Summary Review of Key Points Within The Financial Conduct Authority Asset Management Market Study Published 18 November 2016

23 November 2016

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SCM Direct Overview

The 208 page FCA paper is a comprehensive and informed analysis of the numerous dubious practises that have dogged the UK fund management industry for decades. An industry that has lost its moral compass and the principle of putting customers first.

The FCA has rightly exposed lack of price competition in active funds, the failure to pass on economies of scale, hidden transaction costs, £109 bn of closet index funds, near useless broker 'buy lists', the crucial importance of increased transparency and standardisation of costs and charges, the 0.6% pa underperformance of active funds, and numerous conflicts of interest operating within fund managers, pension consultants and pension trustees that result in detrimental outcomes for prudent, hard-working savers and investors.

These areas have been the subject of a raft of SCM / True and Fair Campaign reports and communications since 2009, and the FCA paper serves to vindicate our work.

SCM hopes that large fund groups and their trade body will finally stop defending the indefensible and work to address, rather than avoid, the insidious practises identified. For example, the FCA paper clearly shows that the Investment Association (IA) recent paper ***"Hidden Fund Fees: The Loch Ness Monster of Investments?"***[1] was a shamefully amateurish and wholly misleading industry propaganda paper.

Our hope is that this FCA report is a game changer and marks a cultural revolution within both the Regulator and the sector that will effectively restore the UK to the gold standard internationally of consumer savings and investment products and protection. This is good news for UK investors and good news for the UK investment and pension industry.

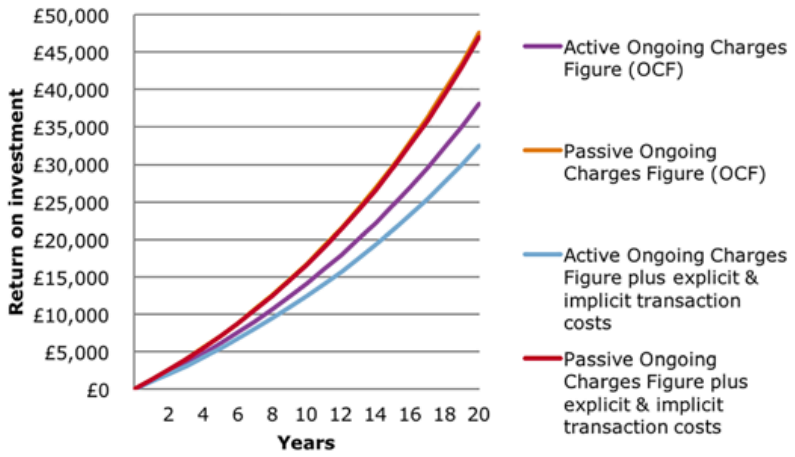
[1] http://www.theinvestmentassociation.org/media-centre/press-releases/2016/hidden-fund-fees-the-loch-ness-monster-of-investments.html

Key Points and Commentary

1 Charges

- **FCA acknowledges the effect of charges including transaction costs** - the extra net return on a £20,000 investment over 20 years assuming average FTSE all share growth would be £14,439 (44.4% more than a typical active fund) once transaction costs have been considered.

- **Report discredits IA research into active funds' average Portfolio Turnover Rates (PTR). Finding - High levels (100%) portfolio turnover (PTR) pa for active funds vs just 10% for passive funds -** more than twice the IA recent research claim[2] that 'the asset-weighted average PTR across all equity funds is 40%'.



- **Acknowledgement that Transaction costs are hidden** – '*investors are not given information on transaction costs in advance, meaning that investors cannot take the full cost of investing into account when they make their initial investment decision. These costs can be high and add around 50bps on average to the cost of active management for equity investments.*'

- **Hidden 0.5% active fund transaction cost is nearly 3x the level which the IA falsely claimed in its recent report of just 0.17% pa.** The FCA estimates are much closer to the 0.41% pa level found within the SCM 2014 Legalised Looting Report[3].

- **Active funds charge 6x the amount charged by passive funds – 0.9% pa vs 0.15% pa.** Furthermore, adding back, the 0.5% pa transaction charges of active funds, estimated by the FCA and a comparative 0.05% for passive funds, would make the real costs, 1.4% pa vs 0.2% pa, an even greater gap.

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[2] http://www.theinvestmentassociation.org/media-centre/press-releases/2016/hidden-fund-fees-the-loch-ness-monster-of-investments.html

[3] https://scmdirect.com/sites/default/files/FINAL%20True%20and%20Fair%20Campaign%202nd%20Anniversary%20Report%202014%20(Secured).pdf

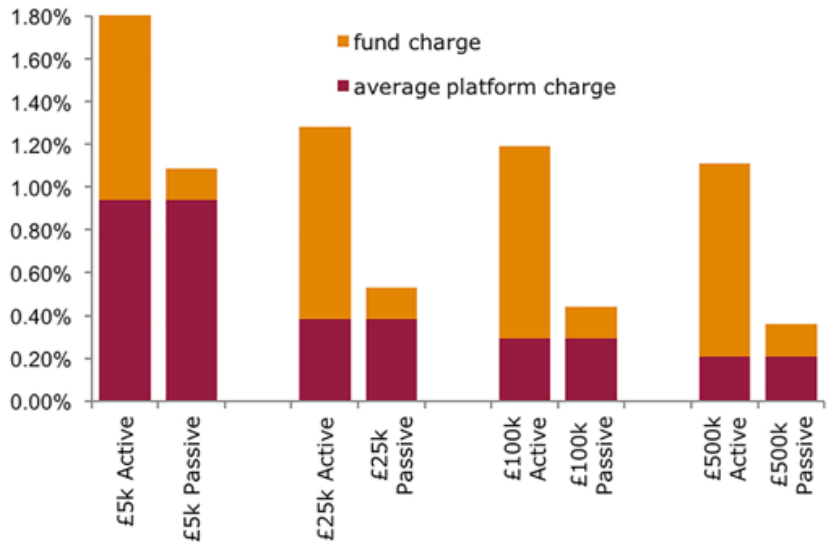
- **No evidence of price competition in active funds -** *'mainstream actively managed fund charges have stayed broadly the same for the last 10 years' whereas 'charges for passive funds have fallen over the last five years'.*

- **Evidence of 'price clustering' i.e. cartel like pricing for active funds with -** *'many funds priced at 1% and 0.75%' and that economies of scale were not passed back to consumers.'* This backs the 2012 SCM research[4] that stated *'68% of money invested in active funds within the UK largest retail fund sector had an identical Annual Management Fee.'* In the SCM 2014 **Legalised Looting Report** we found that *'In the UK the largest sized funds actually charged just 6% less than the smallest funds. This contrasts with the US where funds charge 33% less than the smallest funds.'*

- **No evidence most expensive funds perform any better either 'before or after costs' –** *'academic research from the US and recent Morningstar research suggests that higher charging funds are not on average generating higher performance, compared to cheaper funds in the same investment category. Our initial analysis indicates that, while there is no clear link between price and performance, on average the cheapest funds generated higher returns (both gross and net) than the most expensive funds.'*

- **Retail platform charges can be greater than the actual fund manager charges**, particularly for passive funds and *'investors cannot rely on fund or platform charges alone to give a reliable indication of the total cost of investment':*

Average platform charges for ISA/General Investment Account retail investors with different pot sizes



- **FCA proposal: clearer communication of fund charges and their impact on retail investors, plus increased transparency and standardisation of costs and charges.** This is in line with our True and Fair Campaign since 2012 calling for 100% disclosure on all costs and fees charged

[4] https://scmdirect.com/sites/default/files/True_and_Fair_Campaign_Research_Report_February_2012.pdf

by investment and pension fund managers and reporting of all costs and fees via one single number, using a common format across the investment industry so that savers can make meaningful comparisons between products. SCM successfully lobbied and contributed the text for these principles which now form Article 24 in the forthcoming MIFID II legislation.[5]

- **FCA report finds charges are misleading** – '*the OCF of a fund does not include 'one off' fees, such as entry or exit charges or performance fees. It also does not include implicit or explicit transaction costs (the costs to buy and sell securities). Other charges, such as dilution levies and adjustments, may also be applied to the fund but are also not calculated and communicated in advance. As a result, investors are not currently able to find information which reasonably estimates the total impact that charges will have on their net returns.'*

  This validates the view of SCM since 2009 that the TER and its successor, the OCF are highly misleading.

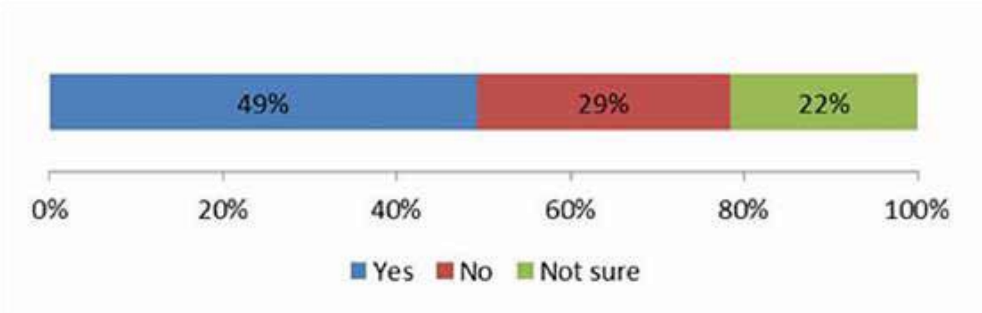
FCA Report - Figure 4.8: Costs included in the OCF

Cost	Explanation	Included in the OCF?
Annual management charge	The cost of managing the fund, paid to the asset manager	Yes
Depositary fees	The cost of overseeing the management of the fund's portfolio	Yes
Custodian fee	A charge by the company who has been appointed to safeguard the fund's investments	Yes
Audit fees	The cost of verifying the fund's account by an external accountant	Yes
Regulatory fees	A levy imposed by the FCA to cover the costs of regulation	Yes
Printing fees	Cost to produce written report and accounts of a fund's performance to send out to investors	Yes
OCF of underlying funds	The weighted OCF of any funds in which the fund is invested. Applicable to fund of funds	Yes
Administration and investor dealing fees	Fees paid to the fund's administrator	Yes
Entry and exit charges	The charge of purchasing or selling units in the fund	No
Brokerage charges	The fee charged by the brokerage to facilitate trades	No
Borrowing costs	Interest paid on outstanding debt	No
Performance fees	Payments to the asset manager if certain performance targets are achieved	No

- **Survey of retail investors found that, of the respondents who recognised they pay fund charges, only 20% acknowledged paying fund costs and charges outside the OCF (ongoing charge) and half of the investors were not aware they were paying fund charges at all.**

[5] https://www.trueandfaircampaign.com/2012/06/19/press-release-true-and-fair-campaign-update-major-breakthrough-in-europe/

Do you pay fund charges on your most recent investment product?



Source: NMG Consumer Research (2016)

- **Important to see charges in monetary amounts not just percentages -** Future KID fund documents *'will include costs and charges shown in monetary as well as percentage terms, and also indirect costs such as transaction costs. However, there is currently no obligation on fund managers to show charges in monetary amounts in other information documents for retail investors.'* In the True and Fair 2014 Research Report we found 'the vast majority (89%) of UK investors want their costs/fees shown in pounds/pence'[6]

- **Conclusive finding of the FCA report - charges misleading full stop –** *'As well as the difficulty of getting complete charging information before making a decision, investors can also find it hard to get an estimate of the charges taken from their fund on an ongoing basis.'*

- **Whilst the Annual Management Charge is clear, risk-free box profits are opaque and are not passed through to investors –** box profits are the profits earned on matching buyers and sellers within a fund without incurring the transaction costs equivalent to the bid-offer spread. *'Some asset managers may retain the resultant profit arising from the spread itself which the client has already 'paid' (in the spread) but will not be 'spent' transacting in the market. The asset managers' capital is never at risk in this process as matching is instantaneous.'*

  The FCA estimate that in 2014 alone over £63m was retained by asset managers by making risk-free transactional box profits in dual priced funds and varied between £5.6m and £15.75m, equivalent to as much as 10% of group revenues. For example, SCM has found that the amount earned by Jupiter plc from such box profits and initial charges combined amounted to £18.8m in their 2015 accounts:

  - Gross management fees, £370.1m;
  - Performance fees, £14.6m;
  - Initial charges and box profits, £18.8m;

- **Investors are unable to scrutinise these box profits** as it is '*not possible to tell, either from forecasts or after the event, if the price any one customer has paid for their units covered the costs of their transaction or contributed to the asset manager's box profit. '*

6 https://scmdirect.com/sites/default/files/FINAL%20True%20and%20Fair%20Campaign%202nd%20Anniversary%20Report%202014%20(Secured).pdf

2 Lack of Competition / Cartel Like Behaviour / Industry Margins

- **Large number of firms does not necessarily mean a large amount of competition -** The number of asset management firms currently authorised in the UK stands at 1,840 but '*a large number of competitors does not necessarily mean there is effective competition. Effective competition implies that firms have sufficient incentives to identify and satisfy clients' demands as efficiently as possible and constantly seek to win the business of clients who use rivals' services.'*

- **The UK Investment Industry may be breaking competition law -** *'in particular as to how the law applies to commercial relationships and interactions with one another. As an example, information exchange between competitors may be prohibited under competition law if it makes firms aware of their competitors' market strategies.'* SCM would call this collusion, and has been vocal about the industry behaving *'unethically and acts as a cartel'*.[7]

- **Average profit margins are around 35% for the period 2010 to 2015** – *'When adjusting profitability to reflect the fact that employees of asset management firms can be considered to be sharing in the profits of the firm through wages and bonuses, the estimated profitability of asset managers is even higher.'* Earlier this year SCM found[8] that *'the average operating profit margin for a large UK fund-management company is a staggering 44.8 per cent — almost twice that of the pharmaceutical industry, itself regarded as exceptionally lucrative'.*

3 Active versus Passive Funds

- **The FCA found no evidence *'actively managed investments outperform their benchmark after costs'* - Active funds for sale in the UK, on average, outperformed benchmarks before charges were deducted, but underperformed benchmarks after charges on an annualised basis by around 60bps**. This once again shows the IA claim[9] that 'funds on average performed better than markets they invest in by 0.71% on an annualised basis' is absurd nonsense.

- **An active fund manager has to achieve a return of 12.5% greater than the market (0.81% pa) in order to outperform against a comparable passive manager.**
- **There is little evidence of persistence in outperformance in the academic literature, but there is some evidence of persistent underperformance.** As time rolls on, the chance of active funds winning declines - whilst only 22 per cent of UK equity funds underperformed benchmarks in year 1, 72% of those funds had underperformed by year 10.

[7] https://scmdirect.com/sites/default/files/SCM%20Response%20to%20the%20FCA%20Business%20Plan%20-%2024%20Mar%2015.pdf

[8] http://www.dailymail.co.uk/debate/article-3017376/DOMINIC-LAWSON-Dreaming-beach-retirement-financial-sharks-smell-blood.html#ixzz4QeduIz00

[9] http://www.theinvestmentassociation.org/media-centre/press-releases/2016/hidden-fund-fees-the-loch-ness-monster-of-investments.html

Percentage of GBP- denominated European equity funds that underperformed their benchmarks

Fund Category	Comparison Index	One-year (%)	Three-year (%)	Five-year (%)	Ten-year
Europe Equity	S&P Europe 350	17.35	45.16	57.73	72.58
Europe Ex-U.K. Equity	S&P Europe Ex-U.K. BMI	24.79	55.46	59.84	72.66
U.K. Equity	S&P United Kingdom BMI	22.16	33.76	52.91	71.82
U.K. Large-/Mid- Cap	S&P United Kingdom Large	14.14	26.7	46.09	70.67
U.K. Small-Cap Equity	S&P United Kingdom Small Cap	49.25	64.29	78.08	81.16
Global Equity	S&P Global 1200	61.19	77.72	89.73	89.08
Emerging Markets Equity	S&P/IFCI	71.93	73.28	73.74	85.42
U.S. Equity	S&P 500	78.04	80.26	94.97	94.52

Source: S&P Dow Jones Indices, SPIVA European Scorecard. Data for periods ending 31 Dec 2015.

- **While passive funds are on average cheaper than active funds, around £6bn is invested in passive funds which are significantly more expensive than average.** For example, there is £2.6bn invested via the Virgin UK Index Tracking Fund that charges 1% pa[10] vs 0.15% pa for a typical tracker.

Assets under management with low tracking error

Tracking error	% of passive share classes[206]	% of active share classes[207]	Active AUM[208]	Active AUM – OCF or AMC charges at or above 1% bundled or 0.5% clean
1.5 or less	96%	42%	£142bn	**£109bn**
1.1 or less	83%	15%	£49bn	£35bn

- **Most funds 'with historical outperformance do not continue to outperform the relevant market index or peer group for more than a few years'**

- **Closet Indexation: Some investors appear to be paying 'active' prices for products that are only partly active in nature.** *'Since these products are similar to passive products, but just take small positions either side of the benchmark, many investors in expensive 'partly active'*

[10] http://www.morningstar.co.uk/uk/funds/snapshot/snapshot.aspx?id=F0GBR04RWI&tab=5

products would likely achieve greater value for money by switching to a cheaper passive fund in the same investment category.'

- **Large amount invested in closet index funds** – *'£109bn in expensive funds that closely mirror the performance of the market (tracking error below 1.5) and are considerably more expensive than passive funds.'* This is a similar figure to the SCM 2015 report entitled '**Closet Indexation - The UK Epidemic Continues**'[11] that found that 10 large funds possessing such index like characteristics had £136 bn invested.

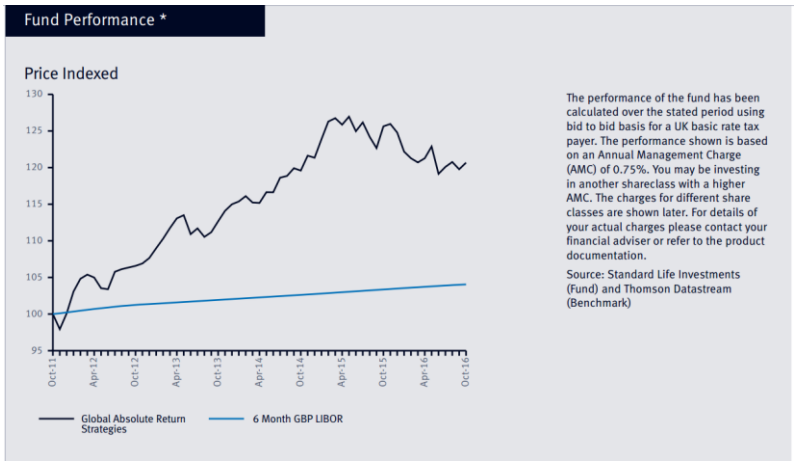
- **Some platforms and advisers unfairly presenting passive funds** – in such a way as to result *'in some investors overlooking passive funds when making their investment decisions…best buy lists, third party ratings and potentially financial advisers do not give prominence to passive funds, so some retail investors may not be made aware of the option to choose a passive fund.'*

- **Some Active Funds mislead investors** – '*Investors may continue to invest in expensive actively managed funds which mirror the performance of the market because fund managers do not adequately explain the fund's investment strategy and charges.'*

- **Active funds pay double the rate of Passive Funds to Trade** - explicit trading costs for active rather than passive funds (10 bps vs 0.5 bps per AUM)

4 Misleading Fund Performance

- **Absolute Return funds often do not report their performance against the relevant target** – with some funds showing 'their performance against a cash benchmark only, giving the impression that they have outperformed'. SCM notes that the huge £26bn Standard Life GARS fund shows its performance against cash even though it targets a level of return over rolling three-year periods of cash plus five percent a year:



Source: https://uk.standardlifeinvestments.com/dc/O_M_Gars/getLatest.pdf

[11] https://scmdirect.com/sites/default/files/Closet%20Indexation%20Epidemic%20Continues%20-%20Report%20February%202015%20SCM%20Direct.pdf

- **Absolute Return funds can often charge a performance fee even '*when returns are lower than the performance objective the fund is aiming to achieve'*.** Furthermore, '*the majority of absolute return funds with a secondary objective show this performance objective without the deduction of fees and charges. This makes it difficult for consumers to assess what the actual return will be once fees and charges have been accounted for.'*

- **Past performance can be misleading** – e.g. '*Funds that perform poorly are often liquidated or merged into another fund, giving investors the false impression that there are few poorly performing funds on the market….35% of equity funds which performed poorly over 2005-2010 subsequently closed or merged over 2011-2015'.*

  This is known as survivorship bias and SCM has been highlighting this for years and extremely critical of the Investment Association for allowing this in their numerous amateurish, misleading research reports.

5 Recommended Buy Lists – Nia on Worthless

- **Retail investor buy lists have little value** as *'after costs even these funds have not outperformed their benchmarks.'* We have always found it scandalous that the public has been so blatantly misled by recommended / best buy lists without action being taken before. The FCA's findings are in line with the February 2016 SCM research[12] on retail broker lists that found just one in ten funds list three years ago had ranked among the best performers in its category since then, and that according to the law of averages, investors would have had as much chance of getting a decent return if they had picked a fund at random.

- **Morningstar 5-star system widely used and acts against passive funds as methodology results in likelihood of just an average rating.** Furthermore, the FCA found that *'5-star share classes do not significantly outperform benchmarks net of charges; net-of-fees excess returns above benchmarks; this means that after charges the returns above the benchmarks are statistically indistinguishable from zero.'* Similarly, *'share classes awarded a Gold, Silver or Bronze (GSB) Morningstar Analyst rating do not significantly outperform their benchmarks net of charges'.*

[12] http://www.thisismoney.co.uk/money/saving/article-3461015/They-tipped-brokers-hottest-investments-money-buy-best-buy-ISA-funds-total-duds.html

6 Value and conflicts of Interest Between Fund Managers, Platforms and Advisers questioned

- **Vertical integration of advice and fund management in adviser firms questioned** – also, *'the growth of model portfolios and the role of third party rating providers all raise questions about competition dynamics and value for money.'*

- **Retail platform best-selling funds do not vary much in price** – the FCA analysed the top 10 best sellers on two or more platforms for 2015 and found *'of the nine funds that were best sellers on more than one platform, five were priced the same and the remaining four were only priced differently on one platform.'* Also, '*it does not appear that OCF discounts are common, even on best-selling funds. Although some discounts are available on some funds it is likely that they are not that sizeable when viewed at the level of the investor's total portfolio and compared to the overall costs.'*

- **Advisers seem not to promoting passive funds enough –** *'partially-advised investors are much less likely to invest in passive funds compared to non-advised investors. So it is possible that the proportions for advised clients would be lower still, which may reflect advisers not considering passive fund options for their clients.'*

- **Advisers seemingly overly biased to past performance and reputation** – *'When asked which factors were influential in the respondent's choice of funds, 44% of respondents stated past performance was an influential factor and reputation was mentioned frequently.'*

- **Advisers do not seem aware of charges –** *'other evidence also suggests awareness of charges is quite low.'* In qualitative research commissioned by the FCA, respondents typically did not mention charges unless they were prompted.

- **FCA proposals including a strengthened duty on asset managers to act in the best interests of investors -** including reforms that will hold asset managers accountable for how they deliver value for money, and introduce independence on fund oversight committees. Our 2014 Legalised Looting report pointed out the benefits of the US model whereby '*at least 75% of a mutual fund's board consist of independent directors and that the board chairman be independent. The fees for running the funds in the US are part of the advisory contract that directors review and approve every year.'*

- **Fund governance bodies do not robustly consider value for money** - the Authorised Fund Manager (AFM) of an authorised fund has responsibilities to ensure that the fund it acts for meets its regulatory and legal responsibilities yet there are *'few examples of independent non-executive members on such AFM Boards.'* And these boards *'generally do not robustly consider value for money for fund investors. For example, they often do not compare the asset manager's fees for managing a retail fund's portfolio with the fees they charge comparable institutional client accounts to assess whether the difference in fees is reasonable compared to the differences in costs. They do not typically question whether the economies of scale*

achieved when funds grow to reach certain levels of assets are shared with the fund investors in the way that break points are routinely used in institutional and segregated mandates.'

- **When there is a conflict of interest within the AFM Board it works in favour of the asset management group** – *'where AFMs are part of the asset management group's corporate structure, with few or no independent directors, their directors face a significant conflict between their duties to the asset management group and their duties to the funds and their investors. In practice, we have observed that this conflict tends to be resolved in favour of the asset management group.'*

- **Fund managers incentivised to grow assets but this may reduce investor returns** – *'If the growth in assets under management reduces the ability of a fund's manager to generate higher returns, the manager's and investors' incentives may not be aligned. In this situation, fund managers may be willing to forego higher returns in exchange for earning larger fees by growing AUM'.*

- **Large Funds may not benefit investors** – Firms noted that '*when a fund gets too large, performance can suffer as there are decreasing returns to scale at a fund level…. this could be because larger funds are less agile and less able to respond quickly to pricing inefficiencies. It may also be because transactions on behalf of large funds are likely to have bigger market impacts.'*

- **Firms may change the risk profile of funds over time just to maximise assets under management** – FCA report finds that Firms might reduce '*risk in better performing funds to capture any past performance and increasing risk in worse performing funds in the hope that the risk will pay off.'*

- **Performance fees can cause a conflict of interest** – *'fund charges are greater when performance is above a certain level, but are not reduced for poor performance… could lead to asset managers taking on more risk than they would otherwise do. This is because firms share some of the gains when big bets pay off, but do not share the losses when they do not pay off.'*

7 Role and Competences of Investment Consultants and Pension Trustees Questioned

- **Investment Consultants recommendations of little value** as their **'***ratings do not appear to help institutional investors identify better performing managers or funds'* and may be conflicted both because they are expanding into fiduciary management and because they are accepting *'hospitality from asset managers, such as concerts and sporting events.'*

- **It is very worrying that Pension Fund trustees can have limited or variable investment experience** – *'trustees have a tendency to rely heavily on investment consultants, Chairs of Trustees and/or professional trustees that they perceive as having greater investment knowledge. This dependency can result in trustees accepting proposed investment strategies without critique or challenge.'*

  Astonishingly, a FCA survey showed 33% rarely challenged their consultant. Furthermore, *'trustees often fear complexity and looking ignorant in front of their peers. This contributes to their unwillingness to challenge and makes them more likely to accept proposed strategies that they do not fully understand.'*

- **Pension fund trustees get in the way of scheme mergers that would save costs** i.e. turkeys for Christmas – *'we heard that trustees present a potential obstacle. This is because by voting to consolidate their assets, they could make their role redundant.'*

- **Consultants do not appear to drive significant price competition between asset managers.** ***'****Consultants do not place a lot of weight on manager fees in their ratings, although in some instances they can help investors in negotiations on price…. one consultant explained that fees only made up 5% of the final score.'*

- **The incentive for consultants to under-report poor performance is likely to be stronger for their fiduciary management products** - one institutional investor said that *'they had used a fiduciary management arrangement and found that the reporting was misleading for each of the metrics monitored'.*

- **Incentive for consultants to recommend complex strategies** – as requires *'more time spent on researching strategies, running manager selection exercises, undertaking trustee training and eventually more ongoing monitoring – all of which justifies higher fees for consultants'.*

- **The number of institutional investors using hedge funds has increased and some are 'unclear about the assets in which they are invested**.' This backs up the SCM 2016 ***'Hedge Fund Masters – No Longer Masters of The Universe'***[13] research that found *'a typical UK pension fund invests 6% of its assets in hedge funds, with many increasing their exposure in recent years, despite poor performance'* as it seems <u>pension fund trustees did not know how much they were paying these hedge funds, let alone what exactly they were investing in.</u>

- **Consultants do not disclose fully costs of their fiduciary management** - Most fiduciary products are fund of fund or multi-manager products and so clients will typically also incur fees from underlying managers. The fees of individual underlying managers are sometimes not disclosed to clients because of confidentially agreements with those managers. *'This lack*

[13] https://scmdirect.com/sites/default/files/Hedge%20Fund%20Research%20Report%20-%20SCM%20Direct,%2017%20May%202016.pdf

of transparency of fiduciary management fees may mean that some clients are not aware of the charges they pay.'

SCM / True and Fair View of the FCA's Suggested Remedies

1. **A strengthened duty on asset managers to act in the best interests of investors -** Authorised Fund Managers (AFM) of authorised funds are completely failing investors.

   The FCA report suggests several potential remedies - **SCM believe that given the lip service the industry and its trade bodies pay to the best interest of clients, the only viable option is to follow the US mutual fund example and replace AFM Boards with majority independent fund boards.**

   As SCM's 2014 Legalised Looting Report[14] showed that the UK, by not having the same structure and fiduciary duties as the US, *'on a like for like basis UK investors pay 58% more than US investors, and UK investors receive just 6% of the vast fund management economies of scale, versus 33% in the US'.*

2. **Introducing an all-in fee so that investors in funds can easily see what is being taken from the fund** – The FCA report suggests several potential alternatives regarding a single charge to increase the visibility of all charges taken from the fund and impose more discipline on overspend relative to charging estimates.

   SCM believes that a mandatory single fixed charge might push up overall charges as fund groups would want to 'price in' the extra risks attached to higher costs for themselves during periods in which the fund dealt at higher than normal levels. Additionally, it would give a significant conflict of interest for many fund groups as they would be financially incentivised not to deal to increase their own profits at the expense of their clients.

   SCM believe the best option is the one used by SCM for many years in our monthly factsheets[15], whereby fund managers reveal the total amount of the actual OCF charge together with an estimate of the implicit and explicit transaction costs which is then regularly updated as the Total Cost of Investing:

[14] https://scmdirect.com/sites/default/files/FINAL%20True%20and%20Fair%20Campaign%202nd%20Anniversary%20Report%202014%20(Secured).pdf

[15] https://scmdirect.com/etf-portfolios

Fees & Charges	
ANNUAL MANAGEMENT CHARGE: 0.4% +VAT	**0.48%**
Underlying ETF costs (TER)	*0.28%*
Est. Dealing Costs (based on last 3 year annualised portfolio turnover of 37.8%, a recent weighted average spread of c. 0.4%, and a 0.07% commission rate)	*0.20%*
Custody & Administration fee	*0.20%*
TOTAL COST OF INVESTING	**1.16%**

3. **SCM fully supports the view that 'any risk-free box profits from the matching of flows in and out of dual priced funds are used solely for the benefit of the fund, and cannot accrue to the asset manager**.' The significant box profits earned by various managers is a scandal.

4. **Requiring clearer communication of fund charges and their impact at the point of sale and in ongoing communication to retail investors –** The FCA report suggests several potential alternatives in this regard.

   We agree with the view that greater use of pounds and pence charging figures should not just be in the KIID document that many investors do not see, but within 'fund managers' literature and information from third parties (advisers and platforms).

5. **To fully understand the impact of charges on investment returns it is important that investors can get information about the total cost of investment'** – SCM wholeheartedly agrees and has been calling for a Total Cost of Investment including distribution and advice fees since 2012[16] both prior to investing, and after investing.

6. **SCM wholeheartedly supports the FCA view that there should be a 'standardised template to disclosure of asset management-related fees and charges'** – it is important that this is across all investment products e.g. pooled funds, segregated funds, hedge funds, fund of funds and multi-manager products and that the total of all costs, whether they are implicit or explicit are included within the overall total. This would also be in line with future MiFID II requirements.

   This is in stark contrast to the ongoing intellectually bankrupt stance of the Investment Association. The recent IA 'Meaningful Disclosure of Costs and Charges'[17] sought to artificially show various significant elements of charges e.g. performance fees, entry fees, and transaction costs separately rather than include within one overall total.

[16] http://www.trueandfaircampaign.com/2012/01/
[17] http://www.theinvestmentassociation.org//assets/files/consultations/2015/20150210-iacostsandchargessummaryreport.pdf

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