



## Fund and Administration Charges Explained

In September's newsletter, we provided an insight into the fees we charge our clients for both our initial help and advice when implementing an investment strategy and for the ongoing monitoring and reviewing of financial plans and investment portfolios.

Our aim in explaining these advice fees was to be as explicit and open about the costs involved in investing money as we can be, so that you understand what costs you pay and how these are deducted.

Continuing this desire to keep you fully informed, we are devoting this month's newsletter to considering the two other areas where investors have costs to pay in addition to those for advice. These are fund management charges and administration fees.



Fund management charges are levied by the companies who manage the individual funds held in a portfolio; the likes of BlackRock, Fidelity, M&G, Schroder and Standard Life to name but a few.

Administration services such as maintaining a record of your investments and calculating the value of these investments each day are typically performed by online 'platforms' who also provide a range of interactive tools to help both you and us to administer your overall portfolio.

Some of these platforms are managed by fund management companies such as AEGON's Cofunds platform and Fidelity's FundsNetwork platform. Others are purely information technology providers such as Novia and Transact.

Let's look first at fund management charges.

## Fund Management Charges

The costs involved in running an individual investment fund such as a unit trust or an open-ended investment company (OEIC) are numerous. These include the following:

- The management of the assets within the fund such as deciding which assets to buy and sell, valuing the assets and keeping accounts.
- The fees that have to be paid by the fund manager such as audit, custodian and regulator fees.
- The actual costs of buying and selling assets such as Stamp Duty Reserve Tax (SDRT).
- The costs involved in marketing and distributing the fund.

The total running costs for a fund are brought together to establish a single figure; the fund's ongoing charges fee (OCF). This is the total charge you will pay over a year for as long as you hold your investment. The OCF for a fund is quoted in a document called "Key Investor Information" which every individual investment fund is obliged to provide to investors by the regulator.

It is not possible to see the OCF being explicitly deducted from the fund's assets. Instead, every fund publishes a daily price for its units or shares and this price reflects the OCF deduction.

The key risk to be aware of is that charges and expenses reduce the potential growth of your investment. This means you could get back less than you paid in, particularly in the early years of your investment.

The OCF varies significantly between "actively managed" funds and "passively managed" funds.

Funds are actively managed where there is a human fund manager and fund management team who are endeavouring to generate higher returns from their fund than those being generated by the index which acts as the fund's benchmark.



Passively managed funds are those which use computers rather than humans to mirror a specific index, e.g. Index tracking funds or exchange traded funds (ETFs).

Clearly, because of the human intervention, actively managed funds can be significantly higher charging and their OCF is typically between 0.6% per annum and 1.25% per annum.

Passively managed funds have OCFs which typically range from 0.1% to 0.25% per annum. In fact, in the USA, Fidelity Investments have recently launched some passively managed funds which claim to have a 0% per annum OCF.

Traditionally, fund charges were higher than they are now as they would include commissions that were passed to financial advisers and investment brokers. A typical charge in the old world was 1.5%.

In addition, many funds would impose one-off charges with entry charges of up to 5% and they would occasionally levy an exit charge as well.

However, rules introduced in 2014 made fund charges more transparent, which in turn has seen funds become cheaper and most investment funds no longer imposing one-off entry and exit charges.

In addition, as we have already alluded to, charges for investing are now split between advice fees, fund management charges and administration costs and these are kept separate in order to make the charges more explicit and easier for investors to understand.

## Fund Management Benefits

The financial media tend to focus much attention on the charges levied by fund management companies with little time spent identifying the benefits received in return for these costs.

Anyone who has endeavoured to manage their own share portfolio will understand the amount of administration involved and how time-consuming this can be.

In addition to saving us a significant amount of time, fund managers also bring their knowledge and expertise, based on experience and sound research provided by the fund management company who employs them.

Typically, an individual fund will hold between 50 and 100 stocks and portfolios be put together for clients will normally consist of 5 to 15 individual funds.

Therefore, through a single fund portfolio, clients are able to invest in a very large number of stocks providing a significant degree of diversification.

The bottom line question for all investors is whether they believe that the return achieved by an individual fund manager would be sufficiently higher to cover the cost of investing in a particular fund.

# BENEFITS





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## Platform charges

In addition to the charge paid for investing in a fund, there is also the fee paid to the platform on which the investments are held.

This is typically an annual percentage charge of the value of the assets held on the particular platform, which can range from 0.1% to 0.5% per annum. Some platforms might also charge a flat annual fee of, say, £50 or £100.

This fee is explicitly deducted from the investments held on the platform. So, say you have a portfolio held on a platform where the platform provider charges 0.25% per annum. Each month, the platform will deduct an amount equal to 1/12 of 0.25% of the value of your portfolio and this deduction will be shown on the annual statement provided by the platform.

## Platform Benefits

Platforms provide us with technological expertise rather than investment expertise as offered by fund managers.

Their technological expertise helps investors and their advisers to administer portfolios with a minimum of fuss, enabling funds to be topped up, withdrawn or moved around between accounts at little or no cost.

Platforms enable investors to keep most, if not all, of their investments in one place where they can be easily viewed, saving both time and paperwork.

## Overview

To recap, in September's newsletter we considered the fees we charge for our advice. In this newsletter, we have looked at charges levied by fund management companies and by the platforms on which we administer clients' investments.

At Breed Elliott, we endeavour to keep the overall cost of the advice, fund management and administration to 2% or less per annum. If we compare this to bank charges, a typical bank may charge you 3% per annum on your borrowing and pay you interest of 1% per annum on your savings, an effective overall charge of the 2% per annum.

Based on this comparison, we believe that the overall cost of managing a client's portfolio is both competitive and good value for money.

If you would like to discuss the advice, fund management and administration charges in more detail, please do not hesitate to raise it with us next time we meet.

Market	Value at the start of 2018	Current situation	Comments
<b>Interest Rates</b> (BOE base rate)	0.25%	0.75% at 31.10.18	The official bank rate is 0.75%
<b>House Prices</b> (Nationwide)	House prices increased by 2.6% in 2017	House prices down by 1.6% at 31.10.18	UK annual house prices flat month-on-month
<b>UK Share Prices</b> (FTSE 100)	7142.83	7128.10 at the close on 31.10.18	The FTSE 100 has fallen by 367 points since the beginning of last month

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Registered Office:  
1 Linfield Copse, Thakeham, Pulborough, West Sussex, RH20 3EU

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