Who is getting good value for money from investment managers?

LCP Investment Management Fees Survey
February 2022

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Introduction

Welcome to the LCP Investment Management Fees Survey 2022. We have been surveying institutional investment managers bi-annually since 2010 to produce the most comprehensive survey of institutional investment manager fees in the UK.

Since our 2019 report, we find a mix of fee rate rises and falls in core asset classes. For a £50m mandate, the average global active equity fee rate has risen by 0.07%, or £35k, per annum. For an active global corporate bond mandate the average fee rate has fallen by roughly the same amount.

In every private market we cover, we have seen average fee rates rise since our last survey. In Section 1 we ask if the general downward trend in manager fees of the last few years is now levelling off.

For the first time in LCP's Investment Management Fees Survey, we have used publicly available data from retail investment platforms to compare fees paid by individual investors with those paid by institutional investors. Across all comparable asset classes, the average fee rate paid by institutions is significantly lower. For example, on average, fee rates are 0.2% lower for a global active equity mandate and 0.4% lower for a multi-asset mandate. With fee pressures building on asset managers, we ask whether the platforms could move from merely offering access to funds, to acting liking a pooling vehicle that exploits its scale more effectively?

Fees and costs can make a big difference to the investment return you achieve, especially if you're investing over many years. We demonstrate the surprisingly large effect a small increase in fee can have on page 8. In our simple example, we show the significant reduction in net wealth that could occur, over an investor's multiple-decade time horizon, from employing a manager with the highest fee rates compared to one with the lowest fee rates.

Of course, it is the net return that matters to investors. If a high-performing manager has achieved excess returns that more than offset their fee, investors may be satisfied. The problem is no investor knows in advance if they're investing with a manager that can achieve **any** excess return, let alone one large enough to offset fees and costs. On page 9, we look at a framework to assess if the fee rates are worth paying when you expect the manager to provide excess returns but can't know in advance if they'll achieve it.

When determining if your investment manager is providing value for money, the total costs need to be considered. Managers can increase costs by trading the portfolio of assets they manage on your behalf as they attempt to improve returns. On page 14 we look at how successful some selected managers have been and how levels of turnover in the portfolio affect costs and performance.

We also look at how the costs for a DC scheme of investing through a platform compare with the costs of investing directly.

Over the 12 years we've been producing this survey, it has proved to be an important resource for both institutional investors and the asset management industry, bringing clarity and competition to fees for investment management in the UK.

We trust you find the information useful and informative.

Facts about the survey

88	Investment management organisations participated
50	Asset classes covered
968	Different products included

We've made much of our data available in our interactive Fee Data Room, which allows you to compare fee levels at different mandate sizes.

Matt Gibson
Partner and Head of Investment Research

At a glance

The downtrend in fee rates appears to be levelling off

For a £50m mandate, the average active global equity fee per annum has risen by £35k, or 0.07%, since our last survey. For an active global corporate bond mandate, the fee rate has fallen by roughly the same amount.

We find that individual investors pay more for the same funds than institutional investors.

Fund platforms do not appear to be using their scale to drive better fees.

In several asset classes, average manager fees represent an unreasonable proportion of the overall gross returns (we illustrate a framework for showing what is reasonable).

The difference between the highest and lowest fees for active global equity manager in our survey, could lead to a difference in net wealth of as much as 17% over 20 years.

Transaction cost and turnover data is improving

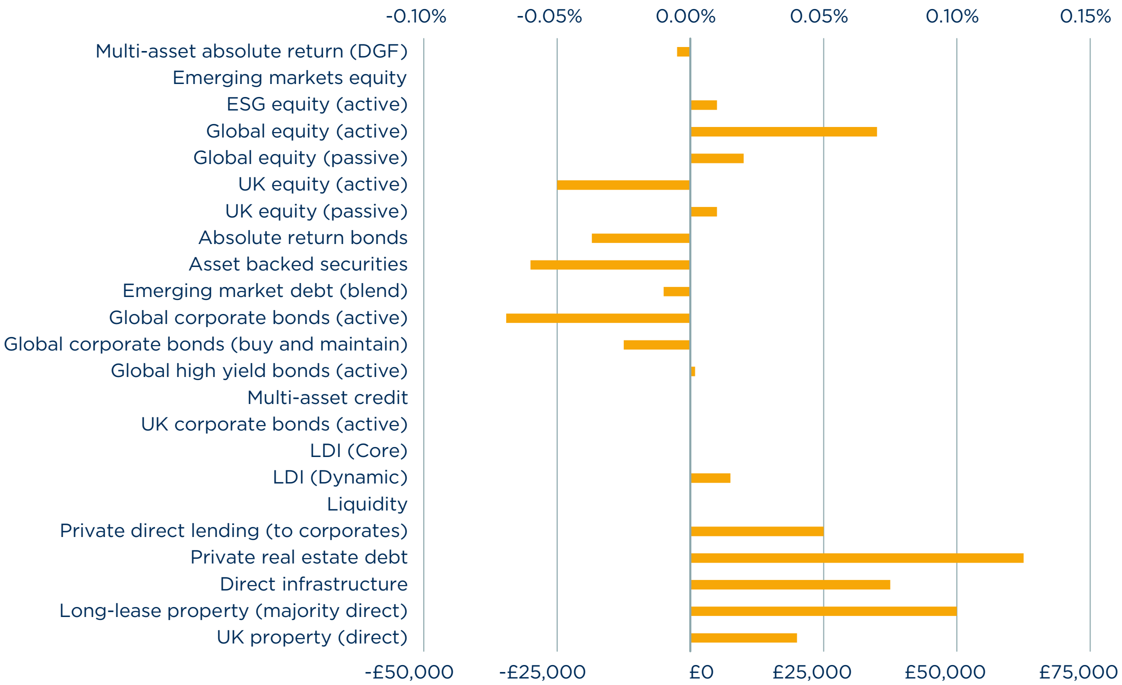
In some asset classes transactions costs add expenses of more than 30% of the headline investment management fee, substantially increasing the total costs of investing.

We found that investors in DC platforms may be paying more in investment manager fees than if they invested directly in the fund. In addition, these investors pay a fee to the platform provider.

The downward trend in fees shows signs of levelling off

The chart below shows the change in Annual Management Charge (AMC) for a £50m investment mandate since LCP's 2019 Investment Management Fees Survey.

Change in average asset management charge for a £50m investment from 2019 to 2021



The chart shows a mixed, and perhaps slightly unintuitive picture. One standout theme is that private market asset class fee rates have risen markedly since our last survey. This is likely a reflection of the increased popularity of these asset classes among institutional investors in recent years.

In the UK, a significant cohort of institutional investors are defined benefit pension schemes. As many of these have matured, scheme trustees have been de-risking their asset portfolios by moving away from equities. Asset classes such as private direct lending, long lease property and infrastructure are seen as lower risk sources of return and income generation, and have seen increases in allocations. This increased demand may explain the higher average fee rates for these asset classes compared with 2019.

For traditional credit and equity asset classes, the overall picture is mixed. In a number of credit asset classes, average fee rates have come down since 2019, notably global active corporate bonds which has seen the average fee rate for a £50m mandate fall by around £35k, or 0.07%, per annum. Within equity asset classes, many average fee rates were unchanged or increased compared with our 2019 survey. Most notably, the average fee rate for a £50m global active equity mandate has increased by around £35k or 0.07% per annum.

Note: to aid comparison, we asked for fee quotes that did not incorporate a performance-related element. Some strategies, particularly in private markets, do not offer a flat-fee only option. For these, we show in the charts only the flat-fee part of the overall fee structure. Typically, performance fees do not kick in until a specified performance hurdle has been reached, so the fee shown can be thought of as the fee paid if performance is at or below the hurdle level.

Active management value for money

Over the past decade, the general trend of falling fee levels has been accompanied by a period of increasing costs for investment managers. In the EU and the UK, new regulatory reporting requirements and changes to the way managers can pass on the costs of third-party research, have been additional expenses for managers.

This has left managers looking for ways to reduce costs. Increasing their scale through mergers has been one route to do that. These mega-mergers have continued recently with, notably, Columbia Threadneedle's purchase of BMO in Europe; Franklin Templeton tying up with Legg Mason; and Amundi purchasing Lyxor.

Is this consolidation in the industry beginning to put the negotiating power on fee rates in the hands of the managers? It may be that as fewer managers compete to provide services to institutional investors, the pressure on fee rates is beginning to wane and we are seeing, if not yet a rise in fee rates in core asset classes, a levelling-off of the recent trend of fee rate reductions.

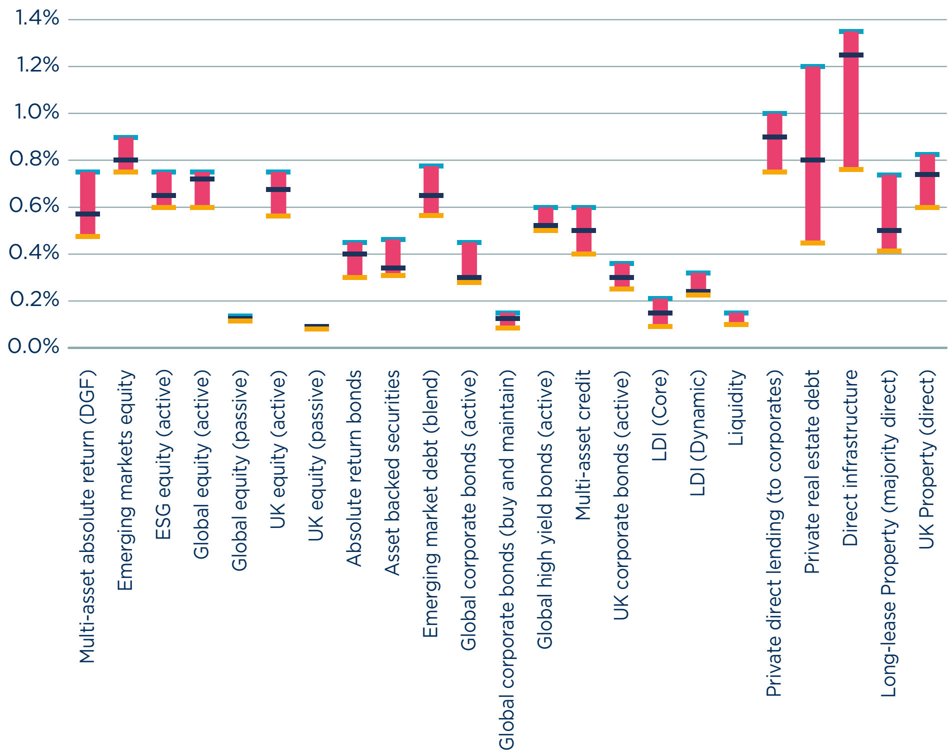
Jargon

Annual management charge (AMC) is fee rate payable to the investment manager. It covers only the flat-fee part of the manager's fees. Expressed as a percentage of assets.

Ongoing charges figure (OCF) is total annual fee rate for the fund – it's the AMC plus any additional costs, such as custodian and auditor charges. It doesn't include any potentially one-off charges, such as performance fees, nor does it include transaction costs.

The chart below shows the media, upper and lower quartile fee rates for a £50m mandate for the key asset classes used by institutional investors. Our Fees Data Room contains more information, including different mandate sizes and OCFs.

Annual management charges by asset class

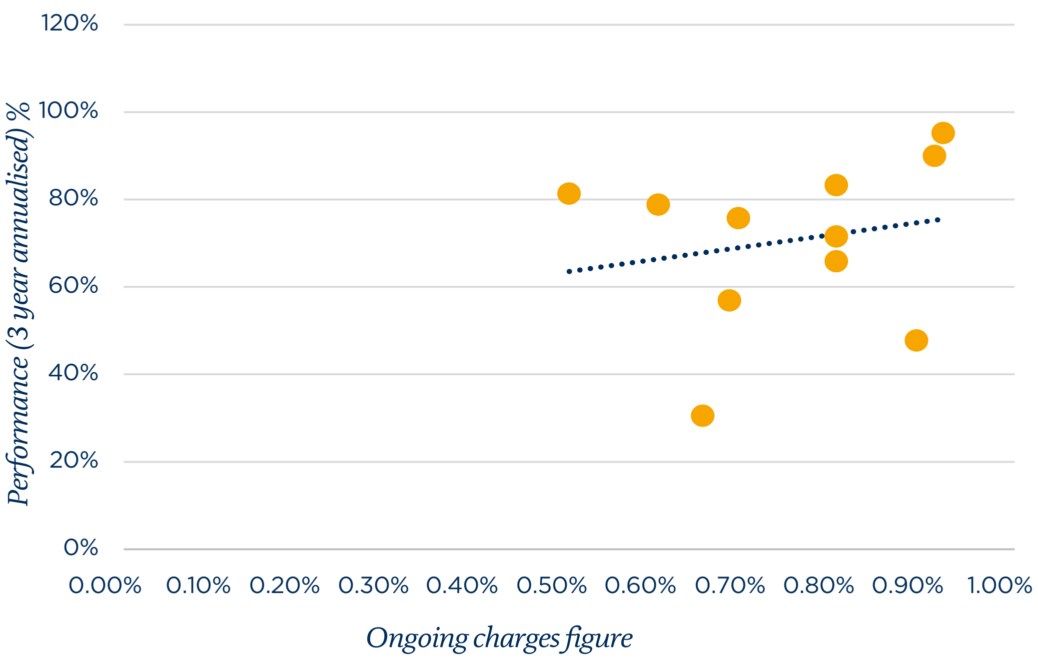


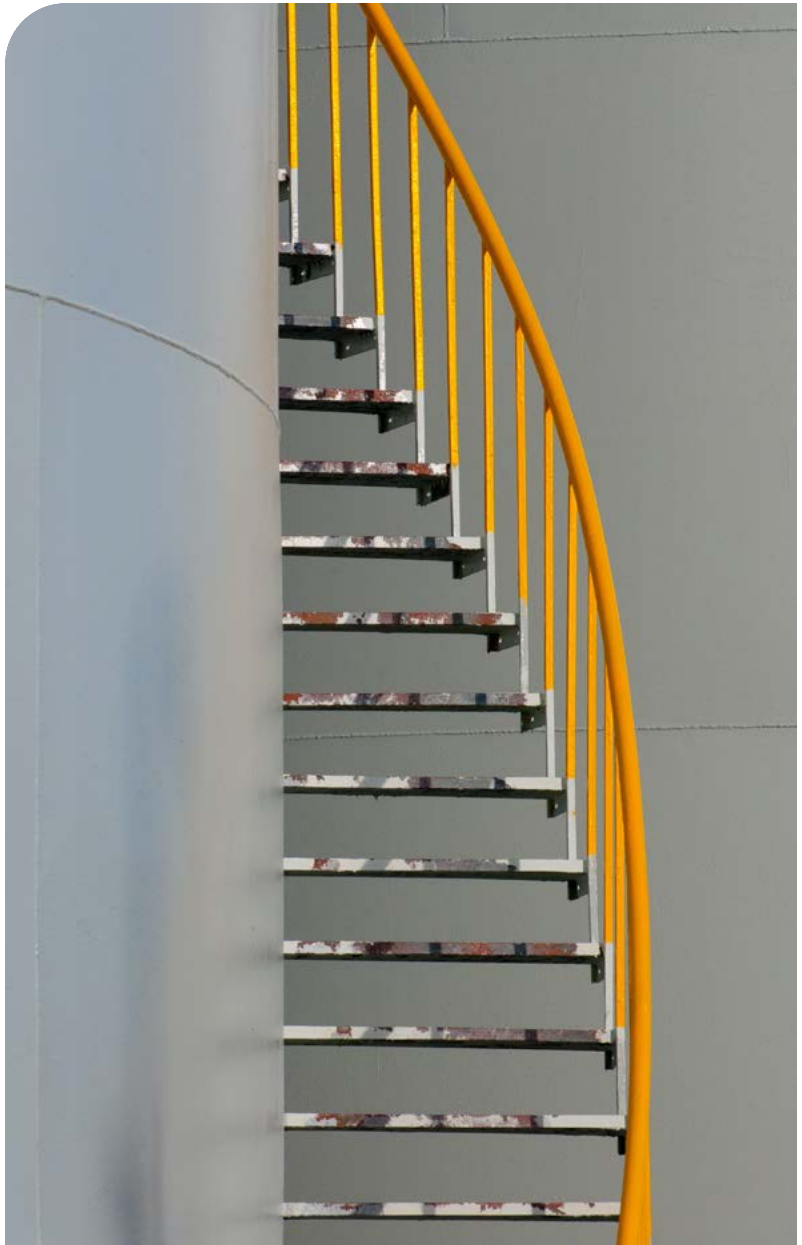
The downward trend in fees shows signs of levelling off (Continued)

For a sample of global equity funds, we looked at whether the returns over the past three years had any relationship to the fees and costs. We show this in the chart below.

It is a limited sample, but we haven't found a strong positive relationship that higher fees are worth paying in the hope of receiving higher returns. There is a slight positive correlation in this group of funds, but not enough to justify the potentially significant differences in fee rates.

Global active equity fees and costs vs 3 year annualised performance





Why the fees you pay really matter

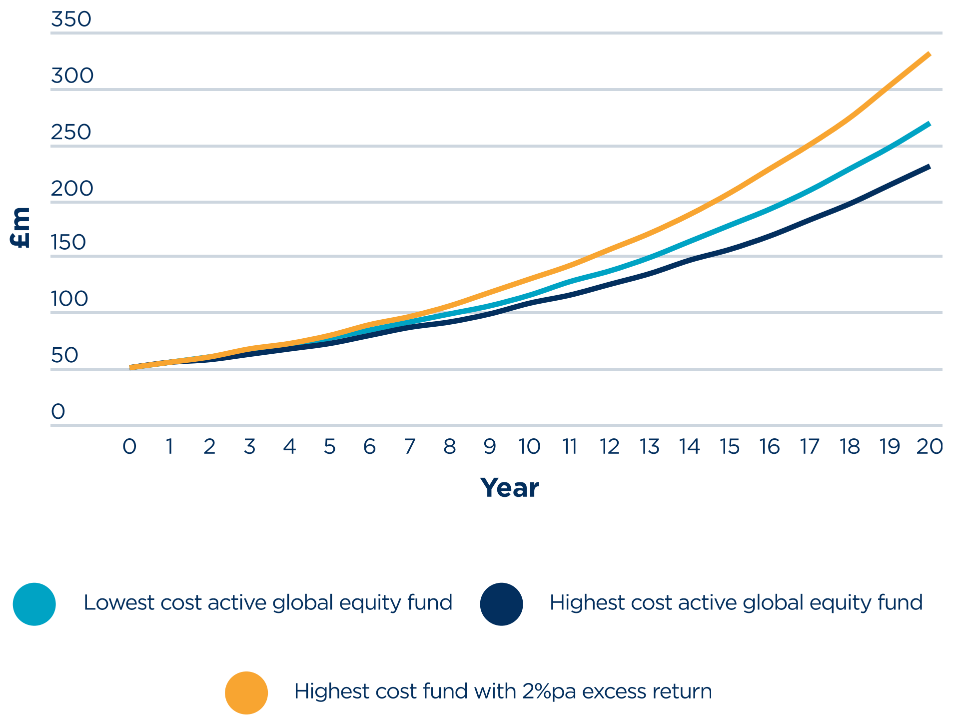
Almost without exception, investment management fees are expressed as a percentage of the assets being managed. Scaling in this way is actually pretty unusual for a professional service – legal fees on a house purchase are rarely expressed as percentage of the house price, for example. Whether the entire manager fee model is justifiable or not is open to debate – and managers will point to their greater risk from larger assets to justify the ad-valorem fee – but it does have one important consequence: fees sound cheap, but add up quickly!

A number less than 1% sounds like a small amount, right? That small-sounding fee can have a serious impact on your wealth over the many years you, or the institution you invest for, are likely to employ an investment manager.

To illustrate the effect of fees, we show in the chart two notional institutional investments of £50m in global equities. Both use a base return from the FTSE All World Index over the past 20 years to 31 December 2021 - 9.0%pa. One models the performance using the highest active OCF reported in the survey (dark blue), the other shows the lowest active OCF (light blue). The highest OCF is 1.12%pa; the lowest 0.26%pa. To illustrate the point, we've assumed neither manager has achieved any excess return over the index.

The total effect of the difference in costs could lead to an investor in the lowest cost fund having an investment portfolio that is 17%, or £39m, higher than the investment in the most expensive fund.

Effect of fees on an initial investment of £50m over 20 years



This shows that even apparently small increases in fees can, over time, have an outsized effect on the total value of the assets.

Of course, in a similar way, we can see that an active manager that **does** achieve excess returns after costs can dramatically increase the value of the portfolio. The yellow line in the chart shows the effect of the manager with the highest OCF achieving a net return 2%pa in excess of the index.

Which leaves us asking: how much is reasonable to pay a manager given that costs are certain, but future excess returns are unknowable?

How much return / excess return is reasonable to pay your manager?

We find that some managers take a disproportionate share of the total return achieved on assets.

What is a reasonable level of fee to pay your manager? The answer will, of course, be subjective and depend on the investor's attitude to active management, but it can help to think about the value of the services the manager is providing.

The key service of value is, obviously, providing the opportunity for your assets to achieve capital gains and income. For liquid assets that have an index-tracking option, that service can be provided at fairly low cost, just a few basis points. In these liquid markets, the value of any active management is the return above the index.

In other asset classes, typically private markets where there is no cheap index-tracking alternative that will provide the 'average' return, the value of the investment service might be assessed as the return above a risk-free rate.

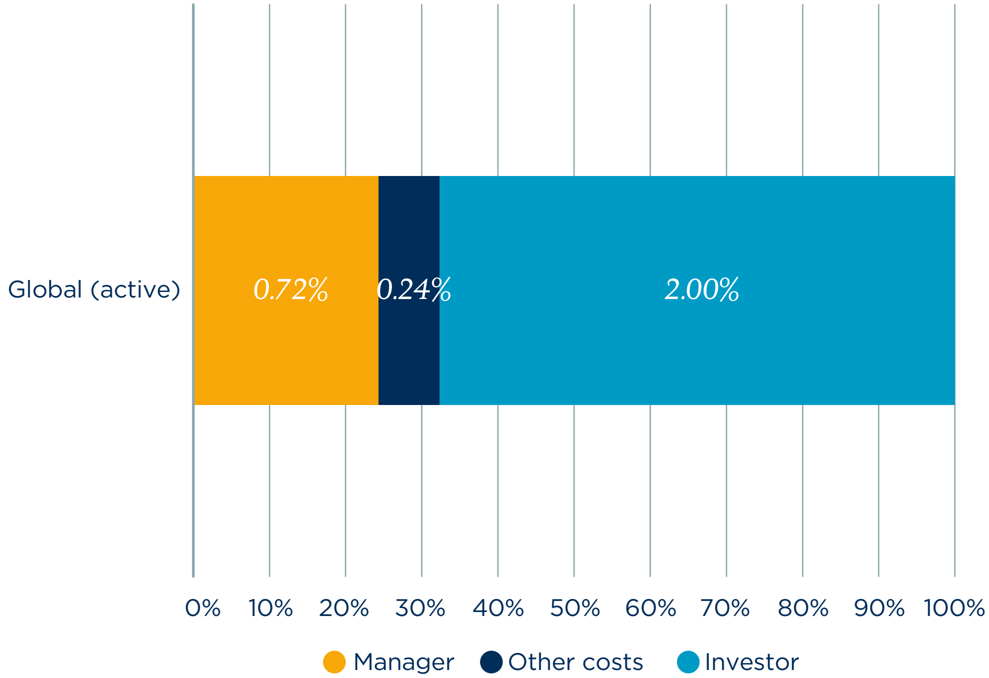
Let's look at a straightforward equity fund, where the investor is considering appointing an active global equity manager.

- The investment manager's objective is to achieve a return of the index plus 2%pa after fees and costs and the investor believes the manager has the ability to achieve this.
- The manager is charging a fee of 0.72%pa (the average management fee for a £50m active global equity mandate based on our survey).
- Other costs, including custodian, administrator and transactions costs, are expected to be 0.24%pa; taking the total costs to 0.96%pa.

Which means that:

- To reach the objective the active management of the portfolio has to achieve, before fees, an annual return of nearly 3% (2.96%) in excess of the index.
- The manager will take 24% of this excess return (0.72% of 2.96%).
- The total costs will be around a third of the excess return or, in other words, the investor will receive only two thirds of the excess return.

Share of excess returns - active global equity fund that achieves index +2%pa after fees



So the investor is taking all of this risk, but expects to receive only around two-thirds of the excess return. If the manager falls below its objective, the investor will receive an even lower share of the excess return.

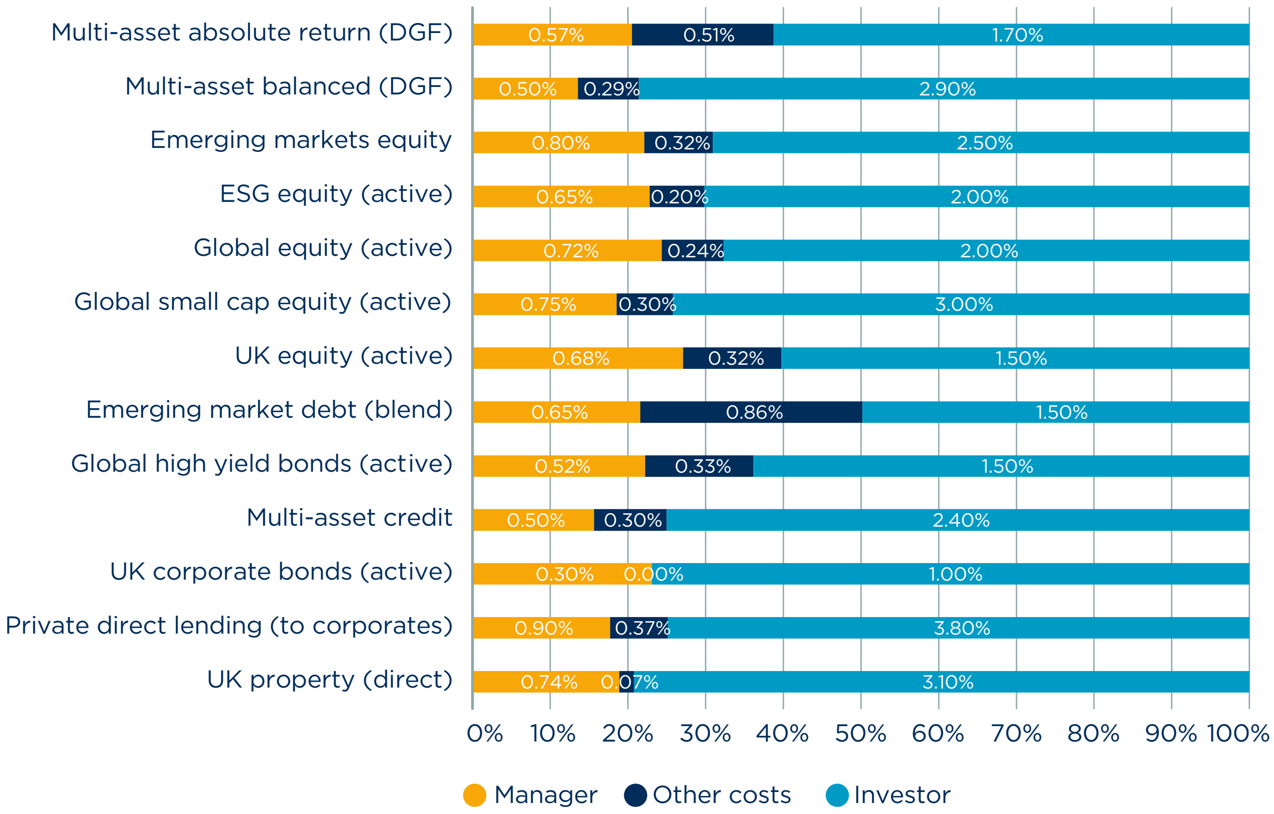
It's a subjective call on whether this risk is worth taking at that split of returns and will largely depend on the degree to which you are convinced the manager can deliver on its target return above the index. This analysis, however, helps us understand the economics of this particular risk / return trade off.

How much of return / excess return is it reasonable to pay your manager? (Continued)

We looked at other liquid asset classes in the same way as the global equity example on the previous page. What proportion of the expected gross return above an appropriate index is the average investment manager taking? We've used what we consider to be an average target for outperformance in each market.

For asset classes that don't have a liquid index to compare performance to, we had to take a different approach. Here we compare the average investment management fee and the additional costs to the expected gross total return above a risk-free rate. For the expected returns in each of these asset classes we've used our capital market assumptions – which we use in asset-liability modelling. For example, we expect, on average, an absolute return multi-asset fund to generate a gross return of 2.8%pa above the return on gilts; the average investment management fee is 0.57%pa and other costs are 0.51%pa. Meaning the average investment manager is expected to receive a 21% share of the expected gross return above gilts, and investors expected to receive a 61% share.

Share of returns - manager, investor and other costs



The proportion of the gross returns taken up by costs varies across asset classes. As a rule of thumb, we think any arrangement where the manager is taking more than 25% of the gross return has a clear case to renegotiate the fee; and in some asset classes, a share lower than this should still be considered poor value. The figures in the chart use the median fees and costs from our survey; in some asset classes many managers with above average fee levels are taking above our 25% guide of 'reasonable value'.

Note: in some illiquid asset classes, we haven't included some of the operational costs of managing the underlying assets, such as property management costs. This is in line with standard reporting of headline costs for funds.

The "other costs" here includes transaction costs from the survey results.

How much of your return / excess return is it reasonable to pay your manager? (Continued)

Every investor will have their own view of what added value a particular manager is likely to provide. When appointing a manager or renegotiating a fee rate, you will need to recreate this analysis considering the objective of the manager, your view on their likelihood to achieve that objective, any performance fee, how much of the return is "excess" and what value to put on the risk of not achieving the objective.

Of course, asset managers provide a number of different services to their clients including:

- Selecting assets to create a portfolio;
- Executing trades to implement that portfolio;
- Maintaining records and reporting to clients;
- Helping meet clients' regulatory requirements.

Investors appointing a new active manager may expect the first of these to be highest value service. For passive managers though, investors may attach greater weight to other services.

In some asset classes such as multi-asset absolute return and UK active equities, managers with above average fee levels are taking more than 25% of gross returns – this is the threshold for, what we consider, a reasonable level of upside-share.

Individual investors pay more than institutions

For the first time in LCP's Investment Management Fees Survey, we have used publicly available data from retail investment platforms to compare fee rates paid by institutional investors with those paid by individual investors.

We find that individual investors, in most cases, pay more for the same funds.

We gathered information on fee rates and charges from two well-known investment platforms. These platforms provide a convenient way for individuals to invest in funds and can wrap the assets inside tax advantaged schemes such as a Self Invested Personal Pension or an ISA. Individuals can use these platforms directly or delegate management to a professional investor.

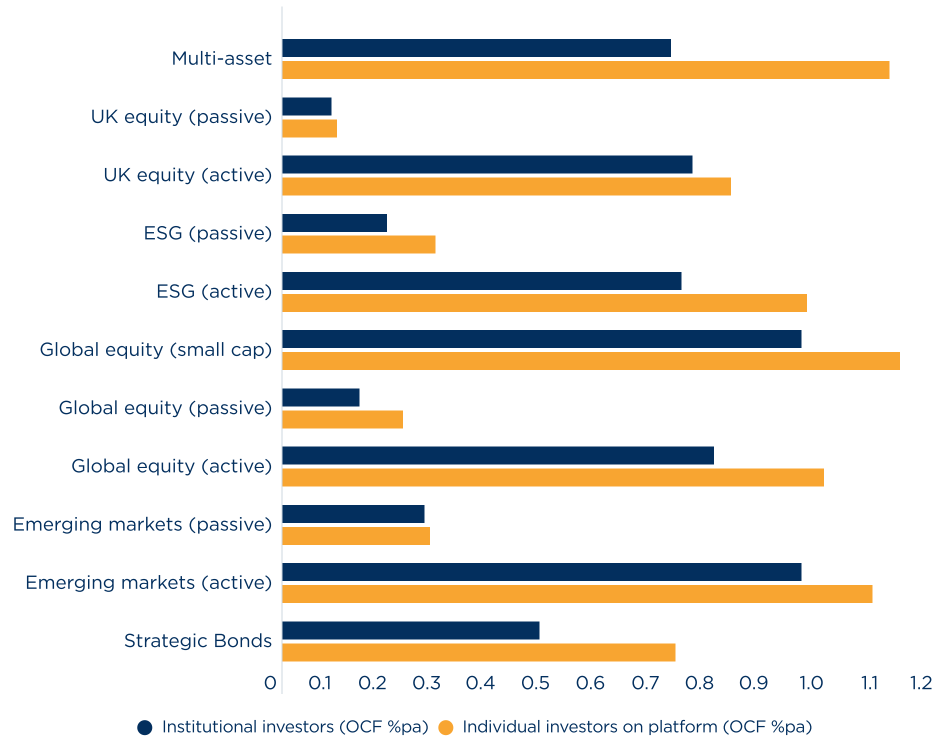
Each platform's charging structure is slightly different. Both charge a "platform fee", either as a percentage of assets or a fixed amount, and will charge extra if the investors use additional services such as using the platform's model portfolios. To simplify our analysis and make the figures comparable, we've looked at the OCFs of funds; we've ignored the fee payable to the platform itself.

The results show that individual investors pay more than institutional investors:

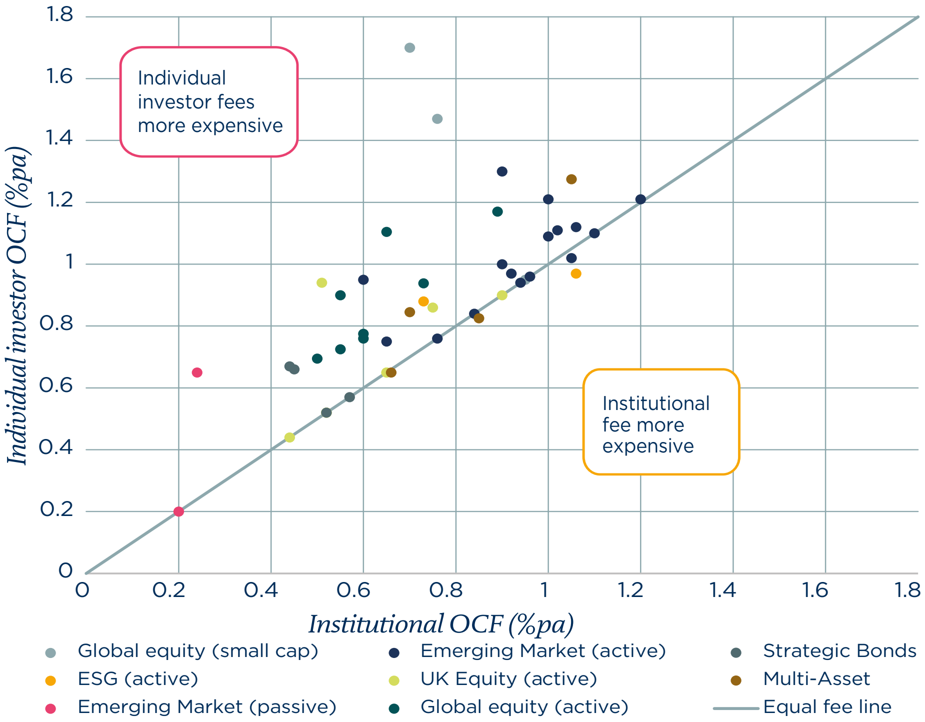
- Across all asset classes, the average cost for funds on the platforms is more than the average fee available to institutional investors. For example, OCF rates are 0.2%pa higher on average for a global active equity mandate and 0.4%pa higher on average for a multi-asset mandate.
- For a sample of 49 specific funds that are available both on the platforms and to institutional investors (ie it's exactly the same fund), 92% of them cost individuals more than institutions.

This isn't, of course, a huge surprise – bigger buyers get better deals in many transactions – but is it really justified in this case? Individual investors may each only invest a relatively small amount by institutional standards, but combined, they are a big pot.

Comparison of fund OCFs for individual and institutional investors



Fee comparison for a sample of funds offered to both institutional and individual investors



Over a working life of 40 years, saving £5,000 per annum and earning 5% return on a multi-asset fund, at average total costs, an individual investor could have a savings pot that is £50,000 or 10% smaller than if they had paid the institutional costs.

Some equity funds cost as much as 1% higher in annual fee rates on a retail investment platform compared with the fee rates charged for an institutional investor.

In the institutional investment world, investment advisers have negotiated fee rates on behalf of all clients. For example, LCP has had marked success in negotiating discounts for clients in many asset classes – see our case study on page 22.

This raises the question of whether platforms should do more to negotiate fee rates for individual investors? There are clearly reduced costs for the investment manager when assets are raised through a platform: the costs of sales, reporting and servicing the investor are generally lower. Should these savings be passed on to investors through lower fee rates?

Since 2019, the governing boards of UK funds have had to report on value for money for investors. They need to assess the fund based on quality of service, net performance and fund costs. One of the criteria the fund boards are supposed to report on is the cost of "comparable services", including comparing the costs that individual investors are charged through funds' retail share classes, with fee rates charged to institutional investors. A report by the CFA institute of the UK found that many boards governing funds found it difficult to address the issues in this section of their reports.[1]

In the US, fund boards must be further removed from the investment manager compared to the UK. Here, boards must act at arm's length from the investment manager in negotiating fee rates. That effectively means the fund itself is an institutional investor procuring services from the investment manager – and is expected to negotiate based on its scale, largely irrespective of whether the underlying investors are institutions or individuals. There is some evidence that the US approach does lead to lower costs. The Investment Company Institute reports that the average expense ratio for active equity funds in the US is 0.71%pa, well below this survey's findings that UK individual investors pay 0.99%pa, on average.[2]

1 CFA Society United Kingdom. A Review of UK Fund Assessment of Value Reports (2019-20). January 2021. https://www.cfauk.org/-/media/files/pdf/pdf/5-professionalism/3-research-and-position-papers/review-of-uk-fund-assessment-of-value-reports.pdf

2 ICI Research Perspective, March 2021. "Trends in Expenses and Fees of Funds, 2020". https://www.ici.org/system/files/private/2021-04/per27-03.pdf

Transaction cost data is (slowly) improving

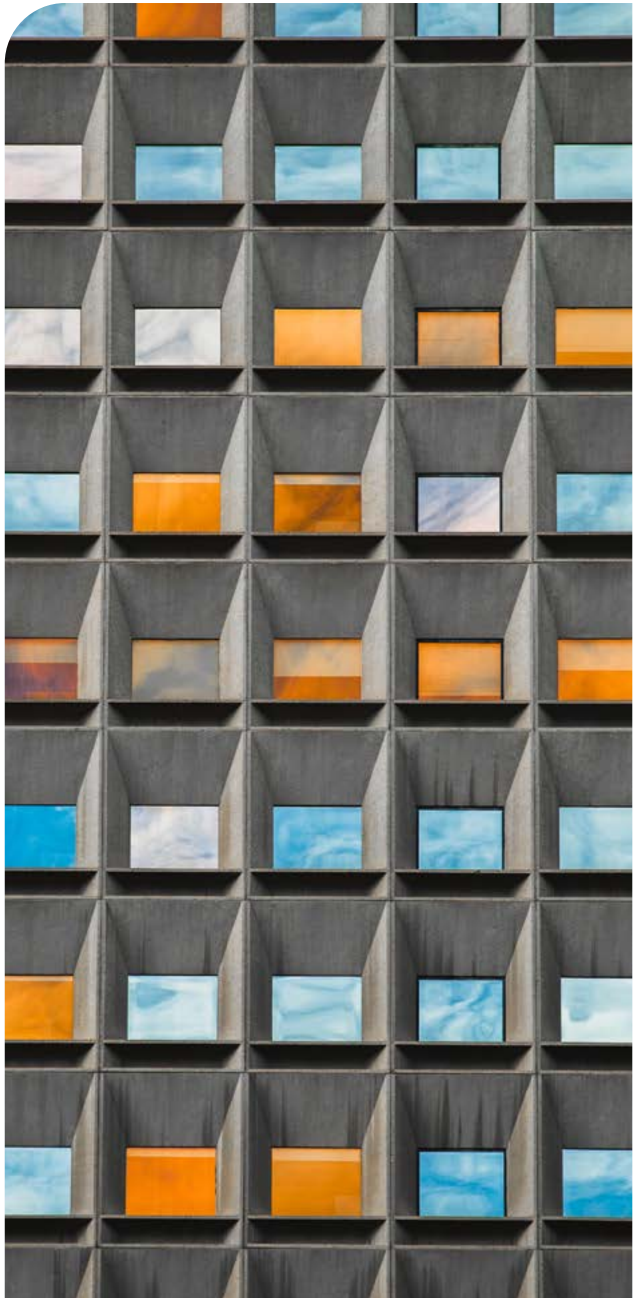
Transaction cost data is complicated!

Various groups have tried to standardise the calculation and reporting of transaction costs. The EU's transformative piece of legislation for the financial services industry, MIFID II, sets out what transactions should be reported and how they should be broken down. The FCA and the Pensions and Lifetime Savings Association (PLSA) have worked to ensure that institutional investors can get a standardised, comprehensive set of cost data.

Managers are expected to be able to deliver full details of costs to their clients using the PLSA's Cost Transparency Initiative standard templates from the 2020/21 reporting year.

Reporting should cover the following transaction costs:

- **Explicit costs** – costs that are billed directly to assets and include broker commissions, and stamp duty taxes.
- **Implicit costs** – costs that are taken as part of the transaction price itself and include the bid-offer spread and the cost of the market moving against you as you trade. Occasionally, the market can move in your favour and these implicit costs can turn out to be negative, ie a benefit. That can be confusing and makes comparisons difficult to understand.
- **Indirect costs** – these typically only arise where the manager holds a pooled fund as part of the portfolio and reflect transaction costs of that underlying fund, either paid to another part of the organisation or a third party.
- **Anti-dilution levy offset** – costs recouped from subscribing or redeeming investors in a fund through fund dealing spreads or levies.

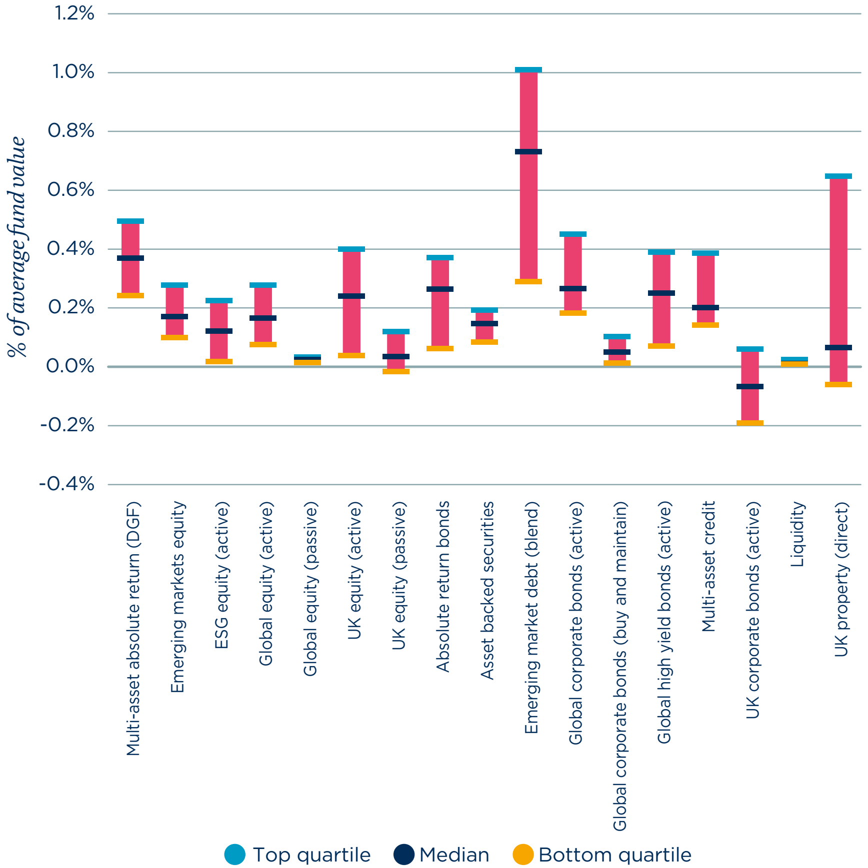


Data availability and comparability are far better than they were and these regulations and initiatives have been successful, but some managers still appear reluctant to provide the full picture. Of the 968 products we received data on, only 232 included useful transaction cost data. While this is an improvement on our previous survey two years ago, it demonstrates that despite the recent regulations and improvements in transparency it can still be really hard to understand if your investment manager is providing good value in executing transactions on your portfolio.

Transaction cost data is (slowly) improving (Continued)

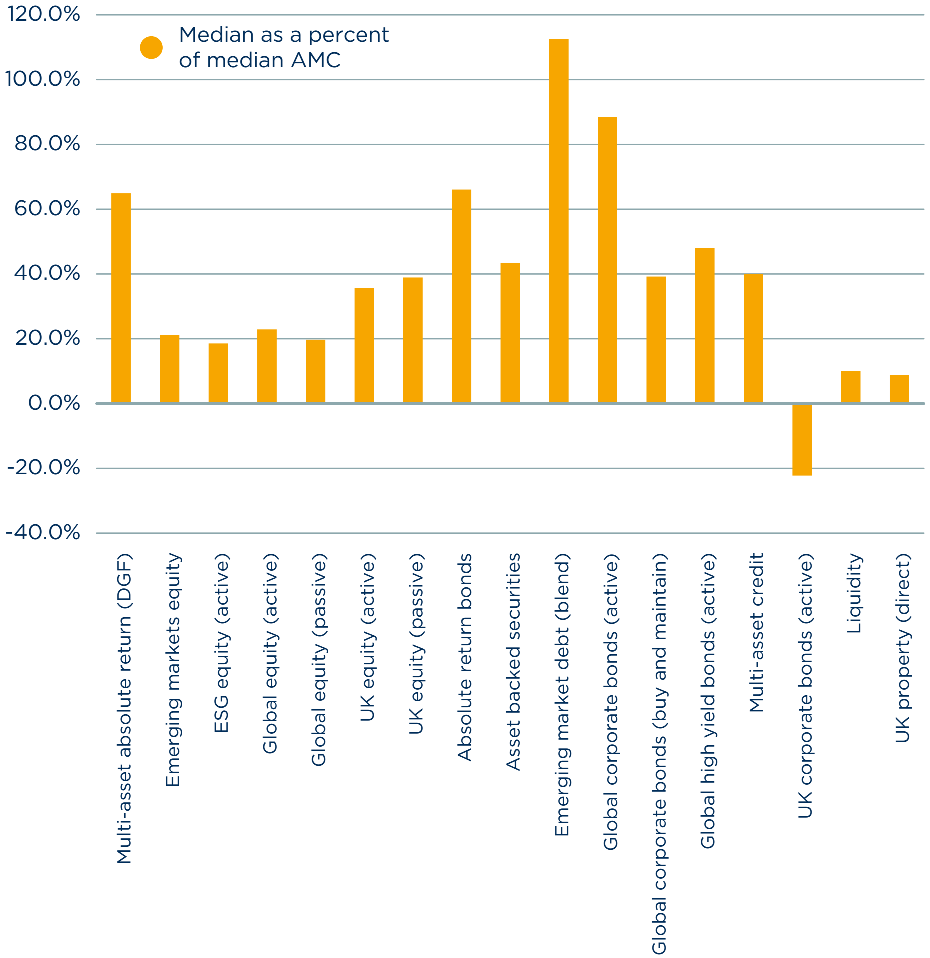
The chart below shows the median, upper and lower quartile transaction costs for 17 of the key asset classes used by our clients, where sufficient data was submitted for the 2022 survey. The average transaction cost varies considerably by asset class – global and UK passive equities incur little transaction costs, whereas active equity and corporate bond funds, which engage in much more trading, incur higher transaction costs.

Total transaction costs over latest 12 month period by asset class



In the chart below we show the median transaction costs for each asset class as a percent of the median AMC to indicate how transaction costs are, in some cases, a substantial portion of total costs. Data shown is for a £50m mandate.

Total transactions costs over 12 months period as a percent of median AMC



Transaction cost data is (slowly) improving (Continued)

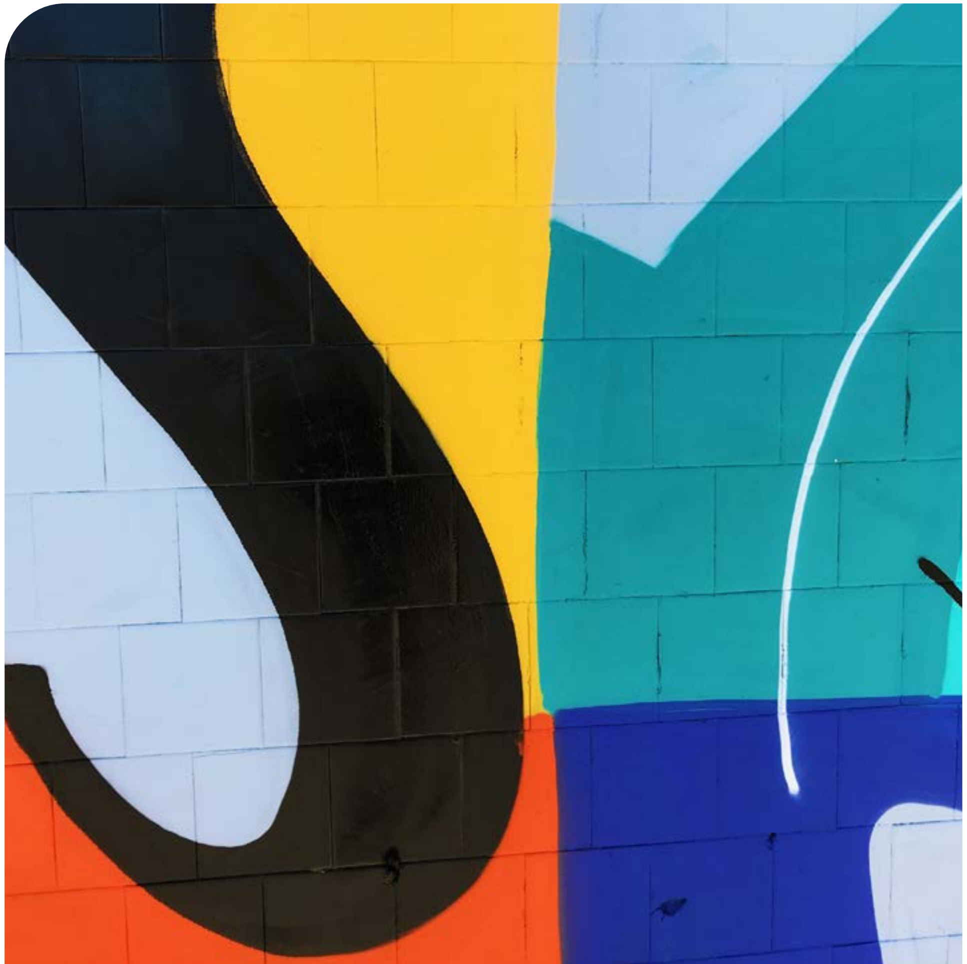
As the charts demonstrate, transaction costs can amount to a significant proportion of your costs of investing. An average £50m blended emerging market debt mandate will incur around £370k in transaction costs over a year. An average £50m active global corporate bond mandate will incur around £130k in transaction costs over the same period. These are considerable amounts and for some of these asset classes the median transaction costs are greater than 50% of the annual management charges.

Some key insights from this analysis.

- Transaction costs in UK equity funds are the highest of any equity market, with a median of 0.24%. This is mainly due to UK equities incurring stamp duty reserve tax on purchases (0.5% on every purchase).
- In UK property the top-quartile transactions costs are above 0.65%, significantly higher than most other asset classes. UK property purchases also attract stamp duty (of up to 5% of purchase value). There may be other costs when buying and selling property such as legal and surveying fees.
- Emerging market debt funds had notably higher transactions costs than other asset classes. Funds in the highest quartile of transaction costs spent over 1% trading the portfolio. The median transaction costs exceed the median annual management charge.
- Some funds reported negative transaction costs – this is likely to be because the fund charged incoming (or outgoing) investors more than it actually cost to rearrange the portfolio on the day they subscribed (or redeemed). The benefit – a negative cost! – went to the existing (or remaining) fund holders.

New legislation and recommendations have improved transaction cost reporting, but some managers still struggle to provide the full picture.

Average annual transaction costs can vary by as much as 0.8% between different asset classes.



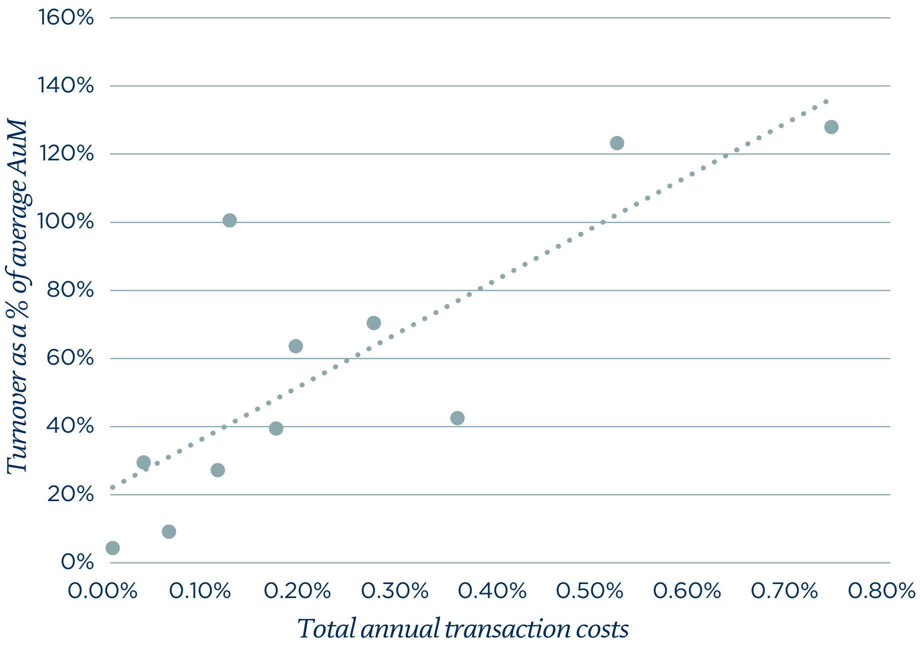
Do transaction costs provide good value for money?

This year we have received more data on transaction costs including additional data on turnover. We looked at whether high turnover means higher transaction costs, and in turn, whether high turnover means better performance.

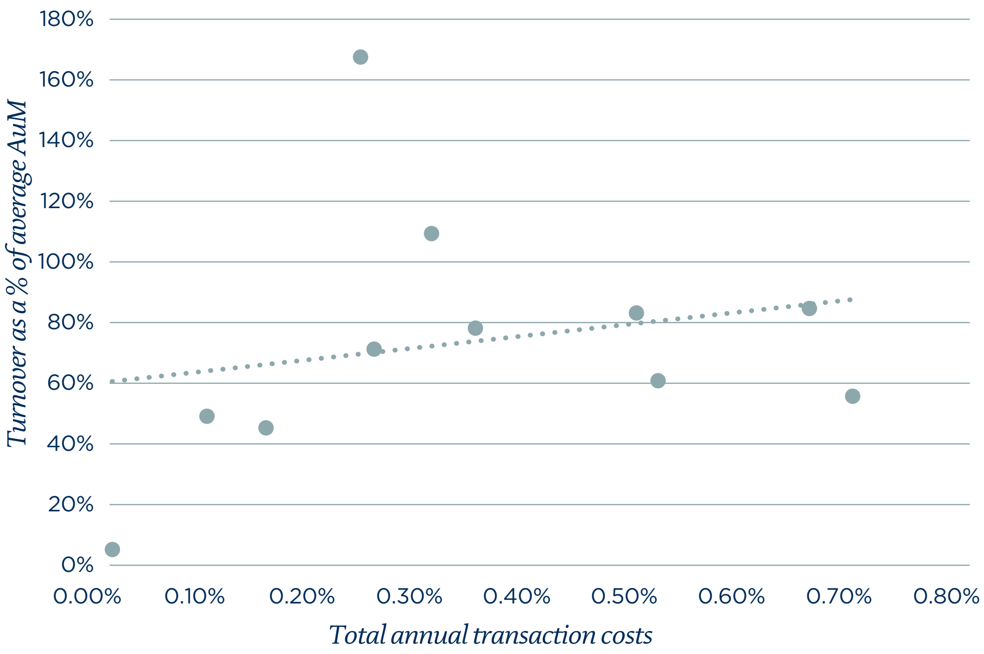
To illustrate this we selected 11 popular global equity and 11 multi-asset funds, for which we had comprehensive transaction cost and portfolio turnover data.

The chart below shows that for global active equities, more turnover within a fund – essentially more buying and selling securities – results in, unsurprisingly, a higher level of transaction costs. The relationship is not, however, entirely linear. There's some evidence that certain managers have an advantage in trading and are able to transact higher volumes of turnover at relatively lower cost. Within multi-asset funds, the relationship between higher turnover and higher transaction costs is weaker – this perhaps reflects some funds trading in derivative instruments that may have lower dealing costs.

Global active equities turnover vs transaction costs



Multi-asset absolute return turnover vs transaction costs

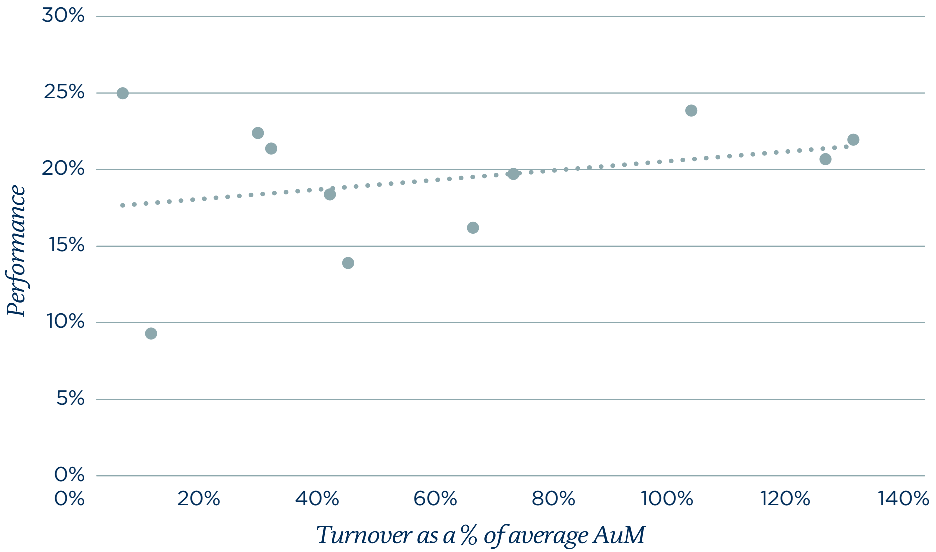


But does high turnover mean better performance? In theory, a manager that carries out more trading within a fund should be exploiting market opportunities and price differentials more often. Investors would expect better performance on average as a result. However, the charts on the following page show that this is not necessarily the case.

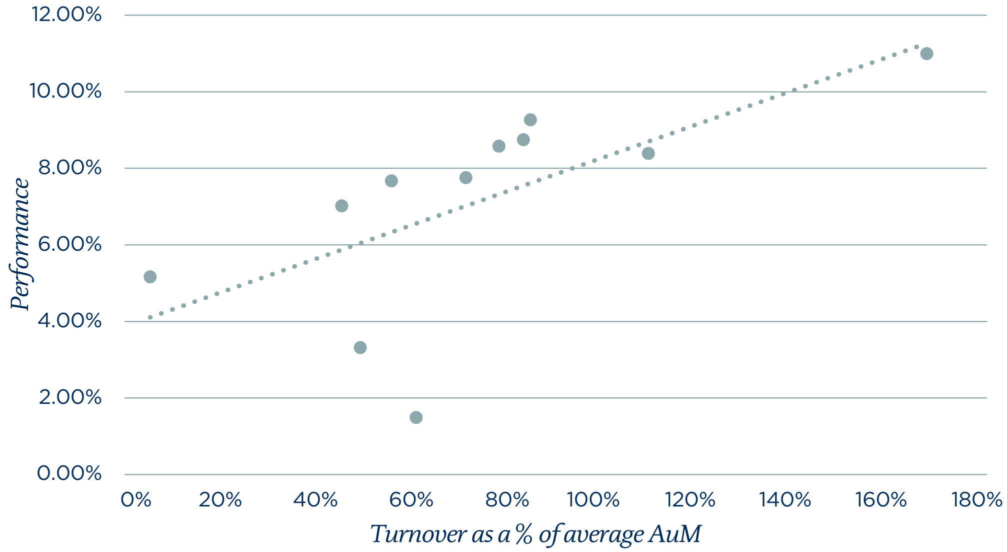
Do transaction costs provide good value for money? (Continued)

The charts shows the fund performance for the 3 years to 31 December 2021 against portfolio turnover for the latest 12 month period available.

Global active equities turnover vs 3 year annualised performance



Multi-asset absolute return turnover vs 3 year annualised performance



For global active equities, a higher level of turnover – essentially a more active approach – doesn't necessarily seem to lead to the better performance an investor might expect. For multi-asset funds, the chart shows a slightly higher correlation between turnover and performance. With a wider range of asset classes to invest in one might expect a better return for the transactions that take place within a multi-asset fund. The analysis shows that investors should be wary of the level of turnover in their managers' portfolios, as they could be racking up transaction costs for little or no corresponding improved return.

You have to take turnover data with a fairly large pinch of salt, particularly where it relates to pooled funds. We asked managers for the total value of sales and of purchases over the latest 12 month period available. We then used the smaller of those two figures and divided by the average level of assets within the fund. We use the smaller figure as this best represents the decisions that the manager actively makes about a portfolio. Other transactions may be 'forced' sales or purchases precipitated by investors buying or redeeming the fund. For example, if a fund is experiencing steady redemptions, you would expect a high number of sales of underlying holdings; it's the purchases that are more indicative of the level of active decisions by the manager. If the fund has experienced periods of both subscriptions and redemptions over the year, there is no easy way to disentangle the active trading from that forced on the manager by those subscriptions and redemptions and the turnover figure could be misleading.

Higher portfolio turnover leads to higher transaction costs, but not necessarily better performance.

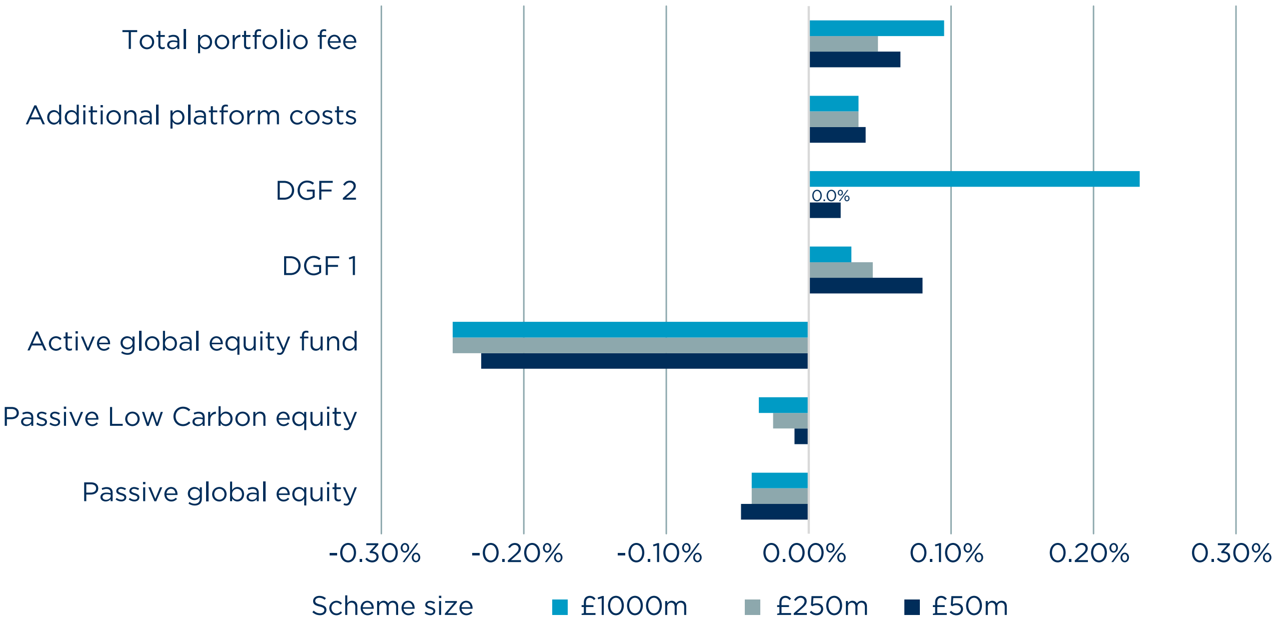
Are DC pension schemes getting value for money from their platforms?

In theory, a DC pension scheme investing through a platform should benefit from manager fee discounts due to the platform's negotiating power of pooling its clients' assets. The expectation might be that this benefit should outweigh the costs incurred by using a platform, such as: the platform fee; the cost to construct "blended" products holding more than one fund; the cost to "white label" – essentially rename – funds offered in your scheme; and additional expenses.

To test whether DC schemes do get value for money from their platforms, we asked five platform providers about the total fees pension schemes of varying sizes would be charged for investing in a passive global equity fund, a passive low carbon equity fund, an active global equity fund and two different DGFs, as well as the additional costs that would be incurred.

To give an indication of the total fee on the whole portfolio during a scheme member's growth-phase of investing, we've assumed an allocation of 25% to passive global equities, 25% to passive low carbon equities, 5% to active equities and 22.5% to each of the DGFs. The chart opposite shows the average additional fee you would pay for using a platform compared to investing in the funds directly and how this difference breaks down for a range of total scheme sizes.

Additional charge of using a platform compared to investing directly - average of five platforms



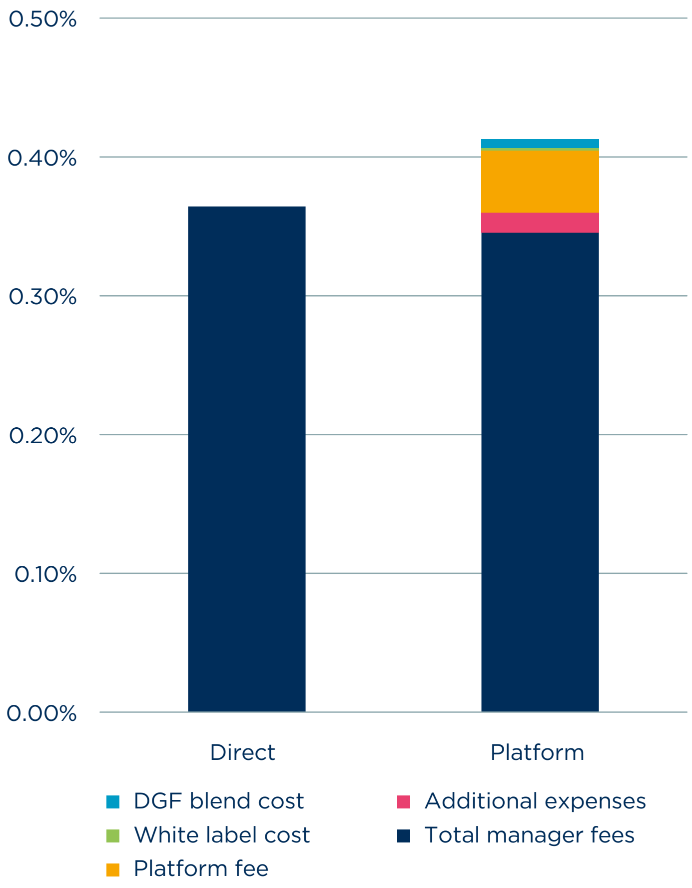
The chart shows that in fact DC schemes pay more in total fees by using a platform compared with investing directly, across three different scheme sizes.

While platforms are able to negotiate notable discounts on fee rates for equity funds, the DGFs tend to offer better terms on average to institutional investors who go direct. Additional costs are also contributing to the higher total fees for investing through a platform, the majority of which are made up by the platform fee.

Are DC pension schemes getting value for money from their platforms? (Continued)

The breakdown of costs for investing through a platform compared with investing directly can more clearly be seen in the chart below.

Total cost breakdown for a £250m DC scheme



The chart shows that the asset manager fees dominate total costs. So while for our representative asset split the total costs appear higher for investing through a platform, this is clearly highly dependent on the funds chosen.

In our experience, some managers are also prepared to negotiate bespoke fees for clients who invest through a platform, meaning that the dark blue bar for the platform in the chart opposite could be much lower depending on the scheme and fund mix.

Furthermore, for many DC schemes, investing directly and administering the scheme in-house is not feasible or would incur additional costs not covered in our analysis. Platforms, therefore, offer an important service at a generally reasonable fee level.

A £250m DC scheme with our example portfolio would pay around £121k more in fees and costs on a platform compared with investing directly.

Are the fees you pay competitive?

Our survey has shown that there are good reasons for investors to regularly review whether the fees paid to asset managers offer value for money and are competitive. On page 8 we showed that even small differences in the fees you pay your managers can have a big impact on the value of your investments over time, and we've shown that the fee rates charged by many managers can be above what would be a reasonable proportion of the gross returns achieved.

We therefore encourage investors to monitor their managers' fee rates regularly. To help clients do this, we compare their fee levels to the wider market across all asset classes, using data collected from our Fee Survey. When investors identify they are paying higher than the average mandate fee this gives them a compelling argument to negotiate with their managers.

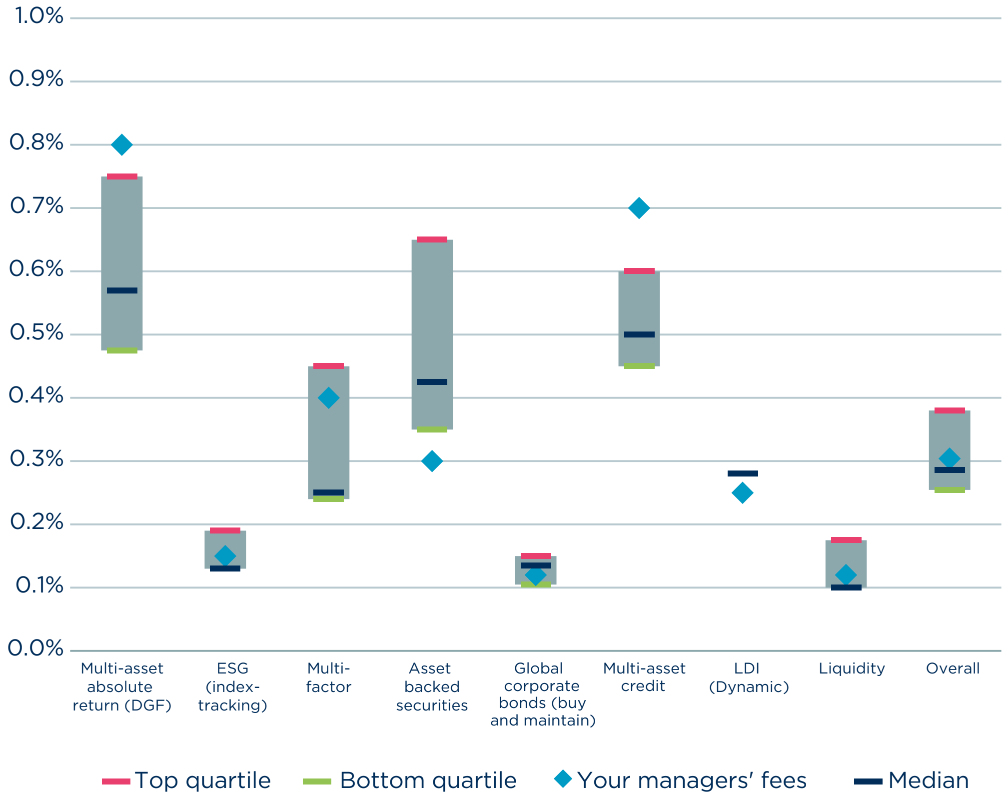
Using monitoring tools together with a qualitative assessment of managers provides a comprehensive picture of whether managers are providing good value for money.

> All costs need to be considered relative to the benefits received in incurring them. We believe that getting value for money is more important than simply reducing costs.

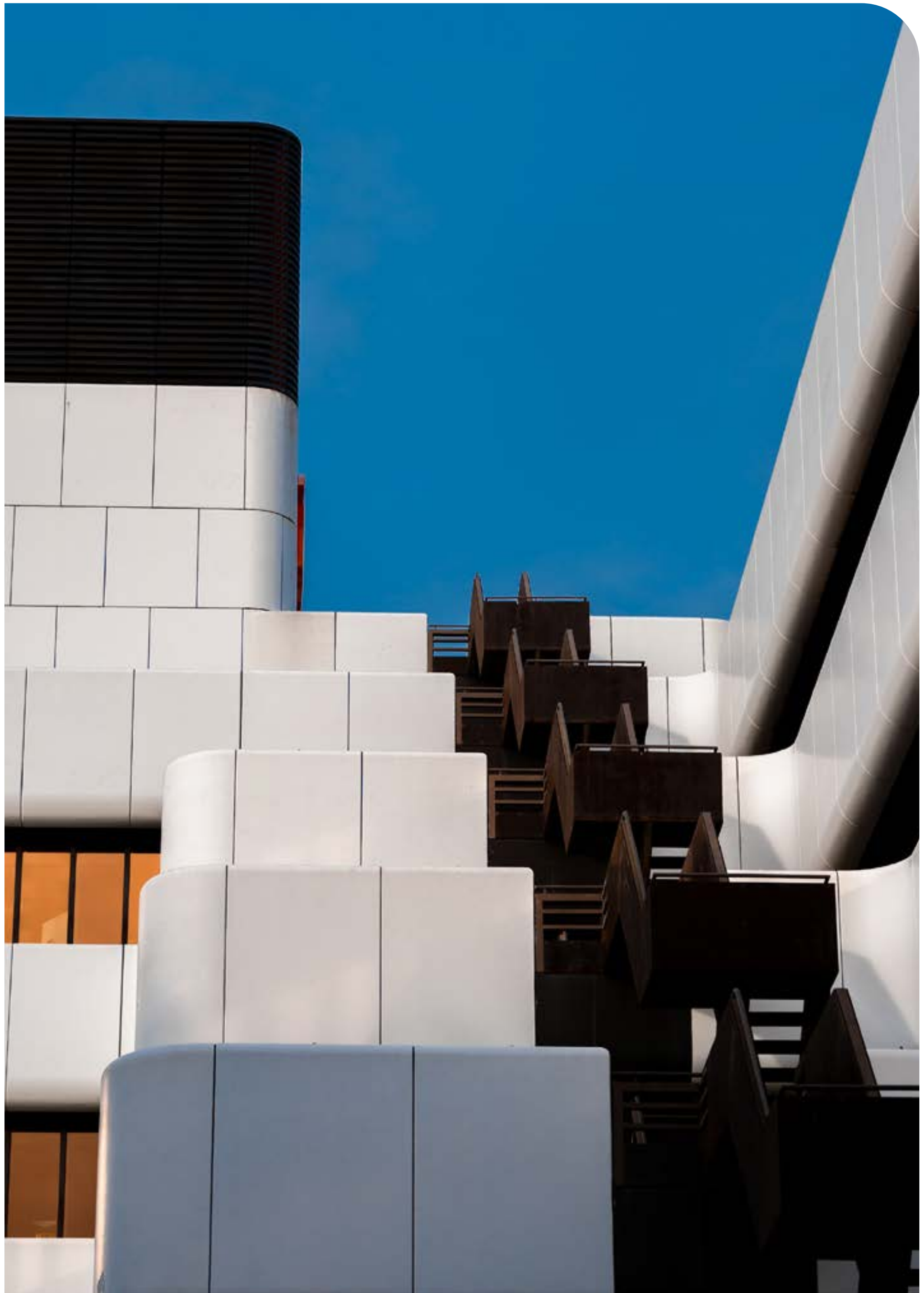
In the chart opposite, for each asset class shown, the blue diamonds show what an example investor pays, the pink line shows the upper quartile, the navy bar shows the median and the green line shows the lower quartile. Each of these are based on the amount the client has invested in the fund.

This example client is paying below the lower quartile fee for their asset-backed securities fund. They are, however, paying above the upper quartile fee for their diversified growth fund and their multi-asset credit fund. The client may wish to review their fee rates for these asset classes at the next available opportunity.

How do your managers' fees compare with the wider market?



Fee review case study – LDI mandates



At LCP we are always working to ensure that our clients pay the most competitive fees possible in any given asset class.

In 2021, we undertook a project to review the full liability driven investment (LDI) market and increase the value for money provided by our buy-rated managers. Our aim was to negotiate even more attractive fee rates for our clients for this asset class.

Why did we engage in fee negotiations at this point?

With pension scheme funding levels generally improving against a backdrop of strong market performance, LDI portfolios which aim to hedge pension schemes' exposure to interest rate and inflation risk, are becoming more significant within schemes' strategic allocations. Given the increasing allocations that are being made, we considered it important to review the fee arrangements that our clients have with these managers.

We reviewed the whole LDI universe, using both commercial tension and the combined buying power of all our clients to negotiate centrally an attractive fee rate on a range of highly rated LDI products.

What was the outcome?

The outcome of our review is that all of our clients can now benefit from LDI fee rates that were typically only available to the biggest pension schemes. For some of our clients, LDI fee rates will reduce by as much as 50%.

The clients invested in these funds have gained, in some cases, significant discounts without having to spend time negotiating directly with the managers.

Appendix: potential costs incurred by investors

Cost paid to...	Function...	Approximate amount (estimates based on a global equity fund)
Fund directors / trustees[1]	Oversee all aspects of managing the administration of the fund.	Part of additional fund charges[2]
Investment consultant	Independent adviser to the investor.	Specific to investor requirements
Investment manager	Makes investment decisions on the portfolio.	0.72%
Administrator[1]	Takes subscription and redemption orders; publishes price of units, keeps records of units held by each investor; and manages accounts of the fund.	Part of additional fund charges[2]
Custodian	Safekeeping of assets, holds assets under its name as nominee.	Part of additional fund charges[2]
Depositary[1]	Oversees fund as independent body, provides reporting to fund directors / trustees.	Part of additional fund charges[2]
Auditor[1]	Annual audit.	Part of additional fund charges[2]
Platform provider	Provides a venue where funds may be bought, sold or switched.	Varies
Legal adviser[1]	Provides legal and regulatory compliance advice to the fund.	Part of additional fund charges[2]
Brokers	Execution – under the instruction of the fund manager, finds buyers or sellers to trade with or executes orders on the exchange.	Explicit transaction cost[3]
Brokers	Research – provides research to the fund manager. Supplementary fee is taken as a percentage of each trade executed in the market by the broker (or taken directly in some private markets).	Since 2018, now most often paid by the investment manager
Broker or trading counterparty	The difference between the cost of buying and selling when transacting in securities. Known as the bid-offer or bid-ask spread.	Implicit transaction cost[3]
Existing fund investors	Compensation paid by a unitholder buying or selling units paid to existing fund investors for the costs incurred in trading in the underlying markets because of their decision to subscribe for / redeem units. Often called an anti-dilution measure.	0.1%-0.2%
Government taxes	Stamp duties on buying / selling; withholding taxes on dividends / interest payments and other taxes.	Varies
Market impact	The change in price because of the fund manager's decision to buy or sell an asset. Benefit goes to whoever you are buying from or selling to (may be deemed a virtual cost).	Implicit transaction cost[3]
Indirect transaction cost	Where a portfolio holds a pooled fund, this is the cost of transactions incurred from trading assets within the underlying pooled fund.	Part of transactions costs[3]

[1] Commonly incurred by pooled funds, some may be incurred by segregated accounts.
[2] Additional fund charges – the total varies considerably by asset class. Approximately 0.1% for a global equity fund.
[3] Transaction costs – the total varies considerably by asset class. Approximately 0.2% for a global equity fund.

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At LCP, our experts provide clear, concise advice focused on your needs. We use innovative technology to give you real time insight & control. Our experts work in pensions, investment, insurance, energy, financial wellbeing and business analytics.

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