Summary
- The well-received work of the CTI has improved cost transparency and highlighted some remaining issues that could yet be ironed out.
- Improving technology through automation could be an important step towards improving cost transparency, although some in the industry prefer the 'personal touch'.
- There is broad support from the asset management community for the changes implemented by the CTI, boding well for future cost disclosure developments.

Crystal clear

Duncan Ferris examines cost transparency, looking into the issues that remain for the pensions industry, what kind of changes can be effectively implemented and how likely further action is

The Cost Transparency Initiative (CTI) was established in 2018 to standardise asset managers' disclosure of costs and charges to institutional investors. The primary parties involved in its formulation were the Pensions and Lifetime Savings Association (PLSA), the Local Government Pension Scheme Advisory Board and the Investment Association (IA), which each continue to support the independent group today. So, does this mean that the issue of cost transparency has been consigned to the past, existing merely as a memory of a problem long-solved?

Hurdles

The CTI launched a set of standards and free-to-use templates in 2019, with the hope that these would be adopted across the industry to help trustees to scrutinise and challenge costs and performance of asset managers and other pension service suppliers. In June 2020, it launched additional tools to supplement these and stated that it had seen a good level of take up from a range of different schemes.

Summing up the impact of the CTI, Mercer senior investment consultant, Hemal Popat, says: "We are in a better place than we were two years ago. When we request information we get it and we get a more complete picture of overall costs than we used to get."

However, it appears that some issues do persist.

Local Government Pension Scheme Advisory Board secretary, Jeff Houston, comments: "Work still needs to be done around fund of funds and some aspects of private markets to ensure that templates can reflect costs at all levels. Managers still need assistance and guidance in understanding the templates so that they can be efficiently completed and asset owners need help to understand what the data is telling them and therefore what questions to ask."

Houston's comments are reflected by Caceis product specialist, UK pension funds, Scott Foster, who comments that the introduction of CTI templates "helped to shine a light" on previously overlooked areas.

He continues: "On the ground at Caceis we are seeing a high CTI submission rate of 75 per cent. However, we still have to directly query around 90 per cent of all data we receive. We would link this to teething issues associated with adopting the relatively new and extensive CTI data templates.

"Having said that, data submitters and data collectors are working together to iron these out, with a real focus on high data quality and added context on the data being key. At this stage, simply requesting a fully completed CTI template doesn't guarantee an accurate or complete data set."

CTI chair, Mel Duffield, says: "Schemes also need to know how best to use the costs and charges data they receive. Some of the feedback we are getting is that simple comparisons (or benchmarks) of typical costs for certain types of schemes might assist them in calculating whether or not they are getting overall value for money. We will be considering possible further guidance, or other assistance in this area."

National Grid UK Pension Scheme investment operations manager, Darren Sadek, agrees, stating: "It's always good to know full costs when running any business, but what do you actually do with the information when you have it? The costs have always been there, so care needs to be taken when presenting to trustees and suitable context must be provided."

He also notes that the National Grid scheme's "vanilla investment structure" with regulated UK-based fund managers has allowed it to use a specialist firm to provide "full cost details", while some schemes with a more varied portfolio "have issues sourcing timely data".

Looking at the issue from the other side of the fence, Investment Association (IA) senior adviser, Mark Sherwin, comments: "For us as asset managers providing the information, talking from the point of view of our membership, which is more the mainstream asset managers as opposed to the niche private equity and real estate worlds, there is a very high level of engagement with this process and a very high level of data being provided."

Looking at the involvement of pension schemes, Duffield acknowledges that, while "a high percentage are already making use of the CTI templates", not all schemes are yet using CTI as smaller schemes in particular "may not always have the same level of in-house resource or support from advisers". She adds: "Our intention is that CTI is ultimately adopted market-wide and that all schemes will have access to accurate, and easily comparable costs information."

The way forward

With this knowledge about the problems that remain when it comes to cost transparency, the next logical question is how to combat the problems from here.

Houston seems to indicate that advancement in technology might be the next step, stating: "Greater automation of data extraction and delivery rather than hand completion of templates would be a step change as would the ability to bulk deliver template data for multiple mandates."

Foster comments that "automatically creating and distributing CTI templates that are machine readable" promote a more streamlined process in the delivery and timeliness of accurate cost data, adding that CTI templates have already improved the process of data collection.

However, he continues: "Even though we believe technology can help, we still find that hands-on analysis from cost transparency specialists to validate the data we are receiving is invaluable to the integrity of the CTI reports that get shared with trustees and committees. This added confidence in the reports can be a real value add when making value judgements and investment decisions."

Sherwin states that the current system "does the job" but adds that it could be "slicker in terms of the sophistication of the data transfer". He continues: "At the moment it relies heavily on the Excel spreadsheet format, which contrasts with the retail funds world where there is equivalent cost data exchange that is very much systems driven, with machine readable files going out and being taken in by the distributors of retail funds."

Popat is of a similar mind, commenting: "It is not that the technology hasn't been invented. It's more that internal infrastructure needs to be upgraded by managers."

Duffield comments that recent CTI discussions with schemes and asset managers show that "the majority of managers have updated their systems and are well equipped to provide data in the CTI format when requested", but concedes that the process is one of "continual improvement".

She adds that the CTI is continuing to "identify possible new types of investment or services for which schemes may find additional costs data or guidance to be helpful" and explains that the organisation is "currently looking at developing further data fields or templates in relation to custody services, and also to help managers report the costs of underlying funds".

Popat states: "The progress to date has been really positive but as an industry we have still got some way to go, and that's everyone from pension funds themselves actively using this data, to transforming what we have at the moment, which is static information, into something that really drives actions and change in terms of what clients are doing."

Friction?

In order to gauge how likely further developments are, it is perhaps important to consider how willing asset managers have been to cooperate with the pensions industry on the subject of cost transparency.

Foster notes that the CTI "has the direct support of the IA", which has "helped promote the CTI templates throughout the UK asset management community".

He continues: "Overall, with the CTI's take up of 75 per cent within 18 months, we believe that it has been well received. Any friction between schemes and asset managers are largely related to the CTI adoption teething issues described earlier."

Houston echoes this sentiment as he points out: "The vast majority of asset managers have adopted transparency as a natural progression in client service. It is a challenge but one that managers are rising to. There are some issues with some managers but in the main these are technical/resource rather than policy.

"I think managers perhaps see cost transparency as a useful rehearsal for future requirements around stewardship and climate reporting."

Judging from the level of cooperation required in the formation of the CTI and the high level of adoption of transparency measures, it seems the industries can look forward to working together on further developments.

Regarding the CTI's backing of improvements in the standard of technology, Sherwin comments: "We've been through the first reporting cycles last year and we're now going into the second one. Once that has been completed there will be enough experience to focus in more on the detail. It's a little bit early at this point, but I think that is the next big step to take."

Written by Duncan Ferris