

The IDWG Templates

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Getting to the bottom of costs has been difficult

Drivers for Asset Managers and other suppliers:

- Unintegrated/complex operational infrastructure (i.e. an operational failure)
- Fear of exposure to criticism over high costs (something to hide)
- 'why should we'?
- Main reason? No STANDARD
 - A standard removes multiple requests
 - Allows for direct like-for-like comparisons
 - Allows for data at scale



IDWG Templates

• Drivers for Asset Owners

- Fear of something complex and new
- Natural assumption that 'complex' means 'expensive'
- Fear of being found wanting



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The strategic benefits of standardised cost disclosure

- Integrity and Trust
 - Allows you to differentiate between those you should trust and those you shouldn't based up on the answer to you question "Will be supply data according to the industry standard templates set by the FCA?"
 - Consider the reasons why they might say 'no'. NONE of them are good
- Negotiation
 - Every cost transparency exercise has resulted in fee reduction. Know you costs? Negotiate from a position of power
- Standardisation
 - Standardisation is a benefit to asset owners and asset managers. It allows everyone to be compared fairly and industry-wide data to be collected
- Empowerment
 - I can think of no better way of putting power in the hands of the true owners of capital than to force them to face up to the fact that they are the ones paying and to show them just how much it is
 - This will result in a shift in the balance of power. Asset owners will change their approach to "Tell me what I own, and then I'll tell you what I want you to do with it"
- Innovation
 - The IDWG templates collect cost data from the entire supply chain. Pinpointing areas of highest cost and least efficiency will promote a move to targeted innovation

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The first UK open-source cost collection standard was adopted by the LGPS

- Code of Transparency
- Supported by a Standard data collection Template (prepared by yours truly)
 - Mostly for Equities and Fixed Income
 - Segregated Mandates and Pooled Funds
- Currently 90+ Asset Managers have signed up
 - All the big names: Baillie Gifford and Majedie first by long way. Others followed
 - Includes NON-LGPS managers! Seen as a marketing position
 - Includes PE Managers serving LGPS for which no standard has been written
- Adopted by Investment Association as their Transparency Code – IA has 200+ large managers as members
- I cannot emphasize the significance of LGPS adopting Cost Transparency or of the transformative effect it will have on the market and consumer outcomes

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The LGPS Template

| SEGREGATED MANDATE COST COLLECTION TEMPLATE | | For use with segregated portfolio management mandates | | | | | | | |
|--|----------|---|----------|----------|-----------------|-----------------|------------------|-----------------|--|
| <i>All figures are monetary amounts unless specified</i> | | | | | | | | | |
| Asset Manager | | | | | | | | | |
| Portfolio name | | | | | | | | | |
| Period of report | Start: | | | | | | End: | | |
| Currency of report | GBP | | | | | | | | |
| Investment return | | | | | | | | | |
| Gross return (% p.a.) | 1 year | 3 years | 5 years | 10 years | Since formation | | | | |
| Net return (% p.a.) | | | | | | | | | |
| Investment activity | | | | | | | | | |
| Opening assets | Total | Equity | Bonds | Property | Pooled funds | Other (specify) | | | |
| Closing assets | | | | | | | | | |
| Purchases | 0 | | | | | | | | |
| Sales | 0 | | | | | | | | |
| Turnover (% p.a.) | % | | | | | | | | |
| Management fees | | | | | | | | | |
| Invoiced fees (less rebates) | Total | | | | | | | | |
| VAT (if applicable) | | | | | | | | | |
| Payments for research | | | | | | | | | |
| Other charges (specify) | | | | | | | | | |
| Performance fees | | | | | | | | | |
| Total | 0 | | | | | | | | |
| Indirect fees | | | | | | | | | |
| Fees paid from NAV of pooled funds | | | | | | | | | |
| Transaction costs | | | | | | | | | |
| Transaction taxes | Total | Equity | Bonds | Property | Pooled funds | Derivatives | Foreign exchange | Other (specify) | |
| Broker commission | 0 | | | | | | | | |
| Implicit costs | 0 | | | | | | | | |
| Entry/exit charges | 0 | | | | | | | | |
| Indirect transaction costs | 0 | | | | | | | | |
| Other transaction costs (specify) | 0 | | | | | | | | |
| Total | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| Transaction costs per value traded | | | | | | | | | |
| Stock lending (if applicable) | | | | | | | | | |
| Value of stock on loan | | % | | | | | | | |
| Gross income | | % | | | | | | | |
| Less: income shared (name recipients) | | % | | | | | | | |
| Income retained by client | 0 | % | | | | | | | |
| Ancillary services (if provided by manager) | | | | | | | | | |
| Custody charges | | | | | | | | | |
| Collateral management | | | | | | | | | |
| Other (specify) | | | | | | | | | |
| Total | 0 | | | | | | | | |

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The de facto industry standard for cost collection was launched by the FCA in October 2018

Market Study and the Institutional Disclosure Working Group (IDWG)

- The Financial Conduct Authority's (FCA) Asset Management Market Study identified that institutional investors find it difficult to get the necessary cost information to make effective decisions
- Remedy? Stakeholder working group of asset owners (trustees), their representatives and advisers (Aon), asset managers (e.g. Baillie Gifford), with an independent Chair – the IDWG
 - The objective was to gain agreement on disclosure templates for asset management services provided to institutional investors
- You need a granular approach to manage down costs – bottom up coupled with top down
- Asset Managers and their Trade Bodies (IA, BVCA) signed up to the recommendations and are, apparently, preparing their system to deliver data
- My concern is that they might not be asked to supply it by 'Trustees' (or equivalent)
- So now it's about building awareness and understanding:
 - Having a framework for data collection is one thing. Not knowing there's a problem in the first place is another. DWP survey: ".....some trustees admitted they were not clear what transaction costs were"

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IDWG recommendations

- The IDWG proposes the use of five templates by Institutional Investors
- Use of the templates should be voluntary
 - Pressure applied by institutional investors on providers by deselection for non-compliance (LGPS)
 - Investment consultants should adopt a similar selection approach – already adopted by AON
 - Industry representative organisations and trade bodies should be prepared to adopt the templates as their disclosure codes
- Institutional investor education on the matter of cost disclosure and its benefits should be improved
- A new body or groups should be created and convened by autumn 2018 to curate and update the framework – IDWG v2
- No FCA rules written to mandate either submission or request unless
 - Obvious non-use by either Institutional Investors or Asset Managers

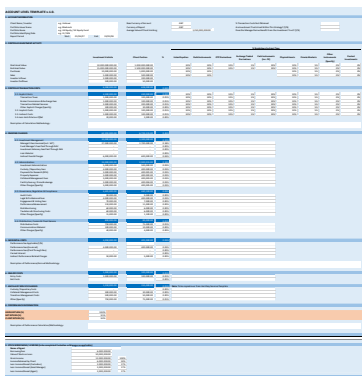
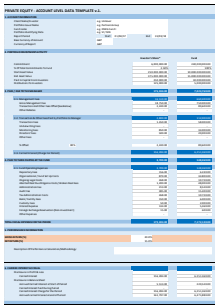
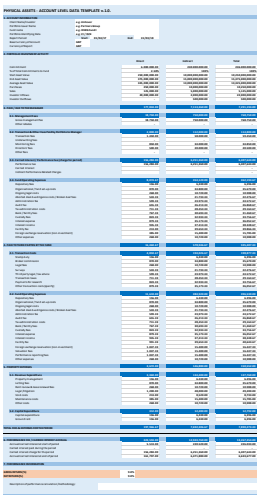
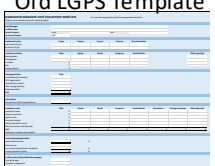
No compulsion on asset managers to provide because you WANT to know who is good, and good managers deserve a mechanism to differentiate themselves

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The IDWG Templates

| IDWG Multi-asset Account Template | IDWG PE Account Template | IDWG PA Account Template |
|---|---|--|
|  |  |  |
| |  | |

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The IDWG User Template – summary for Trustees

| USER LEVEL TEMPLATE v.1.0. | |
|--|---------------------------------|
| 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. CONTEXTUAL INFORMATION | |
| 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% |
| 3. PORTFOLIO TRANSACTION COSTS | |
| | 98,000.00 0.10% |
| GROSS RETURN (%) | |
| | 8.9% |
| 4. ONGOING CHARGES | |
| | 490,000.00 0.49% |
| 4.1. Investment Management | 392,000.00 0.39% |
| 4.2. Administration | 49,000.00 0.05% |
| 4.3. Governance, Regulation & Compliance | 19,000.00 0.02% |
| 4.4. Distribution, Comms & Client Service | 29,000.00 0.03% |
| 5. INCIDENTAL COSTS | |
| | 686,000.00 0.69% |
| NET RETURN (%) | |
| | 7.8% |
| 6. ONE-OFF COSTS | |
| | 29,400.00 0.03% |
| 7. ANCILLARY SERVICE CHARGES | |
| | 19,200.00 0.04% |
| CLIENT RETURN (%) | |
| | 7.0% |

Static Data

Contextual Information

Gross Gross Return

Transaction Costs

Gross Return

Ongoing Charges

Incidental Charges (mostly performance)

Net Return

One-Off Costs (entry/exit)

Ancillary Charges (e.g. custody)

Client Return ('proper' net)

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MiFID II compliance

| MiFID breakdown | IDWG Account Template equivalent field |
|--|--|
| One off charges | Item 69 "6. ONE-OFF COSTS" |
| Ongoing charges * | Item 35 "4. ONGOING CHARGES" for pooled funds, or Item 36 "4.1 Investment Management" for segregated mandates |
| Transaction costs | Item 25 "3. PORTFOLIO TRANSACTION COSTS" |
| Incidental costs (i.e. performance fees) | Item 62 "5. INCIDENTAL COSTS" |
| Charges for ancillary services * | Item 35 minus item 36 for segregated mandates |

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The LPGS SAB and the CTI

- The good news is that the LGPSSAB (E&W) is once again leading the way
 - Will require managers to use the IDWG templates from next year
 - Collection cycle starts April 2019
 - Managers will be required to submit completed templates each year (possibly quarterly)
 - Comply or explain with ‘three strikes and you’re out’ mechanism
 - Seeking a technology platform to manage the process: collect, check and summarise the data
- The CTI will govern the FCA-supported standards
 - Now convened as the CTI (Cost Transparency Initiative) - <https://www.plsa.co.uk/Policy-and-Research-Investment-Cost-Transparency-Initiative>
 - Composed of both Institutional Investors and Asset Managers, with support from independent experts and in purview of FCA
 - Will operate a Help-Desk

Support will also be provided by ClearGlass