Financial regulators repeatedly warn of unfair practices in the retail investment space: high fees, poor advice, low transparency, etc. But nothing compares to real-life examples.

In which vein, Eriswell has offered complimentary portfolio Health Checks to retail investors since mid-July. Shining a light into these dark spaces has revealed some truly parasitic creations sneaking around in the financial gloom.

Supreme Court Justice Louis Brandeis famously remarked, "Sunlight is the best disinfectant". So here goes:

Parasitic or Contributive Structure?

Names have been changed to protect identities.

STEP 1: About 25 years ago, Sarah started to invest in a pension offered by **"Asset Manager A"** (large UK asset manager).

STEP 2: Recently, 'Asset Manager A' sold part of its pension business to **'Asset Manager B'** (another large UK asset manager) for a large sum of money. Asset Manager B charges circa 0.7% to manage these new funds, which it discloses to Sarah. No investment advice is included.

STEP 3: We found that **Asset Manager B** doesn't actually manage its new funds. It passes them straight back to **Asset Manager A's** '*Master Pension Fund'***,** which charges 0.5% per annum.

So, Sarah is paying 1.2% per annum in fees to 2 separate UK service providers, of which only one is visible on her pension statement. Sarah receives no investment advice from either of them, and has no log-in to see what is going on. This limited-mandate/limited-visibility combination immediately set off our alarm bells. But wait…..

STEP 4: **Asset Manager A's** *Master Pension Fund* does not directly manage Sarah's money either! It sub-allocates to about 20 Asset Manager A internally managed funds which charge additional fees of around 0.1% per annum. That's now about 1.3% per annum in total, and there's more…..

STEP 5: **Asset Manager A's** *Master Pension Fund* instructs transactions in its internal funds which trade on bid/ask spreads of between 0.2% and 1.7%, far more than comparable publicly listed funds. We estimate these internal transactions add another 0.25% per annum in fees and internal transaction costs add another 0.4%.

So, Sarah ends up **paying 1.95% in total annual fees** against the 0.7% Asset Manager B discloses.

THE BOTTOM LINE

Asset Manager A has a clear conflict of interest: it can increase its revenues at a time of its choosing by churning the funds in which Sarah is invested.

Asset Manager B – lawfully – only discloses its share of the total fee chain. Meanwhile, the absence of a log-in and comprehensive reporting makes it almost impossible for Sarah to figure out what is going on.

Through no fault of her own, we estimate Sarah has ended up paying 1.95% per annum for a service which should have cost about 0.5%.

Excess fees of circa 1.5% per annum will erode 41% of Sarah's pension over her expected working life and will have done considerable damage to date. Abraham Lincoln might call this, *a structure of the service providers, by the service providers, for the service providers*.

We call it a disgrace.

Request your free Portfolio Health Check email: info@eriswell.com

#Demand Full Transparency

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