

The fund cost hidden agenda

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It is about time that pricing power swung back to advisers

I remember many years ago a presenter at a workshop explaining to me as best he could the mysterious black box of charges within a unit trust. To this day, it seems that hidden charges remain prevalent in such retail funds as unit trusts and OEICs.

Did you know that TER (Total Expense Ratio) is only a voluntary disclosure in the UK whereas in the US it is compulsory. Why? TER includes any initial charge investing and the costs for other services paid for by the fund, such as fees paid to the trustee, custodian, auditors and registrar. It does not include trading costs.

Trading costs are totally ^{Share} hidden. A fund manager turning over a portfolio 100 per cent in a year would on average add 1 per cent a year to the costs. Unfortunately, it is often difficult to find the information in the small print. Interestingly, the FSA requires retail funds to disclose PTR (portfolio turnover rate) but not insurance companies or pension providers. Again, why is this?

On top of all this, we have the issue of rebates. Platforms have been able to get away with receiving a hidden commission, otherwise known as a rebate, for many years. This can be between 0.10 per cent and 0.95 per cent per annum. Some more transparent platforms such as Transact and Novia openly rebate the money into clients' wrap bank accounts. Now the FSA has decided in its infinite wisdom to ban rebating cash to clients but they will insist on some form of disclosure for platforms. Yet again, where is the sense in all this?

The RDR is meant to be all about professionalism, fee charging and transparency yet I can see little evidence of its principles being applied to the fund management industry. This strikes me as inherently flawed regulation. It's yet another example of the FSA's double standard and clear bias against IFAs.

If you have ever visited any fund managers' offices in the City, you'll quickly realise that these organisations are making vast amounts of money at our clients' expense.

It really is about time pricing power swung back to advisers rather than the providers. After all, it is the advisers who find clients, who retain them and advise them over long periods of time. Fund manager importance is not as great as the adviser.

Over time, I am confident that the role of an IFA will become the most pre-eminent profession in the UK. The demand for our services is set to grow and grow. It is high time the regulators recognised this fact and adopted policies that supported advisers rather than providers. The consumer benefit from a client's long-term relationship with an IFA is incalculable and far outweighs any possible consumer detriment. One can but live in hope.

Tony Byrne is financial planning director Wealth And Tax Management