

Funds – Costs and charges disclosure

INTRODUCTION

This document seeks to summarise, in a readily understandable format, details of the cost and charges that may be incurred by investors as a result of holding an investment in one of Close Brothers Asset Management's ('CBAM') authorised funds.

BACKGROUND AND MARKET CONTEXT

Where investors use funds to invest in financial markets, there will be a number of different costs and charges, including entry and exit charges, ongoing charges (such as the investment managers' annual management charge and other fund running costs), transaction costs and one-off costs (such as performance fees). As not all funds will bear all these costs and charges and, given they will vary greatly between different funds, understanding the nature of the costs and charges that may impact on investment returns is an important part of the client's investment decision-making process.

Whilst regulatory enhancements to reporting requirements have sought to ensure that there is greater transparency and more detail provided to investors (with the aim of improving an investor's understanding of the nature of charges and costs), there is not yet total harmonisation across the different regulatory regimes that apply. The result is that there can be a confusing number of differing published sets of costs and charges disclosures for any one underlying fund.

This document seeks to build on the latest regulations on the disclosure of costs and charges (known as MiFID II) and the FCA's expectations arising from their various reviews of the subject. In preparing this summary document we have also sought to adopt the recommended best practice of our industry body, the Investment Association (the 'IA').

THE TYPES OF COST AND CHARGES THAT CAN APPLY TO INVESTMENT IN A UK AUTHORISED FUND STRUCTURE

There are three basic categories of costs and charges that may apply when investing in a UK authorised fund:

- a) One-off charges deducted before or after you invest;
- b) Charges deducted from a fund during the course of a year; and
- c) Charges deducted from a fund under specific conditions.

Details of the costs and charges that pertain to CBAM's range of funds are set out in more detail below and in the table in the Appendix on page 4. Please note that not all of the above categories of cost will apply to CBAM's funds (or to individual unit classes within those funds).

A) ONE-OFF CHARGES DEDUCTED BEFORE OR AFTER YOU INVEST

Entry charge

This is the amount that may be deducted before your money is invested and is intended to cover the costs of setting up your investment, and may include payments to your financial adviser or an intermediary through which you have invested. [For example, if you invest £100, an entry charge of 5% means that only £95 will be used to buy units in a fund.]

However, please note that CBAM's funds range includes mainstream 'clean fee' units (X class) where no entry charge is applicable, and it is these units that are offered to retail investors.

In some of CBAM’s funds unit classes may exist which do have an entry charge but these are either no longer available for new investment (A units) or are intended to be internal to CBAM (I units).

Exit charge

This is the amount that might be deducted before the proceeds of the disposal of your investment are paid out to you.

CBAM does not have any exit charges payable on any unit classes in any of its funds.

B) CHARGES DEDUCTED FROM A FUND DURING THE COURSE OF A YEAR

1) Ongoing costs and charges

This category covers all the key costs and charges incurred in operating a fund during the course of a year. For CBAM funds there are three main components that make up these numbers:

a) Fund Management Fee (‘FMF’)

Unlike many of our industry peers, CBAM charges its funds an ‘all-in’ Fund Management Fee (‘FMF’) that covers the vast majority of the operating costs of a fund, such as investment management and fund administration, as well as third party costs for outsourced services such as trustee and depositary costs, custody charges, transfer agency costs, fund accounting, audit costs and tax reporting.

Many of our peers charge funds an Annual Management Charge, with the third party costs listed above being levied directly against the fund. CBAM believes that the FMF basis of charging gives investors greater clarity and certainty over the costs and charges that will be borne by a fund, and therefore the potential impact on investor returns.

b) Synthetic costs

Where a CBAM fund invests in other funds (such as in our Managed or Tactical Select Passive fund ranges) we ‘look through’ to the underlying funds and collate and report details of all the equivalent ongoing costs and charges listed above. These look through costs are referred to as ‘synthetic costs’ (as they are not an actual direct cash cost to the CBAM fund).

c) Other expenses

In CBAM’s case there are only three elements of costs that sit in this category and which might be charged directly to one of our funds: Hedging Costs, Interest Costs and Securities Lending Fees. Currently, currency hedging is employed in a small number of CBAM’s ‘Portfolio’ funds, whilst interest costs on short term overdrafts may occasionally be incurred more generally across our fund range, although we do not use gearing for investment purposes. CBAM does not currently utilise securities lending in its funds. As can be seen from the table in the Appendix on page 4, the level of ‘other expenses’ in CBAM’s funds is minimal.

2) Portfolio transaction costs

Primarily, these charges relate to the cost of buying and selling the underlying investments held within a fund. Transaction costs vary depending on the types of investment in which a fund invests, and by country.

In the case of any underlying transactions in shares, these costs – which may include broker commissions, transfer taxes (i.e. stamp duty) and other related fees – are charged directly to the fund. These are often referred to as Explicit Transaction Costs.

In addition, there is often a ‘dealing spread’ between the buying and selling prices of any underlying investments (be they shares, bonds or money market instruments), and these costs can vary considerably. These charges are not an actual discrete cost paid by the fund but are a theoretical, ‘implied’ cost (or, more correctly, an ‘Implicit Transaction Cost’). The calculation of these costs is prescribed by regulation and based on the differential between the mid-market price of an asset immediately before a trade is placed in the market and the price that the deal is actually struck at.

Taken together, the (actual) Explicit Transaction Costs and the (theoretical) Implicit Transaction Costs detailed above are often referred to as ‘Slippage Costs’, and both are included in our reported Portfolio Transaction Costs as per the table in the Appendix on page 4.

There is also a further element – a Dilution Adjustment – which is taken into account when calculating an individual fund’s portfolio transaction cost disclosures, as a significant proportion of the above-mentioned costs are recovered directly from investors when they join and leave the fund. The purpose of this adjustment to the unit price of a fund is to protect existing investors from the costs of buying or selling underlying investments following either large purchases or sales of units in the fund itself by new investors or those exiting the fund. The amount of any such Dilution Adjustment is calculated by reference to the estimated costs of dealing in the underlying investments. CBAM’s funds employ what is referred to as ‘single swing pricing’ (our Fund Prospectuses contain more detail).

In addition to all of the above, there is one final element which forms part of the overall portfolio transaction costs disclosure calculation. Where a CBAM fund invests in other underlying funds we look through to the underlying funds and collate details of all the equivalent transaction costs listed above and add them in to derive a total portfolio transaction costs figure for each of our funds. These look through costs are referred to as ‘synthetic transaction costs’ (as they are not an actual direct cash cost to the CBAM fund).

While prescribed by the regulations, the portfolio transaction costs stated in any costs and charges disclosures are based on a rolling three year average, and may not be a particularly effective guide to their future impact. For CBAM’s funds the portfolio transaction costs form a relatively small proportion of a fund’s total costs and charges. Comparing portfolio transaction costs for different funds may give a false impression of the relative costs of investing in them.

C) CHARGES DEDUCTED FROM A FUND UNDER CERTAIN SPECIFIC CONDITIONS

These types of charge are referred to as ‘incidental costs’ as they may not occur on a regular basis and are variable in nature. The most typical costs that will fall in this category are performance-related fees which may be calculated as a percentage of the ‘out-performance’ of a particular fund as compared to a predetermined benchmark or target.

None of CBAM’s fund range contains any performance fee element.

Where a CBAM fund itself invests in other funds, it is possible that, on occasion, the underlying fund may have its own performance fee arrangements. In these circumstances, CBAM will collate details of any such costs and will include them in our total incidental costs disclosure. These look through costs are referred to as ‘synthetic incidental costs’ (as they are not an actual direct cash cost to the CBAM fund).

As prescribed by the regulations, incidental performance fee cost disclosures are based on the average of five years’ data, so may not be a particularly effective guide to their future impact on investor returns.

OVERVIEW

Whilst the detail of how cost and charges disclosures for CBAM’s Funds are derived and displayed is undoubtedly complicated, we have sought to explain what this all actually means for investors in terms of the effect of costs and charges on potential investor returns.

Further information on our findings can be found in the Assessment of Value Report on our funds range (published annually) and which can be found on the CBAM website closebrothersam.com/funds/assessment-of-value-report/

APPENDIX

ISIN	Fund name	Share class	One-Off Charges		Ongoing Costs and Charges			Total ongoing costs and charges (a+b+c)	Portfolio transaction costs d	Incidental costs (performance-related fees) e	Total costs and charges (excl. entry/exit costs) (a to e)	Total costs and charges (incl. entry/exit costs)
			Entry costs**	Exit costs	FMF a	Synthetic costs b	Other expenses c					
GB00BD6DSC14	Close Sustainable Select Fixed Income Fund	X ACC	0.00%	0.00%	0.48%	0.00%	0.02%	0.50%	0.05%	0.00%	0.55%	0.55%
GB00BD6R7Y87	Close Sustainable Select Fixed Income Fund	X INC	0.00%	0.00%	0.45%	0.00%	0.02%	0.47%	0.05%	0.00%	0.52%	0.52%
GB00B7W45Q93	Close Sustainable Select Fixed Income Fund*	I INC	10.00%	0.00%	0.13%	0.00%	0.02%	0.15%	0.05%	0.00%	0.20%	10.20%
GB00B4X21294	Close Diversified Income Portfolio Fund***	A ACC	5.00%	0.00%	1.32%	0.37%	0.00%	1.69%	0.04%	0.05%	1.78%	6.78%
GB00B589Q946	Close Diversified Income Portfolio Fund***	A INC	5.00%	0.00%	1.32%	0.37%	0.00%	1.69%	0.04%	0.05%	1.78%	6.78%
GB00B708TJ43	Close Diversified Income Portfolio Fund	X ACC	0.00%	0.00%	0.71%	0.37%	0.00%	1.08%	0.04%	0.05%	1.17%	1.17%
GB00B5N0YZ48	Close Diversified Income Portfolio Fund	X INC	0.00%	0.00%	0.72%	0.37%	0.00%	1.09%	0.04%	0.05%	1.18%	1.18%
GB00BKBDQR29	Close Diversified Income Portfolio Fund*	I INC	10.00%	0.00%	0.10%	0.37%	0.00%	0.47%	0.04%	0.05%	0.56%	10.56%
GB00B4RL6Q19	Close Conservative Portfolio Fund***	A ACC	5.00%	0.00%	1.57%	0.02%	0.01%	1.60%	0.03%	0.00%	1.63%	6.63%
GB00B5152B32	Close Conservative Portfolio Fund***	A INC	5.00%	0.00%	1.57%	0.02%	0.01%	1.60%	0.03%	0.00%	1.63%	6.63%
GB00B8B9ZS46	Close Conservative Portfolio Fund	X ACC	0.00%	0.00%	0.85%	0.02%	0.01%	0.88%	0.03%	0.00%	0.91%	0.91%
GB00B82P0081	Close Conservative Portfolio Fund	X INC	0.00%	0.00%	0.88%	0.02%	0.01%	0.91%	0.03%	0.00%	0.94%	0.94%
GB00B4YW1S49	Close Balanced Portfolio Fund***	A ACC	5.00%	0.00%	1.57%	0.01%	0.01%	1.59%	0.01%	0.00%	1.60%	6.60%
GB00B7KDKJ66	Close Balanced Portfolio Fund	X ACC	0.00%	0.00%	0.83%	0.01%	0.01%	0.85%	0.01%	0.00%	0.86%	0.86%
GB00B80ZCG06	Close Balanced Portfolio Fund*	I ACC	0.00%	0.00%	0.09%	0.01%	0.01%	0.11%	0.01%	0.00%	0.12%	0.12%
GB00BLPK3Z72	Close Sustainable Balanced Portfolio Fund	X ACC	0.00%	0.00%	0.83%	0.06%	0.00%	0.89%	0.12%	0.00%	1.01%	1.01%
GB00BLPK3X58	Close Sustainable Balanced Portfolio Fund*	I ACC	10.00%	0.00%	0.09%	0.06%	0.00%	0.15%	0.12%	0.00%	0.27%	10.27%
GB00B4XWGV38	Close Growth Portfolio Fund***	A ACC	5.00%	0.00%	1.58%	0.00%	0.02%	1.60%	0.00%	0.00%	1.60%	6.60%
GB00B7F1W221	Close Growth Portfolio Fund	X ACC	0.00%	0.00%	0.86%	0.00%	0.02%	0.88%	0.00%	0.00%	0.88%	0.88%
GB00B80PQP76	Close Managed Income Fund	X ACC	0.00%	0.00%	0.54%	0.65%	0.00%	1.19%	0.15%	0.00%	1.34%	1.34%
GB00B8HFR798	Close Managed Income Fund	X INC	0.00%	0.00%	0.55%	0.65%	0.00%	1.20%	0.15%	0.00%	1.35%	1.35%
GB00B45DZX99	Close Managed Conservative Fund	X ACC	0.00%	0.00%	0.53%	0.62%	0.00%	1.15%	0.17%	0.01%	1.33%	1.33%
GB00B7XQSH60	Close Managed Conservative Fund	X INC	0.00%	0.00%	0.53%	0.62%	0.00%	1.15%	0.17%	0.01%	1.33%	1.33%
GB00B8H6TT84	Close Managed Balanced Fund	X ACC	0.00%	0.00%	0.52%	0.59%	0.00%	1.11%	0.17%	0.01%	1.29%	1.29%
GB00B815Z375	Close Managed Growth Fund	X ACC	0.00%	0.00%	0.50%	0.59%	0.00%	1.09%	0.13%	0.01%	1.23%	1.23%
GB00B88TGW85	Close Tactical Select Passive Conservative Fund	X ACC	0.00%	0.00%	0.32%	0.16%	0.00%	0.48%	0.03%	0.00%	0.51%	0.51%
GB00B7FHXB62	Close Tactical Select Passive Conservative Fund	X INC	0.00%	0.00%	0.32%	0.16%	0.00%	0.48%	0.03%	0.00%	0.51%	0.51%
GB00B8HS8W08	Close Tactical Select Passive Balanced Fund	X ACC	0.00%	0.00%	0.34%	0.16%	0.00%	0.50%	0.03%	0.00%	0.53%	0.53%
GB00BKBDRR36	Close Tactical Select Passive Balanced Fund*	I ACC	10.00%	0.00%	0.10%	0.16%	0.00%	0.26%	0.03%	0.00%	0.29%	10.29%
GB00B7SG1Y98	Close Tactical Select Passive Growth Fund	X ACC	0.00%	0.00%	0.32%	0.18%	0.00%	0.50%	0.04%	0.00%	0.54%	0.54%
GB00BKBDRS43	Close Tactical Select Passive Growth Fund*	I ACC	10.00%	0.00%	0.10%	0.18%	0.00%	0.28%	0.04%	0.00%	0.32%	10.32%
GB00B7MTYH88	Close Strategic Alpha Fund	X ACC	0.00%	0.00%	0.68%	0.61%	0.00%	1.29%	0.11%	0.00%	1.40%	1.40%
GB00B87JKQ15	Close techMARK Fund	X ACC	0.00%	0.00%	0.67%	0.00%	0.00%	0.67%	0.20%	0.00%	0.87%	0.87%
GB0031747206	Winchester Fund	A INC	5.00%	0.00%	0.82%	0.42%	0.00%	1.24%	0.15%	0.04%	1.43%	6.43%

* CBAM internal share class only.

** These costs are waivable at the Manager's discretion.

*** These A unit classes are no longer available for new investment, but may still be acquired where a pre-existing long term investment plan is in place.

N.B Costs shown are on an Ex-ante basis.

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