



ClearGlass

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Transparency Agenda

Introduce competition into institutional asset management



Improve pension scheme manager selection and governance - VFM



Improve retirement outcomes

2016

Poor price competition in Asset Management formally identified by FCA

The FCA Asset Management Market Study, published in 2017, found weak price competition, information asymmetry and a generally poorly performing funds market

2017

The FCA's response...

In 2017, The Financial Conduct Authority (FCA) set up an independent group – the Institutional Disclosure Working Group (IDWG) – to develop a standard framework that could be adopted by asset managers to share costs and charges data with their institutional clients

2018

Cost Transparency Initiative (CTI)

2019

ClearGlass



450+ Asset Managers



750+ Pension schemes



18,000+ CTI templates



29 Investment strategies

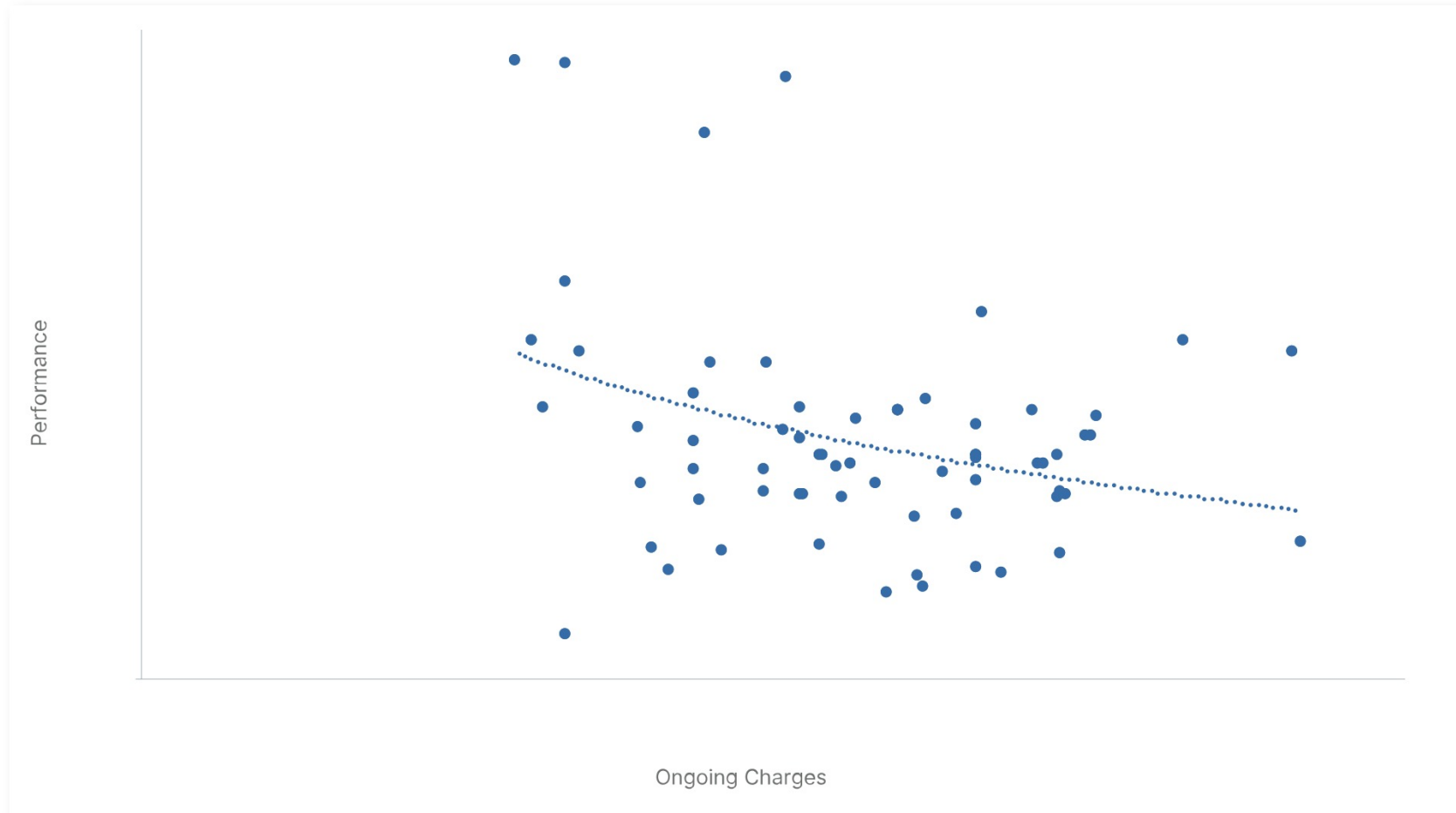


**You know about
ClearGlass.**

**Now, after 3 years, we can
see some interesting and
novel stories in the data...**

There is often a negative correlation between performance and ongoing charges (TER)

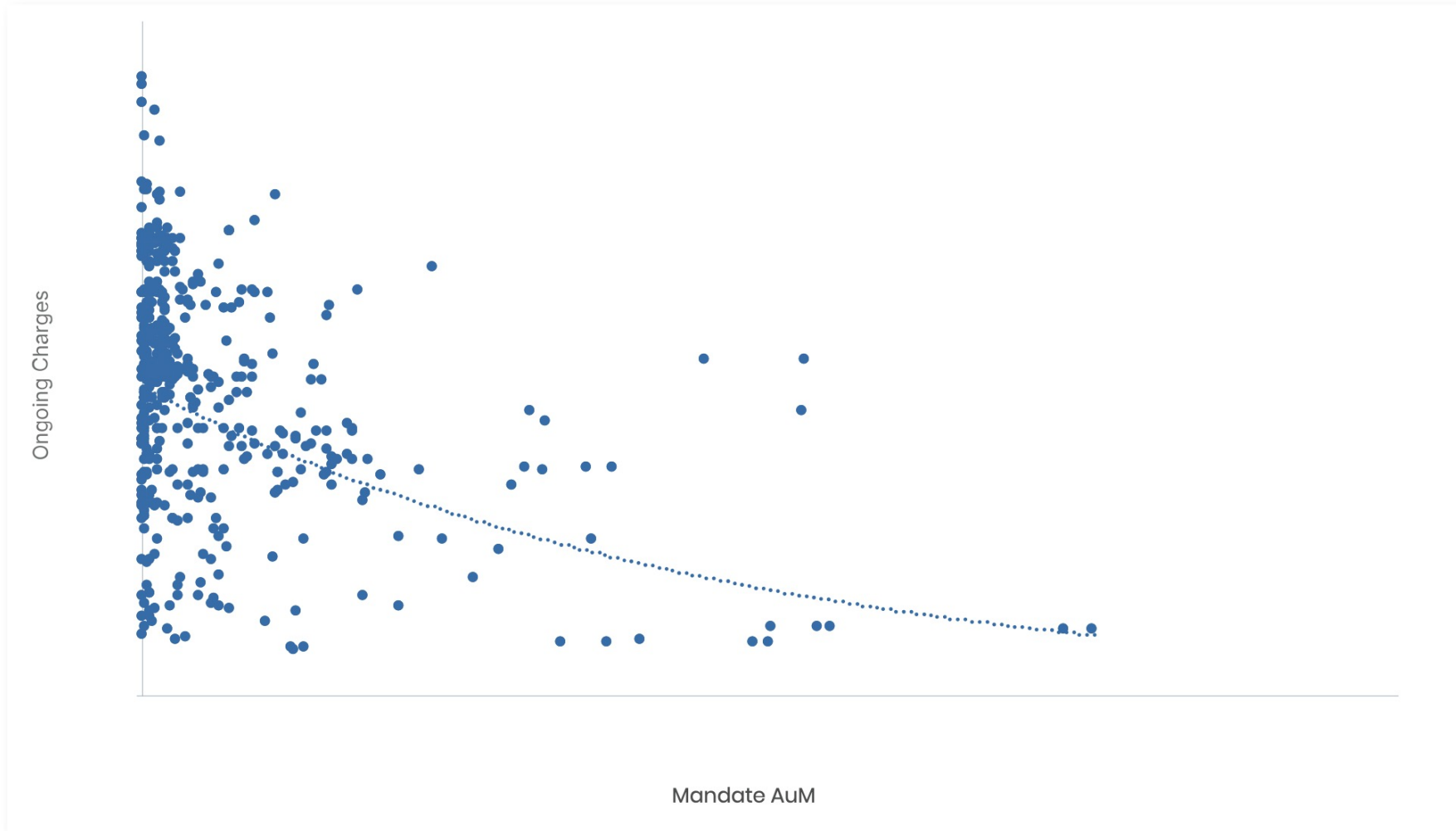
Correlation between ongoing charges and performance (Global Active Equity)



Each datapoint represents the ongoing charges of a Pooled Fund plotted against long-term performance of that Fund (5-year annualised).

Economies of scale exist...

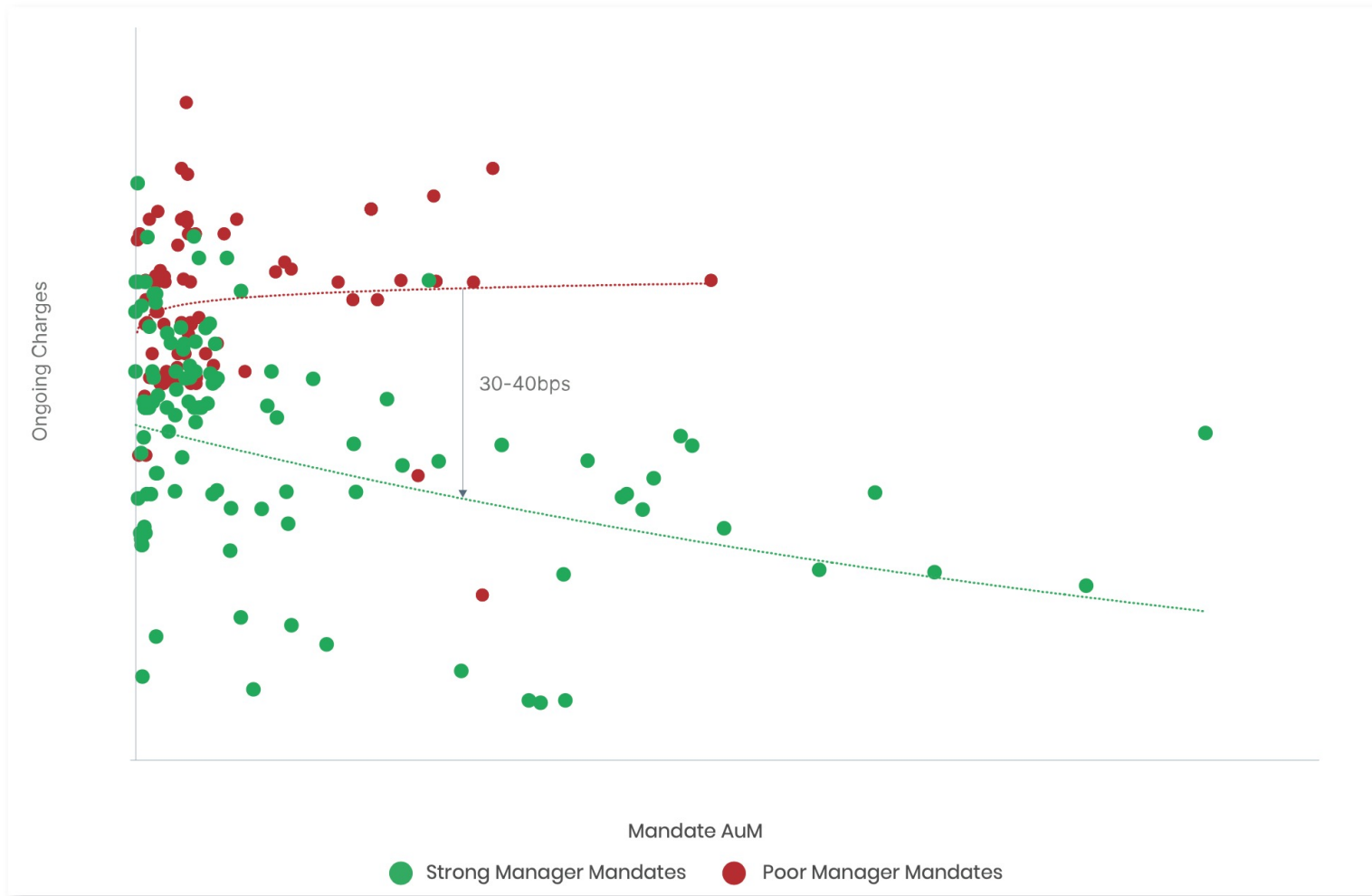
Scale curve (Global Active Equities)



Each datapoint represents the ongoing charge and AuM of a global active equity mandate

...but only for the 'best' managers

Scale curve (Global Active Equities)



Each datapoint represents the ongoing charge v AuM of that mandate

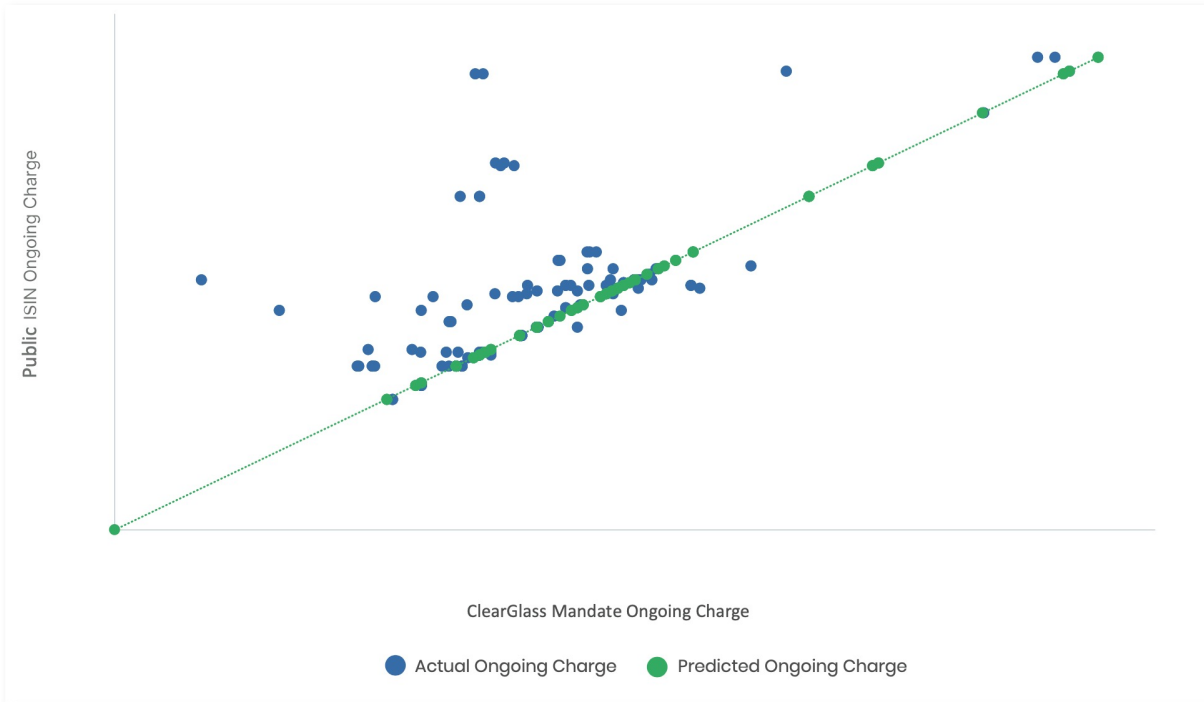


**Remember why I
started all of this?**

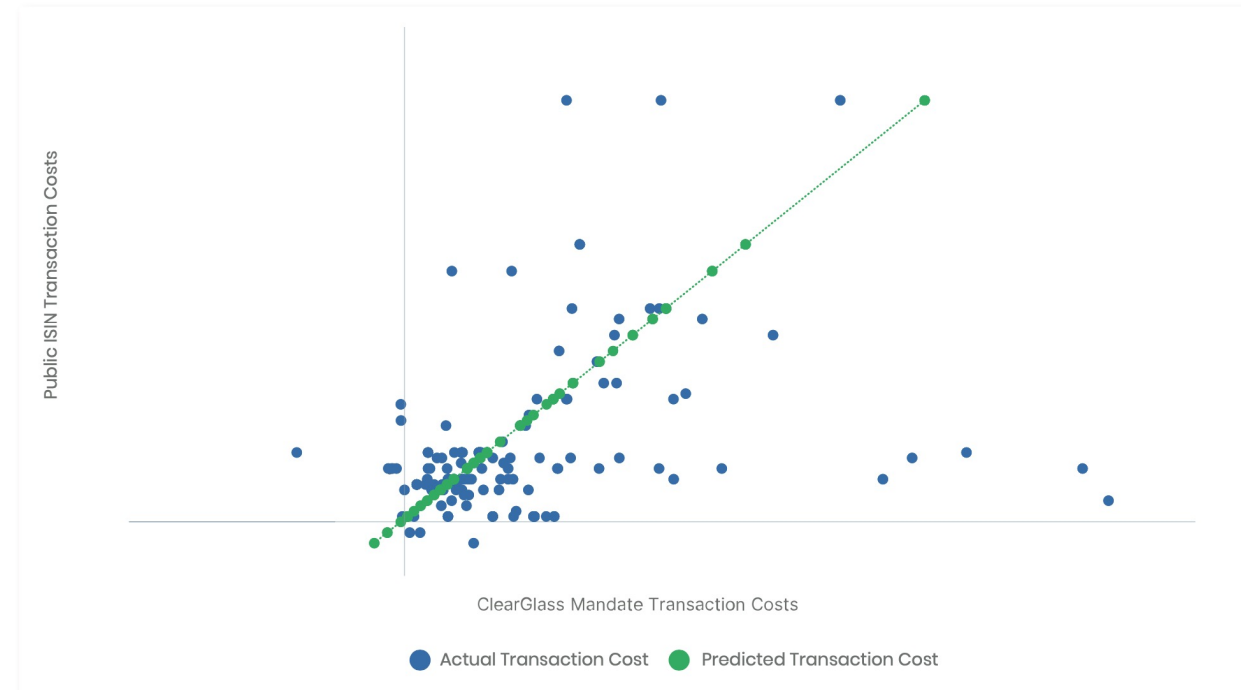
**The non-competitive market in
asset management... "poor
price competition" (FCA)**

Fee data collected from published sources differs from client-specific data

Client data vs. Fund Factsheet data for ongoing charges



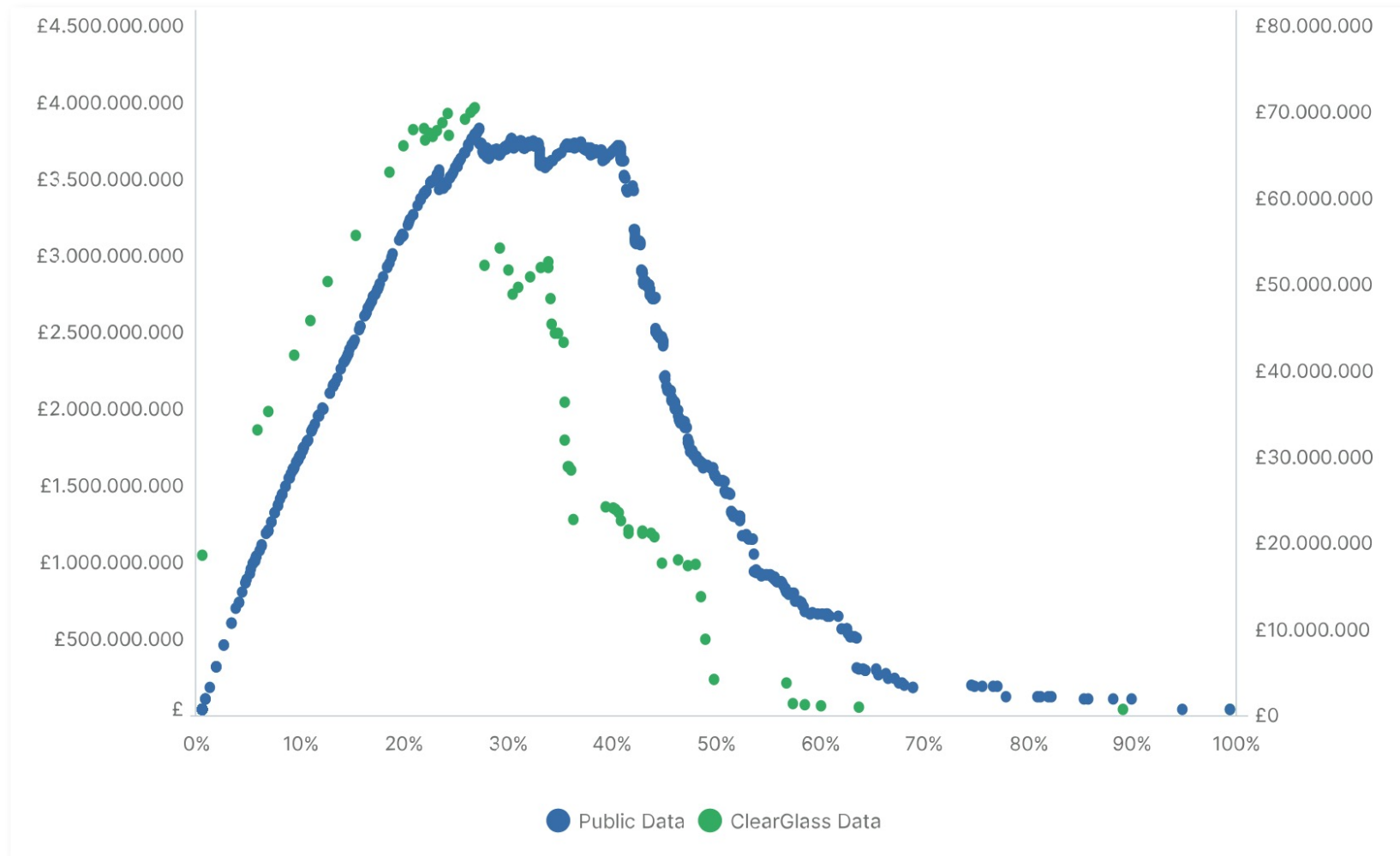
ClearGlass data vs. Fund Factsheet data for transaction costs)



The fee data for a mandate using ClearGlass data is plotted against the published value (blue), with the predicted values in green

The public perception of price is therefore very different from the reality

Ongoing Charge Optimisation is distorted using public data (Global Active Equity)



This graph shows the optimisation curve using ClearGlass data for Managers compared to the same curve generated from publicly reported data



CONCLUSIONS

Benchmarks or **VfM analyses** derived from published data sources are likely to be wrong;

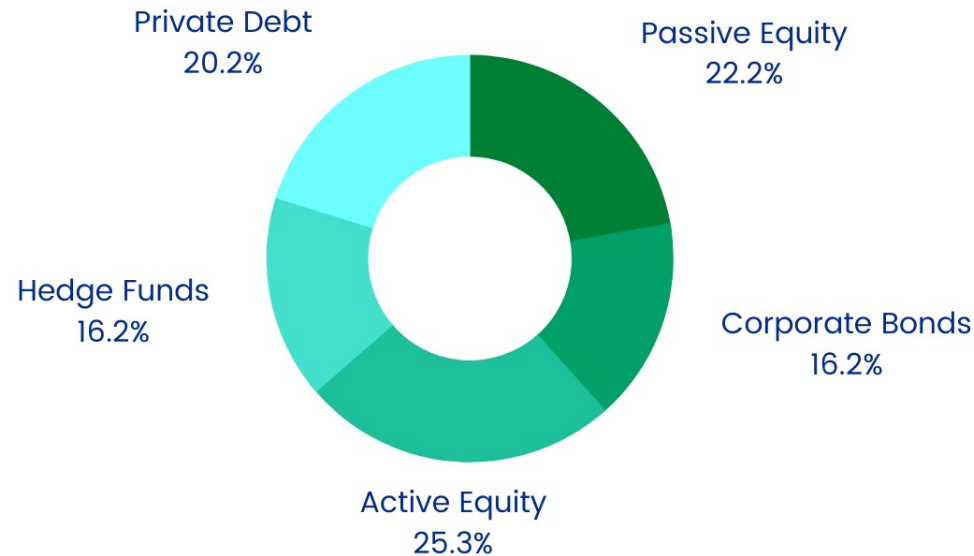
Manager rankings and selections based on published data sources are likely to be wrong;

Competitor analyses by asset managers derived from published data sources are likely to be wrong.

'Published' data sources: Morningstar, eVestment, Fund factsheets, EMT, DCPT, ...

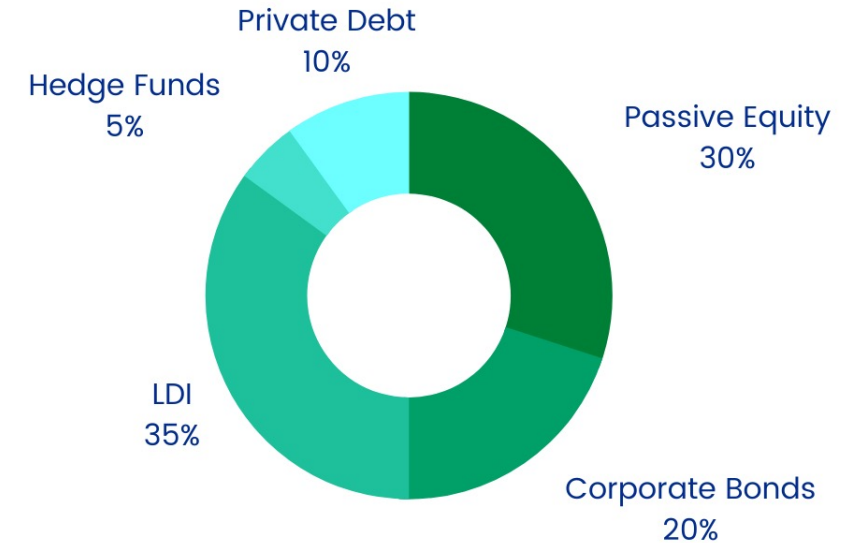
So, how do you benchmark a scheme?

£1bn Local Authority Scheme



**Higher total ongoing charges from
>35% allocation to Alts**

£1bn Private Sector Scheme

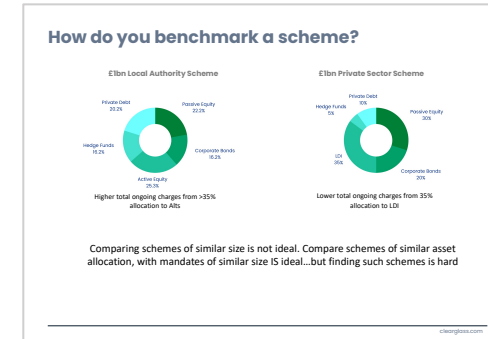


**Lower total ongoing charges from
35% allocation to LDI**

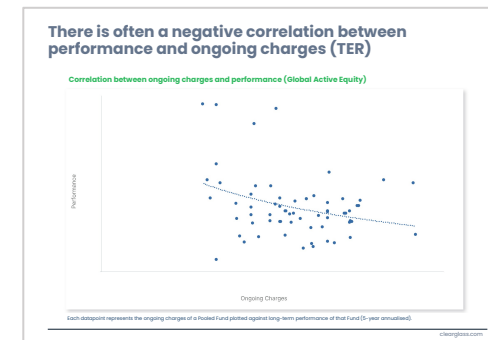
- Comparing schemes of similar size is correct...so maybe compare schemes of similar asset allocation with mandates of similar size?
- But finding such identical schemes is hard
- What to do?

Three factors influence scheme asset management costs

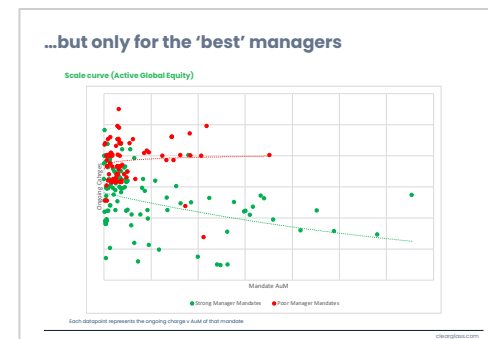
1. Asset Allocation



2. Asset Manager selection



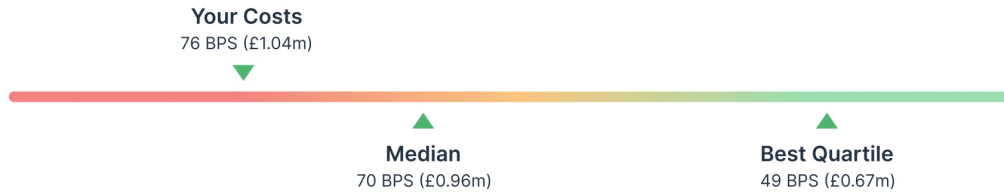
3. Scale



...one needs to adopt a different approach to benchmarking: Mandate-by-Mandate Benchmarking

ClearGlass Benchmark Report

Your costs are 6 BPS above the median cost for schemes with your asset allocation.
And your costs are 27 BPS greater than the best quartile cost for schemes with your asset allocation.

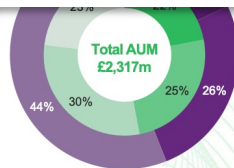


8 of your funds have costs below the median for their strategy



11 of your funds have costs above the median for their strategy

By reducing your costs we estimate you can save £370k per year



CURRENCY DASHBOARD

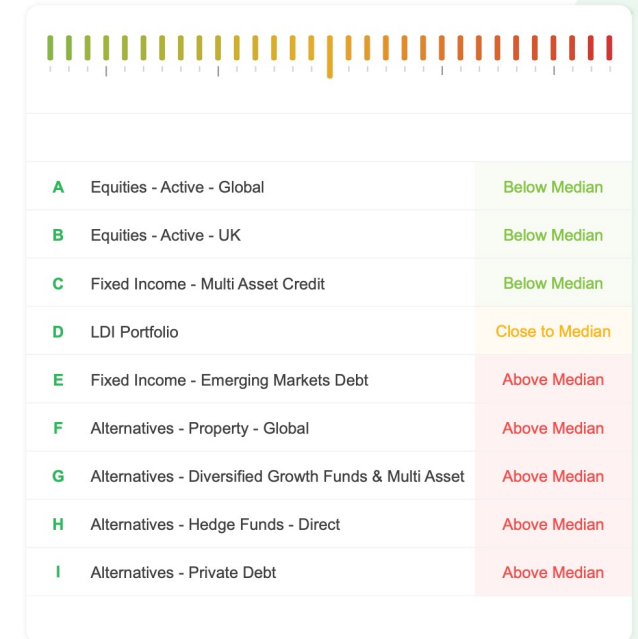
YEAR ON YEAR (bp)

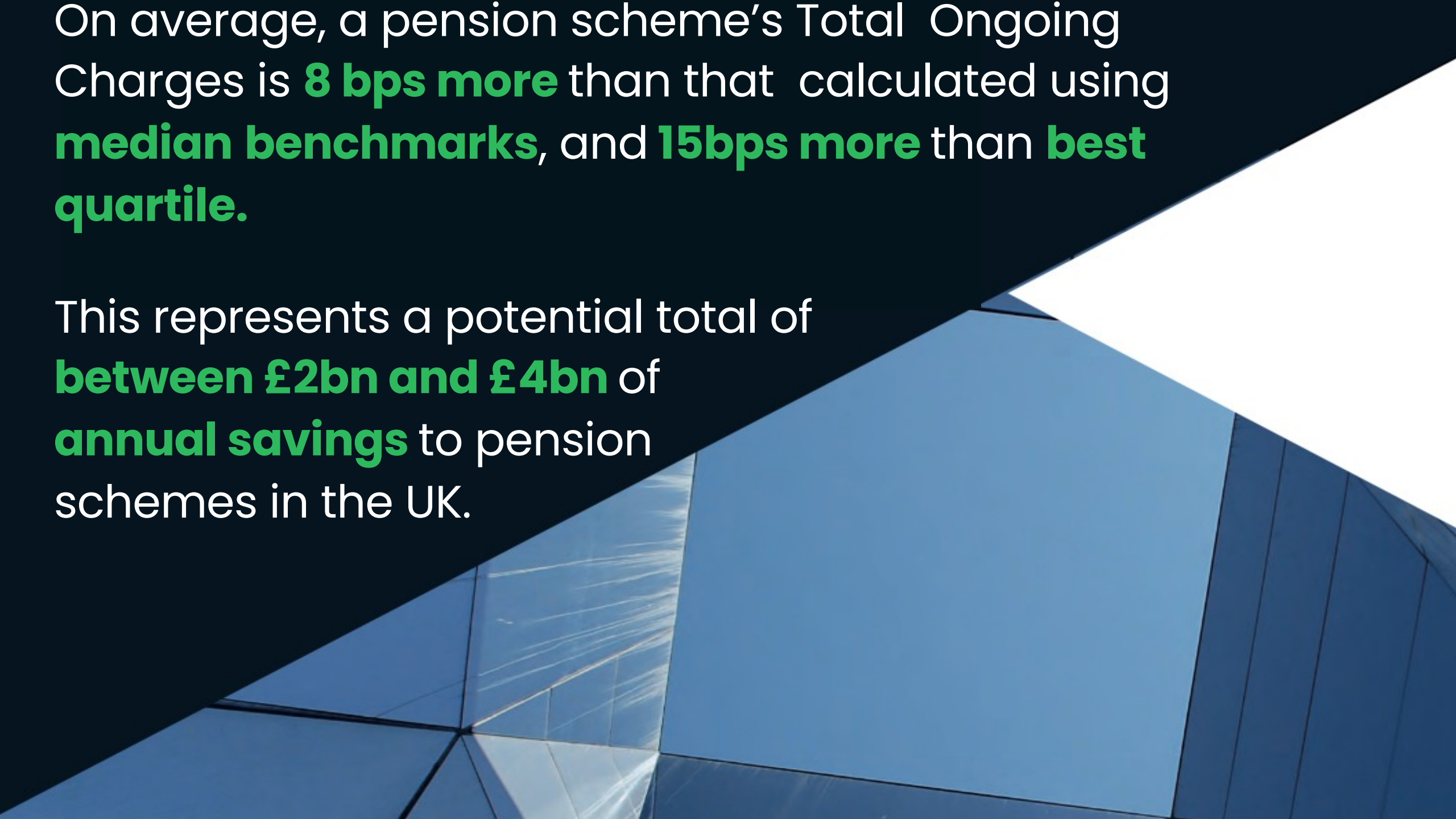


ASSET ALLOCATION

Asset Class	AUM	TOTAL COSTS
Equities	22%	18%
Fixed Income	25%	26%
Alternatives	30%	44%
LDI	23%	12%
Benchmarked	100%	100%


TOTAL COSTS RELATIVE TO PEERS & STRATEGY RATINGS





On average, a pension scheme's Total Ongoing Charges is **8 bps more** than that calculated using **median benchmarks**, and **15bps more** than **best quartile**.

This represents a potential total of **between £2bn and £4bn** of **annual savings** to pension schemes in the UK.

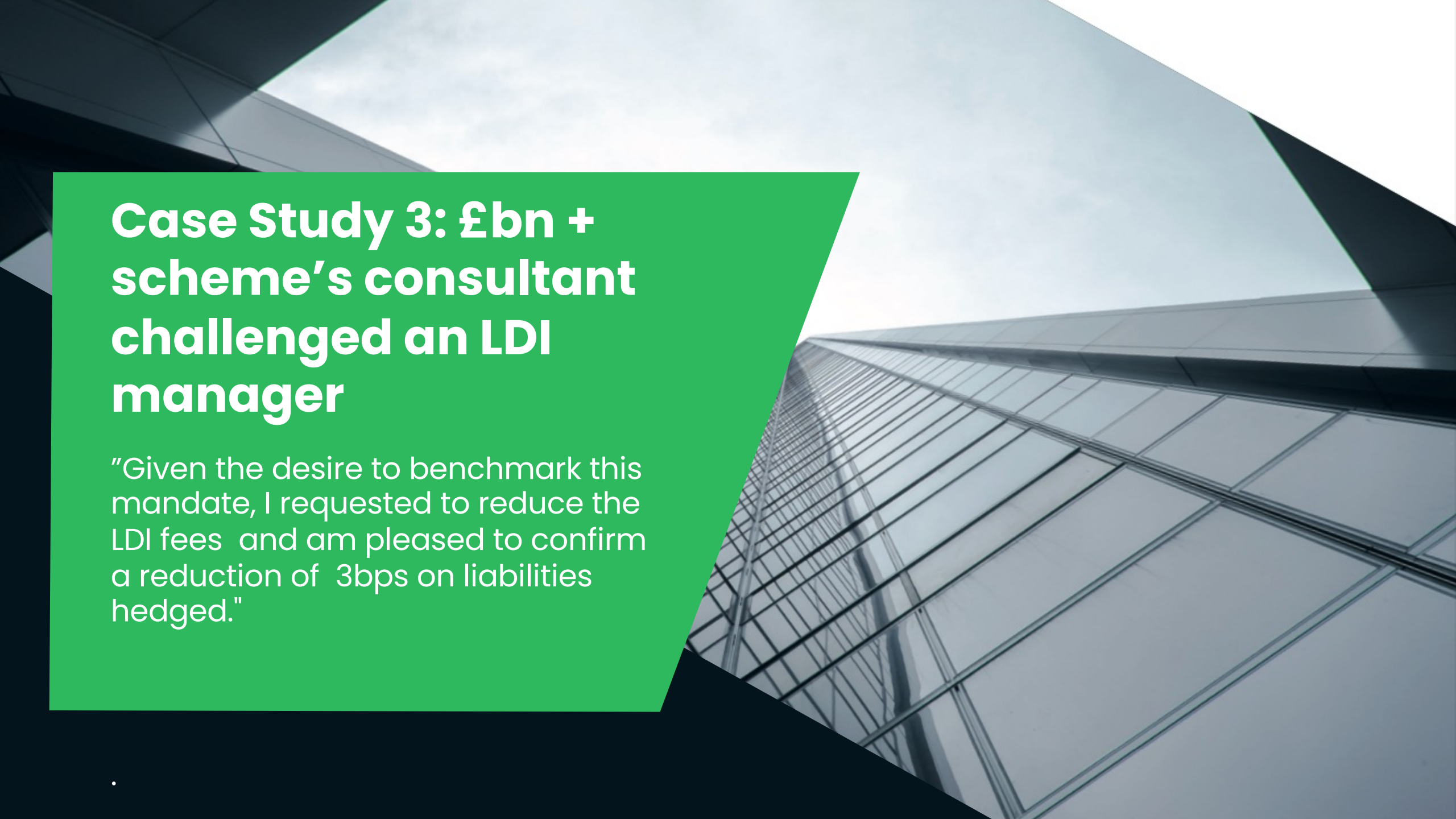


Case Study 1: Littlejohn Frazer (<£20mn AUM)

Littlejohn Frazer scheme negotiated
£10,000 on their multi-asset mandate
and saved the scheme 6bps
annually

Case Study 2: £300m pension scheme

- Paying £300k less than their peers on their LDI mandate and their fiduciary credit solution had excellent performance. The credit solution is saving c. £120k pa and performance is upper quartile
- Renegotiating the fees on the hedge fund and equity mandates saved the scheme £600k
- Chairman of Trustee Board: “The benchmarking analysis was invaluable, and it will help us address the misbalance of information between asset manager and asset owner”



Case Study 3: £bn + scheme's consultant challenged an LDI manager

"Given the desire to benchmark this mandate, I requested to reduce the LDI fees and am pleased to confirm a reduction of 3bps on liabilities hedged."



Case Study 4: £50bn+ Group Pension Fund

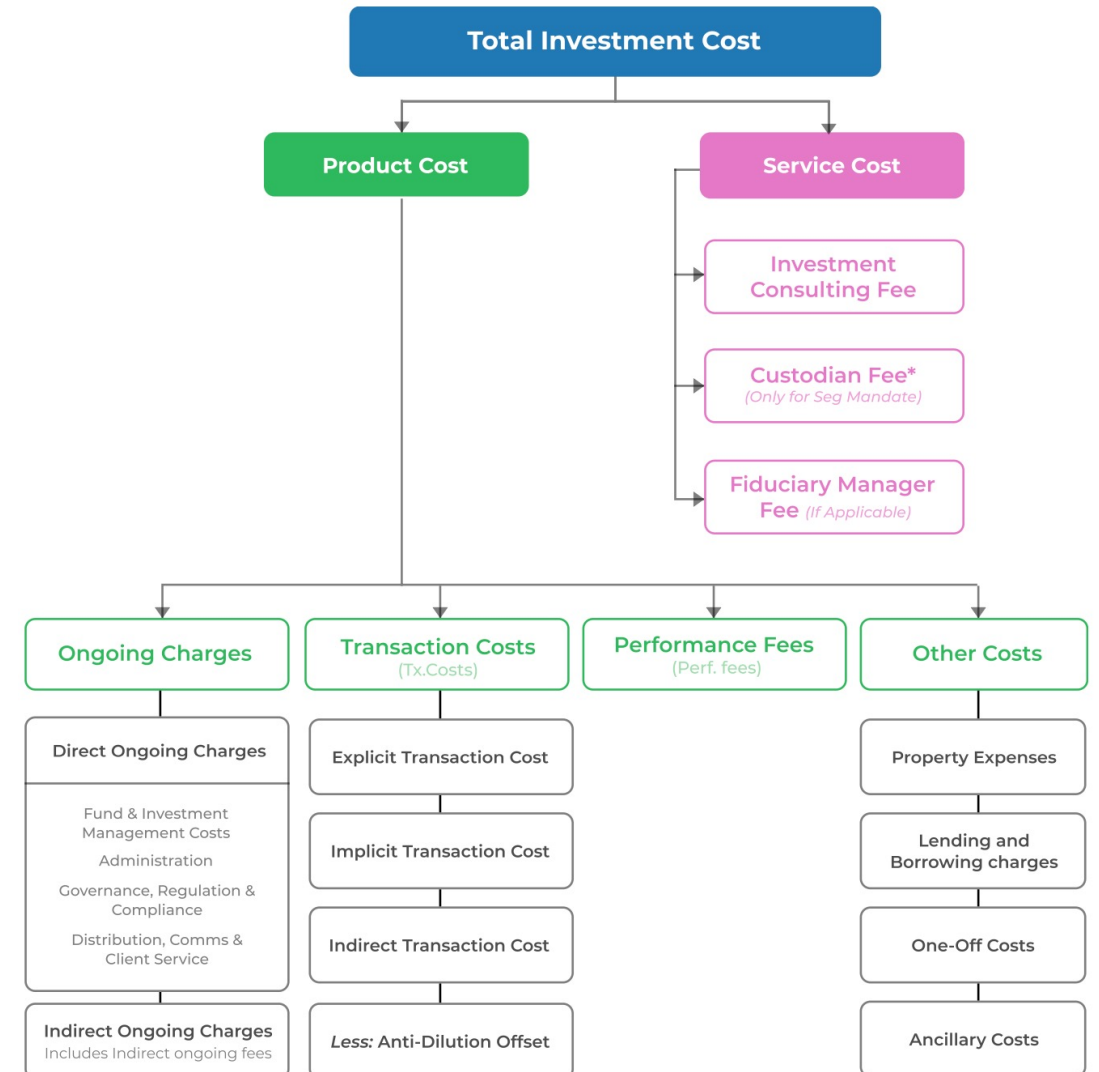
A corporate Pension, with over £50 billion of assets, was looking to understand and compare all underlying costs related to its investment management, to monitor and evaluate any hidden costs, and to maximise the cost / performance ratio

Case Study: £50bn+ Group Pension Fund

Portfolio profile

£57.12 billion AuM

- 59 Funds
- 11 Investment strategies
- 33 external managers



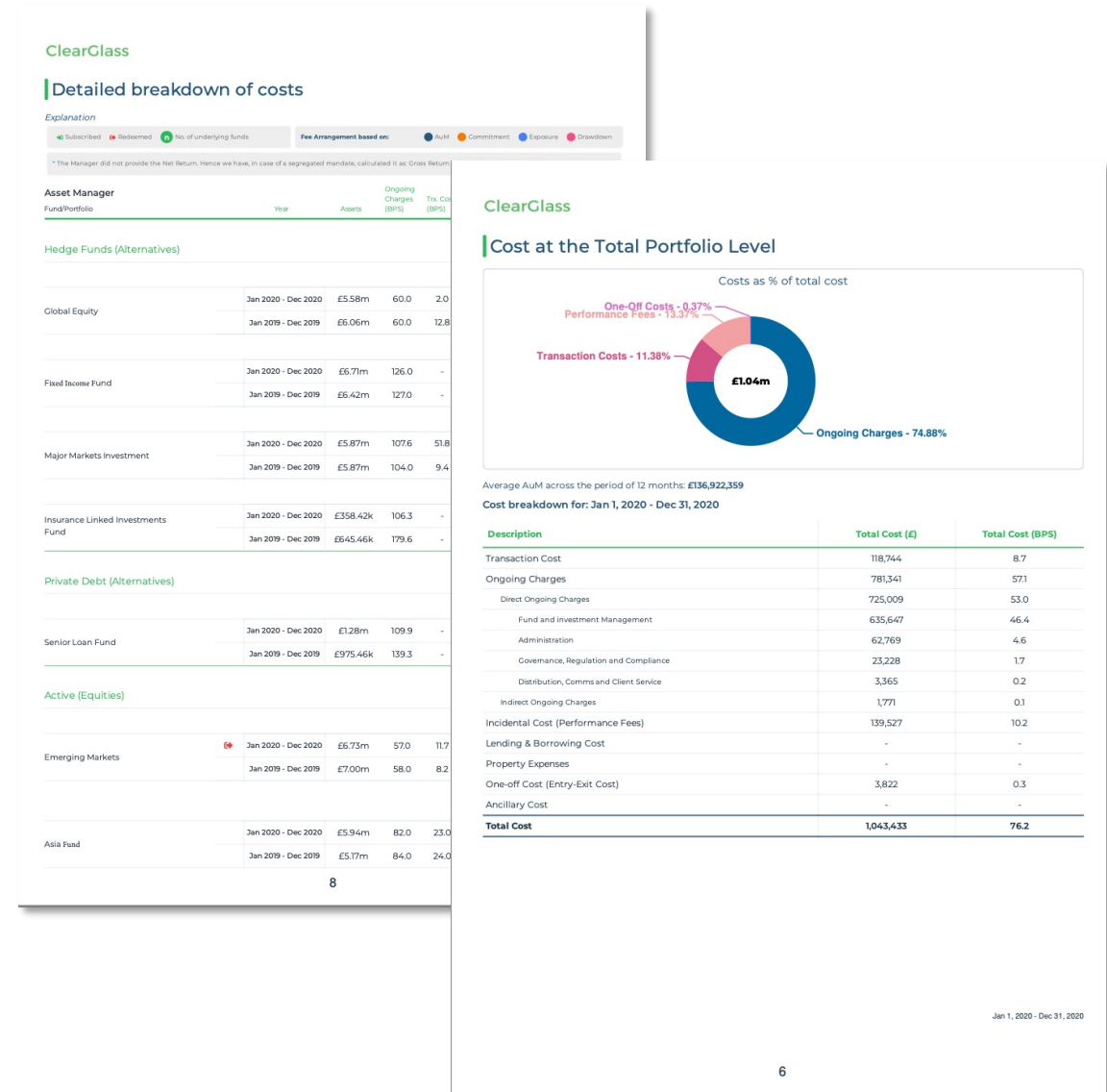
Case Study: £50bn+ Group Pension Fund

Cost Transparency Report Outcomes

- Significant differences between the ongoing charges (recognised costs) and other hidden costs;
- Data used to challenge managers about charges and to renegotiate fees with some.

E.g. one of the fund's real estate managers charged legal fees that were disproportionately high compared with the size of the transaction. Executives worked with the manager to bring those costs down. High legal costs on transactions are now reviewed in advance.

Overall, the fund's running costs — including operating costs and manager fees — have been reduced to 20 basis points from 50 basis.



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