How to Cut the Cost of Investing

Your complete guide to fund charges, fees and trading platforms

ISACO
LET'S GROW WEALTH TOGETHER.

Contents

Disclaimer

The information provided here is based on ISACO Ltd's research and it does not constitute financial advice. Any information should be considered in relation to specific circumstances. ISACO Ltd does not make personal recommendations for particular stocks or investment funds or any other security or any other investment of any kind.

If particular stocks or investment funds are mentioned, they are mentioned only for illustrative and educational purposes. ISACO Ltd offer non-advised sales. These refer to a situation where no personal recommendation is made and the client is left to decide how they wish to proceed.

Please note that we do not provide advice, and therefore, are not required to assess the suitability or appropriateness of investments that you choose. This means you do not benefit from the protection of the FCA's rules on assessing suitability. If you have received a recommendation from your adviser they will be responsible for the suitability of the recommendation.

YOU SHOULD SEEK ADVICE FROM A REGISTERED FINANCIAL PROFESSIONAL PRIOR TO IMPLEMENTING ANY INVESTMENT PROGRAM OR FINANCIAL PLAN.

ISACO Ltd and its employees are not agents, brokers, stockbrokers, broker dealers or registered financial advisors. ISACO Ltd does not guarantee any results or investment returns based on the information in this report. Past performance is no indication or guarantee of future results and the value of any investment you make can go down as well as up. ISACO Ltd does not accept any responsibility for loss occasioned to any person acting or refraining from acting as a result of information contained in this report.

This report presents information and opinions believed to be reliable, but the accuracy cannot be guaranteed. ISACO Ltd is not responsible for any errors or omissions. ISACO Ltd is authorised and regulated by the Financial Conduct Authority (FCA 525147). www.fca.org.uk

Important Information

The value of a fund and the income from it can go down as well as up so you may get back less than you invested. If your fund invests in overseas markets, changes in currency exchange rates may affect the value of your investment. If your fund invests in small and emerging markets, these can be more volatile than other, more developed, markets. Past performance is not a guide to future returns. Due to the greater possibility of default, an investment in corporate bonds is generally less secure than an investment in Government bonds. Default risk is based on the issuer's ability to make interest payments and to repay the loan at maturity. Default risk may therefore vary between different government issuers as well as between different corporate issuers.

Copyright

Published by ISACO Ltd.

Introduction

Stephen Sutherland.
ISACO's Chief Investment Strategist and author of *Liquid Millionaire.*

My name is Stephen Sutherland and my passion in life is investing. I was one of the fortunate ones to have instant success when I first got serious about the stock market. That success early on in my trading career made my love and curiosity for the market strengthen. It's now in my blood and I live, eat and breathe the market 24/7. Some would say I'm obsessed and maybe they are right.

Today, I'm going to show you how to cut the cost of investing by sharing with you my complete guide to fund charges and trading platforms. In this report we'll look at the pros and cons of fund supermarkets and discover how they can provide you with an excellent investment platform to buy and manage your funds at low cost.

We'll also look at the different types of 'fund supermarkets' – a trading platform – and I'll give you tips on what to look for when selecting a good one. We'll then explore the hot topic of the total cost of fund investing, which will include the costs involved with investing using a supermarket plus the underhand tactics employed by the investment industry. We'll also delve into the fees associated with investing in funds, including the two charges that I consider the most important to focus on.

Let's get started.

Stephen Sutherland
Chief Investment Strategist and bestselling author of *How to Make Money in ISAs and SIPPs.*

Please note, past performance should not be used as a guide to future performance, which is not guaranteed. Investing in funds should be considered a long-term investment. The value of the investment can go down as well as up and there is no guarantee that you will get back the amount you originally invested.

Trading platforms

Before we look at fees and charges and all the associated costs that are involved with investing in funds, we are going to start by looking at investment platforms. A trading platform is a method of buying, selling and holding investments at a considerable discount. As you will discover later, some platforms used to give the appearance of being free, but were in fact earning money from rebates paid to them from the fund companies. We'll look at platform fees in greater depth later when we talk about investment charges.

Two types of trading platform

There are two types of trading platform: the 'whole of market' platform and the 'fund supermarket'. Whole of market platforms are what many financial advisors use on behalf of their clients and have a greater choice of investments. They enable the investor to buy any fund traded in the UK, including institutional funds. Whole of market platforms are aimed at the professional investor and the independent financial adviser (IFA), and require rather more knowledge to operate.

Fund supermarkets; an easy way to invest in funds at low cost

Fund supermarkets are websites which provide an easy way of investing in collective investment funds. Funds are the investment you use in combination with ISAs, a SIPP or both. Fund supermarkets provide access to a variety of funds from different fund families and allow you to buy a variety of products from one central location i.e. the website. The primary benefit of a fund supermarket is simplicity: you can buy funds from different fund families and receive all your statements in a single report.

Fund supermarkets were pioneered in America and first introduced to the UK investor at the end of 1999. Among the first to appear were Fidelity's FundsNetwork in 2000, and this is the one I use. Since then, the choice of supermarkets has become much larger. Differences in fund supermarkets can be found in the number of funds they offer, services and functionality. Most of them offer no advice, although many provide research tools to help you decide which funds to invest in.

Benefit from substantial discounts

Many fund supermarkets do offer substantial discounts on the initial charge (or set up charge) of a fund. Initial charges for direct investment with the management group could be as high as 5.5%, whereas some fund supermarkets will reduce this cost to 0%. The majority of fund supermarkets offer direct funds such as unit trusts and OEICs, offshore or onshore investment bonds and saving accounts such as Individual Savings Accounts (ISAs). Very few include investment trusts in their range.

Fund supermarkets aimed at private investors

Fidelity FundsNetwork (www.fidelity.co.uk) is aimed at private investors and has a huge presence in the market. As I just mentioned, FundsNetwork is the supermarket I personally use. As part of the service we offer, our clients benefit from paying 0% initial charges on more than 1200 funds (a typical saving of 3–5.5%) and enjoy unlimited fund switching for 0% throughout the year. The reason I share this with you is to illustrate that by going through an adviser, you may get a better deal than going direct to the fund supermarket.

With Fidelity being the current market leader, their service being excellent and having personally invested with them since 1997, I can give them my firm stamp of approval. This however, is not to say that Fidelity is the best supermarket or the cheapest. You may find better offers at other supermarkets, so it's always worth your while searching the net before you make your ultimate decision about which one you plan to use.

The fund supermarkets aimed at individual investors include:

Fidelity FundsNetwork (www.fidelity.co.uk),

Cavendish Online, a fund supermarket powered by FundsNetwork (www.cavendishonline.co.uk),

Skandia (www2.skandia.co.uk),

Interactive Investor (www.iii.co.uk),

Hargreaves Lansdown (www.hl.co.uk)

and Alliance Trust Savings (www.alliancetrustsavings.co.uk).

Supermarkets for IFAs and wealth managers

Fidelity's FundsNetwork (www.fidelity.co.uk/adviserservices) and Cofunds (www.cofunds.co.uk) allow independent financial advisers (IFAs) and wealth managers to take their website and brand it as their own. This means that the adviser's customer can access the same facilities and take advantage of the funds and tools (such as an account management tool) offered through the supermarket. There are also 'whole of market' platforms that are specifically geared up for IFAs and wealth managers who wish to manage their clients' investments for them.

These include:

Ascentric (www.ascentric.co.uk),

Nucleus (www.nucleusfinancial.com),

Transact (www.transact-online.co.uk),

AXA Elevate (www.axawealth.co.uk/adviser/elevate-platform)

and Standard Life's Adviserzone (www.adviserzone.com/adviser/public/adviserzone/home).

Charges and fees

If you are keen to pay the lowest fees when searching for a suitable fund supermarket, one website that may prove useful is Rplan (www.rplan.co.uk), a fund platform with a focus on charges. The site aims to educate you on the various fees you are likely to pay on funds. It claims to be the only provider in the UK that shows you how much you will pay for your investments before you buy them.

Rplan has a cost comparison tool that enables its customers and potential customers to compare Rplan against other fund platforms and discount brokers on initial charges, ongoing charges, dealing charges and any other charges. The tool is available to all, free of charge, at www.rplan.co.uk/compare. It shows that, based on a basket of popular funds, some of the biggest name platforms in the UK are in fact the most expensive.

You can use Rplan's cost comparison tool to type in different investment amounts over various time periods. Remember however, that no two supermarkets are the same and sometimes that means unfair comparisons. Costs do matter but you should never underestimate other key factors, such as financial strength, choice of funds, ease of use, customer service, and whether the company is seen as a leader in its field.

Smoke and mirrors to mislead customers

2012 was the year in which fund charges became the all important issue facing the industry. Several industry campaigns were launched to point out the devastating effects of charges, notably the True and Fair Campaign (www.trueandfaircampaign.com) which argues that the investment industry has been using smoke and mirrors to mislead customers on charges for too long.

In a 32-page report, 'Promoting Trust and Transparency in the UK Investment Industry', SCM Private reported that only 19% of investors know what they pay in fund management fees[1]. The survey revealed that 89% of savers and investors would like fund managers to make known a full breakdown of fees, and 83% want to know where their money is being invested.

The issues of hidden fees, lack of clarity and confusing language have unfortunately affected the investment industry for the past decade. Sadly, this means that the odds are stacked against investors being able to make informed and competitive decisions regarding their investments.

[1] 22 Association of British Insurers and James Charles, The Times, January 2008.

Charges and fees can be a minefield

Charges have an impact on your returns, especially when you invest for the long-term. Just a small deviation in your return over a long period can make an enormous difference. That's why it's vitally important that you understand what you are being charged when investing in funds. Even though investment companies are being forced to be more transparent, in my opinion, enough is still not being done.

Passive funds that track a stock market index normally have relatively low charges but some have charges just as high as actively managed funds, which is daylight robbery. Plus, with trackers, because of charges and tracking error, you are guaranteed to underperform the index you are tracking. Actively managed funds tend to have higher fees and charges due to investment expertise and extensive research, and if you choose wisely and manage your portfolio effectively, you may outperform the market. Let's now look at a list of possible charges incurred when investing in a fund.

Initial charge: An initial charge can be 5.5% or more, especially if you buy direct from the fund management company. However, this initial charge can be dramatically reduced or completely removed by buying through a fund supermarket.

Annual Management Charge (AMC): All actively-managed funds carry an Annual Management Charge (AMC). This is a percentage that's deducted from your investment account every year. The charge is automatically reflected in the fund's price, so you may not even notice it.

Platform fee (sometimes called the service fee): This can be anything from 0.04% to 0.50% depending on what platform you decide to use. In the past this was an invisible fee hidden in the AMC and did not appear on your statements. However due to new rules, since 6 April 2014, this fee now appears as a separate charge on your statement.

Total expense ratio (TER): This is the charge I focus on most and I recommend you do too. The TER is a much better indication of a fund's cost than the AMC. It is a total of the AMC, service fees, registrar charges and fund expenses associated with the management of the fund. The TER has recently been replaced with the term 'ongoing charges'. You can find the TER of funds in the Key Investor Information Document (KIID).

Switching fee: If you switch money from one fund to another you will normally have a switching fee to pay and you may also have to pay the initial charge for the new fund that you switch into.

Portfolio transactional cost: In May 2012, the Investment Management Association (IMA) looked at the effect of transaction costs on the total costs of unit trusts. For the top 15 largest active UK funds, transaction costs (commissions and taxes) added 0.38% to the total cost of the fund. For a FTSE 100 tracker, the increase was only 0.09%. So, for a 'clean share' unit trust with an annual management charge of 0.75% and a TER of 0.95%, a truer cost is around 1.33%. Performance fees and exit charges on some funds would add on more cost. We'll explore 'clean share' class funds later.

Bid-offer spread: If you look in the financial press you'll see that there are two prices quoted for some funds; a price to buy, the offer price, and a price to sell, the bid price.

Exit fees: Some fund companies and some supermarkets charge exit fees when you sell.

Performance Fees: You sometimes have to pay performance fees on funds you purchase. Analysts at Lipper, calculate that there are now 91 funds[2] with performance fees, up from just 58 at the end of 2009. About two-thirds of these can charge performance fees if the fund loses money but outperforms a falling index.

[2] FT.com, July 10th 2011 – 'Backlash over fund performance fees'.

What is the total cost of owning a fund?

With all the possible charges to consider, how can we simplify this? FundsNetwork analysed the most widely held funds[3] and found that the average total cost of owning a typical actively-managed £10,000 investment was £16.67 per month or £200 a year. That means, if you purchase a typical actively managed fund, they believe you should expect the charges to total about 2% per year.

Here's Fidelity's breakdown of the total cost of owning an actively managed fund:

Annual Management Charge (AMC):	0.75%
Administration charges:	0.14%
Cost of advice:	0.50%
Platform charge:	0.25%
Dealing costs:	0.36%
Total annual charges:	2.0%

Fidelity also calculated that the typical total annual charges for a low cost active fund would be approximately 1.45% per year and for a tracker fund, 0.39% per year.

[3] This is MONEY.co.uk, January 31st 2012 "New fight against 'dishonest' fund fees pushes new way to make ISAs cheaper".

Charges made simple

Charges and fees can seriously eat into your returns. When you fail to achieve adequate growth, you run the risk of your wealth decreasing and if this happens during your retirement, it can have disastrous consequences. To help increase the probability that this doesn't happen to you, I'm now going to attempt to simplify charges. Throughout your investment career, you have to be aware of who is charging you and what the charge is for.

As you've heard previously, there are many different ways that you can be charged when investing in funds and so I suggest you always ask your adviser (if you have one) and your platform provider (or broker), what they are charging you. Clarify the amount being charged, what the charge is for, how it is charged and whether it will appear on your statement.

Some fees called 'explicit charges' will appear on your statements but others, 'implicit charges' won't. Make sure you get verification in writing. I also recommend that you look at the terms and conditions to do a cross check. My guess is that what you think you are getting charged and what you are actually getting charged are two entirely different amounts.

When you add up all the costs together and factor in inflation, my estimate is that you would probably need to make a return of approximately 6% per year just to break even! Shocked? Yes, I was too when I first discovered the real cost of investing. Discovering these truths reminded me why most investors need to set their aims higher. My belief is that if investors knew the actual costs associated with investing, the majority would increase their return targets. This is one of the reasons why we and our clients aim for a 10-12% annual return.

Charges before January 1st 2013

On January 1st 2013, new rules came into effect which have changed the way financial advisory companies operate. Known as the Retail Distribution Review (RDR), the objective is to raise professional standards in the industry, introduce greater clarity between the different types of service available and make the cost of advice very clear. The RDR is a key part of the Financial Conduct Authority's (FCA) consumer protection strategy.

The idea behind it is that you'll have more confidence and trust if you do decide to seek retirement and investment planning advice from a qualified adviser. Investors want to know if they are being charged fairly and prior to January 1st 2013, if you were investing in actively managed funds, a minimum of 1.5% was taken directly out of your investment account. This 1.5% is called the Annual Management Charge, or AMC for short.

Here's the breakdown of the 1.5% AMC and how it was distributed pre January 1st 2013:

- The product provider would take 0.75% (Schroder, Jupiter, Invesco etc)

- 0.25% would go to the platform provider (Fidelity, Hargreaves Lansdown, etc)

- 0.5% would be paid to the financial adviser

Since January 1st 2013, the 0.5% that typically went to the adviser has been banned. This was known as 'trail commission'. Before January 1st 2013, when you traded on a platform, if you didn't assign a person or company as your adviser, the platform provider would, by default, assign themselves as your adviser and this would mean that they could pocket the 0.5% trail. This practice still goes on with investors who own the old style 'bundled' funds.

The good news is that you can choose to buy the new 'clean share class' version of the same fund in most cases and it's also good to know that all bundled funds will be completely wiped out by April 2016, the deadline given by the FCA to platform providers. That means in some cases, if you own a bundled fund with an AMC of 1.5%, the platform provider and the product provider will be splitting the 1.5% down the middle.

Charges after January 1st 2013

Post RDR, the majority of fund companies are still charging 0.75% to invest in their actively managed fund range, even though it may appear at first glance that they have slashed their prices. New 'unbundled' share classes have been created to replace the old style bundled. With the bundled share class, if you peeled back the layers of the AMC, you'd see the 0.75% fund manager fee, the 0.25% platform fee and the 0.5% trail commission.

With the new unbundled versions, the 0.5% trail has been stripped out and in some cases so has the 0.25% platform fee. This is why you'll find the majority of these new share classes priced with an AMC of 0.75%. This new share class comes with fancy names such as commission-free, clean, unbundled and super clean. When you invest in these new types of share classes, the platform provider will charge you an explicit annual platform fee.

3 Categories of Charges

Let's start to break these charges down and keep things simple by putting them into three categories:

1) Fund charges

2) Platform charges

3) Advisory charges

1) Fund charges

Fund charges are also known as product charges. Fund companies charge one-off fees (e.g. the initial fee) and ongoing fees (e.g. the AMC). When you invest in a fund, the fund company will always charge you an ongoing annual fee. Whether the fund company is Schroder, Jupiter, Invesco, or any of the hundreds of other investment houses, they will all charge an annual fee. This fee is an implicit charge, meaning it's invisible and does not appear on your statement.

This charge is masked from your view and taken directly out of your investment account. A tiny amount will be removed from your account on an almost daily basis and it's impossible to see or know how much has been deducted. Because it's so small, you don't even notice that it's been taken. It is a strange fact and one heck of a coincidence that almost all the UK fund management companies charge exactly the same AMC for their actively managed fund range.

This is typically 0.75%. I remember seeing Alan Miller from SCM Private on CNBC touching on this point and mentioning that there was an almost 'cartel' feel about what's going on. Alan said that across the pond, the American fund companies have varying charges for their AMCs but in the UK all of them charge the same. That is interesting. The thing that really bothers me is that fund companies, platform companies and fund supermarkets have all failed to explain this invisible annual ongoing fee to people like you and me.

It appears that they've purposely locked this secret away from the private investor community and for countless years got away with it. I learned how this covert fee was taken during my research of platforms and fund companies. I found that on every occasion, the details about how this charge gets deducted is always in small print and usually buried deep in the companies' terms and conditions.

It's also in language that is unclear and vague. As well as being charged a 0.75% annual management charge, there are other ongoing fees to be aware of. For example, some funds with 'absolute return' in the title operate like a hedge fund, which means they use both long and short trading strategies, with the aim of making a positive return for the investor in both up and down markets.

This sounds good in theory but I am yet to be compelled to invest in one. Hedge funds charge a 20% performance fee and so do absolute return funds. Some funds without the term 'absolute return' in the title also charge a performance fee. You can quickly check whether a fund charges a performance fee by looking at the fund's Key Investor Information Document (KIID).

There are also other ongoing fees to be aware of, such as trustee fees, auditor fees, portfolio transactional costs, stamp duty reserve taxes and transfer taxes which, when bundled together, can bump up the annual ongoing charge by a further 1%. Fund companies also charge one-off fees, such as entry and exit fees.

Entry fees are also known as initial charges and often these can be as high as 7.5%. Always check the KIID to see what the entry and exit fees are because I've seen funds with really low TERs with a whopping 7.5% entry charge[4]. The good news is that some funds' initial fees can often be dramatically reduced – sometimes to zero – if you buy smartly through a fund supermarket.

[4] Standard Life Investments. uk.standardlifeinvestments.com/U_KIID_GB_UHQO_Inst_Acc_Acc_GBP_EN/getLatest.pdf

Fund exit fees can be as high as 5% but can mostly be avoided if you invest on the right platform. However, you have to be careful because some funds will charge you an exit fee if you invest in them for less than 90 days. An investor who uses a stop loss strategy when investing in funds could get clobbered with a hefty exit fee should they get stopped out within the 90-day penalty period. Make a mental note that when it comes to the fund costs and charges, it's always best to confirm what you are getting charged by checking the fund's KIID.

2) Platform charges

Since 6 April 2014 new rules enforced by the Financial Conduct Authority came into play that make the way that investors pay for platforms more transparent. Platforms, in both the advised and non-advised market, are not to be allowed to be funded by payments (commonly described as 'rebates') from product providers. Instead, a platform service must be paid for by a platform charge which is disclosed to and agreed by the investor.

Previously, providers of investment products, such as investment managers, generally paid a rebate to some platforms in order to have their products included on a platform. This rebate came from the Annual Management Charge (AMC) which was paid by the investor to the fund manager. As a result, some platforms were able to give the impression that they were offering a free service, which meant that the investor wasn't aware of the true cost of the service provided by the platform.

This tells you that prior to the recent changes enforced by the FCA to how platforms operate, it was difficult for investors to compare prices and products available on different platforms. There was also a risk that these payments could lead to product bias in the investment market, as products offered by providers who are unwilling or unable to pay a rebate to the platform from their product charges may not have their products available to the investors using that platform.

The FCA helped to force platforms to make some wonderful changes, ensuring that investors can now make fully informed choices. The reforms have helped investors to understand exactly what they are paying for. These changes include:

- making the cost of the platform service clear to investors by ensuring that the platform service is paid for by a platform charge, which is disclosed to and agreed by the investor

- banning cash rebates for non-advised platforms to prevent these payments being used to disguise the costs of the platform charge

These rules came into force on 6 April 2014 but platforms have two years to move existing customers to the new explicit charging model. At the end of the two year transitional period (6 April 2016) platforms will have to charge their customers a platform charge for both new and existing business.

3) Advisory charges

In the post RDR world, advisory charges have become explicit, which means you now have total transparency and you will know exactly what you are getting charged by your advisor. Advisers can charge initial fees, ongoing fees and specified fees. Initial fees can be charged at a fixed amount or at a percentage of your portfolio. Ongoing fees or 'fees for service' may be a fixed amount but are more likely to be a fee that represents a percentage of your portfolio value.

This could be anything from 0.1% to 3% per year. An ongoing service charge should reflect the level of service given and if a percentage is charged, it will normally be on a sliding scale. For example, an investor with a portfolio value of less than £50,000 could be charged 3% per year but an investor with over £1 million might be charged 0.5% or less. Specified fees are a fixed amount agreed between you and your adviser, normally for one-off tasks.

The 2 most important charges

When I speak to clients, I tell them that the two most important charges to me when investing are:

1) Ongoing Charges.

2) Platform Fee

1) Ongoing Charges

As I have pointed out on a few occasions, these charges can be found in the Key Investor Information Document (KIID).

CAZENOVE
CAPITAL MANAGEMENT

Key Investor Information

This document provides you with key investor information about this fund. It is not marketing material. The information is required by law to help you understand the nature and the risks of investing in this fund. You are advised to read it so you can make an informed decision about whether to invest.

Cazenove UK Smaller Companies Fund
A Class Accumulation
A sub-fund of Cazenove Investment Fund Company (CIFCO)
This fund is managed by Cazenove Investment Fund Management Limited (CIFM)

ISIN: GB0007219362
SEDOL: 0721936

Objectives and Investment Policy

- The fund seeks to achieve long term capital growth.
- The fund buys high quality UK listed smaller companies capable of producing above average growth in earnings and dividends over the medium to long term.
- The fund has a broadly spread portfolio that reduces the specific investment risks of smaller companies.
- You can buy and sell shares in the fund on demand on any day on which the London Stock Exchange is open for business.
- The fund's benchmark is the FTSE SmallCap (ex IT) Index.
- The fund selects its own investments.
- The fund may not be appropriate if you plan to withdraw your money within 5 years.
- The shares are accumulation shares. This means that any income received into the fund from its investments is retained within the fund on its distribution date rather than being paid out. This retained income is reflected in the share price. There are two distribution date(s) each year.

Risk and Reward Profile

Lower risk — Higher risk
Potentially lower reward — Potentially higher reward

1	2	3	4	5	6	7

The risk indicator for this fund is 6 because:

- The fund invests in small companies which may be risky and may be difficult to sell with the result that the fund's share price may fluctuate more markedly than a fund that invests in larger companies.
- Investment in shares and/or bonds is subject to normal market fluctuations. There is no assurance that your investment will increase in value. Your original investment is not guaranteed.
- The value of the fund may fluctuate significantly in response to the performance of individual companies, as well as in connection with market and economic conditions.
- The fund's risk profile is based on historical data and this may not be a reliable indicator of its future risk profile.

- The lowest risk category does not mean an investment is risk free.
- The risk category shown is not a target or a guarantee and may change over time.

Other relevant risks:

- Operational risk: The risk that there is a significant loss to the fund from human error, systems failure, inadequate controls or internal management mistakes.
- Settlement risk: The risk of loss if there is late or non payment for the assets sold by the fund.
- Liquidity risk: The risk that it is hard for the fund to buy or sell shares for its portfolio because of a reduction of buying and selling activity in stock markets.
- Valuation risk: The risk that an asset held by the fund is mispriced.

Further details on risk are set out in the Prospectus in the section Risk Factors.

THE KIDD is a two-page document which means you can quickly get to the information that's important. On page one you can check the risk profile of the fund. Because we aim high, the ones I purchase usually score 6 or 7 on a scale of 1 to 7. As you've just seen on the previous page, this one scores a 6. Next, we are going to look at page two of the KIID and its 'ongoing charges'. As you can see, this one comes with ongoing charges of 1.11% per year.

Charges

The charges you pay contribute to the costs of running the fund, including the cost of distributing it, reducing the potential growth of your investment.

One-off charges taken before or after you invest	
Entry charge	0.00%
Exit charge	0.00%
Charges taken from the fund over a year	
Ongoing charges	1.11%
Charges taken from the fund under certain specific conditions	
Performance fee	none

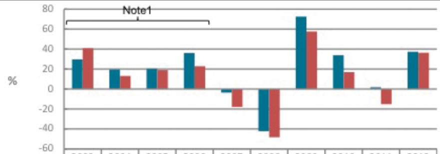
You can find out the actual entry and exit charge from your financial adviser or distributor.

The ongoing charge is taken from the fund's income rather than its investments.

The ongoing charge figure is based on last year's expenses, year-ending December 2012. This figure may vary from year to year. It excludes the cost of buying and selling investments held by the fund.

For more information on charges please see the Charges & Expenses section of the Prospectus.

Past Performance



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Fund	29.7	19.5	20.3	36.1	-3.6	-42.2	72.5	33.8	1.7	37.4
Benchmark	40.9	13.1	19.0	22.9	-17.9	-48.3	57.7	16.9	-15.2	36.3

Note1:The fund performance was achieved under circumstances that no longer apply.

Past performance is calculated in GBP.

Past performance is not indicative of future performance. It cannot provide a guarantee of returns that you will receive in the future.

The value of your investment and income from it may go down as well as up and you may not get back the amount you invested. All fees and charges are included in the performance calculation.

The fund was launched on 06 May 1999 and issued A Class Accumulation shares on 06 May 1999.

Practical Information

CIFCO is an umbrella structure comprising this and other sub-funds. The fund's current share price is calculated on each Business Day and is published daily on our website. The depositary of the fund is J.P. Morgan Trustee and Depositary Company Limited.

You may switch between this fund's share classes and other sub-funds of CIFCO as long as you meet the appropriate requirements.

The tax legislation of the fund's home Member State and of your country of residence may impact on the buying and selling of shares and any distributions paid by the fund. Taxation is subject to change. You should consult your professional adviser if you have any questions.

The assets and liabilities of each sub-fund are segregated by law therefore a sub-fund will not be liable for the debts of another sub-fund if the assets are insufficient to meet its liabilities.

CIFM may be held liable solely on the basis of any statement contained in this document that is misleading, inaccurate or inconsistent with the relevant parts of the Prospectus.

This Key Investor Information document (KIId) is specific to this share class. KIIds are available for other share classes within this fund. However, the Prospectus and annual and half-yearly Report and Accounts are prepared to cover all sub-funds of CIFCO.

Further information about the fund including other share classes, switching and dealing can be found in the Prospectus, available in English, and also in the latest annual and half-yearly Report and Accounts (English only) which are available free of charge by calling +44 (0)20 3479 0000 or can be downloaded from the Literature Library section of our website www.cazenovecapital.com.

This fund is authorised in the United Kingdom and regulated by the Financial Services Authority. Cazenove Investment Fund Management Limited is authorised in the United Kingdom and regulated by the Financial Services Authority. This key investor information is accurate as at 31/01/2013.

2) Platform Fee

Nearly all leading fund supermarkets and online stockbrokers have revealed their new charges for fund investors, which means we can really start to compare the costs of using their services. The following tables have been provided by Lang Cat, a fund supermarket consultant in Edinburgh, and compare the annual platform charges you pay using an ISA (individual savings account) or SIPP (self-invested personal pension), our two favourite tax shelters.

To calculate these numbers Lang Cat has assumed the investor is only investing in funds and that they make 10 transactions a year. These tables do not include the annual fund management charges (AMC) you also have to pay. There is so much variety and detail to come on fund charges that generalised comparisons are almost impossible.

The tables show how the platform charge changes the more money you invest: we've displayed £10,000, £50,000, £100,000 and £250,000 as a guide. We've shown the charge in pounds you'd actually pay and what percentage of the money that represents. Let's start with the ISA comparison first.

Annual fund supermarket charges on a stocks and shares ISA

ISA	£10k rate	You pay (£)	£50k rate	You pay (£)	£100k rate	You pay (£)	£250k-£500k rate	You pay (£)
Hargreaves Lansdown	0.45%	45	0.45%	225	0.45%	450	0.45%	1,125
Alliance Trust Savings	2.15%	215	0.43%	215	0.22%	215	0.09%	215
AJ Bell 'Youinvest'	0.70%	69.5	0.30%	149.5	0.25%	249.5	0.10%	249.5
Charles Stanley	0.25%	25	0.25%	125	0.25%	250	0.25%	625
Nutmeg	1%	100	0.75%	375	0.60%	600	0.50%	1,250
Interactive Investor	1%	100	0.20%	100	0.10%	100	0.04%	100
The Share Centre	1.58%	158	0.46%	229	0.23%	229	0.09%	229
AXA Self Investor	0.50%	50	0.50%	250	0.50%	500	0.50%	1,250
Fidelity Personal Investing	0.35%	35	0.35%	175	0.35%	350	0.20%	500
Barclays Stockbrokers	0.35%	35	0.35%	175	0.35%	350	0.35%	875
Cavendish Online	0.25%	25	0.25%	125	0.25%	250	0.25%	625
TD Direct	0.35%	35	0.35%	175	0.35%	350	0.35%	875
iWeb	0.50%	50	0.10%	50	0.05%	50	0.02%	50
rplan	0.35%	35	0.35%	175	0.35%	350	0.35%	875
Halifax Share Dealing	1.38%	137.5	0.28%	137.5	0.14%	137.5	0.06%	137.5
Bestinvest	0.40%	40	0.40%	200	0.40%	400	0.40%	1,000

Source: Lang Cat

The first thing to note is that is these are the charges you will actually pay yourself. As we've discussed, previously the platform charge was wrapped up in the Annual Management Charge of the funds you held, so the fee was automatically taken from your investments. Now these charges have been unbundled so you pay one annual fee to the fund supermarket and a 'clean', commission-free AMC to the fund management groups.

The SIPP table tells a similar tale.

Annual fund supermarket charges for SIPP investors

SIPP	£10k rate	You pay (£)	£50k rate	You pay (£)	£100k rate	You pay (£)	£250k-£500k rate	You pay (£)
Hargreaves Lansdown	0.45%	45	0.45%	225	0.45%	450	0.45%	1,125
Alliance Trust Savings	3.11%	311	0.62%	311	0.31%	311	0.12%	311
AJ Bell 'Youinvest'	0.90%	89.5	0.50%	249.5	0.35%	349.5	0.14%	349.5
Charles Stanley	1.45%	145	0.49%	245	0.37%	370	0.30%	745
Interactive Investor	2.44%	244	0.49%	244	0.24%	244	0.10%	244
The Share Centre	2.73%	273	0.69%	344	0.34%	344	0.14%	344
Fidelity Personal Investing	0.35%	35	0.35%	175	0.35%	350	0.20%	500
Barclays Stockbrokers	0.35%	35	0.35%	175	0.35%	350	0.35%	875
Cavendish Online	0.25%	25	0.25%	125	0.25%	250	0.25%	625
TD Direct	1.31%	131	0.70%	350	0.59%	590	0.45%	1,115
iWeb	1.25%	125	0.25%	125	0.20%	200	0.08%	200
Halifax Share Dealing	2%	200	0.40%	200	0.28%	275	0.11%	275
Bestinvest	0.30%	30	0.30%	150	0.30%	300	0.30%	750

Source: Lang Cat

Making low fees your highest priority is a mistake

As I've explained, the fund's 'Ongoing Charges' and the trading 'Platform Fee' levied are the two charges that I focus on but what is far more important to me is the future expected return of a fund. My feeling is, what's the point of buying a cheap fund if it underperforms the market by a wide margin?

Instead of focusing on the cheapest funds, my suggestion would be to seek out funds that have low ongoing charges but focus on the ones likely to help you 'beat' the market. When I search for funds to buy, I focus on the ones being managed by exceptional fund managers, especially ones that are right in the middle of the money flow. I like to make sure the fund manager has proven they can beat the market in the short and the long-term.

This philosophy of ours is far from perfect but we are proud of our track record of beating the FTSE 100[5]. Over the last 16 years, we've outperformed the Footsie by 60.2% and over the last 5 years, we've averaged 14.5% each year versus the FTSE 100's 8.8%.

[5] Long-term performance: December 31st 1997 – December 31st 2013 Stephen Sutherland 91.3%, FTSE 100 31.1%. 5 year performance: December 31st 2008 – December 31st 2013. ISACO investment performance verified by Independent Executives Ltd.

Final thoughts

Hopefully this report has helped give you more insight into how to cut the costs of investing. If you would like some one-to-one help and guidance, feel free to get in touch. Our clients kindly say that my brother Paul and I are incredibly friendly, caring and highly responsive to their questions and requests for help, support and guidance. What's more, if you call or get in touch, I promise that you won't be charged a penny.

Email me direct at Stephen@ISACO.co.uk.

My private line is 01457 831 642.

Your friend,

Stephen Sutherland
Chief Investment Strategist and bestselling author of *How to Make Money in ISAs and SIPPs*.