

# Measure for measure

PENSION FUNDS HIT BY FALLING MARKET RETURNS ARE LOOKING FOR NEW WAYS TO LIMIT COSTS. TRANSACTION COST MEASUREMENT OFFERS RICH PROSPECTS AND CUSTODIANS ARE IDEALLY PLACED TO PROVIDE IT



In the current market slowdown, pension funds have much to worry about. As guardians of billions of pounds of company employees' money, retirement scheme trustees find themselves in the invidious position of having to explain to lay members why returns are looking worse than they have for over a decade. Couple this with high profile court

cases alleging malpractice or incompetence on the part of some fund managers and trustees feel under increasing pressure to do something which can reduce their costs and improve overall fund performance.

Help may be at hand. The review of the UK institutional pension sector by ex Gartmore Investment Management chief Paul Myners threw new light on areas such as broker commission and fund management trading fees trustees had once ignored.

A key recommendation stated: "Transaction costs are an important cost to pension funds. For trustees to fulfil their duty to act in the best interests of their beneficiaries, trustees must ensure their costs are properly managed."

US custodian Northern Trust was one of the first back office providers to respond to this message, encouraging calls for greater broker disclosure. It has since been joined by a raft of players interested in taking the idea further to assist clients in analysing their basic trading fees. One of these companies, HSBC, has recently developed a system, known as TCMS (Transaction Cost Measuring Service), which measures the transaction cost of fund manager trades through its Global Investor Services (GIS) division. It won its first customer for the service in January, when it was appointed by Wolverhampton City Council, administrator of

the £5bn West Midlands Pension Fund to provide its transaction cost measurement service to the scheme.

HSBC GIS head of product management Allen Harris has no doubt the monitoring of pension fund transaction costs can improve and believes the UK market holds strong potential for the TCMS product.

"There are a lot of pension funds out there which are simply not as close to the trading environment as fund managers. We are trying to ensure that we give back some of this knowledge and power to trustees," he says.

Other players are equally keen to seize the initiative in trading cost monitoring. UK measurement specialist Analytics recently teamed up with systems provider Euraplan to provide a new transaction costs analysis service, known as TVA. Analytics believes trading costs alone account for spending of over \$4bn a year by pension schemes and is keen to roll out its service to a range of retirement-based institutions. Euraplan chief executive officer Roger Forder (pictured) believes it is imperative for schemes to analyse the performance of every aspect of their service providers, including custodians and fund managers. While Euraplan products are well known to the market, TVA is the first step the company has made towards transaction cost monitoring support.

According to Forder: "More and more customers have been asking us lately if we can help with things like performance and compliance. This TVA service to analyse their transaction costs is our first response to this request."

What is clear is that transaction cost monitoring could become an important new value added service in the custodian product offering, allowing clients to genuinely analyse and challenge the transaction fees many of their fund managers once took for granted. This may not be good news for fund managers or brokers, but it could deliver a welcome new revenue stream for custodians committed to the pension scheme market. **ICFA**