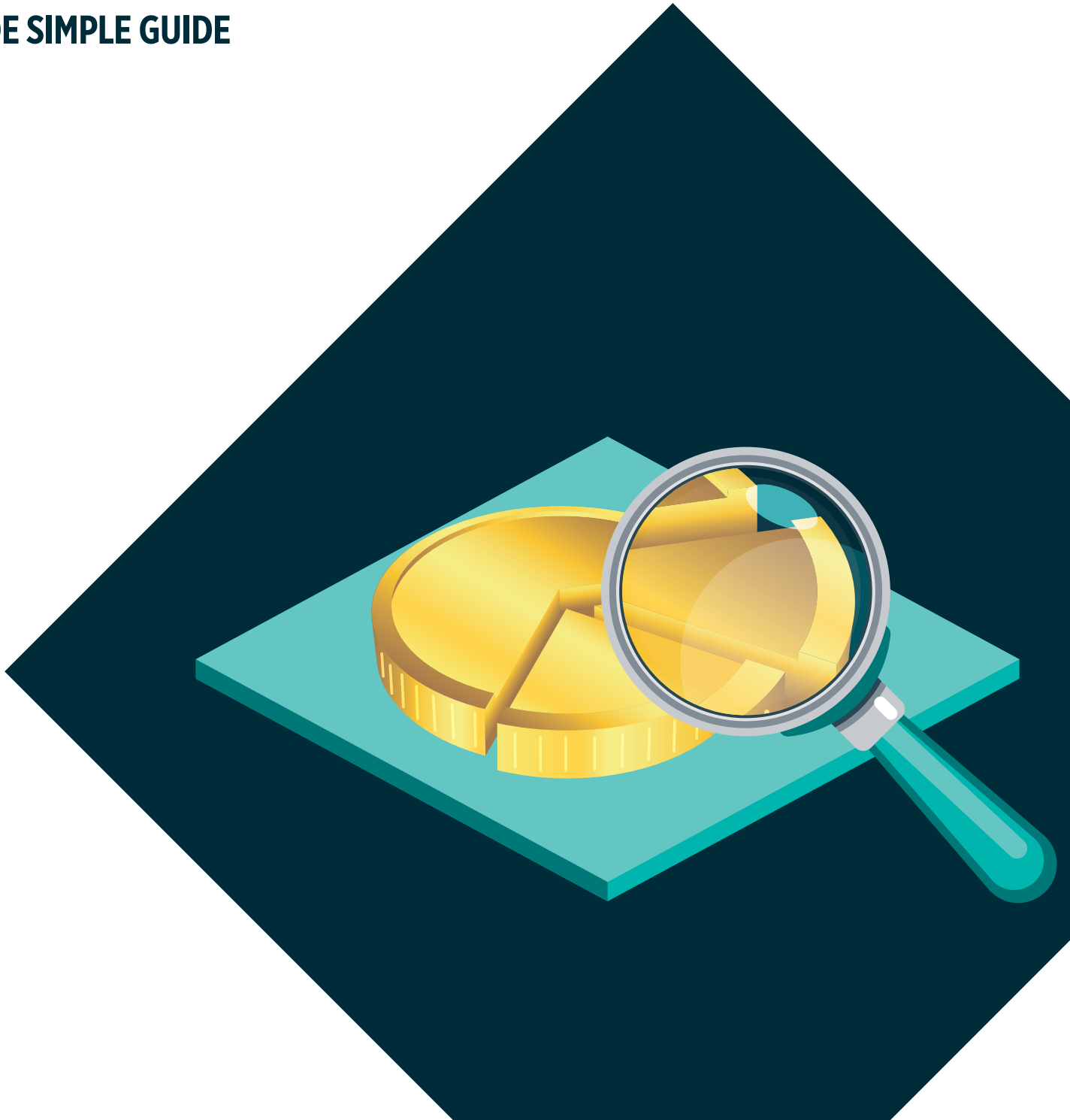
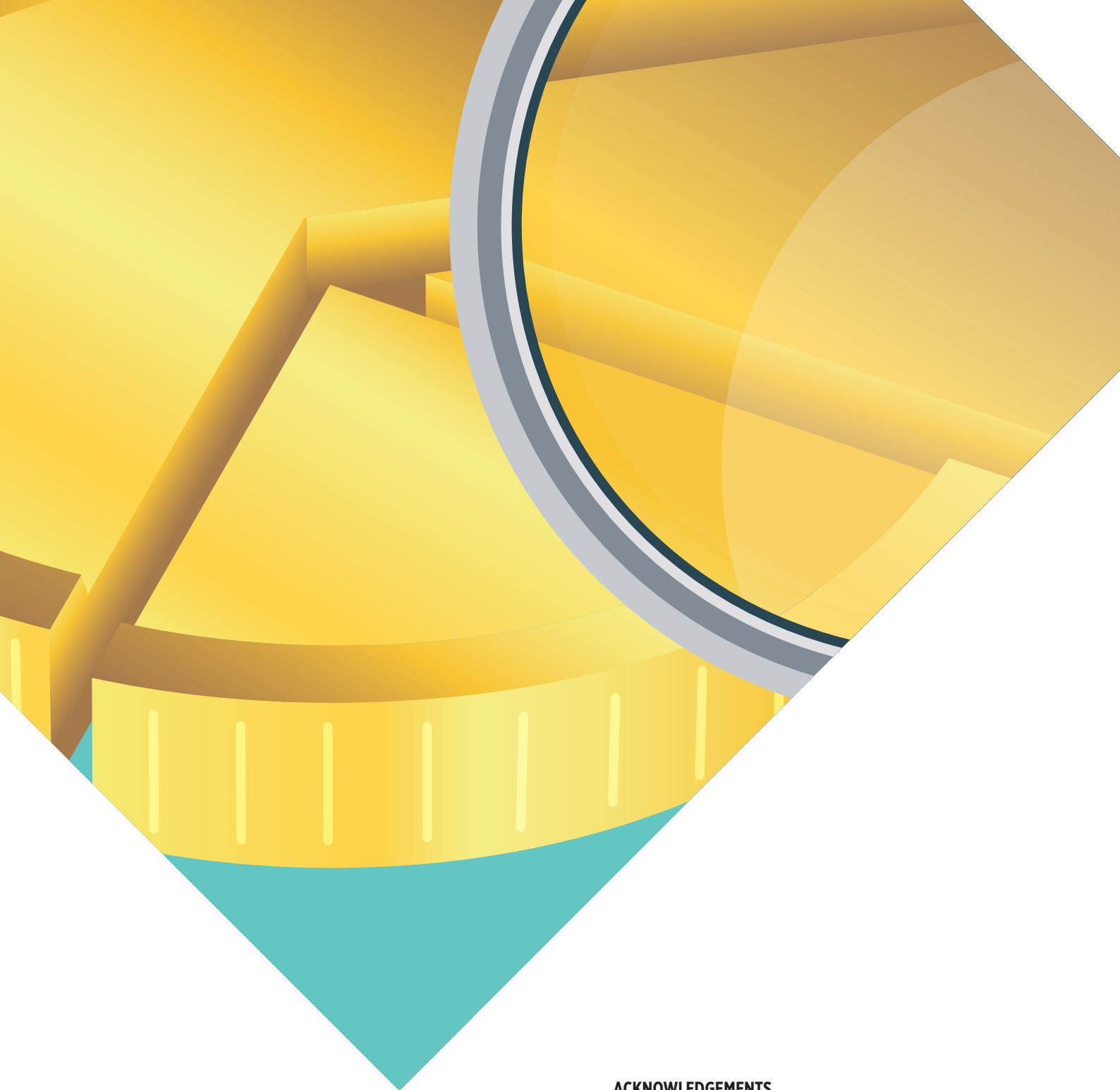


COST TRANSPARENCY

MADE SIMPLE GUIDE





ACKNOWLEDGEMENTS

We would like to thank KAS BANK for its help in producing and sponsoring this guide. For further information contact Pat Sharman at pat.sharman@kasbank.com



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It is not legal or investment advice.

Published by the Pensions and Lifetime Savings Association 2018
© First published: October 2018

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1 INTRODUCTION

COST TRANSPARENCY, ITS IMPORTANCE, UK REGULATORY REQUIREMENTS AND WHAT YOU NEED TO KNOW

WELCOME TO THE PLSA MADE SIMPLE GUIDE ON COST TRANSPARENCY.

COST TRANSPARENCY HAS BECOME AN INCREASINGLY IMPORTANT PART OF GOOD GOVERNANCE AND VALUE FOR MONEY ASSESSMENTS. THERE IS AN ONUS ON UK PENSION SCHEMES TO REPORT ON COSTS, AND WE BELIEVE IT IS IMPORTANT TO SUPPORT TRUSTEES AND PENSION EXECUTIVES SO THAT THEY CAN EFFECTIVELY DEMONSTRATE GOOD GOVERNANCE AND FULFIL THEIR REPORTING REQUIREMENTS. THIS GUIDE AIMS TO GIVE YOU A GOOD WORKING KNOWLEDGE OF THE VARIOUS COSTS ASSOCIATED WITH MANAGING A PENSION SCHEME, SO YOU CAN MAKE MORE INFORMED DECISIONS ON BEHALF OF YOUR MEMBERS.

With pension deficits in defined benefit (DB), the various challenges of ensuring good member outcomes in defined contribution (DC) – and the general mistrust of pensions, policymakers and regulators – are demanding improved governance of pension schemes, to prevent the prospect of a reduced or a less secure retirement income for members. A part of that focus is to improve awareness of costs and charges, by demanding a greater transparency of costs across the value chain, and throughout the accumulation and decumulation phases.

Discussion on costs may feel distant from the day-to-day running of a pension scheme, however, it is clear that costs can have a significant impact on returns. Research shows that the true cost of owning a pension scheme, after full cost disclosure, is actually between 2-5% per annum.¹ Making small savings early can generate significant gains over a long period – for example, a 1% saving over 40 years could lead to an extra 25% of value at retirement.²

Assessing good value for members of DC pension schemes is not a new subject for trustees and the pensions industry. It is, however, an area that many find challenging to accomplish in a consistent and effective manner. For example, Independent Governance Committees (IGCs) are obliged to scrutinise the value-for-money of a provider's workplace personal pension scheme, taking into account transaction costs, and are to raise concerns and make recommendations to a provider's board. The main question is how.

The Local Government Pension Scheme Advisory Board's Code of Transparency has been instrumental in standardising a consensus on cost transparency, with 80³ asset managers signed up to the code. This framework has standardised the cost collection process and has enhanced the knowledge and understanding of investment costs, ultimately promoting greater accountability and aiding good governance.

Following the FCA asset management market study, and as part of the subsequent remedies package, the FCA established the Institutional Disclosure Working Group (IDWG) to build on the progress of the LGPS Code of Transparency. The group ultimately aims to achieve a final consensus on a set of cost disclosure templates for UK pension schemes, which will be a big step forward in achieving a standardised approach to the collection and reporting of costs.

Even with the potential of an established standardised framework in the UK, costs are a complex area that trustees and pensions executives need to get to grips with. We advocate that costs must always be viewed in context of risks and returns, and we emphasise that costs are only one element of assessing value for money. Overall, we hope this guide goes some way to developing a good working knowledge of the various costs associated with managing a pension scheme, enhancing the way you can make informed decisions on behalf of your members.

¹ www.ft.com/content/56243606-6614-11e6-a08a-c7ac04ef00aa

² Illustrative calculations by the Department for Work and Pensions in November 2013 (Pensions Bill 2013, Information Pack for Peers) show that an individual who saves throughout their working life into a scheme with a 0.5% annual charge could lose around 13% of their pension pot at retirement as a result of charges. A 1% annual charge could reduce that pot by 24%.

³ <http://lgpsboard.org/index.php/manager-list>

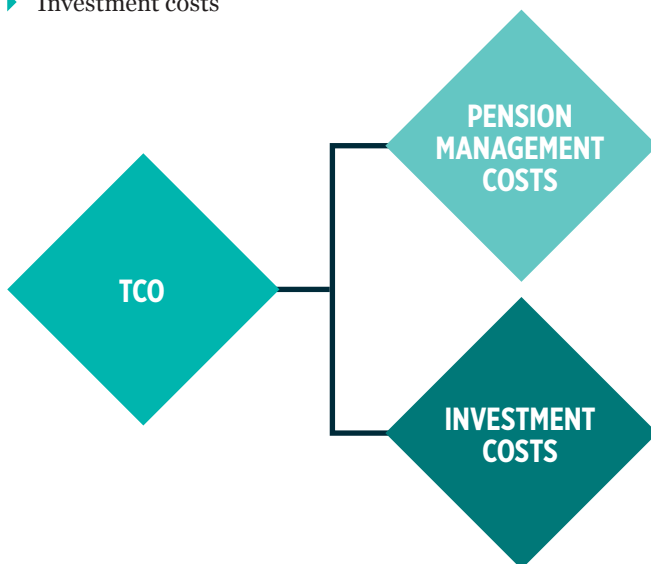
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WHAT COSTS AND CHARGES DOES A PENSION SCHEME TYPICALLY INCUR?

COSTS COME IN VARIOUS SHAPES AND SIZES AND AFFECT DIFFERENT ASSET TYPES IN DIFFERENT WAYS. WE WILL NOT ATTEMPT TO ADDRESS ALL DISTINCTIONS IN THIS GUIDE, BUT WE WILL EXPLAIN THE TYPICAL COST CATEGORIES AND HOW THEY WOULD APPLY TO A TYPICAL PENSION SCHEME.

The total cost of ownership (TCO) of a pension scheme can be divided into two major categories:

- ▶ Pension management costs
- ▶ Investment costs



PENSION MANAGEMENT COSTS

Pension management costs are those associated with the running of the legal entity that is the scheme, and they can make up to 25% of a scheme's total cost of ownership. Ignoring all costs that are associated with the management of investments, pension management covers purely the administration costs to keep the scheme operational. If the scheme had no investments whatsoever, it would still need to administer pension entitlements, communicate with participants, perform regular audits, and comply with an array of legal requirements.

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TOTAL COST OF OWNERSHIP (TCO)

The total of ALL the costs you incur in running a pension fund or investment vehicle. This should include direct and indirect costs, administrative as well as investment costs, to establish a proper 'total'.

JARGON BUSTER

PENSION MANAGEMENT COSTS

The expenses involved with managing and administering the pension scheme itself. They are incurred as part of the day-to-day running of the scheme and are not related to investment activity. These costs can make up to 25% of a scheme's total cost of ownership.

◆◆ **COSTS MUST ALWAYS BE VIEWED
IN CONTEXT OF RISKS AND RETURNS,
AND WE EMPHASISE THAT COSTS ARE
ONLY ONE ELEMENT OF ASSESSING
VALUE FOR MONEY** ◆◆

Pension management costs can be grouped into the following:

1. **Executive costs**
2. **Administration and processing costs**
3. **Advisory and control costs**
4. **Rent**

Executive costs comprise all executive and committee costs incurred as part of the day-to-day management and governance of the scheme. These costs include everything related to executive services, including salaries and expenses, memberships to organisations or publications, as well as any costs associated with conference attendance.

Administration & Processing costs involve any costs that are associated with the monitoring or processing of member accounts or communications. This includes internal and external communications, as well as any systems or infrastructure used in order to manage the process.

Advisory & Control costs are associated with the support and advisory functions required in the running of the pension scheme (not including those relating to investment activities). These include professional services (such as lawyers, accountants and actuaries) and the costs associated with the various regulatory requirements.

Rent includes the cost of renting property that is used by the scheme personnel. This could include renting space from the sponsor for the pension scheme.

Most pension management costs are easily understood and are currently reported, mainly because the costs of running a scheme are no different to the costs of running a simple business.

We do, however, think it is still important to understand these costs and assess whether pension schemes are getting value for money across the various activities involved in the management of a legal entity.

INVESTMENT COSTS

Investment costs are those associated with any activities relating to the management and monitoring of the scheme's investments. Investment costs can make up to 75% of a scheme's total cost of ownership. Typically, it is only the agreed management fee and/or performance fee paid to an asset manager that is considered in the appointment process. However, it is important to remember that there are other processes that take place in the investment chain, and all contribute to the total cost of ownership (TCO) that was defined earlier.

Investment costs can be grouped into three categories:

- ▶ Management fees
- ▶ Performance fees
- ▶ Transaction costs

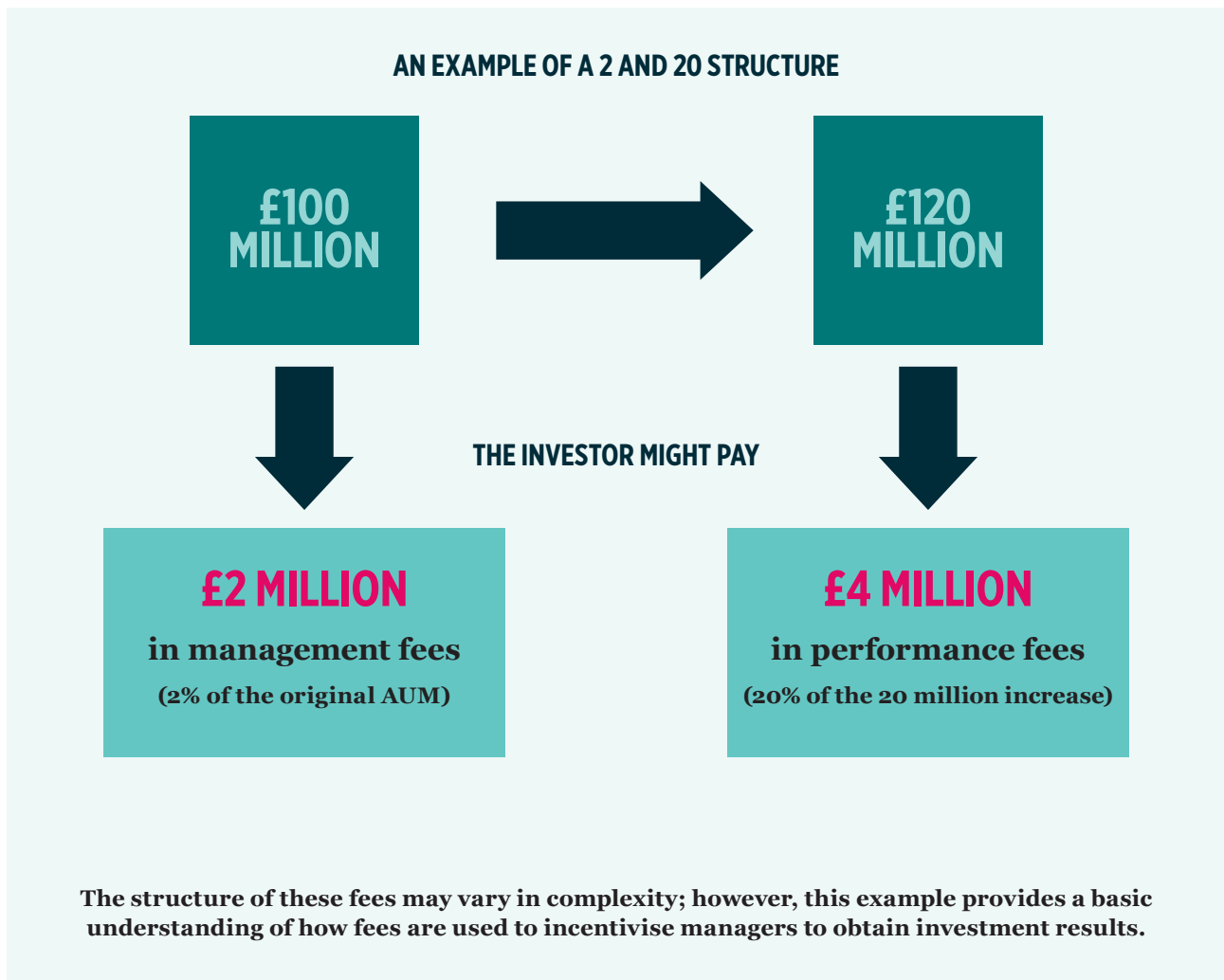
Management fees

Management fees relate purely to the costs that are incurred from the use of asset managers. These costs can make up to 50% of a scheme's total investment costs. You will be familiar with a headline fee, the annual management charges (AMC) – for example a 30-bps charge, or 0.3% of assets under management (AUM). The management fee can be structured and calculated in several ways; however, the most common methodology is to charge a fixed percentage of total AUM. The percentage charge is determined by several different factors, such as the quantity of invested assets, the type of asset you wish to invest in, or the specialism of the manager.

Performance fees

The headline AMC fee may only be a portion of the total charge incurred; it is also important to consider the performance fee that may be applicable to your mandate, as they can make up to 10% of a scheme's total investment costs. This fee can be thought of as a reward to the manager for delivering positive results. Again, there are several methodologies for how this could be calculated, for example a percentage of any gains, or a fixed figure if the manager surpasses a certain return amount. In either case, it is important to consider both costs and how they relate to the risk/return objectives set out for a given manager. A common example is the '2 and 20' charge structure often used by hedge funds, whereby an investor pays a fixed 2% of the total asset value, and then pays an additional 20% fee on the value of the profit generated on the investment.

For example,





TRANSACTION COSTS

If you want to establish your total cost of ownership, then you must look beyond the typically reported figures, where details are generally available, and understand the costs which have been previously unreported and therefore can be more difficult to obtain, such as transaction costs. Market research in Europe has found that transaction costs can make up to 25% of the total investment costs incurred by a pension scheme, making up to 20% of the Total cost of ownership. As a result, these costs can have a significant impact on the returns generated and must be looked at in detail.

Transaction costs are a charge applied to facilitate a transaction, or to compensate a stakeholder in the investment chain. They are incurred during the process of buying, selling, lending or borrowing a financial instrument.

Transaction costs can present themselves in very different ways; some are explicit, such as stamp duty tax, or brokers' commissions for facilitating a trade; and some are implicit, such as the difference between the buying and selling price of a security (the bid-offer spread). Also, different asset classes can have different arrangements, for example in an equity market a broker's commission is usually an explicit cost, whereas with a fixed income mandate, the commission is usually included as a part of the bid-offer spread. Generally, these costs will be a small proportion of the nominal traded amount, and the cumulative amount tends to increase as there is a greater portfolio turnover rate (trading activity).

Example:

EXPLICIT COSTS:

Broker research costs	Execution commissions	Transaction taxes
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IMPLICIT COSTS:

Compensation cost in bid-ask spread	Exchange/clearing fees	Entry/exit fees
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◆◆ **BROKERS ARE A BIT LIKE A CURRENCY EXCHANGE AT AN AIRPORT: 'COMMISSION-FREE' TRANSACTIONS ARE NOT ACTUALLY COMMISSION-FREE. THE COMMISSION IS EMBEDDED IN THE EXCHANGE RATE THAT IS OFFERED** ◆◆

Transaction costs occur for many reasons that are not necessarily harmful. For example, a trading decision (which incurs a cost) could be taken to benefit an investor by finding an asset with a return that will exceed the costs. Similarly, a cost could be incurred to accommodate an alteration of investment strategy made by an investment committee.

JARGON BUSTER

TRANSACTION COSTS

These are many expenses incurred in the process of buying, selling, lending or borrowing financial instruments. Each financial instrument will have some costs that are particular to investing in that area. However, many of these costs apply across all asset classes or financial instruments. Transaction costs can make up to 25% of the total investment costs incurred by a pension scheme.

Overall, transaction costs are incurred as part of the investment process and will be subtracted prior to the release of the gross return. For this reason, they are often deemed to be hidden; however, that is not necessarily the case. Transaction costs have generally been undisclosed, however with an increasing demand for transparency, greater efforts are being made by industry bodies, to facilitate the disclosure of this information in a detailed and consistent format.

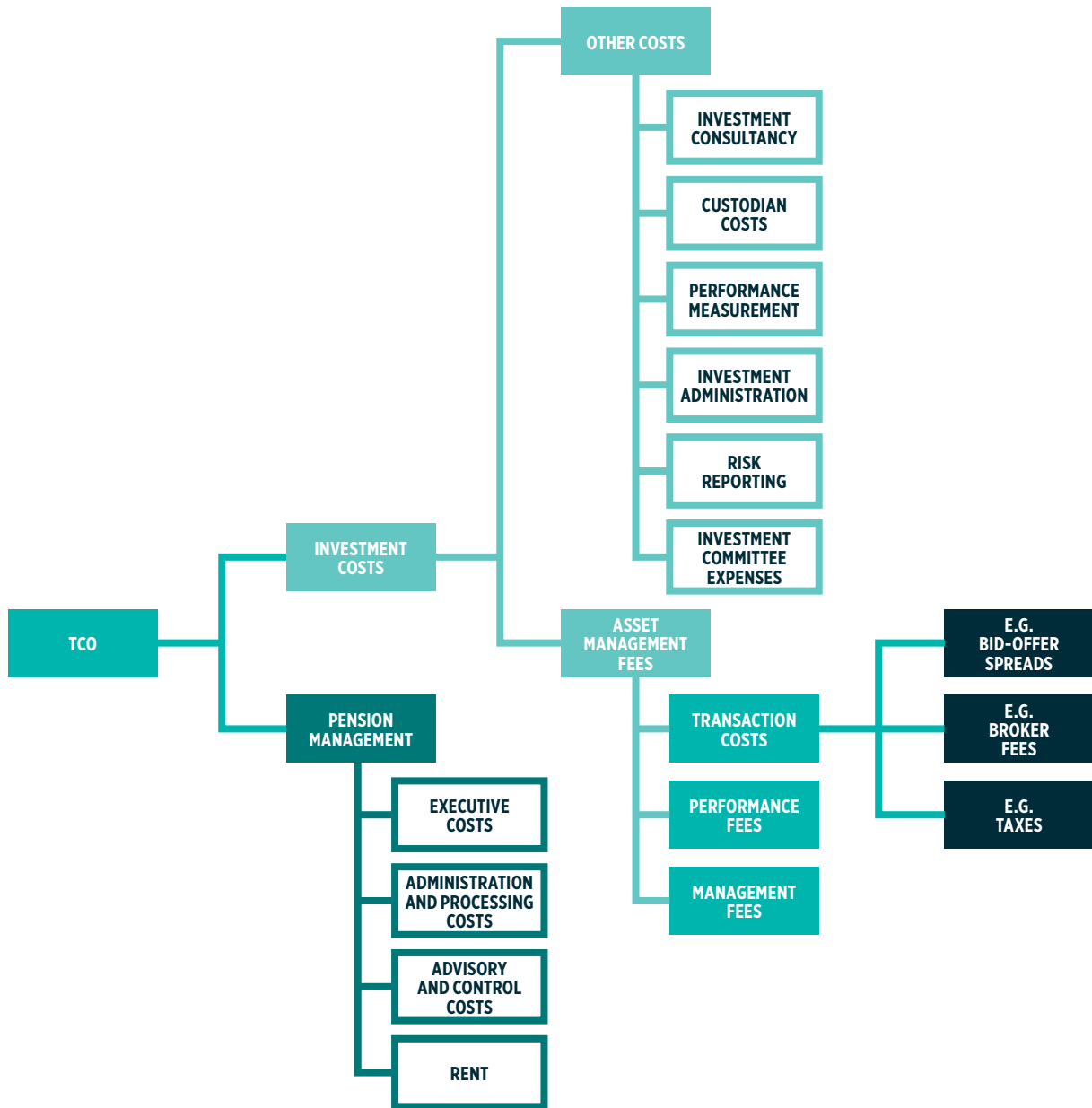
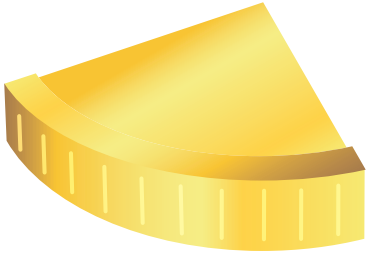
When assessing your investment management fees and transaction costs, it is essential to look at these costs in the context of risk & return, the service received, and the turnover activity of the fund. Costs are not bad – they simply need to be better understood!

JARGON BUSTER

TOTAL EXPENSE RATIO (TER)

The total expense ratio is the cost of the manager's annual charge; other costs and services paid for by the fund include fees paid to the trustee, custodian and registrar, and any incentive fees based on the performance of the fund. It is an annualised cost, expressed as a percentage of the total assets managed by the fund. This cost will come out of the fund's performance rather than being invoiced separately.

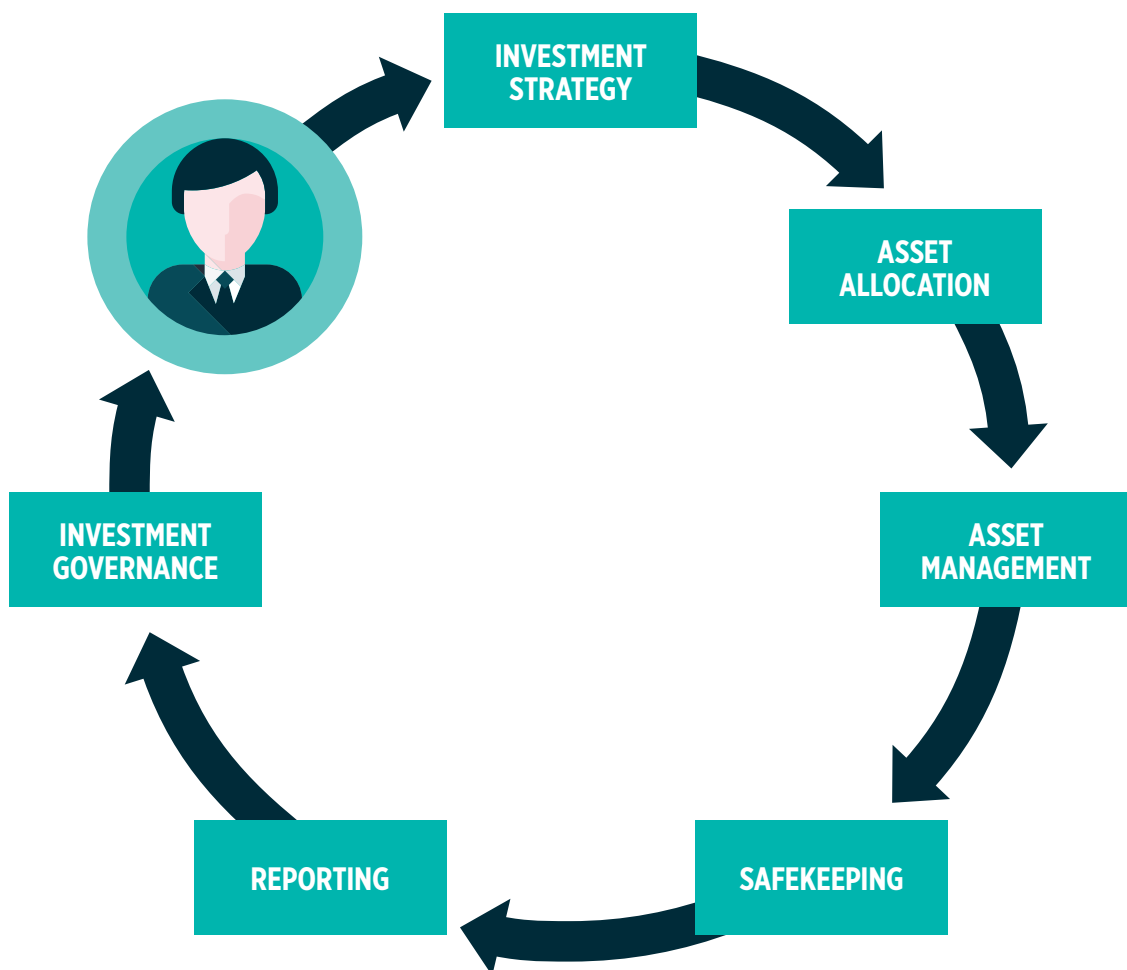
The TER does not include transaction costs or pension management related costs, and therefore is not as comprehensive as the TCO in identifying all the costs incurred by the pension scheme.



Value across the investment chain

When discussing costs, most of the focus of an investigation is solely on asset management fees; however, it is important to remember that there are several other components and stakeholders that make up a general investment cycle.

◆◆ **TRANSACTION COSTS HAVE GENERALLY BEEN UNDISCLOSED, HOWEVER WITH AN INCREASING DEMAND FOR TRANSPARENCY, GREATER EFFORTS ARE BEING MADE BY INDUSTRY BODIES, TO FACILITATE THE DISCLOSURE OF THIS INFORMATION IN A DETAILED AND CONSISTENT FORMAT** ◆◆



The majority of UK pension schemes will employ an investment consultant to provide guidance on the investment strategy and the corresponding asset allocation. This guidance is often ongoing and will include monitoring of the strategy to ensure it is fit for purpose, potentially changing the asset allocation and/or the appointed asset managers.

If the scheme invests in listed securities held in a segregated portfolio, they will need to appoint a custodian to safekeep and administer the assets. The custodian is also typically appointed to provide investment governance reporting (independent valuations, performance and risk, compliance and cost transparency etc) for all investments made by the scheme.

All of these tasks are performed by specialist service providers and once again command a fee for their expertise –these fees should not be neglected when assessing value for money, as these other costs can make up to 15% of a scheme’s total investment costs.

3 COST TRANSPARENCY FRAMEWORKS AND LANDSCAPE

A GOOD EXAMPLE OF A WORKING COST TRANSPARENCY FRAMEWORK

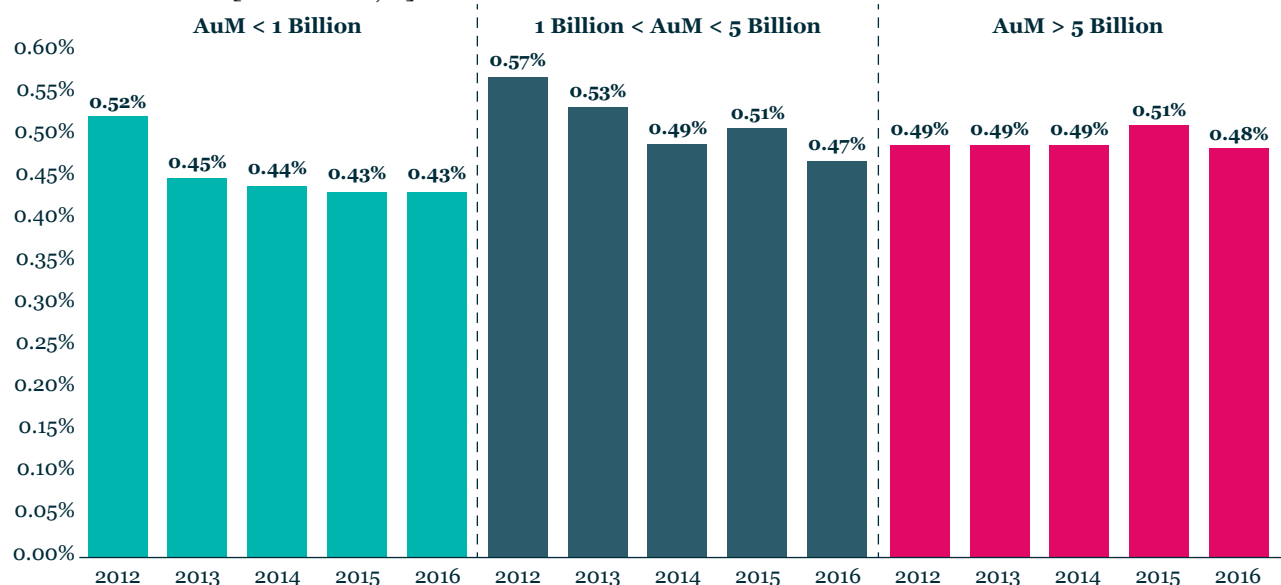
WHEN CONSIDERING MATTERS OF GOOD GOVERNANCE AND TRANSPARENCY IN PENSIONS, MANY LOOK TO THE NETHERLANDS, WHICH IS WIDELY CONSIDERED TO BE A FRONTRUNNER. THE DUTCH PENSION FUND INDUSTRY HAS UNDERGONE A STEADY TRANSFORMATION OVER THE LAST 10 YEARS, AND THE COUNTRY HAS DEVELOPED AND IMPLEMENTED VARIOUS GOVERNANCE MODELS TO PROMOTE A SUSTAINABLE PENSIONS SYSTEM.

One element of this is a well-structured cost reporting framework, the Financial Assessment Framework (FTK), as a part of the annual governance reporting. One part of the FTK seeks to identify the total cost of ownership (TCO) of a pension scheme, by providing a framework and the templates for a pension scheme to collate and assess it, in conjunction with investment risks and returns.

The implementation of industrywide cost disclosure in the Dutch pension market took the form of a series of industry-led initiatives, which gained serious traction in 2007. In 2011, the FTK became a widely adopted voluntary code when the Pensioenfederatie (PLSA equivalent in the Netherlands) recommended implementation to all of its pension fund members. Moving forward, in 2015 pension cost reporting to the Dutch regulator (DNB) became a legal obligation: the requirement was added to the Dutch Pensions Act, making it mandatory for pension funds to include a statement of costs in their annual report. Schemes were (and still are) required to report on and distinguish between pension management costs, investment costs, and the underlying transaction costs.

Today, almost all pension funds in the Netherlands now report on their pension administration costs, and total investment costs (including transaction costs), on an annual basis. This practice has resulted in a dramatic reduction in the number of pension schemes with reported total costs above 1.5% per annum of the total assets. Further, recent data trends from 2012-2016 have identified a 17% decrease in investment costs, largely driven by a 56% reduction in transaction costs, in pension funds with less than €1 billion AUM.⁴

Dutch pension funds: average investment costs and transaction costs as proportion of average invested capital to size fund 2012-2016 [EUR Billion, %].



⁴ <http://www.dufas.nl/statistieken/alle-statistieken/nederlandse-pensioenfondsen-beleggingskosten-als-deel-van-gemiddeld-belegd-vermogen-naar-type/>

4 WHERE IS THE UK PENSION INDUSTRY IN ITS JOURNEY TO GREATER TRANSPARENCY?

HERE IN THE UK, VARIOUS INITIATIVES BY THE REGULATORS AND INDUSTRY BODIES HAVE BROUGHT COST TRANSPARENCY TO THE FOREFRONT OF THE AGENDA.

DC REGULATORY OBLIGATION

Since 2015,⁵ DC pension trustees have had to report on the level of transaction costs borne by members in their annual Chair's Statement. Despite this, most trustees were unable to do so because their asset managers could not reliably disclose what these costs were in a detailed and consistent format.

To address this, the FCA provided guidance which was published in a Policy Statement on 20 September 2017 and came into force on 3 January 2018. These rules now require those managing investments – broadly, investment managers and insurers – to provide information about transaction costs and charges in response to a request from a pension scheme. This applies to either a workplace personal pension or a DC occupational pension. These rules, although not entirely descriptive, should now enable IGCs and trustees to obtain, for the first time, information on the explicit and implicit transaction costs that scheme members incur, calculated according to a standardised methodology.

Given that trustees and governance committees now have better access to this data, they are required to report on the level of charges and transaction costs applicable to each default arrangement, and for each fund which the members are able to select, in the Chair's Statement. This report should provide some insight into the extent to which these charges and transaction costs represent good value for members. Despite there being a charge cap of 75 bps on DC schemes, this cap does not include transaction costs, and the underlying detail to support effective value-for-money assessments, thus highlighting the requirement for such initiatives as the LGPS Code of Transparency and the IDWG recommendation.

It is worth mentioning that in the event of a scheme failing to report on these costs without explanation, the Regulator may impose a penalty, payable within 28 days, which must not exceed £5,000 for an individual and £50,000 for an organisation.

So far, the described proposals only cover DC schemes, IGCs and their underlying asset managers and service providers. Our hope is that cost transparency is more widely adopted, so that all investors can benefit from a consistent and standardised reporting framework for pension scheme costs.

LGPS CODE OF TRANSPARENCY

An encouraging initiative to improve investment fee transparency by the Local Government Pension Scheme Advisory Board was its Code of Transparency,⁶ which launched in May 2017. The code and the template, developed in collaboration with the Investment Association, sought to standardise the way in which investment management costs were disclosed. The template breaks out various types of fees and transaction costs across most asset classes, excluding alternatives. The code has since gained 80 signatories⁷ and sets a model for the UK pension industry to achieve full transparency across all asset types, which is being further explored by the IDWG.

IMPLEMENTATION OF UK INDUSTRY FRAMEWORK

In June 2017, the FCA published its *FCA Asset Management Market Study: Final Report*.⁸ The study found that there is weak price competition in several areas in the asset management industry, that retail investors do not appear to benefit from economies of scale, and that investor awareness of costs and charges is mixed and often poor. A proposed

⁵ www.fca.org.uk/publication/consultation/cp14-24.pdf

⁶ <http://lgpsboard.org/index.php/structure-reform/cost-transparency>

⁷ <http://lgpsboard.org/index.php/manager-list>

⁸ <https://www.fca.org.uk/publication/market-studies/ms15-2-3.pdf>

remedy to address these concerning findings was the formation of the IDWG, which brought together various expert stakeholders across the industry, with the intention of reaching a complete consensus on a cost disclosure template for asset management services provided to institutional investors. After 10 months of work, the group reached a consensus on the final template and made its recommendation to the FCA in June 2018.

As a high-level summary, the IDWG proposed the use of five templates:

1. A user template, which summarises data from an account-level template (see below) so that institutional investors can aggregate high-level cost data from their providers, as well as segment data across categories such as asset class or manager, with ease.
2. A main account-level template covering most product types such as listed equities, debt instruments and derivatives. This template captures data from all service providers in one place and is additionally fed by three further sub-templates where unique costs specific to certain asset classes should be captured.
3. A separate private equity template that feeds summary fields in the account template.
4. A separate physical assets template that feeds summary fields in the account template.
5. A separate ancillary services (custody) template that feeds summary fields in the account template.

As a part of the group's recommendation, the use of these templates will remain voluntary; however its take-up is encouraged through other means such as including a requirement to disclose costs via the templates in requests for proposals – a mechanism that already exists within the Local Government Pension Scheme Code of Transparency.

The IDWG and its recommendation to the FCA presents a unique opportunity to improve transparency in the pensions industry, and truly define an industry standard approach to cost disclosure, with an all-inclusive template for collecting costs and charges. We believe that this initiative is a step in the right direction for the industry and will promote good governance in UK pension schemes. The templates are expected to be released for commercial use in Q4 2018, and a deeper dive into the details will surely follow.



CASE STUDY: THE SUPERANNUATION ARRANGEMENTS OF THE UNIVERSITY OF LONDON (SAUL)

CLIENT OVERVIEW

SAUL was set up in 1976 to provide pensions for non-academic staff of the University of London. SAUL currently has a total of £3.3 billion AUM. The scheme provides pensions to more than 50 organisations with links to Higher Education and has over 50,000 members.

BACKGROUND

While SAUL's Investment Committee has long been aware of the types and approximate values of investment costs incurred, obtaining full details from all managers on a consistent basis and in a timely manner has been challenging.

SAUL was eager to undertake a comprehensive overview of its costs, which ultimately will enable the scheme to more thoroughly assess value for money.

SAUL's key objectives were to:

- ▶ Improve transparency of cost reporting for the scheme
- ▶ Prepare for upcoming regulatory scrutiny of cost disclosure
- ▶ Acquire tools relating to cost analysis to help improve decision-making

PROCESS

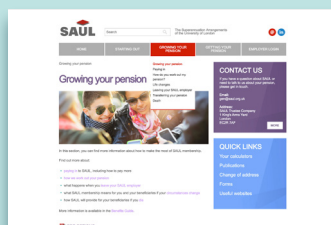
Using data collection templates, KAS BANK engaged with the scheme and all of its managers and advisers, requesting clearly defined data in a consistent manner. Upon receipt of this information, KAS BANK cleansed and validated it to ensure that all data points were aligned with expectations and within an agreed tolerance. KAS BANK then delivered this data digitally via a clear and intuitive app, CT&B, which the user at SAUL can navigate and use to investigate areas which are of interest to them. There are multiple displays and functionalities, offering a range of options for bespoke reporting.

OUTCOMES

The initial cost transparency and benchmarking exercise with KAS BANK provided SAUL with an improved visibility of its costs compared to those disclosed in its annual reports/accounts using industry standard accounting practices. The scheme can now benchmark the costs of its employed asset managers and compare mandates within the scheme to the cost of others externally.

The exercise has allowed SAUL to:

- ▶ Capture and analyse the costs which are typically unreported on a consistent basis
- ▶ Demonstrate accountability and good governance
- ▶ Benchmark the costs to ensure they are appropriate given the investment strategy and beliefs.



The collection of the cost data for three years consecutively is only the beginning of SAUL's cost transparency activities. It has opportunities for further analysis and is keen to investigate underlying pooled fund data (including custody and administration fees), transaction costs in alternative asset types, and value for money from performance fees; as well as to monitor trends over multiple investment periods. This activity is now established as a critical part of the scheme's governance and will be monitored on a regular basis going forward, forming an essential part of the scheme's decision-making.

5 CONCLUSION: STARTING THE COST TRANSPARENCY JOURNEY

UNDERSTANDING YOUR SCHEME'S COSTS IS LIKELY TO BE A JOURNEY THAT TAKES SOME TIME, BUT IT IS ESSENTIAL TO START AS SOON AS POSSIBLE. A CLEAR UNDERSTANDING OF YOUR COSTS AND THEIR IMPACT IS A MUST-HAVE, ESPECIALLY AS IMPROVED CONTROL OF YOUR COSTS WILL LIKELY HAVE A BENEFICIAL EFFECT ON A SPONSOR AND THE SCHEME'S MEMBERS.

Small savings today can amount to significant gains over the long term, ultimately delivering better outcomes to members. Nevertheless, we would like to emphasise that costs are not inherently bad, they are simply misunderstood. In making your value for money assessments, you should recognise that a transparent view of your scheme's costs is important, but that they should also be evaluated in context of the service that you are receiving.

Overall, we hope this guide goes some way in helping you develop a good working knowledge of the various costs associated with managing a pension scheme, and has given you the tools to confidently investigate your scheme's costs in more detail, beginning your own cost transparency journey.

PLSA CHECKLIST

1. Start analysing costs with the information to which you have ready access.
2. Ask your asset managers to complete the IDWG cost disclosure templates to ensure a consistent and transparent methodology.
3. When evaluating costs, ensure they are reviewed in the context of the service which is being provided.
4. Communicate your efforts and findings to your members and peers.
5. If you need support, seek assistance from specialists in cost transparency who can assist you in delving deeper into the subject.

6 GLOSSARY OF COSTS

WE HAVE PROVIDED A LIST OF THE MOST COMMON COST TERMS THAT YOU MIGHT ENCOUNTER IN YOUR COST TRANSPARENCY JOURNEY. THIS IS OF COURSE NOT AN EXHAUSTIVE LIST, BUT WE HOPE IT WILL HELP YOU WITH INITIAL DISCUSSIONS.

Advisory and control costs	The costs associated with the support and advisory functions required in the running of the pension scheme, including all fees paid to external parties (not including those relating to investment activities).
Administration & Processing cost	These costs involve any amounts that are associated with the monitoring or processing of member accounts or communications. This includes internal and external communications, as well as any systems or infrastructure used to manage the process.
Appraisal fees	The cost of paying a qualified appraiser to estimate the market value of a property or investment.
Auditing fees	Costs charged to a fund for the audit of its financial records and preparation of any tax documents.
Basis points (bps)	Often an investor's assets are so large that measuring a portion of the assets in percent is not productive. A basis point is 1/100th of a percent. When fees are measured in basis points this would mean that a 10-basis point charge on £500 million of assets would be a cost of £500,000.
Broken deal expenses	The costs received from and paid to counterparties upon termination when a fund's acquisition is unsuccessful.
Custodian fees	The amount you pay for your custodian to fulfil their safekeeping role. The other 'securities services' that your custodian provides to your scheme might be incorporated into a bundled price. Therefore, it is worth separating out the costs of safekeeping from those of services such as fund accounting, treasury services and tax reclaim.
Estate agent fees	If an investment is made directly into property holdings there are likely to be estate agent fees incurred.
Execution commission	The commission paid for the execution of an equity, fixed income or commodity transaction – for example, the commission paid to a broker for executing an equity trade.
Executive costs	All executive and committee costs incurred as part of the day-to-day management and governance of the scheme. These costs include everything related to executive services, including salaries and expenses, memberships to organisations or publications, as well as any costs associated with conference attendance.



Fiduciary management costs	<p>Some schemes choose to outsource the investment process to a fiduciary manager. The manager potentially takes over a number of activities, each of which has an individual cost that is passed on to the scheme. These activities include:</p> <ul style="list-style-type: none"> ▶ Proposals for strategic investment policy, including ALM studies ▶ Advice on risk management and balance sheet management ▶ Proposals for portfolio composition and implementation ▶ Performance measurement ▶ Communication and reporting to the trustee board ▶ Selection and monitoring of external managers ▶ Outsourced custody and securities services
Fiscal & legal consultancy fees	A fund might require legal services, for example if it wants to amend its set-up. These costs may be indirectly passed on to the client.
For research commission	Commission paid in return for research, analytics, trading technology etc. that is used by the investment manager for the mandate. For example, the execution fee on an investment may be £1 but the manager might pay an extra £1 to cover the cost of research provided alongside execution.
Investment advisory costs	The amount you pay your investment consultant for all services they provide. This not only includes consulting but also functions such as manager research, for which you may have a separate fee structure.
Investment costs	The costs associated with any activity relating to the management and monitoring of the scheme's investments. This is the total for all investment practice, including all asset manager costs, investment service providers, investment advice, etc.
Investment manager – management fee	The amount your scheme is invoiced by your asset managers for management fees, such as the annual management charge (AMC). This is typically a contractually agreed amount expressed in basis points of the size of the mandate.
Investment manager – performance fee	The amount you are invoiced by your scheme's asset managers for their performance. This sits on top of the AMC and is the amount you pay the fund manager for positive results. This is usually relative to the fund's profits.
Pension management costs	The expenses involved with managing and administering the pension fund itself. They are incurred as part of the day-to-day running of the scheme and are not related to investment activity.
Placement fees	The fees charged when client funds are placed into property, infrastructure, hedge or private equity funds. This is usually done by a bank or broker who will charge for this service.

Registration fee	Any costs or charges that occur when registering a new security or investment.
Rent	The cost of renting property that is used by the scheme. This could include renting space from the sponsor for the pension scheme.
Stamp Duty/Financial transaction tax	Governments often charge taxes or fees on certain investments or transactions. For example, the UK government levies Stamp Duty on all UK equity purchases.
Total cost of ownership (TCO)	The total of all the costs you incur in running a pension fund or investment vehicle. This should include direct and indirect costs, administrative as well as investment costs, to establish a proper 'total'.
Transaction costs	These are any expenses incurred in the process of buying, selling, lending or borrowing financial instruments. Each financial instrument will have some costs that are particular to investing in that area. However, many of these costs apply across all asset classes or financial instruments.

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ISBN 978-1-907612-58-9



**Pensions and Lifetime
Savings Association**

24 Chiswell Street
London EC1Y 4TY

T: 020 7601 1700
E: plsa@plsa.co.uk

www.plsa.co.uk

October 2018

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