

## Cost Efficiency in Investment Arrangements

February 2006  
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### Presentation Contents

- A summary of investment related costs
- Where and how costs can be managed
- Efficient asset transfers
- Fund manager fees and commissions
- Custodian fees
- The role of active share ownership
- Transition managers

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### A summary of investment related costs:

- Take-on costs:
  - £x per line of stock (custody)
  - Portfolio restructuring
  - Market spreads (if investing cash)
- Initial and/or exit charges
- Ongoing Transactions
- Fees
  - Vary wildly by manager and asset/product type

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## Where and how costs can be managed.

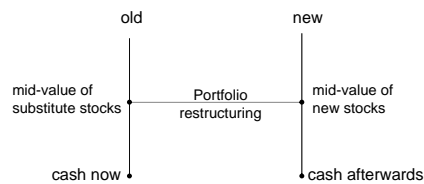
- Avoid agreeing to unnecessary fees / charges
- Know your 'typical' spreads

Asset type	Typical bid/offer spread (%)
Global Fund	0.8
UK Equity Fund*	1.0
Overseas Equity Fund	0.6
UK Gilt / ILG Funds	0.1 or less
UK Corp Bond Fund	0.5
Overseas Bond Fund	0.15
Property Fund **	6.0 to 7.0
Cash Fund	0.0

Source: LGIM  
 \*includes 0.5 % stamp duty.  
 \*\*includes 4.0 % stamp duty.

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## Efficient Asset Transfers (1)

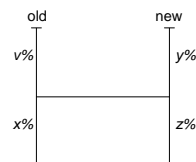


Pure segregated but can apply for in-specie for pooled.

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## Efficient Asset Transfers (2)

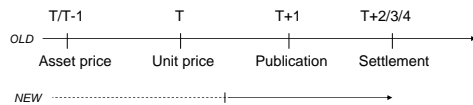
- Cash planning  
 Combinations depend on what you do,  
 and how the old and new managers price.
- For example
  - Single swinging price
  - Single mid-price with dilution
  - Single mid-price without dilution
  - Dual pricing



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### Efficient Asset Transfers (3)

- Time-line for a cash transfer



- Need to minimise out of market exposure.

The Act of 2004  
Holding Trusts of 2004

### Efficient Asset Transfers (4)

- Need managers and Trustees to know and confirm who does what when.
- Minimise risk of error and increase the likelihood of most client-beneficial approach.
- Managers like simplicity, but it may not be client optimal!

The Act of 2004  
Holding Trusts of 2004

### Fund Manager fees and commissions (1)

- Notional mandate charges (investment fee only)

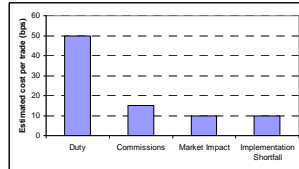
	Pooled £50m		Pooled £200m	
	Standard Balanced	Specialist UK Equity	Standard Balanced	Specialist UK Equity
Average fee (%)	0.33	0.48	0.29	0.33
	Segregated £50m		Segregated £200m	
	Standard Balanced	Specialist UK Equity	Standard Balanced	Specialist UK Equity
Average fee (%)	0.39	0.45	0.30	0.33

Source: Pensions Management Survey 2004

The Act of 2004  
Holding Trusts of 2004

## Fund Manager fees and commissions (2)

- Commissions and Stamp Duty dominate
- Other indirect UK Equity transaction costs too!



Source: UBS Global Asset Management

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Making Them a Reality

## Custodian Fees

- Generally very small.
- Custody is a size business.
- Example Quotes

	% fee per annum
Segregated UK Equity Fund (£100m)	0.07*
Segregated Corporate Bond Fund (£100m)	0.04**

Source: LIPPER Filinvest  
\*fee includes 0.04% of administration charges  
\*\*fee includes 0.01% of administration charges

The Asset Principles  
Making Them a Reality

## The role of active share ownership

- This is about shareholders leaning on company managers to get better results, rather than simply being 'sleeping investors'
- Voting rights (and socially responsible investment) came into the Statement of Investment Principles (SIP) in mid 2000
- Brought to the fore by the Myrers Principles, but had been covered in earlier corporate governance reports
- Focus is really for large schemes with segregated accounts, who can either delegate to their managers, or apply their own views
- Providers of support services for the latter include the NAPF's RREV service and Hermes Equity Ownership Service
- Investors in a pooled fund can examine their manager's policy, but cannot dictate what the manager does

The Asset Principles  
Making Them a Reality

## The role of active share ownership

- The continuing "risk" for activists is that the most active form of ownership is to sell out at the first sign of trouble
- Being selective about the criteria for your investments might reduce the risk of trouble cropping up to start with?
- Which gets us to the related area of socially responsible investment (SRI)
- As at August 2005 the SRI market in Europe was worth about £62bn
- Suppliers include Aberdeen Asset Management, F&C, Friends Provident, Henderson Global Investors, Insight, Jupiter Asset Management, Morley Fund Management and Standard Life Investments
- Supporters: PIRC, Manifest and UKSIF (not to be confused with UKSIP)

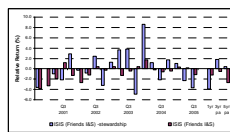
The Activist Handbook  
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## Socially Responsible Investment

- F&C Stewardship Fund ("SRI") vs. F&C MPF

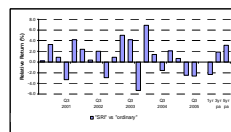
Relative return patterns, but watch the vertical scales!

Each fund versus All Share



Source: CAPS

"SRI" fund vs. "ordinary" fund



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## Transition Managers

- Investment consultants can / should plan transfers provided portfolio restructuring not enormous
- Better way? A: give assets to transition manager and a period to find suitable 'low cost' opportunities for restructuring rather than doing it in one go
- Downside
  - (1) : Market movements can swamp.
  - (2) : Additional cost
- Best to start with cost planning and bring in transition manager if 'optimal approach' still looks too expensive

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## Conclusions

- Lots of points to take into consideration in order to be cost-efficient:
  - Avoid agreeing to paying unnecessary costs spreads, stamp duty and custody charges
  - The timing of transfers
  - Different levels of investment manager fees and commissions
- Moral of the story: Be very careful or alternatively seek specialist advice

The Asset Protection  
Truist Trusts of the United Kingdom

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