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Advisers seek out passive funds to cut costs: Castle Trust

Research shows almost half of advisers now advocate investments with low charges

By Daniel Liberto | Published Mar 27, 2013 | 0 comments

Financial advisers are increasingly recommending passive investments to clients because of the high charges associated with actively managed vehicles, research shows.

A survey of 266 advisers by Castle Trust, the housing investment and shared equity mortgage provider, revealed that 44 per cent of advisers now primarily focus on low charges when recommending investments to clients.

The study found that concerns of fund fees rank ahead of tax benefits and protection of capital as reasons to endorse products.

"In a low inflation and low interest rate environment, a return of inflation plus 3 per cent to 4 per cent amounts to 6 per cent to 7 per cent overall," said Robin Keyte, director of Keyte Chartered Financial Planners.

"Take off that active fund management TERs, and platform charges and IFA service fees and the overall cost is 2 per cent per annum or more. Would you give up a third of your on-going return in charges? I know I wouldn't and I don't ask my clients to either."

Mr Keyte, who said he aims to operate within ongoing charges of between 1 per cent and 1.25 per cent per annum, inclusive of fund TERs, platform charges and his firm's service fee, believes the RDR has had an impact on Castle Trust's findings.

"Perhaps it reflects an increase in financial literacy of the public associated with dealing with IFAs, which RDR has helped to bring about," he said.

"I hope these findings and subsequent market behaviour will bring about downward pressure on actively managed fund TERs. For instance how come Schroder UK Core can operate at TER 0.39 per cent per annum?"

Paul Gibson, a chartered financial planner at Carbon Financial Partners, also claims advisers are increasingly looking to index funds as more cost effective investments for clients.

"There is a great amount of evidence supporting the theory that most active fund managers fail to beat their benchmark over the longer term, and this is largely down to costs," he said.

"Being cost conscious can help ensure that the client retains more of any investment gains made or adopt a more cautious approach due to a lower net of cost investment return being required."

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