

Interview: Alan Miller on the Fund Industry

"The More You Pay for It, the Worse the Product Is"

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Alan Miller is Senior Partner and Fund Manager at [Spencer-Churchill Miller Private](#), a boutique wealth management organisation. Alan Miller was formerly the Chief Investment Officer and founding shareholder of New Star Asset Management - from early 2001 until his departure in early 2007. Recently he has made various critical comments about the often high fees and low performance of many mutual funds.

MyPrivateBanking: You have recently commented on the fund costs that are hidden to investors. Can you elaborate on these hidden costs?

Alan Miller: Under the IMA (the Investment Management Association) calculation methodology, costs included within a TER (total expense ratio) include fund management fees, administration costs, audit fees and legal costs. However, TER calculations only show part of the total picture as they ignore a host of additional costs such as dealing commissions, taxes, market-making spreads, interest on borrowing, entry/exit commission or any other fees paid directly by the investor. Our research has indicated that the average annual fee (excluding trading costs) faced by an investor in a UK equity retail fund can amount to up to 2.8% p.a. - as compared to a typical reported TER of 1.6% p.a. When one then adds on the extra dealing costs faced by fund managers, which we estimate averages 1% p.a., the "real" cost of investment is actually up to 3.8% p.a. rather than the reported TER figure of 1.6% p.a.

We think investors have the right to know how much they are really paying to invest and to better compare one fund or one fund manager against another. We believe therefore, that the industry should provide a new Total Cost of Investment Ratio for investors which shows ALL the costs faced by investors rather than a figure which is often less than 50% of the real figure.

MyPrivateBanking: What is your opinion on the widespread practise of paying kickbacks to banks or wealth managers when they sell funds to their clients?

Alan Miller: Fund management is different from almost any other product in that it would seem the more you pay for it, in terms of charges, the worse the product is, in terms of returns. A good example here is structured products, which if I was the

regulator I would ban outright. Many of these products are desperately complex and involve very high fees and costs which are then able to provide distributors very high commissions. The end investor in most cases would be much better off never investing in any of them and were the investor to seek downside protection they would be much better off buying traded options at the market price rather than the inflated structured product price.

We are determined to lower the total cost to our clients. If we pay large fees to a distributor, then one way or another the end investor has to pay for it. This is why we also have chosen to avoid overlaying our investors with excessive fund related costs by them holding the underlying investments directly and keeping all our costs to a minimum so that our clients can pay a lower rate.

MyPrivateBanking: What role should ETFs and other index products play in the portfolios of private investors?

Alan Miller: It is interesting to note that ETFs and other index products represent a much higher amount of institutional portfolios than private investors' portfolios. This may be in large part due to the commission based structure of the UK fund management industry in which ETFs cannot pay trail commissions to distributors and therefore the private investor is rarely sold or rarely invests in such products. Actually, one would expect the "core" of any persons portfolio should be based on ETFs and other index products as they charge inherently lower fees, are more liquid and over the medium to long-term will produce higher returns than the average active fund manager. We believe that many investors are attracted to our almost unique combination of active management in different asset classes utilising the low cost medium of ETFs.

MyPrivateBanking: What are your guidelines to investors when picking an actively managed fund?

Alan Miller: Apart from the length, consistency and level of return they have achieved in a similar product over a period, I would look at the fee structure within the fund, other costs e.g. dealing and entry/exit costs, the size of the fund (a large fund will inevitably be harder to manage and provide lower returns than a smaller fund) and the amount which the fund manager has personally invested in the fund he manages.

MyPrivateBanking: Thank you very much for this interview Alan.