Does the ongoing charges figure really matter?

TAM Europe Asset Management asks the question.

As we all know, ongoing charges figures (OCFs) can be a sticky issue when discussing them with clients. Do they really understand the fundamentals of the multi-structural costs of a portfolio?

In a Europe where fee disclosure regulations and interpretation of those regulations often vary from country to country, and where the banks and institutions that compete for your client's business often hide their fees in bundles of small print it can be difficult to persuade clients this is an issue worth getting to grips with!

The framework governing MiFID fee disclosure is distinctively vague and is therefore open to far reaching differences of interpretation. This not only means that large life companies or manager trustees will apply the regulations differently, but guidance on those rules from national regulatory bodies will vary. These differences may not just be down to market knowledge and experience in a specific market but may also be influenced by the cultural background. Latin countries such as Italy or Spain are much more likely to have a similar interpretation of the framework than a Scandinavian country.

The working assumption across much of Europe is that ALL fees must be highlighted to the client, both in absolute terms and as a percentage of the proposed investment. Having said that, from some recent examples we have seen, large institutions, perhaps waiving their distinctive bank or insurance licenses, do seem able to avoid the more stringent interpretations of the disclosure regime.

A similar situation seems to arise when observing the use of benchmarks for performance assessment. Many large institutions seem to pick a very broad benchmark as a comparator for their risk-rated portfolios, rather than one with the relevant sector weighting, possibly on the basis that this makes things easier for the client. The use of these loopholes makes any fair-minded cost and performance comparisons something of a challenge for the adviser. The broad benchmarks do create a technical advantage to an IFA/DFM option. This is that benchmarks tend to be very specific to a DFMs strategy. Rather than just using an MSCI Global 50 or 60% equity weighted benchmark, a DFM can really go into the nuts and bolts of a benchmark. So, when comparing portfolios, one might feel more inclined to measure the two benchmarks not only on performance but also on risk! Has the alternative option stuck to the same risk parameters as their benchmark? If not, how do they expect to know what they will get from a portfolio? Or is the portfolio even pertinent to their attitude to risk?

It can sometimes take considerable effort to provide an honest fund comparison chart however, one advantage for IFAs in the MiFID world is that this report can be undertaken and then paid for by the client. The IFA always has the option to reduce their normal fees by the amount for the report if they choose the IFAs recommendation over another option. This works in the same way that people all over the world pay for comparison websites on holidays or cars for example. All those comparison websites get a fee for their comparison services. If a client cannot agree with this, then ultimately, they should stop using any search engine on the web full stop, e.g., Amazon!

The same applies to OCFs. Have you ever wondered how much money booking.com receive when you book the accommodation for your next trip, or how much Skyscanner receive when you reserve seats on your next flight? OCFs are not just a figure that is negotiated on the share class being made available to that DFM, but it is also the fund manager themselves that the client is essentially paying. Their job is to negotiate the best price on the assets they include in the portfolio.

We all know it costs money to run a good business, and running a fund is no different. It is not just the fund manager you are paying, but also their resources, such as a good team of analysts, the technology and software to deliver a daily service, and perhaps arguably most important, the client is ultimately paying for the fund manager's experience and knowledge. So, in answer to the question does the OCF really matter? Yes, yes, it does.

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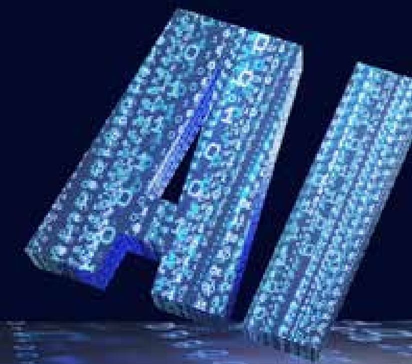
Artificial Intelligence – ephemeral vs. durable



that AI and machine learning will have a significant impact on markets and the economy, but we need to be considered when reflecting on what this means for our portfolios. The societal and socio-economic impacts are also likely to be significant (hopefully that is not too much of an understatement) and no doubt an on-going source of debate.

From an investing perspective, the challenge is somewhat daunting, given the technical proficiency required to understand the technology. However, it is not insurmountable. We are fortunate to have an experienced in-house research team and access to a number of experts in the field.

Furthermore, it has become increasingly apparent in our conversations over the past few months that this challenge is perhaps best met obliquely or by asking the question in different ways.

For example, instead of asking what is going to change over the next decade, perhaps we should ask what is not going to change? This leads us towards focussing on resilience and durability. It leads us towards companies that have survived and prospered during past technological advances, in areas such as consumer staples, beverages and luxury.

Whilst it may be difficult (or next-to-impossible right now) to identify the long-term winners of advances in AI, we can also ask which companies will supply the winners; who will sell the 'picks and shovels' of the AI goldrush?

We can ask which companies will benefit from the capital that is likely to be invested in the coming decade? This is a much easier question to answer today, with certain companies very well positioned.

Which companies will benefit from AI adoption is another question to pose, with companies in control of proprietary datasets an interesting area of focus.

How we approach this challenge, and the questions we should ask, prompts much interesting debate at our investment committees and we have asked whether we are witnessing something transient or not

We have asked ourselves whether it is really credible to see a technology-driven bull market so quickly after the apparent bursting of a bubble in cryptocurrency and a number of high-growth technology businesses, especially against the background of rising interest rates.

However, our analysis suggest that this is 'real' and whilst we are not trying to time the market or issue any kind of rallying cry to invest in technology, we believe that long-term investors need to consider the implications over the next decade.

We are mindful of the arguments presented by less optimistic investors today, noting that 'AI' stocks have already appreciated significantly, and valuations have expanded. However, when we compare valuations and growth rates for the leading stocks today against past market cycles, we do not see any great cause for concern. We are not suggesting these companies are especially excellent value, but we don't see unsustainable excess.

Whilst our focus will always be on protecting and growing our clients' capital over the long term, we also need to be aware of the changing nature of the economy and investment markets.

We describe ourselves as pragmatic optimists and it is through this lens that we approach the fascinating challenges and opportunities we will face over the coming years.

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