



A PlainTalk™ guide to costs and charges

Helping investors understand what they are paying, and why

At Vanguard, we've always believed that fund providers should be transparent about the costs associated with their funds. The reason is simple: because every pound that investors pay in charges is a pound out of their potential returns.

In fact, research has shown that cost is one of the best predictor of future relative performance. And experience tells us that increased transparency on costs tends to drive prices down across the industry.

Recent regulatory developments have started to move the industry towards our way of thinking, with the enforcement of greater transparency to describing costs.

This is great news for investors because the less they pay, the more they keep and the greater their chances of investing success.

In this guide, we explain the key regulations affecting disclosure on costs.

It's important to note that we won't be making any additional charges as a result of the new regulations. However, you will see some changes in the way we describe those charges.

The key regulations affecting disclosure on costs

- 1 **MiFID II** requires many financial advisers and other distributors to disclose a Total Cost of Investing to clients pre and post-sale. This includes fund costs as well as any charges associated with the service they provide, such as advice fees or platform fees.
- 2 **Packaged Retail and Insurance-based Investment Products (PRIIPs)** regulation requires insurance companies to provide greater disclosure of costs on their investment-related products. Fund providers who run the underlying funds used within the insurance product need to provide this data to their insurance company clients.

More information on MiFID II

MiFID II is a European Union regulation aimed at protecting investors by increasing the transparency of financial markets.

One requirement of MiFID II is that distributors need to disclose the Total Cost of Investing before and after selling a fund to a client. This figure includes the following elements in respect of the costs of the funds:

- **One-off costs:** All costs and charges paid to fund providers at the beginning or at the end of the investment in the fund. This could include a front-loaded management fee, structuring fee or distribution fee. Vanguard does not currently have one-off costs.
- **Ongoing costs:** All ongoing costs and charges related to the management of the fund and that are deducted from the value of the fund. This includes management fees, service costs, securities lending costs, custody, etc.
- **Transaction costs:** All costs and charges incurred as a result of the acquisition and disposal of underlying investments within the fund. This includes broker commissions, entry and exit charges, spreads, stamp duty, transactions tax, and foreign exchange costs.
- **Incidental costs:** Performance fees and anything similar. Vanguard does not currently have incidental costs.

In addition to the pre-sale disclosures, distributors also have a post-sale disclosure requirement to provide investors at least annually a summary of the costs that have been incurred, stated in pounds or euros.

Vanguard use the standard templates developed by the European Funds Industry. Data will be provided to distributors using the European MiFID Template (EMT) and to PRIIPs clients using the European PRIIPs Template (EPT). As these are standard industry templates we do not offer bespoke versions on a client by client basis. The templates are disseminated to data vendors and posted on our website.

Investors who have not bought our funds through a distributor are not directly in scope. To treat all investors fairly, we are making information available on the Vanguard website to provide all investors with fund level costs and charges information.

Transaction costs – key things you need to know

1 Apples and pears

The regulations have some flexibility on the methodology that fund providers can use when calculating transaction costs.

This is likely to mean that different providers will use different calculations, making comparisons between providers difficult.

We will engage positively with regulators to help establish a consistent methodology over time.

2 A natural part of fund management

Buying and selling securities is a vital part of managing a fund. Whether a fund is managed actively or passively, the manager will incur transaction costs to help the fund meet its objectives.

3 Performance matters

Investors should consider transaction costs in conjunction with the fund's post-fees performance relative to its objectives. This will help them to understand whether the transaction costs have been worthwhile.

4 No new costs

It is important to note that Vanguard won't be making any additional charges as a result of the new regulations.

More information on PRIIPs

PRIIPs is the result of a greater regulatory focus on the insurance sector from the EU in the wake of the financial crisis.

The regulation requires insurance companies who sell investment-based products to publish additional costs and charges figures:

- One-off costs
- Ongoing costs (including transaction costs)
- Incidental costs.

The insurance company also has to show a total figure for the product's cost to the investor. This includes all of the costs related to the underlying funds as well as any costs for the insurance product.

Does Brexit change anything?

Although both MiFID II and PRIIPs originate from the EU, the UK's Financial Conduct Authority is also committed to improving investor outcomes by increasing transparency. So it's likely that the same, or very similar, legislation will be enshrined in UK law even after we leave the EU.

Need to know more?

We want to make investing as fair and straightforward as possible.

At Vanguard we believe in being transparent with investors. That means clearly describing everything we do, from fund objectives to the charges you pay. We welcome the focus MiFID II & PRIIPs brings on costs and charges – particularly transaction costs.

If you need more information about how we calculate our charges, please contact us.

Important information

For professional investors only (as defined under the MiFID II Directive) investing for their own account (including management companies (fund of funds) and professional clients investing on behalf of their discretionary clients). Not to be distributed to the public.

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