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Transaction costs ripe for fund savings

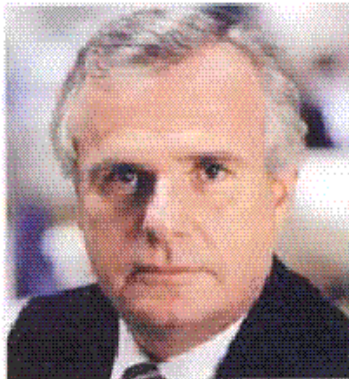
► Gill Wadsworth

Pension fund trustees are being urged to employ independent transaction cost consultants, not their fund managers, to manage the £4bn of annual fund transaction costs in line with the Myners review of institutional investment.

Britannic Asset Management (BAM) has stated that it would need to employ the services of an external transaction cost analyst if it wanted to offer detailed analysis of all transaction costs.

Scott MacMillan, segregated client manager at BAM, noted: "We can provide a breakdown of broker commission on a fund by fund basis. We cannot provide the same detailed analysis when it comes to market impact and opportunity costs, but this is something we would hope to achieve in the future through subscribing to a transaction costs analysis system."

The Glasgow-based fund manager pointed out that some of its clients already subscribed to these systems and the feedback had been positive. Consequently, BAM is investigating potential providers.



Myners: time to analyse transaction costs

The issue of transaction costs arose after the Myners review of institutional investment was published last March. This stated that trustees should manage costs in order to fulfil their duty to act in the best interests of members. The government subsequently devised 10 questions for trustees to ask their fund managers relating to commissions and fees.

However, despite the majority of fund managers responding positively to the 10 questions, they have been slow to develop comprehensive means of measuring costs.

As a result, pension fund trustees

are turning to transaction costs analysts, such as Inalytics.

Inalytics joined forces with pension fund monitor Euraplan earlier this month to help pension funds interpret and assess the responses given by fund managers to the government's 10 questions.

Rick Di Mascio, chief executive of Inalytics, commented: "Inalytics believes that the significance of these costs extends well beyond Myners. It estimates that a typical pension fund will incur transaction costs of 1% a year. This is equivalent in scale to most performance targets. The commercial imperative is self-evident."

Inalytics claims that the 1% transaction costs translate into an industry figure of approximately £4bn.

Euraplan currently has more than 100 clients using its software to monitor their fund managers' behaviour but, according to its chief executive Roger Forder, more funds are demanding transaction cost analysis.

"More and more customers have been asking us lately if we can help them with controlling things like performance and compliance."