

Transparency Update – November 2018

Key points

- The Institutional Disclosure Working Group (“IDWG”) cost disclosure templates were released on 7 November 2018.
- These will standardise costs reported by asset managers and provide the most comprehensive cost breakdown ever available to asset owners. This increased transparency will enable asset owners to better understand and query the overall costs incurred by their asset managers.
- Coincident with this, Chris Sier who chaired the IDWG, has launched a cost data and analysis platform called ClearGlass.
- ClearGlass are able to gather cost data for pension schemes in a cost efficient manner in accordance with the cost disclosure templates.
- McLagan (an Aon subsidiary) will have access to the data collected by ClearGlass to provide benchmark analysis of scheme specific costs relative to a number of metrics. Aon and non-Aon clients who use ClearGlass for cost collection services will be able to access the benchmarking service.

Background

The Financial Conduct Authority (“FCA”) published their Asset Management Market Study in June 2017. One of the key findings was that the costs incurred by asset owners within the institutional investment market lacked transparency.

This resulted in the FCA establishing the IDWG to investigate cost transparency further with the objective of developing cost disclosure templates that standardise the way in which asset managers present costs to asset owners.

The Competition and Markets Authority also proposed that costs and performance required more clarity and transparency as part of its proposed remedies within its provisional report in July 2018. This referenced the work of the IDWG.

Cost disclosure templates

The IDWG’s cost disclosure templates were released on 7 November 2018. We have provided an example of the User Template that asset owners will receive in the appendix.

Asset owners will now be able to receive detailed cost information from asset managers in a standardised format. We expect pension schemes to divert their focus away from considering the annual management charge in isolation towards a comprehensive cost disclosure that includes any additional costs incurred by asset managers such as transaction costs.

Although the templates are voluntary we expect all asset owners to request their cost information in line with the templates, and we will be encouraging our asset managers to comply. We expect that compliance with the templates will be monitored by our research team and this will be factored into our future ratings for asset managers. Local government schemes have taken a strong approach on non-compliance and warned asset managers that their mandates may be terminated for non-compliance with the templates.

Find out more

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ClearGlass

The IDWG chair, Chris Sier has launched a data collection and analysis service, ClearGlass, for asset owners to receive their cost information in accordance with the cost disclosure templates. Aon are very supportive of this initiative and have provided start-up funding to ClearGlass to help the company become established and self-sustaining. This initiative will help the market as a whole, not just Aon clients.

ClearGlass is open to all asset owners with the aim of being accessible and affordable. A charge of £100 per mandate will be levied by ClearGlass to gather and check the data for each scheme that requests support.

Cost benchmark analysis

We believe that understanding your asset manager costs is the starting point of increased cost transparency. However, asset owners also need to be able to interpret and benchmark the scheme specific data that is collected.

McLagan (a subsidiary of Aon) will have access to the underlying data collected by ClearGlass and will be using the data to provide cost benchmark analysis to asset owners. Asset owners using ClearGlass to collate and check their cost data will be able to also choose to access McLagan's benchmarking services relative to a number of metrics.

Next steps

1. Ensure that cost and performance transparency is included on your next meeting agenda.
2. Discuss the tools available to ensure you understand all of the costs incurred by your asset manager and how these compare to other pension schemes. Using ClearGlass will help you obtain this information easily and efficiently.
3. Consider cost benchmark analysis of your asset management costs, to provide context and the ability to have a more informed discussion with your asset manager. McLagan offer this service and further information can be provided by your Aon investment consultant.

Example cost disclosure template – User template

User Level Template v.1

1. Account information

Client name / Investor	e.g. Unilever
Portfolio issuer name	e.g. BlackRock
Portfolio name	e.g. UK Equity / UK Equity Fund
Report period	Start: 01/04/17 End: 31/03/18
Currency of report	GBP
Average value of client holding	£10,000,000.00

2. Portfolio investment activity

Start asset value	£93,500,000.00
End asset value	£100,000,000.00
Purchases	£10,000,000.00
Sales	£5,000,000.00

IMPLIED OVERALL INVESTMENT GAIN / PERFORMANCE (%)	9.04%
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3. Portfolio transaction costs	£98,000.00	0.10%
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GROSS RETURN (%)	8.9%
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4. Ongoing charges	£490,000.00	0.49%
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4.1 Investment management	£392,000.00	0.39%
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4.2 Administration	£49,000.00	0.05%
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4.3 Governance, regulation and compliance	£19,000.00	0.02%
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4.4 Distribution, comms and client service	£294,000.00	0.29%
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5. Incidental costs	£186,000.00	0.69%
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NET RETURN	7.8%
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6. One-off costs	£29,400.00	0.03%
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7. Ancillary service charges	£39,200.00	0.04%
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CLIENT RETURN (%)	7.0%
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Source: Cost Transparency Initiative