

The fees you need to watch out for

With interest rates so low, investors need to be trained to spot extra costs



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AT A TIME when interest rates are low and many asset classes are struggling to post a positive return, fees can have a significant effect on your long-term investment returns. Current estimates from the Financial Services Authority put the total expense ratio (TER) incurred by investors at around 3 per cent per year. This means that your investments need to make at least 3 per cent before your wealth starts growing.

There are a number of different fees that can be charged to clients and the most common are listed below. Every fee a client pays reduces longer-term account performance. In the current environment it seems unusual that banks do not provide complete transparency regarding all fees and charges. Here's what you need to ask every time you think about purchasing a financial product to make sure you aren't being overcharged.

MANAGEMENT FEES

This is the most common fee charged by banks and hedge funds and it is levied in return for providing investment decisions. Costs vary dramatically, however, and tend to depend on the expected return and the exclusivity of what you are investing in.

● **Questions to ask:** What does my management fee charge include? Does the fee also include administrative charges? Is the charge net or gross of costs?

CUSTODY AND ADMINISTRATIVE FEES

This is a separate fee that includes safe custody of the assets, reporting, statements, tax reporting, transfers and any other non-investment activity that takes place on the account.

● **Questions to ask:** What is the charge? What is included within the custody and administrative fee?

PERFORMANCE FEES

These are also widely spread and are usually calculated as a percentage of any outperformance over a benchmark. But you need



Is that a transaction fee on the horizon?

Picture: GETTY

to make sure you understand how it is calculated.

● **Questions to ask:** What is the benchmark (absolute or relative)? Is any underperformance from year one carried over to year two? Is the performance fee charged on net or gross account performance?

STRUCTURED PRODUCT FEES

Fees on these products are not always transparent and typically consist of a 2-3 per cent upfront fee with an annual management fee in the region of 1 per cent. A structured product can often be replicated directly via purchasing the underlying constituents rather than buying the branded product. If you can't get an answer to the below, you ought to choose a different investment manager who is more transparent.

● **Questions to ask:** What is the bank's underlying fee? What is the set-up cost? If I try to sell the product half way through its life are there any penalties?

FUND FEES (FRONT-LOADED FEES)

These are retail investor-related and profes-

sional investors typically do not pay front-loaded fees. They can be anything from 0.5-5 per cent of the initial investment and are often then rebated back to the manager that made the investment - known as retrocessions.

● **Questions to ask:** Will my account be invested into funds that incur front-loaded fees? Are there any additional administrative fees or performance fees? Will any retrocessions received be rebated back to my account? Are there any penalties if I redeem from a fund?

TRANSACTION FEES

Every time a trade is completed in your account it costs you. Charges vary from 0.05 per cent to 0.5 per cent - this will usually be on top of the bid-ask spread and will depend on the size of an account, the frequency of trading and the underlying security.

● **Questions to ask:** Does the investment manager add any additional commission onto any trade in any client account or receive any retrocessions?

RETROCESSION AND REBATES FEES

These are very common in the financial industry. Essentially, an investment manager can invest a portion of their clients' account into a fund. The fund charges the client a 1.5 per cent management fee per annum, of which 0.5 per cent would then be rebated to the investment manager. Retrocessions can occur from any transaction as well as from investments into hedge funds, mutual funds and structured products. Some investment managers may use these fees to increase the revenue they generate from a client's account over and above the management fee.

● **Questions to ask:** Do you receive any retrocessions or rebates? Are these disclosed to the client and/or rebated back to the client's account?

Clients deserve full transparency when it comes to the fees and charges associated with financial products, which seem to be becoming ever more and perhaps unnecessarily complex.

Hassium Asset Management is an independent global wealth manager.

PERSONAL FINANCE NEWS

BY DANIEL KNOWLES

BILLS HIGHER FOR THE OFFLINE

Hot water and heating bills are £140 a year more for offline customers than for online customers, according to new figures from uSwitch.com. The average household energy bill is £1,239 per year, but that drops to £1,010 for online customers. Of that, the average cost of hot water and heating is £756 a year on a standard tariff, relative to £616 a year for online energy customers. Only 13 per cent of customers are on online energy plans, suggesting that there are considerable savings to be had.

ONE IN THREE NOT SAVING

A third of Brits feel they cannot afford to put money aside each month, according to research by the Skipton building society. Even more worryingly, almost a quarter of people claim to have no savings at all, and over half of people are saving less than £100 per month. Unsurprisingly, Londoners are among the most effective savers, putting away an average of £214 per month but those in the North East also manage to save £200 each month. Those in the South East save the least putting aside only £134 a month.

FIFTH FORGO OVERSEAS HOLIDAYS

A fifth of people will forgo an overseas holiday this year to save money, while half of those who do go will economise by avoiding purchases such as travel insurance, according to research from the AA. Mark Huggins, director of the AA's financial services, pointed out that family holidays are often the first major victim of families' spending cuts. He warned against travelling without travel insurance, saying: "An accident or illness that lands you in a European hospital could easily cost you £2,000 or more".



PITIFUL RETURNS ON SAVINGS ACCOUNTS

Almost nine in ten savings accounts that were available six years ago are now paying interest rates of 0.5 per cent or less, according to research by Which? Money. That implies that savers who have not switched their accounts are likely to be seeing the real value of their savings diminish. The research calculated that British savers are missing out on £12bn a year as a result of the low rates, or an average of £322 per year for every saver with a cash Isa or a savings account. The best accounts offer 2.9 per cent per year.