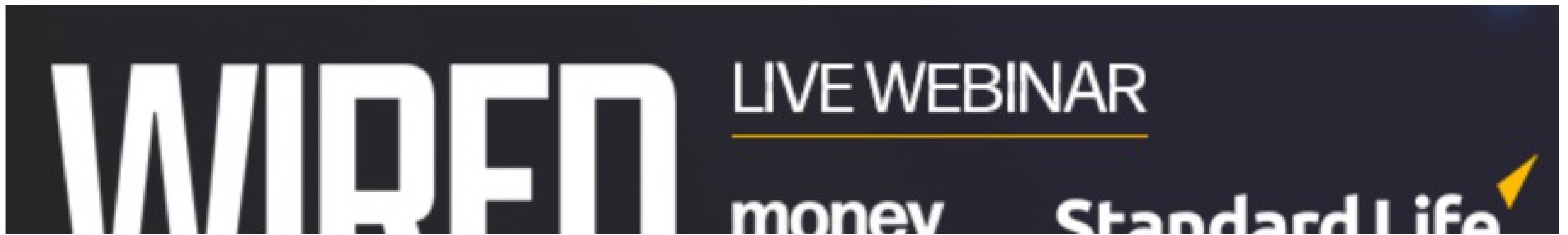

Ros Altmann: Misleading charges ruining UK investment company sector

Ros Altmann
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UK investment companies have historically been a world-beating success story, offering an excellent way for investors to back sustainable British growth.

But this once thriving sector, with over 350 companies quoted on London stock markets and assets exceeding £250bn, is in crisis.

Continuous selling pressure has created massive share price discounts to net asset value and new funding has dried up.

Several factors are responsible, including recession fears, geopolitical risks and surging interest rates that reduce the attraction of equities. But why have UK investment companies been hit especially hard, despite similar factors at play elsewhere in the world?

> “ **It is galling to see new EU-derived cost disclosure rules, not applied in the EU or any other country, undermine a once thriving UK financial sector**“

Well, a spectacular regulatory own goal has uniquely exaggerated the reported costs of owning UK investment companies, driving those seeking exposure to sustainable investments such as alternative energy, infrastructure and fast-growing tech companies into overseas funds instead.

Ironically, regulatory emphasis on helping investors make properly informed decisions about total charges they pay to own funds have left UK investment companies looking too expensive, with comparable non-UK and other similar listed individual companies looking much more attractive.

The problem stems from European Union (EU) measures to improve consumer protection for investors in alternative investment funds (AIFs) after the global financial crisis. The 2013 AIF Managers Directive (AIFMD) aimed to improve charges disclosure of notoriously high-cost alternative investments such as private equity and hedge funds.

> " **The flawed charges regime worsened last year with increased FCA emphasis on value for money**"

Unfortunately, UK financial regulators erroneously lumped our investment companies in that same basket, labelling them as AIFs, even though these quoted investment companies were already subject to strict London Stock Exchange reporting rules required by the listing authorities.

It is really galling to see new EU-derived cost disclosure rules, not applied in the EU or any other country, have undermined a once thriving UK financial sector.

Subsequent EU regulations for AIFs – including Priips and Mifid II – have resulted in UK investment companies having to report all so-called underlying charges, including management fees, administration and legal costs, as 'ongoing charges'.

> " **Retail investment platforms have even excluded such companies, mistakenly labelling them as high cost**"

No other country applies this approach to its listed investment companies, because those costs are just part of the market share price, not ongoing charges deducted from investor assets.

This flawed charges regime worsened last year with increased Financial Conduct Authority emphasis on value for money and Consumer Duty. Wealth managers, unit trusts or Oeics have been told to add charges of UK investment companies to their own fees, as if the investor pays all those costs, which is a nonsense.

Holding listed investment trusts helps improve diversification or capture specialist sector exposures but exaggerates reported charges, whereas holding ordinary shares (and, indeed, non-UK investment companies) adds no more to the reported ongoing charge.

> " **If it galvanises government and FCA into action, it might help restore a critical part of the UK's financial ecosystem"**

Institutional and pension investors have thus steered clear of or sold UK investment companies, rather than report misleading higher costs to clients. Retail investment platforms have even excluded such companies, mistakenly labelling them as high cost.

This all makes no sense. It mixes up open-ended and listed closed-ended funds. The latter do not deduct management and other fees from the investor's assets. Once listed, costs are just reflected in the market share price.

It has become increasingly clear these misleading charges are undermining the UK investment company sector, draining the economy of growth capital, driving investors to use overseas investment companies or UK funds which ignore the new rules and undermining specialist investment opportunities as well as confidence in UK financial markets.

> " **This once thriving sector, with over 350 companies quoted on London stock markets and assets exceeding £250bn, is in crisis"**

Working with Baroness Sharon Bowles and other industry experts, I am introducing a Private Members Bill in the Lords, to try to restore a level playing field for UK investment companies and stop this misleading charge disclosure.

This is not a quick fix but if it galvanises government and FCA into action, it might help restore a critical part of the UK's financial ecosystem.