Financial Conduct Authority

MS15/2.2: Annex 7

Market Study

Asset Management Market Study

Interim Report: Annex 7 – Fund Charges Analysis

November 2016

Annex 7: Fund Charges Analysis

Introduction

1. This annex sets out an explanation of our analysis of fund charges. There are two main reasons we have undertaken an analysis of fund charges. First, we wanted to understand what charges were levied on consumers, their magnitudes and to whom these charges flowed as revenue. Second we were interested in trends in charges, over time but also between different sections of the market.

Annex outline

2. **Approach and Sample:** We provide an overview of our approach to estimating charges along the value chain and the range of charges that are levied by different parts of the value chain.

3. We also provide an overview of the scope of our sample, which firms were selected and why. We also discuss some of the issues with the data we received and the conditions and limitations this places on our analysis.

4. **Methodology:** We provide a guide to the method we have used to clean, enrich and analyse the data set in order to look at the magnitude of charges and at trends in the data set. In this section we also lay out some of the broader issues with the data, our approach in dealing with these issues and the assumptions we have made.

5. **Trends over time:** We look at trends in annual charges taken from funds over the last five years.

6. **Core charges:** We look at the general categories of charges that we identify across the value chain. Where possible we break some of these costs down and look at what drives charges for consumers.

7. **Client type analysis:** We look at the difference in charges between institutional and retail clients.

8. **Product strategy analysis:** We look at the difference in charges between active and passive investment strategies.

9. **Asset class analysis:** We look at the difference between funds investing in different asset classes.

Approach and sample

10. The focus of the following analysis is to estimate the magnitude of different charges along the value chain, and to identify the key costs being paid by consumers to both asset managers and third party service providers. We also hope to identify the drivers of charges along the value chain. By comparing charges to a fund's underlying assets under management, we estimate individual charges in basis points.

11. This main source of data used for analysis in this annex was financial information covering the annual flow of charges out of funds over the period 2010-2015 requested from sixteen asset managers. [1] This request covered all funds and segregated mandates domiciled in the UK or in any way managed and distributed in the UK. Though this was the main dataset used for analysis in this annex, other supporting financial data was provided by asset managers.[2]

12. The sample of asset managers selected for the financial data request is intended to be representative of the market whilst minimising the burden on industry. Firms were selected primarily due to scale. Large firms represent a larger proportion of the market and are more likely to cover a wide range of market segments, for example servicing a wide range of client types or managing products across multiple asset classes. In addition a number of smaller firms were selected to ensure a balanced sample.

13. In the draft data request circulated to firms we requested granular charges data at the share class level for a 10 year period for all funds falling within our scope. This would allow us to look directly at splits by combinations of client type, asset class and investment strategy, for example looking specifically at charges pertaining to active equity retail share classes.

14. Initial feedback from firms indicated providing charges data at the share class level would be extremely burdensome due to the way in which financial data was stored and the level of granularity.

15. We therefore changed the scope of the request to look at fund level data only. This data was easier for firms to provide but presented problems when trying to subdivide charges between different client groups. The approach taken to comparing retail and institutional investors within this dataset is discussed later.

16. We also found that IT legacy issues prevented most firms providing data for a 10 year period. In line with our profitability data request, we reduced this request to 6 years of data to balance the burden on firms with the minimum time period necessary to establish trends in the data.

17. For the information request, asset managers completed a standard template with the core cost areas for funds as listed in Figure 1. Managers were able to add additional cost areas at their own discretion[3]:

[1] Due to one asset manager being unable to disaggregate individual charges adequately, only 15 firm responses were used in the aggregated analysis.

[2] Additionally we received each asset managers' financial performance data. Analysing revenue gives a further view on charges but was not used within this annex. Additionally, for separate analysis a more comprehensive information request was sent to 37 asset managers asking for a 10 year data set of pricing at the share class level.

[3] Due to the lack of charging standardisation across the industry accounting for individual charges, these pre-identified core costs areas were not filled in comprehensively by each fund manager.

Figure 1: Core service charges requested

OCF charges	Non-OCF charges
Annual Management Charge	Entry Fees
Custody	Exit fees
Administration	Brokerage costs[4]
Accounting	Stamp Duty Reserve
Foreign Exchange	Performance fees
Securities lending	Other Non-OCF
Collateral management	
Other OCF	

18. Asset managers were further asked to clarify if each service was provided in-house or by a 3rd party provider. Firm responses demonstrated a lack of consistency between firms in their charging structure and nomenclature over the period covered by our data. This regularly made isolating the cost areas listed in Figure 1 challenging, which is discussed later in this annex.

19. The requested data was enriched with further identifiers provided by Morningstar. The Morningstar information allowed for a consistent methodology for identifying if funds were passive index trackers, their broad investment style, and if underlying shareclasses were targeted at retail or institutional investors.[5]

20. Close-ended funds (CEFs) such as Investment Trusts and ETFs were included within data received from firms. However, there were significant differences in the CEF data available on Morningstar when compared to open-ended funds. As such, we excluded CEFs from the final dataset in order to have a consistent sample of funds for analysis.

21. Similarly, segregated mandates were excluded due to comparability issues. As segregated mandate contracts are tailored specifically for individual clients, the data provided by firms did not capture charges paid directly by clients to ancillary service providers, independent of the asset manager.

22. Funds were also excluded if their financial data did not cover a full year. This is due to such funds being biased towards lower charges, as our methodology is based on the assumption charges cover a full year. This was infrequent, covering funds launched mid-financial period and those acquired through company mergers. Additionally, funds were removed if charges were flagged as erroneously high when auditing the data. Exclusion of funds for either of these reasons was rare, equivalent to less than 0.5% of the assets under management of the final sample.

23. A small number of firms were unable to provide accurate fund-level brokerage costs over the requested period, this was due to cost and time considerations involved in retrieving the relevant data from legacy systems and outsourced service providers. The decision was taken to include these firms' funds within the final dataset, but excluding them from certain parts of the analysis.

24. Fund managers infrequently provided data denominated in currencies other than GBP, due to the funds base currency being non-GBP based. Though underlying

[4] A small number of funds included brokerage costs within the OCF as part of their submission. This was infrequent, and these charges were grouped with non-OCF brokerage costs for analysis.

[5] Morningstar categorises funds into 8 broad asset groups: Equity, Fixed Income, Allocation, Alternative, Property, Convertibles, Money Market and Other.

shareclasses may have been currency-hedged and GBP denominated, they were also excluded from the data to avoid scope for error when converting fund level data.

25. As such, the final dataset included only GBP denominated, open-ended funds available to UK investors over the period 2010-2015. As of December 2015, this covered 722 funds across 15 fund managers, representing £563 billion of assets under management.

Methodology

26. In this analysis, we explored the scale and allocation of fund charges and how this differs with asset class, management style and client type. We also considered trends over a 6 year period.

27. Charges were aggregated across the whole sample of funds, asset weighted, and assessed as a percentage of total assets under management:

$$\text{Percentage: \% Charge } X_T = 100 * (\Sigma X_T) / (\Sigma AUM_T)$$

$$\text{Basis Point: BP Charge } X_T = 10{,}000 * (\Sigma X_T) / (\Sigma AUM_T)$$

(ΣX_T)	Total of all charge X within the sub-sample taken in period T
(ΣAUM_T)	Total assets under management within the sub-sample in period T

28. Due to different calculation methodologies, figures are not directly comparable to TER and OCF figures presented in investor documentation.[6] Additionally, charges not traditionally included within the OCF have been included within this analysis, in order to have full coverage of charges taken from funds.[7]

29. As this dataset purely covers charges taken from funds, it does not capture management fee charges or rebates that occur outside of the fund, as discussed in Box 1. A reconciled 'effective charge', net of rebates and other payments, was not created for this analysis. This means that the analysis likely understates costs paid by institutional investors who may be charged separately from the fund, and overstate those paid by retail clients receiving rebates on legacy shareclasses.

30. Please additionally note that the OCF has only been the mandatory standard for charges disclosure for UCITs since 2012. Non-UCITs retail schemes (NURS) still disclose charges using the total expense ratio. For consistency, non-UCITS costs were still grouped according to OCF guidelines, with performance fees aggregated with other explicitly non-OCF costs. This does not impact the analysis included in this annex.

31. This approach also only allows us to estimate explicit charges, that is amounts of money that are taken out of a fund's legal structure and passed to another party (for example the asset manager). We are unable to make any direct estimate of the implicit costs paid by a fund since these are only reflected in a lower level of assets under management than might otherwise have been the case. Examples of implicit

[6] The Total Expense Ratio (TER) and OCF used in investor documentation is calculated by taking the average AUM of the fund over the year from each day the fund was formally priced. However, in this analysis end-of-period AUM figures were used. COLL Ch.4 Annex 1 (3.1)

[7] See Chapter 4 for a discussion of charges included within the OCF.

costs include the cost arising from price changes over the course of a large securities transaction. Where this could impact our analysis we have attempted to estimate these costs separately, as discussed in Chapter 7.

Box 1: Industry approach to charges disclosure

Charges paid out of a fund for services provided directly by asset managers, are typically combined into a charge known as the Annual Management Charge (AMC). The AMC is charged as a percentage of the net asset value of the fund.

The AMC is taken to pay for the cost of the manager's investment management services, such as in-house research, analytics and portfolio management. Prior to the implementation of RDR in 2014, the AMC also included commission paid to intermediaries.

The AMC does not usually include third party services. Though common, it is not mandatory for in-house service charges to form part of the stated AMC. Previous research* by the FCA in 2014 found some firms charged in-house administration separately from the AMC, and it was not transparent if services were operated at a profit. This means the AMC is only a proportion of the total charges of a fund which is retained by an asset manager.

In addition, the AMC does not typically include charges which are paid to third parties on behalf of the fund. Therefore it does not help investors understand the total cost of a fund or make a like-for-like charge comparison between funds.

A more comprehensive figure is the Ongoing Charge Figure (OCF). The OCF represents ongoing costs, including the AMC and services such as keeping a register of investors, calculating the price of the fund units and keeping fund assets safe. It is meant to be indicative of future charges, as the charges of some ancillary services are an estimate. It is mandatory for the OCF to be used as the headline charge in the Key Investor Information Document (KIID)**. In 2014 the FCA clarified that managers should prioritise the OCF in all marketing.

The OCF does not include fund charges contingent on less predictable factors, including performance fees and transaction costs, see chapter 4 for further discussion of this.

Additionally, the OCF only covers costs directly debited to a fund. As such the following are not accounted in the declared OCF:

- Commission rebates: Historically, the majority of retail shareclasses included "trail commission" within the AMC charge. This was paid by the fund manager to distributors and platforms which retail investors accessed the fund through. Following the FCA's Retail Distribution Review (RDR), from April 2014 fund managers began rebating trail commission back to clients, and were required to ensure new 'clean' shareclasses did not include trail commission. Such rebates will not be reflected in the OCF.

- Renegotiated fees: Intermediaries and institutional clients can renegotiate the AMC. Similarly to trail commission rebates, where this is in the form of a rebate paid to the investor, this will not be reflected in the OCF.

- 0% shareclasses: Managers can also release shareclasses with a 0% AMC or OCF. In these cases, the payment terms are negotiated directly between the client and manager, and paid for outside of the fund. The renegotiated charge would not be reflected in the OCF or AMC.

Additionally, implicit costs are not included within the OCF, please see Chapter 4 for more information on these costs.

** TR14/9 – Clarity of funds charges*

*** COLL Appendix: KII Regulation – Annex II*

Overall charges trend

32. Figure 2 shows the average annual charge for all open-ended funds within the final dataset. This is an aggregate of all available data, including from firms who were unable to provide brokerage charges. As such, the total charges to funds will be understated in the below table, whilst remaining indicative of overall trends.

Figure 2: Trend in average charges across whole sample

Year	Total
2010	
Assets under management	£238.6 Bn
Total charge	1.07%
2011	
Assets under management	£283.2 Bn
Total charge	1.13%
2012	
Assets under management	£324.9 Bn
Total charge	0.99%
2013	
Assets under management	£415.2 Bn
Total charge	0.97%
2014	
Assets under management	£521.3 Bn
Total charge	0.90%
2015	
Assets under management	£563.4 Bn
Total charge	0.91%

33. We can see there has been a decline in charges deducted from funds over the period 2010-2015. There are two possible explanations for this:

- RDR has led to retail investors switching to clean share classes, which can have a reduced AMC in excess of 0.45% compared to bundled share classes due to the lack of intermediary commission.
- There has been substantial growth in low cost passive funds. Within the data used for this annex, the proportion of assets invested in passive funds increased from 10.4% in 2011 to 16.4% in 2015.

34. This analysis differs from the finding in Chapter 6 which finds that active charges have remained broadly the same over the past decade. The difference is in part because of the mix effects identified above within the data analysed in this annex. The total charges shown in Figure 2 are across all asset classes, investor types and strategies within the scope of our analysis. The charges analysis in Chapter 6 of the Interim Report was undertaken for equity funds only, splitting active and passive and was performed at a shareclass level.[8]

Core charges

35. There is currently no standardised approach in accounting for service charges by fund managers. Outside of the AMC, fund services are regularly packaged together by service providers and charged as a single fee. This meant many firms were unable to accurately isolate charges relating to accounting, valuation, administration, brokerage, transfer agency and registrar services, which make up the majority of costs outside of the AMC. As such, this caused difficultly in analysing costs at a more granular service level across the whole sample.

36. Figure 3 demonstrates the different approaches firms took to charging for services from funds, adding an additional level of complexity to interpreting charges:

Figure 3: How fund services are charged

In-house service	Third party service
• Charged as part of the AMC • Charged as part of the OCF, separately from the AMC • Provided for free/ not explicitly charged to the fund • Charged directly to clients as part of a bespoke agreement	• Charged to fund directly • Charged to asset manager, reimbursed by the fund

37. For this analysis, charges were aggregated depending on whether services were provided by fund managers, or outsourced to 3rd parties. Categorisation was not always straightforward. Infrequently, service costs were flagged as a combination of in-house and 3rd party fees. This included instances where there was an in-house oversight function of outsourced services. In such cases, charges were allocated to the most appropriate category based on firm responses. Such services rarely comprised more than 1% of annual charges.

38. Expectedly, the vast majority of charges to the fund outside of the Annual Management Charge (AMC) were to 3rd parties. On average, the AMC accounted for over 95% of all in-house service charges.

39. For almost half of fund managers within the sample, no charges outside of the AMC were for in-house services. Some managers did charge a separate in-house administrative fee, on instances this exceeded 10% of total charges.

40. The proportion of total charges paid to 3rd parties in 2015 was 21%. Across the five year period 2010-2015, the AMC consistently averaged between 70-80% of all charges, across both passive and actively managed funds. The two exceptions were

[8] The analysis in Chapter 6 found charges to be fairly stable over time, when clean/bundled and active/passive shareclasses were assessed separately.

property funds, where 3rd party services composed 60% of total fund charges, and multimanager funds, which were comprised 47% of 3rd party services.

Figure 4: Trend in core charges split (Inc. passive funds)

	Charge Recipient	
Year	**Asset Manager**	**3rd Party**
2010		
% of AUM	0.80%	0.27%
Proportion of charges	74.89%	25.11%
2011		
% of AUM	0.87%	0.26%
Proportion of charges	77.03%	22.97%
2012		
% of AUM	0.78%	0.21%
Proportion of charges	78.41%	21.59%
2013		
% of AUM	0.75%	0.21%
Proportion of charges	77.88%	22.12%
2014		
% of AUM	0.71%	0.20%
Proportion of charges	78.11%	21.89%
2015		
% of AUM	0.72%	0.19%
Proportion of charges	78.99%	21.01%

41. As highlighted, there is no standardised approach to charging for individual fund services between managers. Many asset managers were not able to accurately isolate the charges associated with the core services requested. This was due to the bundling of services, including within the AMC, and the extensive cost in retrieving historical data from service providers. No firm was able to fully isolate the 14 previously requested core service charges.

42. As such, in order to gauge the extent of these charges, the sample of funds was significantly reduced to those firms who could provide these charges.

43. Figure 5 covers the average, asset weighted charges for the 11 fund managers able to isolate administration, custody and brokerage costs. All other costs outside of the AMC for these firms were included in table 5 as 'other'.

Figure 5: Asset weighted average service charges (sample of 11 firms)

% Charge	AMC	Admin	Custody	Broker	Other	Total
Lowest	12 bp	0.2 bp	0 bp	00 bp	1 bp	15 bp
Highest	143 bp	19 bp	2 bp	20 bp	63 bp	168 bp
Average	85 bp	3 bp	1 bp	9 bp	14 bp	**113 bp**

44. From this sample of 11 firms, four firms were further able to provide separate costs for seven individual charges; AMC, Administration, Custody, Brokerage, Performance fees, Registrar and Accounting. Due to the lack of comparability in the data, producing a more granular split than these 7 core costs whilst maintaining a representative sample is not possible.

Figure 6: Asset weighted Average service charge (sample of 4 firms)

% Charge	AMC	Admin	Custody	Broker	Depositary	Registrar	Perf	Entry	Other	All
Lowest	81 bp	0 bp	0 bp	8 bp	0 bp	0 bp	0 bp	0 bp	1 bp	109 bp
Highest	99 bp	1 bp	2 bp	17 bp	1 bp	5 bp	9 bp	1 bp	37 bp	137 bp
Average	84 bp	0.8 bp	1.7 bp	12.9 bp	0.6 bp	1.1 bp	6 bp	0.25 bp	19 bp	**126 bp**

45. As is demonstrated in Figure 6, even for firms able to separate charges, the average charge for many services remained almost negligible. The low average performance and entry fees was due to these costs being charged to only a small minority of funds within the sample. In other instances, service charges were negligible as they were paid for by the fund manager, and not charged back to the fund.

46. It is also important to note that the standard policy for covering operational and brokerage costs associated with customers entering/exiting the fund is within the fund's bid-offer spread, or a separately charged entry fee/ dilution levy, rather than as explicit charges taken from within the fund. As such, it is not unexpected that entry/exit charges were found to be largely negligible in our analysis.

Impact of client type

Methodology

47. One key area we wish to investigate is if retail investors within open ended funds were exposed to higher annual charges compared to institutional investors.

48. We would expect retail investments to have slightly higher associated administrative costs, particular from transfer agents and custodians, due to having to cope with maintaining thousands of underlying retail shareholders records, rather than a handful of institutional shareholders.

49. The majority of open-ended UK funds cannot easily be categorised as institutional or retail, with funds regularly available to purchase by both client types via separate shareclasses. Due to the charges dataset being fund-level, it was not possible to directly compare the average charge difference paid by different groups within mixed-client funds. Instead, the focus was on comparing charges between retail-only and institutional-only funds.

50. For this analysis, the target client for underlying shareclasses was used as a proxy to categorise funds into three mutually exclusive groups[9]:

1. *Pure Institutional*: All underlying shareclasses for the fund were classified by the asset manager as being for targeted at institutional clients.
2. *Pure Retail*: All underlying shareclasses for the fund were identified by the asset manager being purely for retail clients.
3. *Mixed-Client*: The fund consisted of separate shareclasses that were available to either institutional or retail clients, or "mixed" shareclasses available to both.

51. However, the definition of what qualifies as *institutional shareclass* can be ambiguous. Aside from naming convention, the main identifier of an institutional shareclass is lack of sales commission and substantial minimum investment, usually above £10,000. Though such shareclasses may be primarily aimed at institutional clients, they can also be available to retail investors via intermediaries such as investment platforms and financial advisors, if the intermediaries can cover the minimum investment via aggregate demand across all their client accounts. This has become increasingly common post RDR, as the traditional commission-free charging structure of institutional shareclasses now applies to retail investors too.

52. This ambiguity is brought out when categorising funds using Morningstar versus manager provided data. Both firms and Morningstar provided identifiers for flagging if a shareclass is targeted at institutional investors. However, cross referencing these two identifiers showed stark differences in how funds were grouped. As can be seen in Figure 7, only 28% of funds classified as institutional by asset managers were identified the same by Morningstar.

Figure 7: Comparison of investor categorisation by firms and Morningstar

	Morningstar Client Identification (Fund level)			
Response to FCA information request	Retail	Institutional	Mix	Total #
Retail	**92.06%**	1.4%	6.54%	100 (214)
Institutional	54.8%	**27.8%**	17.5%	100 (126)
Mix	42.0%	1.5%	**56.4%**	100 (326)
TBC	73.9%	9.2%	16.92	100% (65)
Total	61.7% (451)	6.7% (54)	31.6% (231)	100% (731)

53. The decision was taken to use firms' own declared responses on the target client of shareclasses, though this might have been at the expense of a more consistent methodology from Morningstar for identifying client type. This decision meant one firm was excluded from analysis in Figures 7 and 8, as they did not provide information on client type.

[9] Funds where the fund manager did not identify the intended client of underlying shareclasses were classified as N/A, and excluded from the analysis.

Results

54. As can be seen in Figure 8, results indicated that there was a significant difference in the charges between retail and purely institutional funds of 70 basis points for 2015 within actively managed funds.[10]

Figure 8: 2015 charges for active and passive funds split by client type

2015 - Active funds			
	Retail	**Institutional**	**Mix**
% of AUM	1.38%	0.69%	0.92%
AUM	£144929.19 M	£99528.72 M	£208504.73 M
# funds	189	119	299
2015 - Passive funds			
	Retail	**Institutional**	**Mix**
% of AUM	0.15%	0.18%	0.13%
AUM	£32004.45 M	£8720.01 M	£33100.48 M
# funds	25	7	27

55. Some of the difference may be accounted for by the inclusion of trail commission within legacy shareclasses. However, within the UK the average trail commission was 45 basis points, and many funds had already shifted towards clean classes before the April 2016 deadline. Additionally, funds sold in markets outside of the UK can still include trail commission within actively marketed shareclasses. As such, results indicate a substantial difference in fees between retail and institutional clients that cannot be accounted for purely by historical commission. Figure 8 also indicates our small sample of institutional index funds were marginally more expensive than their retail counterparts.

56. The Figure 9 shows the AMC for actively managed funds where all underlying shareclasses were targeted at retail investors. The AMC increase recorded in 2015 is in part due to the calculation methodology of dividing charges by end of year AUM.[11]

[10] Please note the figures excludes a substantial proportion of index funds where the end client was not clarified.

[11] The AMC may be charged by firms on an ad valorem basis, taking into account the average value of a fund over a year. As our methodology instead uses end-of-year AUM, it does not fully take into account shifts in the size of the fund caused by capital gains (losses) and sales (redemptions) which can impact the level of fees taken. As the AUM in active retail funds declined over 2015, this increased the AMC when calculated as a % of December 2015 AUM.

Figure 9: AMC for active retail funds

Year	AMC	# of Funds	AUM
2010	1.14%	133	£75042. M
2011	1.29%	141	£87250. M
2012	1.08%	160	£106527. M
2013	1.08%	167	£141448. M
2014	1.05%	183	£151291. M
2015	1.17%	187	£141111. M

57. As previously highlighted, due to the charges being at the fund level, and inclusive of trail commission, it was not possible fully isolate the impact of RDR on fees being retained by fund managers within this part of the analysis.

Investment strategy – Passive vs. Active

58. Funds were separated into two categories, passive or active, based on a flag from Morningstar which identifies if a fund tracks an established index. This identifier does not account for other quantitative strategies such as smart beta, enhanced index or funds with a substantial index tracking component. All funds which were not explicitly flagged as being index trackers were therefore included within the actively managed category.

59. Figure 10 demonstrated the difference in charges between actively and passively managed funds. Within our sample, the proportion of assets in passive funds was 16.4% in 2015, a substantial increase from the 10.0% in 2010. As expected, there was a significant gap in charges between the two fund strategies.

60. Though both strategies have seen a decrease in fund charges since 2011, there has been a much more pronounced reduction in charges for passive funds, with the average charge, inclusive of non-OCF costs, nearly halving from 0.39% in 2010 to 0.21% in 2015.

Figure 10: Charges for active and passive funds

Year	Active	Passive
2010		
Funds under management	£214675.79 M	£23959.33 M
Annual Charge	£2461.49 M	£92.71 M
No of funds	459	44
% of AUM	1.15%	0.39%
2011		
Funds under management	£256313.16 M	£27004.09 M

Year	Active	Passive
Annual Charge	£3108.36 M	£113.88 M
No of funds	507	61
% of AUM	1.21%	0.42%
2012		
Funds under management	£287525.5 M	£37358.97 M
Annual Charge	£3100.97 M	£124.53 M
No of funds	547	65
% of AUM	1.08%	0.33%
2013		
Funds under management	£362750.5 M	£52417.57 M
Annual Charge	£3871.2 M	£149.28 M
No of funds	567	74
% of AUM	1.07%	0.28%
2014		
Funds under management	£446532.35 M	£74735.53 M
Annual Charge	£4524.44 M	£190.67 M
No of funds	634	83
% of AUM	1.01%	0.26%
2015		
Funds under management	£470983.62 M	£92454.9 M
Annual Charge	£4946.04 M	£194.63 M
No of funds	641	81
% of AUM	1.05%	0.21%

Investment strategy – asset class

61. Funds were categorised into different asset class strategies based on their broad asset category as assigned by Morningstar. Although firms did include information on individual fund strategy within their response, this was not standardised enough to provide a consistent base for categorisation by asset class.

62. We can see that equity funds on average charge substantially more than the second most common strategy; fixed income. Allocation funds, which are composed of a combination of equity and fixed income holdings, had an average annual charge falling between equity and fixed income.

Figure 11: 2015 charges by asset class – (ex. Index funds)

2015	Equity	Fixed Income	Allocation	Property
AUM	£189891. M	£74682.2 M	£76169.77 M	£17124.4 M
Total Charge	£2846.62 M	£501.77 M	£766.06 M	£244.82 M
No of funds	305	127	142	10
% of AUM	1.50%	0.67%	1.01%	1.43%

63. Figure 12 presents the average brokerage costs for funds which provided any brokerage charges to us, for 2015. As such, the number of funds included in calculating these statistics differs to other parts of the annex, as some firms were unable to provide this information. We can see there is a significant difference in brokerage charges between asset classes. Brokerage accounted for the majority of the difference in scale of third party charges between asset classes, with equity funds having higher brokerage costs than fixed income and allocation strategies. As brokerage charges are included within the spread of bonds, rather than as explicit costs, the almost negligible brokerage costs recorded for fixed income funds is expected. Property funds recorded the highest level of brokerage costs.

64. As previously noted, these brokerage figures do not include implicit dealing costs. These implicit costs can be approximated for active and passive funds dependant on assumptions regarding portfolio turnover, which is discussed in Chapter 7 of this Interim Report.

Figure 12: 2015 brokerage fees by asset class (ex. Index funds)

	Equity	Fixed Income	Allocation	Property
Brokerage %	0.167%	0.005%	0.025%	0.640%
AUM	£171800. M	£27560. M	£40620. M	£8117. M
**only includes funds which had any registered brokerage costs*				

Financial Conduct Authority

© Financial Conduct Authority 2015
25 The North Colonnade Canary Wharf
London E14 5HS
Telephone: +44 (0)20 7066 1000
Website: www.fca.org.uk
All rights reserved