AWFM Fact File

# "Sunset" & Share Class Conversion

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**Retail Distribution Review**
About five years ago the Financial Services Authority (FSA), now the Financial Conduct Authority (FCA), conducted a review known as the 'Retail Distribution Review' (RDR), which resulted in changes to the way Financial Services Firms must charge for their work, amongst other things banning the link between commission and product sales and design. The aim of the review was to improve service levels for clients of Adviser Firms and create a greater transparency surrounding the charges that are being levied by all Financial Firms. The key changes for Advisers and clients of Advisers were:

- Advisers set their own charges for their services, since they are longer able to receive commission set by Product Providers;
- Advisers should have charging structures based on the level of service they provide, rather than the particular provider or product they recommend;
- Advisers should disclose those charges to consumers up front, using some form of price list or tariff (confirming the specific amount to be paid later on);
- On-going charges should only be levied where an on-going service has been agreed with the client (except for charges for advice on regular contribution products); and
- Product Providers are banned from offering commission to advisers and also face other requirements if they offer to deduct adviser charges from their products.

These changes came into effect from 1st January 2013, although products that had already been in existence prior to this date were allowed to continue.

Our firm had adopted most of these practices long before they became a regulatory requirement although inevitably there have been some changes and adjustments necessary, even for us and our clients.

**So what's changing now?**
Up until this point, the changes in regulations have been aimed at making Advisers' charges more transparent, but **from 6th April 2016** platforms (such as FundsNetwork, Old Mutual Wealth, Aviva and James Hay etc.) will no longer be allowed to receive payments lumped in with a fund's Annual Management Charge (AMC) either. All business from this date will be subject to the same explicit charges, meaning that the AMC will now represent purely the charge made by the fund manager.

On top of the AMC, there will be an Adviser charge (if an investor has chosen to use an Adviser) and a new platform charge. The platform charge will vary from provider to provider and will probably be based on the value of the funds the individual has on the platform but at this stage we believe that the platform charge will be between 0.2% and 0.5% per annum. This is not an "extra" charge per se, it has simply been separated from the AMC so as to be clearer to the investor how much they are paying and what they are paying for. Finally, extra expenses, such as dealing costs, Stamp Duty, audit fees and servicing charges, which might usually be between 0.1% and 0.2% per annum, are included to give what's known as the Total Expense Ratio (TER). This figure broadly represents the total fees charged to the investor.

**Practically speaking, what does this mean?**
The net result of these changes is a process called 'share class conversion'. This involves moving from one 'bundled' fund with commission and other costs included in the AMC, to the 'unbundled' version of the same fund where just the fund managers' charges and costs are included. This new share class version is invested in exactly the same way, but has explicit charges for each of the Adviser fee,

Platform charge and Fund Management charge. Generally this means that a Fee Agreement must be in place with the Adviser, providing authority for the Provider to sell units from each fund on a regular basis to pay for the Adviser's fee and the Platform fee.

Many of our clients have already been moved into the new share classes, and we have done our best to stay ahead of the curve in this respect. This transition started in 2013 and will be finished by April 2016, at which point all affected products will have to be invested in new share classes, and the old share class versions of the funds will be shut down. This process has been called 'the Sunset Clause' by the industry which has traditionally survived on commission payments.

**Which products are affected?**
Any product which contains 'collective funds' is impacted by 'Sunset'. A collective fund is one which is itself invested in many other companies and different types of assets. This includes Open Ended Investment Companies (OEICs) and Unit Trusts in the main. It does not include Life Funds at this stage, which are usually held within older, non-platform based pensions and Investment Bonds.

**Be aware**
Folk who are not existing clients of this firm may have investments which historically have been organised by Advisers who have received a commission from the investment funds, without providing any sort of ongoing service. It is likely that these firms will aim to be in contact with investors to try to get them to sign up to an ongoing fee agreement. This may be a good opportunity for you to consider the service that has been provided to you and to assess what additional value the "Adviser" firm has provided to you over the years. If you haven't received a very good service you ought to consider switching to a more proactive Advisory firm. But do remember that if you do not engage any Adviser in any sort of service in the future, the appropriateness of any investments that you hold will no longer be reviewed for you. If you do not engage an Adviser, the risk of the investment being inappropriate for you may well increase and you will lose a level of regulatory protection.

*If you have any questions or need an independent review of your financial planning or pension arrangements, please contact us to discuss your situation further. AW Financial Management LLP is an Independent Financial Adviser Firm regulated by the Financial Conduct Authority.*

*Information given in this document should not be taken as advice as it is intended for guidance only. If you wish to have an assessment of your own situation, you should contact the office for advice.*





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