less than £8,000 or nearly £16,000 if you invested your annual Isa allowance of £11,520 over 10 years. Cavendish Online came out the cheapest at £7,679, followed by ICICI Bank at £8,240 and rplan at £8,400. The typical discount broker worked out at £11,135 and the typical adviser cost £15,739.

The True & Fair Campaign has a cost calculator at trueandfaircalculator.com so you can check what you are paying.

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Client: SCM Private
Source: The Guardian (Money)
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Are you prepared to take a risk?

The cost of buying and selling is only one part of your investment decision; the others are how much risk you want to take and how well your chosen fund performs.

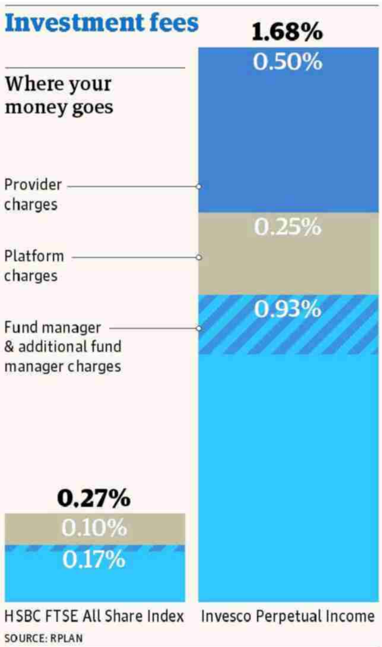
Research by rplan for Guardian Money compared the cost of the HSBC FTSE All Share Index, a tracker fund, with two other popular funds: Invesco Perpetual Income and Jupiter UK Growth.

The HSBC tracker has a total expense ratio of just 0.27%, while the Invesco fund charges 1.68% and Jupiter, 1.78%. On a £10,000 investment you would pay £29 with HSBC, but £182 with Invesco and £216 with Jupiter.

However, over the past year the Jupiter fund has performed best, returning £3,750 after charges, while the tracker has made only half that, generating £1,885 profit.

The Invesco fund sits in the middle, having made £2,173.

Liz Phillips



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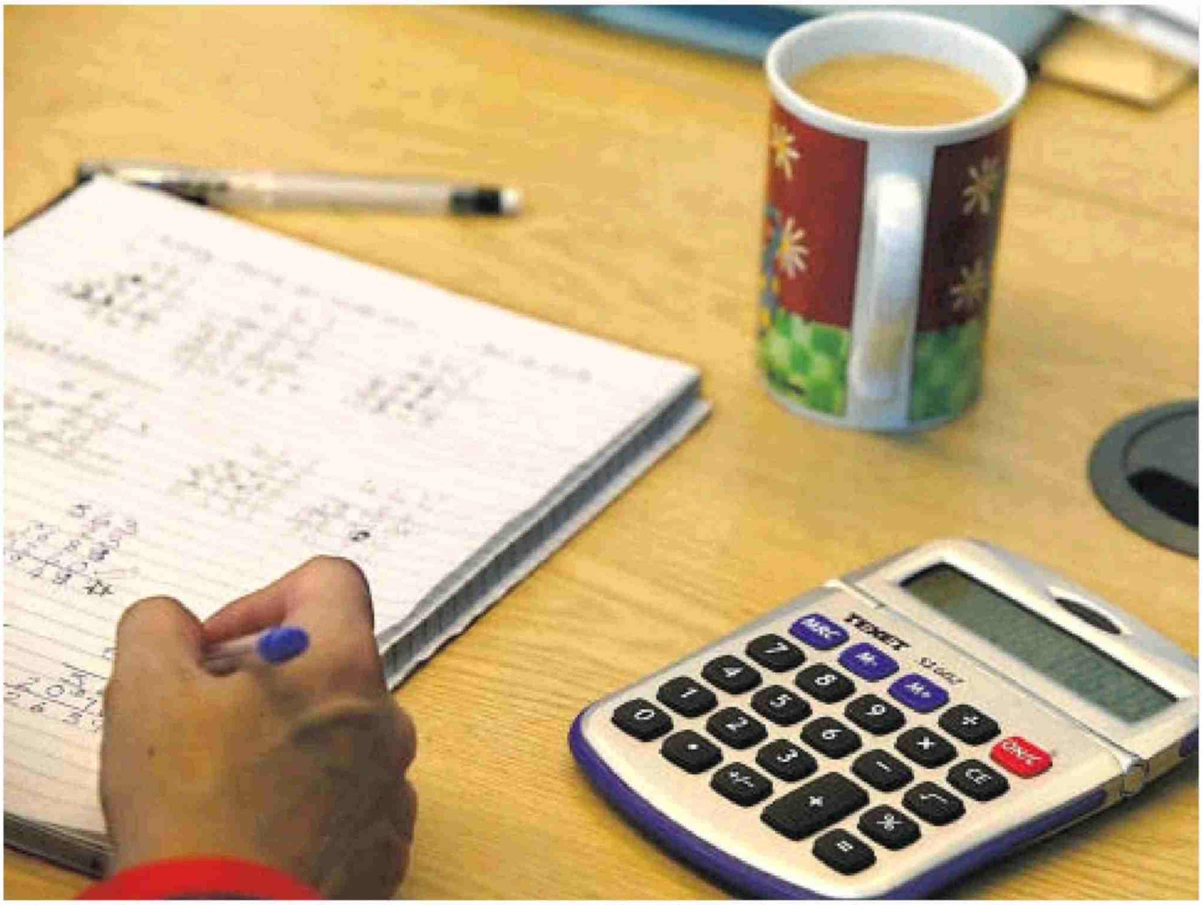

It doesn't add up: trying to calculate what you are paying is still a nightmare Photograph: Don McPhee

FINANCIAL TIMES
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Page: 8,9
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Edition: 01

The hidden costs that drill deep into our investments

Only in the investment industry would you expect to pay a host of less-than transparent fees. Yet few people complain about charges which are eating into their underlying funds. *Lucy Warwick-Ching* reports

Picture the scene. You've splashed out on the latest Aston Martin. But as you climb into the driver's seat you're asked to pay a fee for the key to the car and another charge for its manual.

Then, just as you're about to drive off the dealer's forecourt you're hit with yet more charges – an exit fee for leaving the garage, followed by separate charges for the leather seats and passenger door.

Most of us wouldn't keep silent if this scenario happened in real life, so why do so few people complain about the percentage of their investments that goes to charges?

"Confusion about charges on investment funds and pensions has left most investors in the dark about how much they are paying," says Gina Miller of SCM Private, a wealth manager, who is spearheading a "True and Fair Campaign" to encourage better disclosure of investing costs.

"This has suited the UK industry, which has benefited from charges that are among the highest in the world, but a decade of low returns has started to focus people's attention on fees."

What you really pay

Figures compiled for the Financial Times, using the campaign's True and Fair Calculator reveal that the total cost of investing can be more than twice the advertised annual management charge (AMC).

For example, in the Investment Management Association's absolute return sector, the City Financial UK Equity fund cites an AMC of 1.5 per cent a year. However, once ongoing charges, underlying trading costs and performance fees are added (assuming the fund returned 5 per cent a year) the total cost for the investor rises to 5.57 per cent a year.

The JPM UK Dynamic fund, which sits in the all companies sector, reports an AMC of 1.59 per cent but ongoing charges and trading costs push the total cost of investing, according to the True and Fair Calculator, up to 3.27 per cent.

"When you buy an investment fund you might think the manager's initial charge and AMC are the end of the story. But other charges can apply," says Justin Modray, founder of comparefundplatforms.com, an investment advisory service.

"Initial charges of 5 per cent or more are a lot less common nowadays, but most unit trusts still suffer a bid/ask spread, a difference between the buying and selling prices. This covers the cost of creating or cancelling units, such as stamp duty, dealing fees and underlying investment spread which, in some cases could amount to 1 per cent or more."

Other charges, such as custodian's fees and auditors' costs, also typically add an extra 0.2 per cent or more to a fund's AMC, so check the total expense ratio (TER), sometimes called the ongoing charges figure, which includes additional items.

However, even the TER isn't comprehensive. Fund managers also incur dealing fees, stamp duty and possibly foreign exchange costs when buying and selling investments, but these are seldom explicitly disclosed. Their impact will depend on the fund's "portfolio turnover" and the nature of the underlying assets. But some estimates put such costs at up to 3 per cent or more a year for some funds.

"Other potentially hidden costs include some exchange traded funds lending out stocks they hold and pocketing the income received themselves, rather than giving it back to investors," said Mr Modray. "Also, with-profits investments levy unexpected market value reductions when some investors wish to sell, and older-style pensions apply excessive annual charges to early pension contributions over the whole life of the pension."

Many investment trusts still levy performance fees if they beat their benchmarks by more than a certain increment.

It's getting better

But things have improved lately, thanks partly to the ban on commissions to advisers and the growing tendency towards "clean" share classes, which don't pay commissions to platforms. A Dianomi MarketViews survey conducted for the FT in January 2012 found that eight out of 10 private investors believed charges on managed funds were not being clearly disclosed to them – even though more than half said they considered "transparent fees" and "low dealing costs" to be the most important factor when buying funds.

The same survey, conducted last week for the FT by Dianomi MarketViews, found investors were less disillusioned – this time six out of 10 believed charges were not clearly disclosed.

It seems recent pressure from the government, MPs and financial advisers now means that after decades of denial, investment and pension managers could be on the brink of making fees more transparent.

In April, Daniel Godfrey, chief executive of the Investment Management Association (IMA) put forward proposals for a further overhaul of how charges should be presented to investors. He outlined plans for a single figure to be displayed based on costs incurred in the past year. This would not, however, include charges levied by fund supermarkets, and entry or exit costs, and it would not be personalised to an investor's holding period.

But the investment industry still has a long way to go to encourage trust among investors, says John Kay, the economist who was commissioned by the government to look into the country's equity markets. He blamed the long chain of intermediaries – including registrars, custodians, nominees, fund managers, trustees, investment consultants, platforms and independent financial advisers – for many of the problems. He said "some of this proliferation represents efficient specialisation – but most results from people looking over each other's shoulders".

Ms Miller agrees. She says the sheer length of the investment chain creates misalignment of interests as each intermediary pursues the goals of its own business. The outcome has been that over the past decade, individual companies have done OK, investment managers have done very well and investors have done badly, she says.

"When people were getting double-digit returns they didn't care about how much they were paying in charges, but now performance has dwindled the impact of these charges is more worrying," says Ms Miller.

Some fund managers justify the extra costs by producing top returns, and Brian Dennehy managing director of fundexpert.co.uk says investors should focus on performance as well as charges (see box)

The Financial Conduct Authority and its predecessor organisation has spent much of the past few years preparing for the retail distribution review, which aimed to raise the standard of advice given to UK investors by improving qualifications and banning commissions to advisers.

However, the FCA says that it is turning its attention to investment charges. "We are currently undertaking a project that will highlight the behaviour and practices of asset management firms in relation to charging structures in funds. These need to work in the interests of consumers."

'Performance is the key'

By Brian Dennehy, managing director of FundExpert.co.uk.

For some years the media and regulators have been obsessed by charges. The reality is that they are fighting yesterday's war – a problem that was very real until the 1990s, when advisers introduced illustrations showing the impact of overall charges on growth, called the "reduction in yield calculation". In my experience, there has been no clamour from clients for clarity on charges since that time.

So, the sterile debate on charges needs to move on; fund performance is significantly more important for investors. Perhaps an investor can shave a few tenths of a per cent off fund-related charges, but such savings pale by comparison to the extra growth that a straightforward fund selection strategy can generate.

Advisers, regulators and media should concentrate on improving investment outcomes – and be in no doubt, there is huge scope for improvement.

Ironically, this will probably reduce charges for many investors anyway – advisers will be less inclined to recommend high charging funds of funds or discretionary fund management services, which also tend towards mediocre performance.

Charges hit your pension

The impact of excessive costs upon investment performance is arguably at its most invidious in pensions, **writes Lucy Warwick-Ching**. These tend to be long-term investments, so the impact of compounded costs is likely to be much greater. And there is substantial customer inertia; most people don't check their pension plan very often and are largely unaware of the costs of running it.

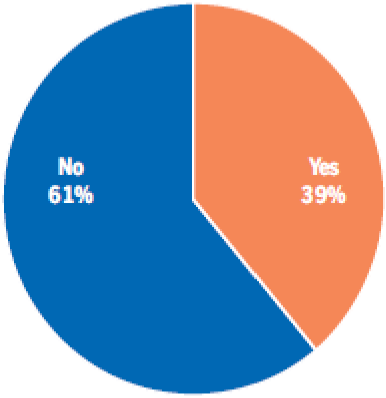
Personal pension schemes, which were widely promoted in the 1990s, often have high annual management fees and some also came with steep initial charges. According to Hargreaves Lansdown, charges on the priciest 10-year personal pension plan on sale in 1992 ran to 4.96 per cent a year. There may also be fees for valuations and transferring between investment funds.

Over long periods, the impact of such charges can be dramatic, stripping thousands of pounds from the returns of even modest funds. Hargreaves Lansdown gives the example of a 35-year-old earning £50,000 a year, saving the minimum 8 per cent of earnings specified under auto-enrolment. Just by cutting the charges on the pension fund from 1 per cent to 0.5 per cent, he could see his total pension fund increase at age 68 from £271,000 to £296,000.

However, Tom McPhail of Hargreaves Lansdown points out that it is also important to recognise that any savings on charges could involve compromises in terms of the investment management, the administration or the service delivered to the investor. "It may make sense to pay 1 per cent a year, if it means you are enjoying better investment management, or better quality service."

He says many investors still have money tied up in high-cost plans, unaware that they are paying over the odds, but not enjoying the benefits. Nor is the problem confined to personal pensions. Research by the Financial Times this year found that the performance of local authority pension schemes varied dramatically between one region and another, with costs often the deciding factor, while some workplace schemes have charged the cost of consultancy services direct to members' pension funds, reducing long-term returns.

FT poll: do you think charges on managed funds are clearly disclosed to investors?
% of respondents



1,200 people questioned on July 3 2013

Source: Dianomi Marketviews survey

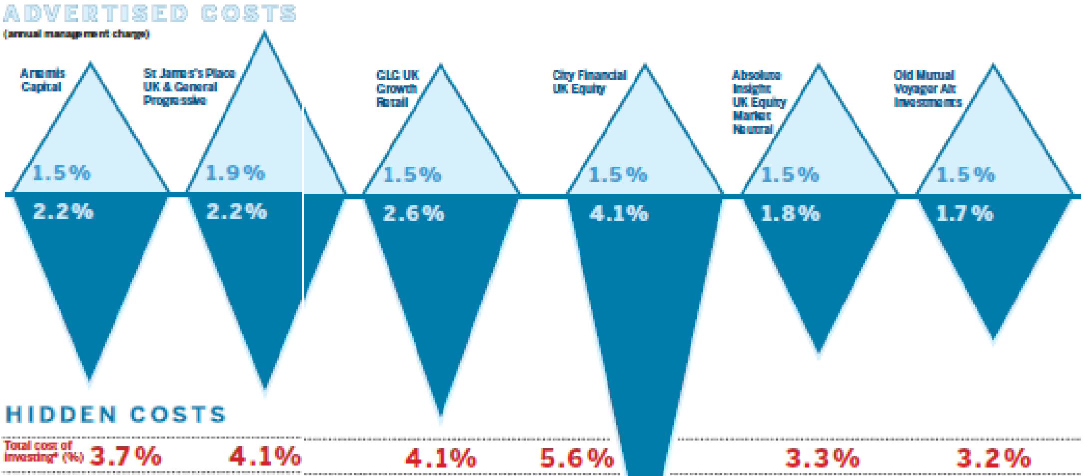
Listen to Lucy Warwick-Ching interview Gina Miller about hidden charges. Download the FT Money Show podcast at **www.ft.com/moneyshow**

Thirteen hidden fees

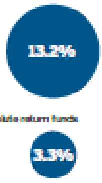
Custody fees	For safe custody of financial assets, reporting and statements
Management fees	For providing ongoing investment advice
Transaction fees	A charge for buying or selling any financial security. Often called a commission charge
Brokerage fees	A charge for introducing a buyer to a seller in the buying or selling of a financial security. Again often called a commission charge
The bid/ask spread	The built in margin used by traders between the buy price and sell price of a financial security. Often called a mark-up
Built-in product fees	Hidden cost associated with structuring a product or fund
Cash payment fees	An administrative charge for transferring cash into or out of an investment account
Active fund manager fees/ ETF fees	Third party structuring and active management cost. Can also include additional administrative charge or upfront fees
Administration fees	For any non-investment related activity on an account
Overdraft fees	Borrowing cost and administrative charge as a spread over interest rates
Trail fees	Ongoing commission paid to third party introducers. Sometimes referred to as a retrocession or a rebate
Jurisdictional fees	Stamp duty in the UK or Switzerland when buying or selling a financial security. Withholding tax on capital gain or income
Performance fees	A percentage fee charged on any out performance relative to an agreed benchmark

Source: Yogi Dewan, chief executive and founder of Hassium Asset Management

The real cost of investing



Average performance in UK All companies sector over 3 years



Sources: [illegible]; Lipper FT Graphic

Total costs in the investment chain

Fund manager costs	Typical active fund (%)	Typical index fund (%)
Annual management fee(s)	0.7	0.2
Costs of trading	0.4	0.1
Performance fees	Can range from 0-20%**	0
Custody/admin fees	0.2	0.1
Platform/stockbroker costs		
Initial charges	Can range from 0-£100	Can range from 0-£100
Annual charges	0.3	0.3
Product/wrapper costs		
Initial charges	Can range from 0-£250	Can range from 0-£250
Annual charges	Can range from 0-0.5%	Can range from 0-0.5%

Adviser costs	Typical active fund (%)	Typical index fund (%)
Initial charges	1.5	1.5
Annual charges	0.6	0.6
Total cost of investing		
(per annum over 5 years)	2.6%	17%
Total cost of investing		
(based on £11,250 lse over 5 years)	£1745	£1,137

* According to the True and Fair Calculator ** Of the annual gains

THE GREAT FUND FEE ROBBERY

With billions of your savings invested in stocks and shares Isas and pensions, Which? investigates why UK investors are getting such a raw deal on fund charges

When you're handing over tens of thousands of pounds of your money in return for a service, you undoubtedly want to know whether you're getting a good deal. But when it comes to the world of investments and the charges levied by fund managers, you may not even realise that you're paying out such vast sums of money, let alone know whether you're getting ripped off.

Professional 'active' fund managers spend millions marketing their investment products on the promise that their expertise will deliver you market-beating returns – and charge you a premium for the privilege. The reality is that very few can do this on a consistent basis over the long term, despite the fact that they're collecting huge amounts in fees.

As an investor, you expect that markets can rise and fall in the hunt for a better return on your savings, but the level of fund charges you pay is one thing you can control. Here, we reveal how UK investors are getting stung on fees, and why you should check the charges that you're paying if you feel your stocks and shares Isa or pension isn't delivering the returns you expect.

WHAT IS THE IMPACT OF FEES?

In simple terms, if you're paying 2% in ongoing fees, and the stock market rises by 10% a year, a fund manager needs to achieve 12% growth just to keep up. And compounded over time, high charges make a big difference to returns.

For example, a £50,000 investment growing by 7% a year would be worth £193,484 after 20 years (see 'How charges affect performance', p38). But the same investment made in a fund charging 1% would be worth just £160,357 over the same period, while a fund with a 2% charge would leave you with only £132,665. Although the difference in percentage fees seems quite small, you'd lose more than £60,000 through investment charges with the 2% fund.

UK INVESTORS MISSING OUT

We think UK investors get a raw deal on charges, especially when you compare our fund market with its equivalent in the US. We've found that over the past decade, the average cost of investing in popular US funds that invest in American stocks has fallen by 13%. Over the same period, the average cost

Client: SCM Private
Source: Which? (Main)
Date: 01 August 2013
Page: 36
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of investing in popular British funds that invest in UK stocks has increased by 4%. And because private investors have poured even more of their money into the top funds since 2003, the British fund managers running those top funds are taking more than £1bn extra in expenses and fees than they were a decade ago.

What's more, we've found that – because of additional costs buried out of sight from investors – the ongoing cost of investing in some of the UK's most popular funds could be, on average, more than 20% higher than headline figures would suggest (see 'Costs you don't know about', p38).

CULTURAL DIFFERENCES

To compare the cost of investing in popular UK funds with equivalent US ones, we looked at 100 of the biggest actively managed funds from each market (excluding cheaper index trackers). By studying each year between 2003 and 2013, we worked out whether the cost of investing, weighted according to fund size, had gone up or down – see 'UK and US fund charges in the last 10 years', p38. >

Jargon buster

- **INVESTMENT FUND** A product where your money is pooled with other investors' contributions and used to buy a portfolio of stocks and shares.
- **ACTIVE MANAGEMENT** When your fund manager picks stocks and shares for the portfolio. You pay more for this service.
- **INDEX TRACKER** A fund that aims to replicate the performance of a stock market index, such as the FTSE 100. These funds tend to have lower costs.
- **ONGOING CHARGE** The amount that is taken out of a fund every year to cover fees and expenses. This is deducted as a percentage of the amount you invest.
- **TRANSACTION COSTS** The commission a fund pays when buying and selling shares. These costs are not included in ongoing charge figures.
- **FUND SUPERMARKETS AND DISCOUNT BROKERS** Online services used to trade and view investment funds.
- **CLEAN UNITS** New versions of funds with lower ongoing charges – they don't pay commissions to financial advisers and fund supermarkets.
- **BUNDLED CHARGES** Where a fund's ongoing charges include commissions that will be paid to financial advisers and fund supermarkets.
- **RDR** The Financial Conduct Authority's Retail Distribution Review – designed to bring greater transparency for investors.

The ongoing charge is taken as a percentage of your investment, mostly made up by a fund's annual charge and commission, but it also includes things such as audit and legal expenses, and is supposed to represent the total amount you'll pay for investing in a fund each year.

As the graph below right shows, our weighted average for 100 US funds in 2003 is 0.8%. The equivalent figure for 2013 stands at 0.69%. In the UK, fund fees have risen, with the weighted average for the top 100 funds in 2003 standing at 1.44%, rising to 1.5% in 2013.

It's worth noting that in the US there are sometimes additional dealing commissions to pay when you buy and sell mutual funds. Also, UK fund ongoing charges are generally higher because, currently, they include commission that is passed to brokers. Nevertheless, the trend clearly shows that US funds have got significantly cheaper over this period while UK funds have become more expensive.

WHY ARE US CHARGES CHEAPER?

The American Investment Company Institute (ICI) explains the fall in US fund charges by pointing out that expenses incurred by fund managers are mostly fixed – as a fund grows, its expenses become relatively smaller. Many popular US funds reduce charges as they grow, and the benefits of these economies of scale are passed on to investors.

There is also another reason. Board directors on US funds have a legal duty to treat shareholders' money as carefully as they

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would their own and, as of 2004, at least 75% of mutual fund directors are required to be independent of the fund management company. One of the responsibilities of directors is to review fee levels each year. In the UK, fee levels are simply set by fund management companies.

Overall, UK equity funds have grown in value over the last decade, but economies of scale have not been passed on to investors.

We looked at all funds that invest in UK shares across three sectors – UK All Companies, UK Equity Income and UK Smaller Companies. In 2003, funds in these sectors, excluding trackers, held assets worth around £76bn. Based on 1.44% deductions for charges and expenses, we estimate investors would have paid out around £1.1bn. Now, funds in these same sectors, again excluding trackers, hold assets worth around £145bn – and we estimate investors could be incurring £2.2bn in charges and expenses.

COSTS YOU DON'T KNOW ABOUT

The ongoing charges quoted by fund managers don't actually include all the costs incurred within a fund. When a fund manager buys and sells assets in their fund there is commission to pay – the more a manager trades, the higher the costs. There is also stamp duty reserve tax to pay on purchases of shares. Information on these costs is scarcely available for investors.

SCM Private, an asset management company offering lower-cost investments, has recently launched an investment calculator as part of its True & Fair campaign for greater transparency in the investment industry. It gives you an estimate for the total cost of holding a fund, including all the extra trading costs, using ongoing charges together with estimates for transaction fees.

The 10 biggest UK funds on our list for 2013 have average ongoing charges of 1.57%. Add on the True & Fair estimates for transaction costs, and the average rises to 1.91% – so the true cost of a portfolio of these funds might be 22% higher than the headline rates would suggest.

When you estimate for transaction costs, the true cost of ongoing charges may be 22% higher, on average, than the headline rate

HIGH COSTS, POOR PERFORMANCE

It's not difficult to find examples of expensive, underperforming funds. The Manek Growth fund, for example, has an ongoing cost of 2.89%, up from 2.06% in 2008 – True & Fair estimates the real ongoing cost to be 3.2%. Similarly, the Legg Mason UK Equity fund has an above average cost of 1.95%; the true cost is estimated at 2.32%. The ongoing charge for the St James's Place UK and General Progressive fund has risen from 1.63% in 2008 to 2.13% in 2013, but True & Fair estimates the actual ongoing cost to be a staggering 4.15%. St James's Place told us that this estimate is based on a high trading period over the course of a management change at the fund. It said the accurate figure is 2.58% – still very expensive.

High trading costs would be OK if the fund managers incurring them picked the right shares to buy and delivered sky-high profits. But the figures suggest that many fund managers trade a lot and make the wrong decisions, causing funds to massively underperform.

The St James's Place and Legg Mason funds have both achieved around 90% growth over 10 years to the end of May with dividends reinvested, while the Manek fund has grown by just 0.42%. The 90% figure might not seem too bad given the market volatility of the last decade, until you consider that the FTSE All Share index, easily accessed through a low-cost tracker fund, has risen by 149% over this period.

We put our concerns about charges to the Investment Management Association (IMA), which represents the fund industry. Chief

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executive Daniel Godfrey said that it is devising an all-inclusive pounds and pence cost for every fund, to be listed alongside a statement of performance. 'Investors will then be in an informed position to vote with their money for lower costs if they want,' says Godfrey.

WILL UK FUND CHARGES FALL?

Following regulations introduced this January (Retail Distribution Review), the way you're charged for investing in funds is changing. The charges we've investigated are bundled into a combination of fees and commissions – paid to fund managers, fund supermarkets (online services to trade funds) and financial advisers or brokers (see 'Various fees...', opposite).

At the moment it's not clear to investors who's being paid and how much. This is complicated even further when fund supermarkets pay a portion of their share back to the investor, usually up to 0.25%, calling it a discount or 'loyalty bonus'.

Now, new fund investments made through financial advisers are put into so-called 'clean' funds, meaning you pay for fund management and advice separately. There are further rule changes afoot to make fund charges even clearer. From April 2014, commission from new investments in funds will also be banned to fund supermarkets – you'll have to pay a separate fee for their services.

Fund charges should certainly become much more transparent – but there are no guarantees that the amount you pay will fall.

How to reduce fund charges

✓ **Invest in tracker funds** These aim to track the performance of a stock market index, such as the FTSE 100, and are now more numerous and competitive in the UK. You won't get market-beating returns, but your fund is unlikely to drastically underperform. The cheapest UK index funds have ongoing charges of around 0.2%.

✓ **Discount brokers** If you're confident investing without the help of an adviser, investing through a discount broker cuts out much of the commission built into fund fees. See **www.which.co.uk/funddiscounts** for more.

✓ **Investment trusts** These have been operating in the UK for hundreds of years. They are companies that invest in other companies and trade on the stock exchange. They have boards of directors with responsibilities to shareholders – such as trying to keep charges down.

Various fees that make up fund charges

Below, we break down the various fees that make up what you're charged by a fund manager. This doesn't include transaction costs, which can vary each year. The example below is a representative illustration – charges can vary from fund to fund and depending on which broker you use to buy your investments through.

1.8%	=	0.75%	+	0.5%	+	0.3%	+	0.25%
Total ongoing charge		Paid to your fund manager		Commission paid to the broker who sold you the fund		Extra costs, such as legal and audit fees		Fee paid to your online trading provider

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FUND INDUSTRY:

It's time to do right by your customers

Which? fully supports the new rules that will force more transparency onto the investment industry. But there are many other issues to address. Principally, UK investors deserve a better deal on charges.

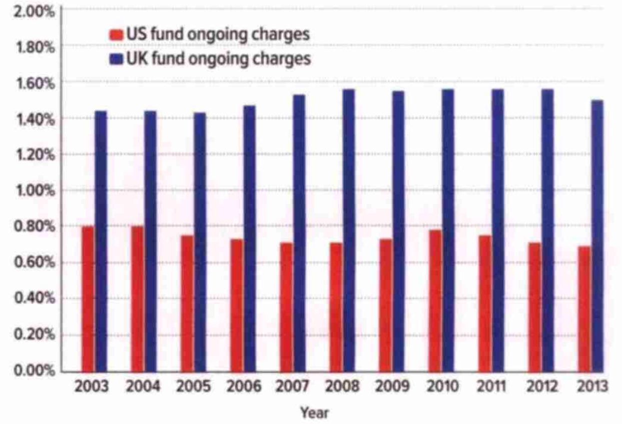
Our research demonstrates that the investment industry can learn a few things from its counterpart in the US. We would like it to adopt the practice of reducing ongoing charges as funds grow. This will help generate more diversity on fees. It's curious, to say the least, that in this most capitalistic of industries, there is so little competition. And we would like the fund industry and the regulator to look at the possibility of funds employing independent directors with a remit to review charges.

We also call on fund groups to prominently publish all the ongoing costs of holding their funds, including transaction costs. We think the IMA's proposal for an all-inclusive pound and pence cost for every fund is a positive move – investors deserve to know how their money is being spent.

Fund supermarkets and discount brokers have a crucial role to play. Previously, the interests of these online trading services were tied to fund managers, as they got paid a commission out of bundled fund fees. Now, they will be incentivised to fight for lower fees for their clients. We want them to become the arbiters of good value on behalf of investors.

UK and US fund charges in the last 10 years

We looked at 100 popular actively managed domestic equity funds in the US and the UK in each year between 2003 and 2013. We measured ongoing charges (Total Expense Ratio) and produced averages for each market in each year, weighted according to fund assets. Source: Lipper for IM



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How charges affect performance

The graph below shows how higher ongoing charges, compounded over time, can eat into your investment return. The graph assumes a £50,000 investment, growing by 7% over 20 years.