Incorporating performance fees within the charge cap
Comment from the Association of Consulting Actuaries (ACA)

ASSOCIATION OF CONSULTING ACTUARIES

PRESS RELEASE: IMMEDIATE

ACA warns that performance fees are not the only headache for DC investment in illiquid assets

19 April 2021 - In its response to the DWP consultation "Incorporating performance fees within the charge cap", the Association of Consulting Actuaries (ACA) welcomes greater clarity on performance fee calculations and "look through" mechanisms for fee disclosures, but highlights the devil in the detail. The ACA also sets out its views on the additional barriers faced by DC pension schemes to investing in less liquid asset classes.

Chair of the ACA DC Committee Tess Page comments:

"The fiendish complexity of performance fees and how costs are calculated and disclosed have been only one of the operational barriers associated with DC pension schemes incorporating less liquid assets in their investment strategies. But the list of barriers goes beyond just the maths of fee numbers. Other headaches include:

- *Platform requirements for daily pricing and liquidity*
- *The multiple parties involved in reporting of costs at total fund level (investment managers, custodians, platform providers, administrators)*
- *Risks associated with fund gating*
- *Member communications and education on the risks and opportunities associated with these investments."*

In the opening to the consultation, it is noted that 'Investment in emerging sectors like green infrastructure or innovative British companies fits well with the long-term horizons of DC schemes, and are vital to helping sustain employment, our communities and the environment.' The ACA does not disagree.

"There will always be demand for investments capable of offering attractive risk-adjusted long term returns net of costs and charges. However, these must be delivered through investment vehicles that are straightforward to implement and monitor, with fair and transparent charging structures. The consultation is one step on the road, and we look forward to the response to the remainder of the September 2020 consultation "Improving outcomes for members of defined contribution schemes" to allow consideration of all pieces of the puzzle in a holistic manner," added Tess Page.

Contacts for further information:

Tess Page, ACA DC Committee Chair at Tessa.page@mercer.com - 0 7557 031198
Steven Taylor, ACA Honorary Secretary at Steven.Taylor@lcp.uk.com – 07785 907425
Chintan Gandhi, ACA PR Committee Chair at chintan.gandhi@aon.com - 01372 733322
David Robertson, ACA Secretariat at david.robertson@aca.org.uk – 020 3102 6763

About the Association of Consulting Actuaries (ACA)

Members of the ACA provide advice to thousands of pension schemes, including most of the country's largest schemes. Members of the Association are all qualified actuaries and all actuarial advice given is subject to the Actuaries' Code. Advice given to clients is independent and impartial. ACA members include the scheme actuaries to schemes covering the majority of members of private sector defined benefit pension schemes. The ACA is the representative body for UK consulting actuaries, whilst the Institute and Faculty of Actuaries is the professional body.

Association of Consulting Actuaries Limited · First Floor · 40 Gracechurch Street · London · EC3V 0BT

Tel: +44 (0)20 3102 6761 · Email: acahelp@aca.org.uk · Web: www.aca.org.uk
Privacy Statement: https://aca.org.uk/privacy-accessibility-statement/