Atkins Bland

Investments • Pensions • Financial Planning

Brief Guide to: Investment Cost, Flexibility and Service Levels

Introduction

What is this guide for and who should read it?

This guide looks at some key issues to considers when deciding how best to invest money.

It is relevant to anyone seeking advice on investing, whether for growth, income or a combination of both.

It is also relevant to anyone who already has money invested but wants to review the suitability of what they have in place.

A longer version of this guide, discussing the points we look at here in more detail, is available, so please do ask if you would like to read that.

The three main considerations we look at here, which are central to the subject of selecting a suitable style of investment are:

- costs
- investment flexibility
- level of on-going servicing and advice

We look at each of these separately, below.

What are the driving forces I should look at?

Costs

What are you paying for?

The costs applying to an investment generally relate to either ***administration, fund management*** or ***advice***.

Administration	Paid to the company providing the underlying investment product, such as an ISA, pension or wrap account. They relate to a wide range of activities needed to facilitate the operation of an investment portfolio.
Fund management	Money within an investment portfolio is normally placed into one or more investments funds operated by a fund management company. These involve management fees as well as various expenses. Fund management fees can be avoided by choosing direct investments instead, but few have the time or expertise to make this option viable or suitable.
Advice	This is the cost of any advice needed to at outset and for ongoing support and advice. This is not compulsory, but most people do not have the expertise to feel comfortable setting up and operating an investment portfolio without any advice at all.

Every investor has a choice concerning the nature and cost of each of these three ingredients.

We therefore need to look at each in more detail.

Administration

If investing directly with a fund management or insurance company, they will deal with all the administration and include the cost of this in their overall charges.

However, most investors now choose a centralised administration service, normally called either a **wrap** or a **platform**.

A **platform provider** will usually offer access to a large, but still restricted, range of collective investments.

A **wrap provider** will normally offer access to a more or less unfettered range of investment, so a lot more choice.

Both the charges and the quality of the service offered varies from one company to another.

As a general guide, administration costs are typically between 0.2% and 0.5% p.a.

This makes the range quite modest, so there is not much to be gained by selecting an administration company purely based on low cost rather than with careful consideration of the quality of the service it offers and its suitability to specific requirements and needs.

Fund management

Unless choosing to buy shares or other investments directly, there will always be some costs associated with the on-going management of the investment funds being used, but they can vary a lot.
The lowest cost options do not involve any research and analysis but simply track a given stock market index or, perhaps, a commodity price.
These are called "passive" or "tracker" funds.

Since there is no cost for research and analysis and the funds are largely run by computers, these can be very low cost. Typical management fees are between 0.1% p.a. and 0.4% p.a.

Where a fund's management involves a team of research analysts and one or more manager's making day to day decisions on how the money should be invested and what should be bought or sold, this inevitably adds to the cost.

Funds in this category are usually called "actively managed".

The costs for these vary considerably, depending on where the fund is invested, its size and other factors. Most actively managed funds have costs in the range of 1% to 1.5% p.a. but there are plenty that fall outside this range, in either direction.

The most expensive options are usually quite specialist funds investing in complex or esoteric markets, where the research and analysis is more labour intensive and requires a particularly high level of expertise.

Costs can also be higher due to the small size of a fund, since small funds do not enjoy the same economies of scale as much larger funds

In theory, active management should allow a fund to produce better returns, but this clearly depends on the success of the decision making. Many active funds have failed to out-perform a passive equivalent after their higher costs are taken into account, but many others have achieved this, sometimes quite spectacularly.

It is impossible to know in advance whether a particular active fund will do better or worse than a passive alternative in the same market sector. However, although past performance is never a guarantee for the future, there is a wealth of historical data available to help identify which fund managers have consistently performed well against their index benchmark, and which have not.

For someone feeling low cost is a top priority, using passive instead of actively managed funds can reduce costs by 0.5% p.a. or more. It is, though, important to be mindful of the fact that the differences between the performance of different funds, even in the same market, can massively exceed that figure, as demonstrated in the tables later in this guide.
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Advice

The advice relating to an investment includes the selection of the most suitable plan and the way the money is allocated within that plan, as well as ongoing servicing and advice to reflect changes to personal or economic circumstances and investment market conditions.

The initial cost is usually a one-off charge reflecting the time and expertise required to provide personalised advice on a suitable solution, factoring in all the various issues that need to be considered and the investor's circumstances and priorities.

These costs vary between adviser firms, but are not normally impacted by the selection of investment, as the work remains the same regardless of this.

The cost relating to on-going advice is variable because:

- one advice firm might offer a very different level and style of ongoing advice than another
- fees vary between firms even for the same broad service
- the level of work and expertise needed can differ depending on how the money is invested and the level of on-going advice and reporting, if any, the investor wishes to receive.

At the lowest cost end of the cost spectrum an investor can use what is generally known as a "multi asset managed" fund and have no pro-active ongoing advice, but just periodic reports. Since Atkins Bland believes ongoing monitoring of the suitability of investments is important, we do not normally offer an arrangement which excludes monitoring, but other advisers may.

Where ongoing advice, rather than just reporting, is included, this varies most with reference to whether or not advice is outsourced to a third-party, such as a Discretionary Fund Manager (DFM), since that adds on an extra level of costs.

Atkins Bland does not normally offer services using a DFM or outsource the investment advice, so do not generally offer services at the highest end of the cost spectrum.

Instead, we offer in house investment advice, usually taking an active role in the asset allocation and providing ongoing advice on both investment fund choice and distribution amongst different sectors and geographic regions.

We can also offer services where we are not involved with the asset allocation strategies, but just in selecting suitable multi asset managed funds. With these the fund managers make all the decisions on asset allocation, and our role is to monitor them and let our client know if we feel the choice of fund manager should be changed.

The costs of ongoing advice will tend to range between 0.50% and 2.0% p.a, depending on the adviser used, the amount of money invested, and the service level required.

At Atkins Bland, we set our standard ongoing fees at 1%, but will pro-actively apply discounts for larger portfolios, where appropriate.

The difference in advice costs can be quite significant, and should be given full consideration, but with very careful focus on what is being provided in exchange for these costs.

At Atkins Bland, we set our ongoing fees at a level designed to be very competitive, both in actual terms and when compared with the high level of ongoing servicing and access to general financial advice we incorporate within this annual fee.

The fee options available with Atkins Bland are looked at in our ***Guide to the Costs of Our Services***, which you should already have if you are reading this guide.

Investment flexibility

Does it matter?

History shows, quite convincingly, that the long-term success of an investment is determined far more by the underlying results from the investment fund than it is by any difference in charges.

The underlying results will be the consequence of two key factors:

- the success or otherwise of the asset allocation by broad market sector
- the success or otherwise of decisions on which investments to hold within each sector being used from time to time.

It is, therefore, important to consider the level of flexibility an investment strategy offers.

The main advantages of having a high level of flexibility to:

- spread money between a wide range of different fund managers and markets, to help mitigate risk
- move between fund managers as conditions change and to take advantage of specialist expertise
- to include exposure to sectors which may not be available at all with less flexible plans, such as gold, natural resources, agriculture, emerging markets and high yield bonds, to give just some examples.

The disadvantages are:

- The plans can have higher ongoing administration costs than the very cheapest and most restricted options available
- The advice costs can be higher since a higher level of monitoring and reporting may be required.

To demonstrate the possible benefits of having a very wide range of investments available, the tables below assess the actual past performance data within the main investment sectors, looking at the best, worst and average in each category.

The was taken from Financial Express Analytics with data to 30 November 2022. The figures refer to the past and past performance is not a reliable indicator of future results. The figures are shown on a “bid to bid” basis, so there is an assumption that there has not been an initial cost for investment, to ensure we are comparing on a like for like basis and purely looking at investment results.

Table A: 5-year data

Sector	General risk category	Annualised growth achieved (%)			Difference in annual growth rate (%)	
		Best fund	Worst fund	Average fund	Best to worst	Best to average
UK all companies	6	10.8	- 7.6	2.5	18.4	8.3
UK smaller companies	7	10.1	- 5.7	2.3	15.8	7.9
UK equity income	5	7.7	- 7.7	2.8	15.5	4.9
Corporate property	4	4.9	- 3..3	1.0	8.2	3.9
UK gilts	4	- 0.2	- 5.1	- 2.1	4.9	1.9
UK corporate bonds	4	10.8	- 3.1	- 0.4	13.9	11.3
UK high yield bonds	4	5.7	- 1.7	0.9	7.4	4.8
Global bonds	3	5.3	- 7.7	0.9	13.0	4.4
Global equity	5	29.5	- 5.2	7.7	34.6	21.7
Specialist	8	16.4 (Technology)	- 14.4 (Emerging Europe)	4.2	30.4	12.2
Europe excl. UK	7	37.4	- 4.0	4.3	41.5	33.2
North America	7	19.8	- 4.4	11.5	24.1	8.3
Japan	7	12.5	- 2.7	2.5	15.3	10.0
China	8	9.5	- 11.2	0.8	20.7	8.8
Far East excl. Japan	7	12.4	- 6.8	4.1	19.2	8.3
Emerging markets	6	8.8	- 8.2	1.1	16.9	7.6

Table B: 10-year data

Sector	General risk category	Annualised growth achieved (%)			Difference in annual growth rate (%)	
		Best fund	Worst fund	Average fund	Best to worst	Best to average
UK all companies	5	27.1	2.4	6.2	24.7	20.9
UK smaller companies	7	31.1	1.3	8.7	29.8	22.4
UK equity income	5	19.2	7.0	6.3	12.2	12.9
Corporate property	5	11.1	1.8	3.7	9.3	7.4
UK gilts	5	2.4	-1.9	0.3	4.3	2.1
UK corporate bonds	5	6.7	1.3	1.8	5.4	4.9
UK high yield bonds	3	9.4	3.1	2.7	6.4	6.7
Global bonds	3	11.9	-5.5	2.3	17.3	9.6
Global equity	7	49.5	-6.2	10.1	55.7	39.5
Specialist	8	40.0 (Middle East and North Africa)	-9.7 (Brazil)	4.9	49.6	35.1
Europe excl. UK	7	30.5	10.1	8.6	20.4	21.9
North America	7	42.7	17.4	14.0	25.3	28.7
Japan	7	25.2	12.8	8.9	12.4	16.3
China	8	32.8	4.5	7.4	28.3	25.4
Far East excl. Japan	7	25.9	4.1	7.2	21.8	18.7
Emerging markets	5	19.0	-1.3	4.0	20.3	15.0

Both of the previous tables clearly demonstrate that the difference in results from one sector to another, and from one fund manager to another, can be substantially more than the difference in overall charges, even between the very cheapest and the most expensive options.

It can also be seen that, generally, the gaps get wider as you move up the risk ladder, as would be expected. However, even looking at a typical core sector in most investment portfolios, UK Equity Income, the range of past results from the worst to the best over a 5 year period is nearly 16% p.a. and from best to average is 5% p.a. When the maximum difference in overall costs for running an investment portfolio is probably under 2.0% p.a., this is an interesting fact to take into account.

It is also interesting to use the same approach but looking at managed fund sectors.

Table C: 5-year data

Sector	General risk category	Annualised growth achieved (%)			Difference in annual growth rate (%)	
		Best fund	Worst fund	Average fund	Best to worst	Best to average
Managed (0-35% shares)	3.0	4.2	-6.5	0.4	10.7	3.8
Managed (20-60% shares)	5.0	6.7	-9.3	1.7	16.0	5.0
Managed (40-85% shares)	7.0	9.7	-9.8	3.3	19.4	6.4
Flexible Managed	8.0	10.2	-5.6	3.6	15.8	6.6

Table D: 10-year data

Sector	General risk category	Annualised growth achieved (%)			Difference in annual growth rate (%)	
		Best fund	Worst fund	Average fund	Best to worst	Best to average
Managed (0-35% shares)	3	8.8	2.2	2.3	6.6	6.5
Managed (20-60% shares)	5	15.5	0.8	3.8	14.6	11.7
Managed (40-85% shares)	7	24.8	1.9	5.8	22.8	19.0
Flexible Managed	8	26.1	2.7	6.1	23.4	19.9

Tables C and D demonstrate that the impact the choice of fund manager can have is potentially much more significant than differences in management costs.

An explanation of our risk categorisations can be found in our Guide to Atkins Bland's Fund Specific Risk Classifications. If you do not already have this but would like a copy, please let us know.

Level of ongoing advice and servicing

Do you need it and, if so, how much?

This can be tailored to your specific needs and preferences and can either be on a broad overview basis, or highly personalised to reflect your specific priorities and objectives, and any changes in these.

It is impossible to know if paying more for a higher level of on-going advice on your investment strategy will produce better results or, if it does, whether the difference will be sufficient to cover the additional cost, but this is seldom the main point to consider.

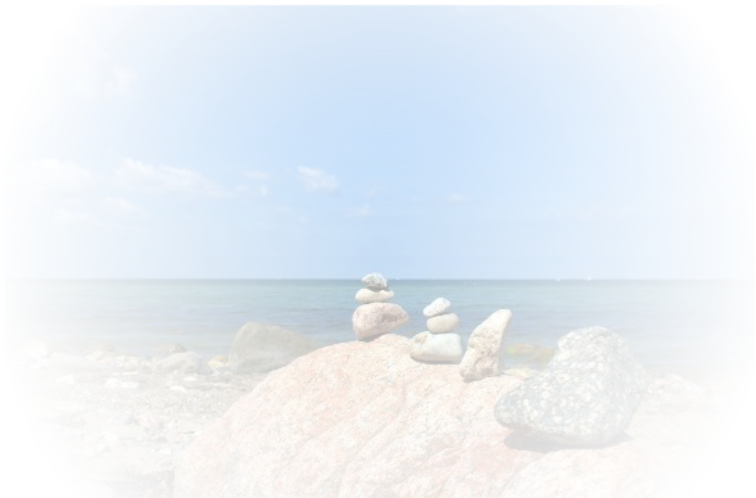
Factors likely to influence the suitability of different options are:

- the amount you wish to invest
- the level of your interest in investments
- the extent to which you wish to be involved in on-going decision making
- your investment time frame
- your investment objectives, such as whether you want income, or are investing just for capital growth
- your personal preferences.

Cost comparison will often be a factor, but this should be weighed up with the potential benefits of paying a more a higher level of ongoing advice, and the extra peace of mind that can achieve.

We cannot advise you which option is best in terms of the eventual results, since no one can ever know that in advance.

However, once we have assessed and discussed your circumstances, objectives, preferences and aspirations, we will recommend the solution we feel is most suited to you, although can work on a different basis than this if you prefer, so long as we feel comfortable that the alternative is still appropriate for you.



Is it worth paying more than the minimum?

If assessing this in terms of financial outcomes, the reality is that no one can possibly know the answer without the benefit of hindsight, and even with that you can't know what decisions would have been made if a different priority had been applied.

We don't know if a low-cost fund operated by a computer and just tracking a market index will do better or worse than any specific fund using active management.

We don't know if paying for advice will produce better results than self-managing a portfolio, and never will, unless someone is operating both strategies over the same time period.

However, for most people it is not just a matter of which option will produce the best results. Of equal or higher importance to many is the peace of mind and much reduced stress they enjoy from knowing a professional is monitoring their investments to help ensure they remain a good choice or are changed if they do not.

On top of that, paying for ongoing investment advice can often include access to advice well beyond that relating to your asset allocation strategy, adding an ingredient which certainly can't be measured against a benchmark.

We really can't know in advance how to fully measure the value of advice, let alone what the actual outcome from doing so will be compared with going it alone.

That means it comes down to what you feel most comfortable with. Do you prefer to know you have a low-cost option and are not paying anyone to do anything more than the minimum needed, or would you feel more comfortable knowing someone is monitoring your investments, will let you know if changes seem prudent and is there to help if you have any questions?

It is all down to personal values and preferences, with no right or wrong answers.

Overview and summary of what we offer

Flexibility is important, and it’s what we offer

Atkins Bland will always try to match what we offer with what each individual client needs or wants.

If there is a priority for low cost, and this is practical in terms of objectives, we can set up a portfolio where the total of the fund management fees and administration costs are well below 1% pa, and sometimes as low as 0.6% pa where economies of scale are available, and the strategy uses just low-cost tracker funds.

However, unless low cost is the priority, and is suitable, the total of administration and fund management costs will typically fall between 1.2% and 1.6% pa, depending on the size and nature of a portfolio.

Our advice costs are set out in our *Guide to the Cost of Our Services*. Our standard charge for ongoing advice on asset allocation and general financial planning relating to your investments is 1% p.a. but we offer discounts for larger portfolios to pass on economies of scale, wherever appropriate.

Important notes

Any opinions expressed on the merits or disadvantages of any options are intended as a general comment only and not as specific advice to the reader.

This document is intended as a supplement to full independent advice and not as a replacement for it and should be read in conjunction with any personalised recommendations provided by Atkins Bland Ltd and with any product brochures supplied.

The value of investments will fall as well as rise, as can any income produced.

Inflation can reduce the real value of capital and the income it generates

Past investment performance is not a reliable guide to the future

Any reference to taxation, regulation or legislation is based on our current understanding and details should be checked before any reliance is placed upon its accuracy.

The impact of taxation and tax planning depends on individual circumstances and may be subject to change, which can be retrospective.

Errors and omission excepted

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