



MiFID II ex-post costs and charges disclosure

Providing your clients with more information about costs and charges

Frequently asked questions



In 2018, our regulator introduced new rules that require investment management firms to provide more information about the costs and charges that apply to portfolios. This drive for greater transparency is actively supported by Rathbones as openness is both an important factor in building trust between firms and their clients and helps maintain an appropriate focus on costs.

We have made available an example statement that will tell you about the costs and charges borne by a client with regard to the management and administration of their investments and the impact they have had on their performance. Some of these costs and charges will be familiar to you as they have appeared on clients' previous portfolio reports. However, some of these you may see in detail for the first time, particularly where we use third party investments within a client portfolio. For example, if we invest in unit trusts on behalf of your client(s), these have an in-built charge that is received by the unit trust fund manager.

Committed to transparency and improved communication

We believe that providing greater transparency on costs is a positive step for your clients and the wealth management industry. It means that you can better understand all the costs that are associated with your clients' portfolios, the impact they have on investment performance and it allows you to have more meaningful conversations about value for money – we welcome this as we believe the approach taken by Rathbones delivers value for your clients who entrust us with their wealth over the long term.

Using third party investments

Depending on the client's investment strategy, we may use third party investments (for example a unit trust, investment trust or structured product) to provide additional diversification or to gain exposure to a specialist sector, as we aim to provide attractive returns for an appropriate level of risk.

Cost is an important consideration when we select third party investments and your investment manager will take this into account when choosing what is right for your client's portfolio. Also, Rathbones actively negotiates on third party fees and, as one of the UK's largest wealth managers, is able to use its buying power to access the most cost-efficient share classes wherever possible.

Ongoing fund charges represent the total amount payable to the third parties involved in the creation and ongoing servicing of these types of investment. The charges are deducted from within the investment itself and are already reflected in its price – for clarity, this amount is not paid to Rathbones.

Keeping your clients informed

We will provide this detailed breakdown of costs and charges to your clients on an annual basis. If you have any questions about this or any other aspect of your clients' portfolios, please contact your investment manager.

What is it?

1. What is an ex-post costs and charges disclosure?

Under MiFID II, investment firms such as Rathbone Investment Management are obliged to provide clients annually with information about the actual costs and charges incurred by their portfolio. The provision of this information is known as an 'ex-post costs and charges disclosure'.

2. What is the purpose of an ex-post costs and charges disclosure?

An ex-post costs and charges disclosure is all about providing transparency of costs and charges incurred by the client. The Regulator's intention is to show the client their portfolio performance both gross and net of all costs to enable the client to consider the value of the benefits received against the costs incurred. A higher costs and charges figure might well be justified by lower volatility and higher returns. The Regulator is not overtly saying higher fees are bad, however they are trying to ensure clients are informed, and is intentionally highlighting the drag that costs and charges have on value for money.

3. What is the difference between an ex-ante costs and charges report and an ex-post costs and charges report?

An ex-ante costs and charges report is a reasonable estimate of costs before they are incurred, whereas an ex-post costs and charges report discloses the actual costs after they have been incurred within a portfolio.

From the 3 January 2018, we have been obliged to send an ex-ante report ahead of opening a portfolio, to enable a client to be fully informed about the potential costs of committing to a portfolio with Rathbone Investment Management. This ex-ante report is based on a simulated model, which aims to show the potential indicative running costs of the portfolio based on assumptions about transaction volumes, asset choices and portfolio performance. Our ex-ante model does not include items such as possible entry/exit costs to funds or closure fees whereas such costs would be included in ex-post reports, if incurred.

The ex-post report aims to show what the actual costs have been for the period of having a portfolio with Rathbones, to allow the client to assess the costs incurred versus the benefits received. The ex-post report includes holding costs for existing investments that have been transferred to Rathbones as well as transaction and holding costs for investment decisions made by Rathbones. The costs of trading during the period are also included so if any holding transferred has been sold, the ongoing costs will be included for the time the client held the asset within their portfolio as well as disposal costs.

What does it look like and when is it happening?

4. How will the costs and charges be presented?

Each category of costs and charges will be presented on an aggregated basis only, rather than a detailed stock-by-stock basis. The aggregate figure will be expressed both as a cash amount and as a percentage. Furthermore, the disclosure must show the cumulative effect of the overall costs and charges on the return of the investment and be accompanied by a description of the illustration. The illustration must show any anticipated spikes or fluctuations in the costs.

5. When and how will the ex-post costs and charges be published to clients?

Information will be calculated by reference to the calendar year end, and the disclosure will be included within the year-end valuation packs in the relevant durable medium for that client e.g. paper, online.

Note: Costs and charges information will be provided at valuation pack level. As such where one person bears the Rathbones' management fees for another person and the accounts are included in different valuation packs, this will result in the valuation pack containing the paying account having a higher percentage cost than might be expected, and conversely the other valuation pack containing the original account having a lower percentage cost than might be expected.

6. What will the disclosure look like?

Disclosure is in the form of a statement of at least two pages and provides your client with more information on the actual costs and charges numbers. An example is available.

7. Will the client's adviser receive details of the ex-post costs and charges?

If the adviser already receives client valuations and/or has access to view the quarterly valuation reports online, the information will be available to them. Alternatively, an adviser can make a specific individual request via their usual investment management contact.

8. Will there be any flexibility in the data that's included (can we specify certain data to be included or how it is broken down)?

The data disclosure is in a standard format in order for Rathbones to comply with MiFID II requirements. Additional information on individual clients can be provided by an investment manager where more detailed explanation is required.

What about the numbers?

9. What costs and charges need to be disclosed?

Information needs to be provided about all costs and charges incurred by the client. This includes both Rathbones' explicit charges and all other costs and charges associated with the portfolio. Other costs and charges include Stamp Duty and entry/exit charges, as well as other ongoing costs for the time period that an investment is held.

10. What is an ongoing charge figure (OCF) and what's included within it?

The total ongoing costs incurred within a financial instrument are expressed as a percentage known as the ongoing charge figure (OCF). Where possible, Rathbone Investment Management has sourced OCF data electronically using a market data provider. The data supplied is received directly from the investment product manufacturers and complies with the MiFID II data standard reporting templates. The items included are:

- a. Product *annual management charge* (AMC).
 - b. Product ancillary costs such as *report and accounts* and *audit fees* and where relevant *borrowing costs*.
 - c. *Transaction costs* – these can include market costs such as *Stamp Duty* and *broker commission* but also *research costs* and *implicit costs* both of which can be significant. Implicit costs are the difference in prices between the time of decision making and the time of execution (also known as "*slippage*") and could be positive or negative.
 - d. *Performance fees* – we only include actual fees applied in the period and not historic averages.
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11. What is a product manufacturer?

MiFID II introduced two new regulatory terms – manufacturer and distributor. A manufacturer (e.g. Rathbone Unit Trust Management) is a firm which creates, develops, issues and/or designs investments, including when advising corporate issuers on the launch of new investments. A distributor (e.g. Rathbone Investment Management) is a firm which offers, recommends or sells investments or provides investment services to clients. A firm can be both a manufacturer and a distributor.

12. What about adviser charges?

Adviser charges paid out of a portfolio are considered to be a withdrawal from the portfolio and are not directly related to the management of the portfolio i.e. they are not included within the ex-post costs and charges disclosure.

What about the numbers? (continued)

13. Are there any other costs and charges that are excluded?

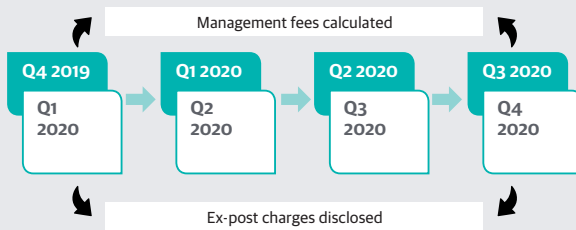
Yes. MiFID II is only concerned with the costs associated with the provision of the investment services. Although Rathbone Investment Management levies charges for banking services such as Clearing House Automated Payment System (CHAPS) fees and debit interest, these are not caught by MiFID II and are not included within the ex-post costs disclosure. Rathbones' foreign exchange costs are also excluded.

14. Is VAT included in the figures?

Yes. VAT is considered to be a cost borne by the client and is included. However the amount of VAT is shown separately.

15. How are investment management costs and charges determined?

Rathbones' investment management fees are being disclosed on a fees-paid basis. This means that for an existing client throughout 2020, the fees reflected will be Q4:2019 debited in January 2020 plus Q1:2020, Q2:2020 and Q3:2020. For Q4:2020, the fees will be debited in January 2021 and included in next year's report.



All Rathbone Investment Management transaction charges will be disclosed on an incurred basis and included within the account that the transaction was booked.

16. What data is used to compile underlying investment holding costs?

The figures are accumulated in the systems based on Rathbones' own accounting records and the information that is made available to us by the chosen data supplier (Inter Continental Exchange) that is gleaned from the manufacturer (i.e. the fund manager/ administrator) of each collective investment scheme. Where available, calculations are based on 'super OCF' values (i.e. including transaction charges) and are calculated daily against each client for each holding.

What about the numbers? (continued)

17. How accurate is the data?

The figures based on Rathbones' own accounting records are accurate, but the OCF and transaction costs for collectives are totally dependent on the quality of information made available to us by our data suppliers and where necessary where we have manually sourced the data from the product manufacturer's website. We are aware that the quality of this can vary and therefore there may be some anomalies that arise. It is the obligation of the investment product manufacturer to make public an accurate disclosure of their costs subject to their applicable regulation, and where necessary we will make reasonable endeavours to ensure the right MiFID II costs are disclosed.

18. What anomalies may arise?

We have identified a number of areas with respect to third party costs:

- a. Rathbone Investment Management is obliged to disclose the ex-post costs and charges of any investment products in line with PRIIPs (Packaged Retail and Insurance-based Investment Products) requirements. However, although UCITS schemes and EEA UCITS schemes are PRIIPs, the requirements in the PRIIPs Regulation do not apply to such schemes until at least (at time of writing) 31 December 2020. Due to differences in the applicable regulations, "UCITS KIID (Key Investor Information Document) costs" versus "MiFID II/PRIIP's KID (Key Information Document) costs", it is not easy, nor sometimes possible, to source the required MiFID II costs including transaction costs and borrowing costs as they are not reflected within UCITS KIID documents or factsheets. For those manufacturers who do not provide the information directly through data providers such as Inter Continental Exchange, it is possible that we are understating the costs.
- b. Non European Union providers have no obligation to comply with the MiFID II methodologies. As such data has been sourced on a best endeavours basis using published information.
- c. Only Real Estate Investment Trusts (REITs) classified as Alternative Investment Funds are captured by MiFID II and included for reporting purposes.
- d. In a very small number of cases we have been unable to source any data. In these scenarios we have had to use a proxy based upon a sector average of those funds who have reported to meet the reporting requirements. We will continue to review these in future.

For more information, please contact our intermediary services desk on 020 7399 0399, email ifaservices@rathbones.com or for more information, please visit rathbones.com/financial-advisers

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For further information (including the amounts covered and the eligibility to claim) please refer to the FSCS website fscs.org.uk or call 020 7892 7300 or 0800 678 1100.

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