A PlainTalk™ guide to costs and charges

Helping investors understand what they are paying, and why

On 3 January 2018 the Markets in Financial Instruments Directive II (MiFID II) came into force.

Although it is a European Union law, it is expected to remain embedded in UK law after Brexit.

The purpose of MiFID II is to provide more information to investors on the costs and charges associated with investing in any kind of mutual fund.

As of January 2019, some of this new information will show up on statements, including fund charges calculated under the new rules.

This brief guide is designed to aid discussion between investors and their financial advisers on understanding some of the changes.

What do I need to know?

One important change under MiFID II is the disclosure of transaction costs. Buying and selling shares and bonds is, of course, a natural and necessary part of investing. The cost will vary depending on the market and the strategy.

The legislation does not specify how these costs are to be calculated. The result is that different fund managers calculate the cost in different ways. Although each different method may be valid on its own terms, great care needs to be taken when comparing transaction costs from more than one manager.

What should I do?

As with any good or service, the key considerations are affordability and value for money. If you wish to assess the cost of a fund, ask yourself this: Is the fund delivering the returns you require, after all costs have been deducted, at a level of risk with which you are comfortable?

How much does it matter?

We think it matters a lot. Research shows that low-cost funds tend to offer better relative returns. Over time, the money you save on costs will compound, improving your long-term returns.

More information on MiFID II

A key requirement of MiFID II is that those making investment funds available to the public need to disclose the Total Cost of Investing before and after a client invests. This figure includes the following elements in respect of the costs of the funds:

One-off charges: All costs and charges paid to fund providers at the beginning or at the end of the investment in the fund. This includes front-loaded management fees, structuring fees and distribution fees.

Ongoing charges: All ongoing costs and charges related to the management of the fund and that are deducted from the value of the fund. This includes management fees, service costs, securities lending costs and taxes, custody, etc.

Transaction costs: All costs and charges incurred as a result of the acquisition and disposal of underlying investments within the fund. This includes broker commissions, entry and exit charges, spreads, stamp duty, transactions tax, and foreign exchange costs.

Incidental costs: These can be fees related to returns and other such charges.

Some costs and charges need to be disclosed prior to investment. Others need to be disclosed at least annually, in summary, stated in amounts rather than percentages.

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Investment risk information:

The value of investments, and the income from them, may fall or rise and investors may get back less than they invested. Past performance is not a reliable indicator of future results.

Other important information:

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