

# Cost transparency really pays off say Dutch pension trustees

In recent years there has been increasing focus on providing insight into the cost of investing. Whether it concerns the prohibition on commissions, the interests of pension fund members or European legislation such as MiFID II, the idea is pretty much the same. Those who have insight into costs and processes are better able to make informed choices, whether it is a private or professional investor. Cost transparency and the resulting ability to benchmark costs are important tools... or are they?



Two experienced professionals from Stichting Pensioenfonds Achmea ('SPA') in the Netherlands, Gerard Warmerdam (Chairman - Committee on Balance Management) and Wiebe Hofstra (Manager - Investments and Control), were interviewed by KAS BANK in order to delve deeper into the question of whether an increased understanding of the scheme's costs has indeed added value for professional investors. Should they only focus on the return on investment? Listening to Warmerdam and Hofstra it becomes clear that the issue costs and cost transparency is very close to their hearts.

**Gerard Warmerdam (GW):** "Transparency is not an end in itself. It's about the quality of the implementation of the investment and cost control. For me, transparency of costs has a clear added value. Every euro that we spend less on costs means 3 euros extra pension for our members in the long run. However, you'll need to understand what those costs are and where they are made in the investment chain. Maybe there are 'responsible' costs where you can do little more, or may not want to. But there are also costs that can be influenced and you can start actively manage them. Therefore you should always ask questions of all your providers and not only your asset managers. "

#### **Make the first stroke**

**Wiebe Hofstra (WH):** "There are pension funds that are simply happy when a big transaction is handled in a controlled manner. They do not always undertake deeper enquiries in to the execution costs when they should. So that is why they leave opportunities on the table."

**GW:** "I get that. On the other hand, all the parties in the securities sector adopt a revenue model based on their position in the investment chain. But you do not have to take it for granted. Take the execution of financial transactions for example. For a pension fund the choice for conducting transactions is often only on a full service or execution only basis. The latter is, or seems, cheaper and the added value you get from full service is not always clear. You can only do this well by getting the full picture, in advance always request a quote and afterwards an evaluation and breakdown of the transaction costs involved. If you have a good picture of the costs it gives you

something to discuss with the executor or asset manager. The Dutch Pension Federation gives pension funds the necessary guidelines, but in my mind you can go a step further. Providing a default transaction cost of 0.10% on government bonds will not encourage further critical thinking about the true cost. Because with a 0.09% cost 'performance' your asset manager is quickly better than the standard, while it may perhaps be cheaper by many times. "

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#### **Stay alert**

**WH:** "You really get something out of cost transparency. The situation has been greatly enhanced by all the attention to the costs of

pension funds. A relevant question at this time is whether these statements show if you have properly managed your costs. Here, too, you can choose whether you ask simply what the regulators give as a starting point or see that as a minimum requirement. "

**GW:** "As a pension fund or insurer, you must go beyond the purely data-driven reports. Stay alert would be our advice! What is important is to get support here from an independent party. Custodians can see through the whole chain of the investment process. For example, I would welcome a timestamp on interest rate / currency swaps and then a comparison with the average market price. Then you can compare with your accounted transactions. Or take 1 in 10 transactions and fully analyze the processes behind them. In any event, you are keeping on top of it, asking questions always helps. In our experience these rates are not set in stone."

**WH:** "But questions must not become an end in itself. Trustees cannot and do not know or understand all the details of financial transactions.

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They must have the reports they receive to assess quality. And on this basis to get a good picture of the services provided. On this basis they have than on the countervailing power requested by Dutch regulator."

The response to the suggestion that costs do not matter as long as the performance is good was a firm - "Absolute nonsense."

**WH:** "Perhaps an asset manager with a performance of more than 10% is at first sight better than a manager with a performance of 6%. But what if the first does not understand their costs, while the second is as completely transparent as they can be? This may indicate that he has his processes completely in order. In the long run it works in his favor and in favor of the investor."

**WH:** "As a fiduciary manager manages enough countervailing power they can provide that transaction costs go down already. Then they can make arrangements for all of their customers rather than for a specific pension fund. My impression is that this is common practice for management fees more than for transaction costs."

#### **In Conclusion**

**WH:** "Cost transparency is simply a must have. You cannot do without if you want to primarily manage your costs. Apart from having insight into rising and falling share prices, control of your costs will always have a beneficial effect on your returns."

**GW:** "As a pension fund, you have a responsibility. It is all about the future earnings of your members. It is important to give the natural curiosity of professionals a boost by being as transparent as possible in how you communicate about the fund; this includes clarity about costs. Cost transparency as a good thing, you might even say a much needed thing." ■■

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