Purchase and Sale Costs and Charges Explained

For Adviser Use Only

Costs are inherent when assets are bought and sold. The Costs and Charges Reports are designed to provide further visibility of the underlying charges incurred.

There are two types of transaction cost shown in the Detailed Reports: implicit costs and explicit costs.

- Implicit costs - An implicit cost involves no direct payment. Instead, it reflects the difference between the price at which an asset is valued immediately before an order is placed (the arrival price) and the price at which it is actually traded (the execution price). This difference is shown as a cost.
- Explicit costs - An explicit cost is the amount paid to a fund to purchase/sell the investment. This may include charges like initial cost and/or dilution levy.

The Reports can include multiple transactions of different types over a Reporting Period, therefore, it can be complicated to show how charges are calculated and very difficult to reconcile them with actual reports. For example, because charges can be calculated using the price that was available to Transact the day after a trade, it can be difficult to detect the date of a price used and its impact on the figures presented in the Reports.

The charges, including Purchase and Sale costs, are reported under the following headings.

	Purchase Costs	Ongoing Charges	Fund Manager Rebates	Transactional Costs	Incidental Charges	Sale Costs	Total Costs
Current Investments							
Schroder Recovery Z (Acc) *GB00B3VVG600*	£130.63	£274.21	£0.00	£9.50	£0.00	N/A	£414.34

Below are some examples of the more common Purchase and Sale costs and how these charges are calculated.

1. Buying and Selling Prices

Offer Price:

The offer price is the price paid to purchase units in the fund.

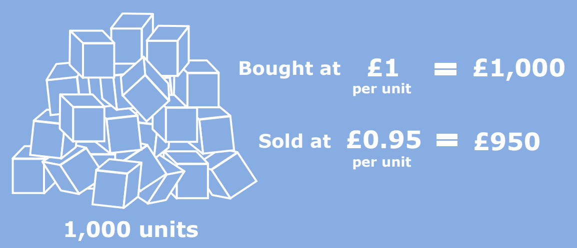
Bid Price:

The bid price is the amount received when selling units in a fund.

For example:

A unit trust may have a bid price of £0.95 and an offer price of £1.00.

- If you wanted to purchase 1,000 units you would pay £1,000.
- If you wanted to sell 1,000 units however you would only receive £950.



2. How Purchase and Sale Costs are Calculated (Implicit)

As specified by the regulator, we are required to provide an implicit cost per transaction. This is worked out as the difference between the arrival price and the price achieved at the time of execution.

Arrival Price

This is the mid-price, which is the mid-point between the **Bid** and **Offer** price, where there is a difference.

Execution Price

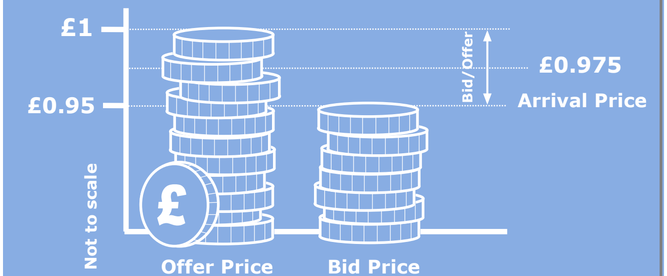
This is the price actually paid when buying or selling a security.

Purchase Cost = Execution Price - Arrival Price

Sale Cost = Arrival Price – Execution Price

Bid price = £0.95 : Offer price of £1.00 : Arrival price = £0.975

The cost, being the difference between the Execution Price and the Arrival Price, will be £0.025 per unit for both the purchase and the sale examples.



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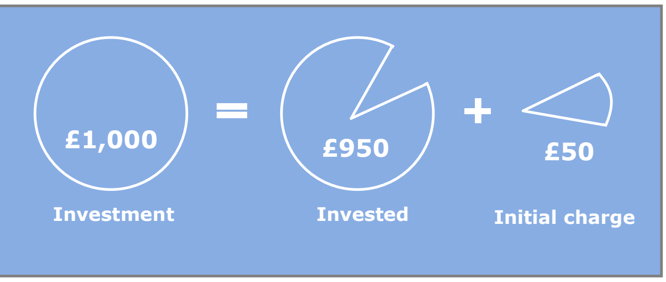
3. Initial Costs (Explicit)

This is deducted by the fund manager before money is invested and covers the cost of setting up an investment.

For example, based on an investment of £1,000, with an initial charge of 5%, £950 will be used to buy units in a fund.



4. Other Charges

Dilution Levy (Explicit)

A dilution levy is an explicit charge that fund managers can choose to apply to specific client deals if those deals would prove costly to the fund as a whole. It protects continuing investors from seeing the price of their shares fall due to costs caused by others.

If £1,000,000 is invested at a cost of £20,000 then £980,000 is invested. The £20,000 dilution levy would then be paid into the fund.

Without this the fund would absorb the cost and the value of units would be reduced.

Foreign Exchange (FX) Costs (Explicit)

Assets that trade and price in foreign currencies will have associated FX costs.

An example:

Purchase cost = $1.00. At the time of the transaction $1.00 is worth £0.86.

On paying the $1.00 (i.e. settlement) $1.00 is now worth £0.90. An effective cost of £0.04.

5. Important Notes

Quoted shares have a bid-offer spread, and you will still purchase shares at the higher offer price and sell at the lower bid price.

Due to market movement, the implicit costs can result in both a positive and negative charge. The arrival price can be higher or lower than the execution price.

Some asset managers will release a price with a slight delay or perhaps not at all which will affect the arrival price calculations.

OEICs have a single price and no mid price. For an OEIC priced at £1 with a 5% initial charge, the arrival price is £1.00 and the execution price is £0.95. As such the cost is £0.05 for each unit purchased.

Initial charges vary from fund to fund, and not all funds have an initial charge or dilution levy.

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