



IPFOS

Cost in a world of negative yields

17<sup>th</sup> July 2020

Jan Peters

# Cost in a World of Negative Yields

The prevalence of negative yields has increased.

Country	1-Year	2-Year	3-Year	4-Year	5-Year	6-Year	7-Year	8-Year	9-Year	10-Year	15-Year	20-Year	30-Year	Lowest Credit Rating
Switzerland	-0.80	-0.72	-0.71	-0.66	-0.64	-0.62	-0.58	-0.54	-0.51	-0.47	-0.33	-0.26	-0.31	AAA
Germany	-0.55	-0.69	-0.71	-0.71	-0.70	-0.68	-0.60	-0.59	-0.52	-0.45	-0.25	-0.19	0.01	AAA
Denmark	-0.51	-0.57		-0.58	-0.53			-0.42		-0.33		-0.05	0.15	AAA
Netherlands	-0.55	-0.60	-0.65	-0.64	-0.63	-0.54	-0.48	-0.43	-0.37	-0.30	-0.23	-0.04	0.02	AAA
Finland	-0.59	-0.58	-0.63	-0.61	-0.61	-0.53	-0.48	-0.39	-0.34	-0.26	-0.02		0.19	AA+
Austria	-0.57	-0.61	-0.59	-0.56	-0.52	-0.45	-0.41	-0.35	-0.28	-0.22	-0.02	0.06	0.28	AA+
Belgium	-0.53	-0.59	-0.62	-0.58	-0.51	-0.40	-0.33	-0.28	-0.20	-0.13	0.10	0.31	0.61	AA-
France	-0.53	-0.62	-0.62	-0.58	-0.52	-0.41	-0.37	-0.27	-0.19	-0.11	0.08	0.28	0.62	AA
Sweden		-0.36			-0.32	-0.25		-0.16		-0.06	0.14	0.37		AAA
Ireland	-0.57	-0.55	-0.53	-0.46	-0.41	-0.32	-0.23	-0.18		0.00	0.24	0.32	0.65	A+
Japan	-0.20	-0.15	-0.14	-0.12	-0.11	-0.11	-0.10	-0.08	-0.03	0.02	0.24	0.40	0.59	A
United Kingdom	0.00	-0.09	-0.08	-0.08	-0.06	-0.06	0.01	0.05	0.12	0.17	0.40	0.56	0.64	AA-
Spain	-0.47	-0.42	-0.30	-0.25	-0.14	-0.03	0.15	0.20	0.31	0.46	0.78	0.82	1.26	A-
Norway	0.07		0.17	0.21	0.30	0.37	0.44	0.50	0.57	0.61				AAA
United States	0.15	0.15	0.17		0.29		0.49			0.66		1.17	1.41	AA+
Singapore	0.22	0.27			0.52					0.89	1.22	1.25	1.27	AAA
Italy	-0.18	0.07	0.25	0.32	0.59	0.74	0.91	1.09	1.17	1.26	1.68	1.95	2.22	BBB-
Poland	-0.01	0.11	0.34	0.40	0.70	0.93	1.13	1.23	1.30	1.37				A-
South Korea	0.57	0.79			1.16					1.42	1.51		1.60	AA-
China	2.09	2.22	2.35		2.54	2.77			2.91	2.84			3.61	A+
Malaysia	1.97		2.26		2.46		2.67			2.85	3.32	3.61	4.02	A-
Mexico	4.66	4.62	4.66		4.83	4.88		5.18		5.82		6.70	6.98	BBB-
Brazil	2.69	3.58	4.63	5.11	5.48		6.30	6.71		6.95				BB-
Indonesia	4.82	5.35	6.04	6.43	6.50		6.92	7.13	7.19	7.18	7.60	7.62	7.67	BBB
South Africa			5.01				7.68			9.24	10.80	11.19	11.25	BB-

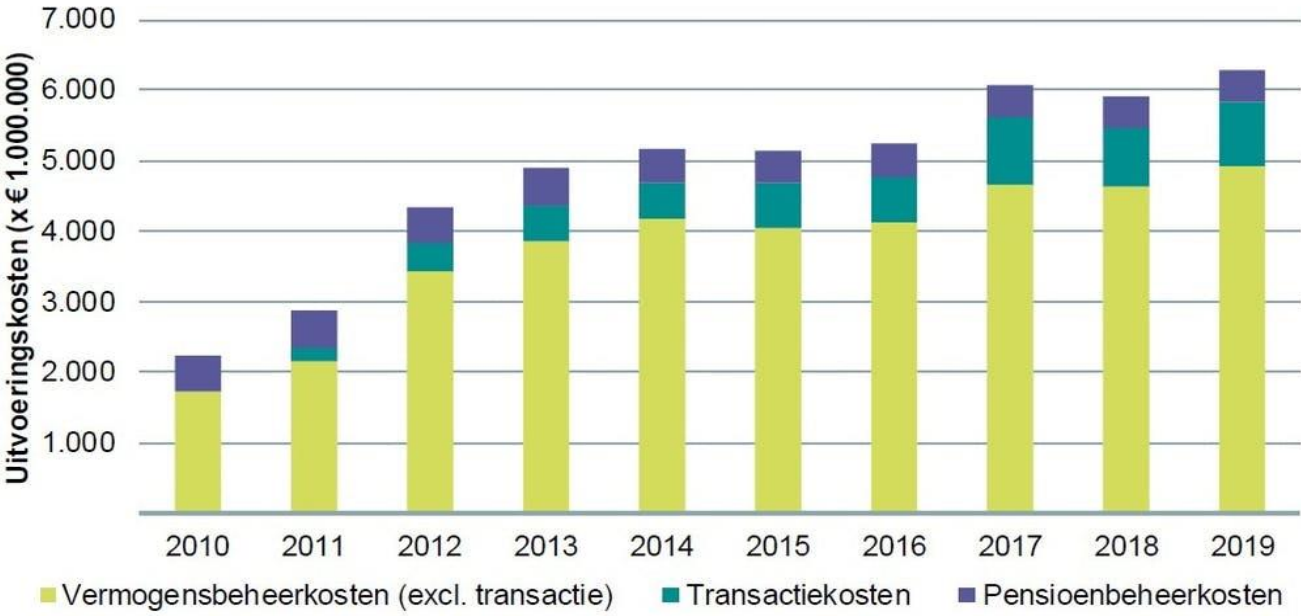
Source: Bloomberg. As of 30 Jun 20

Total Negative Yielding Global Aggregate Debt: 13.38



# Cost for the Ten Largest Pension Funds in The Netherlands

### Uitvoeringskosten tien grote pensioenfondsen sinds 2010



Bron: LCP

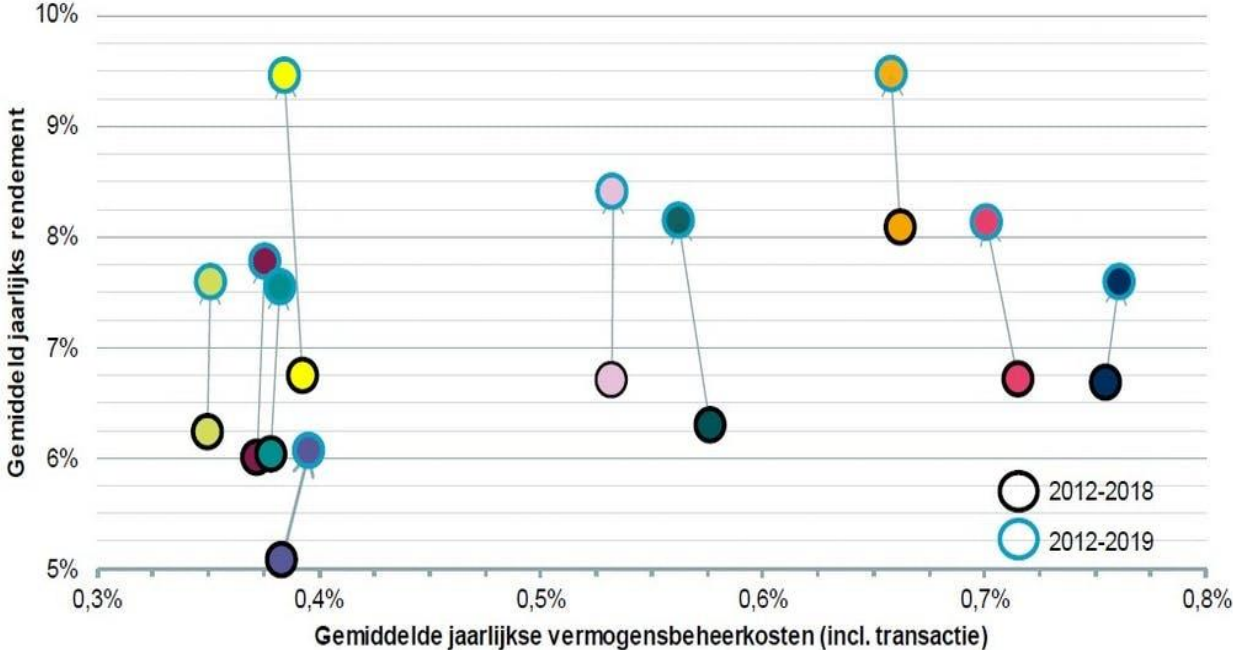
Asset management fees (excluding transaction) Transaction Cost, Pension management cost.

Source: LCP. As of 31 Dec 19



# Cost vs Return of the Ten Largest Pension Funds

### Kosten van tien grote fondsen afgezet tegen rendement



Source: LCP

# Cost of Asset Management

## Explicit costs and implicit costs

### Explicit cost include:

Explicit fund charges by asset class in 2015 (ex. Index funds)								
Charges (% of AUM)	Equity	Fixed Income	Allocation	Alternative	Money Market	Property	Convertibles	Miscellaneous
AMC	1.164	0.652	1.100	0.456	0.123	0.628	1.045	0.589
Admin	0.026	0.035	0.076	0.004	0.005	0.006	0.057	0.000
Custody	0.014	0.012	0.005	0.009	0.009	0.002	0.011	0.015
Broker	0.162	0.002	0.019	0.075	0.000	0.281	0.004	0.000
Other	0.154	0.100	0.082	0.232	0.023	0.372	0.098	0.084
<b>Total Charge</b>	<b>1.520</b>	<b>0.802</b>	<b>1.282</b>	<b>0.776</b>	<b>0.160</b>	<b>1.289</b>	<b>1.216</b>	<b>0.689</b>
# of Funds	265	112	113	27	14	10	2	1
<b>Total AUM (MM)</b>	<b>£ 176,100.00</b>	<b>£ 60,340.00</b>	<b>£ 52,590.00</b>	<b>£ 53,210.00</b>	<b>£ 24,010.00</b>	<b>£ 18,500.00</b>	<b>£ 3,931.00</b>	<b>£ 869.90</b>

Source: FCA. As of 31 Dec 15

## Implicit Cost:

Transaction costs are the costs and charges incurred as a result of buying, selling, lending or borrowing investments. Transaction costs include both explicit or implicit costs, and may be represented as an estimate or actual costs. Implicit costs are not directly billed to the client, but are recognised by market participants and are real costs for example, the bid offer spread.

# Transaction Costs

---

## Trading Cost

### MiFID II

MiFID II costs and charges disclosure rules require that firms provide give clients with information on all estimated costs and associated charges in good time before they provide the relevant service to the client. Such disclosures are referred to as 'ex-ante' (before the event) disclosures.

Firms are also required to provide clients with regular ex-post (after the event) cost and charges information related to the actual cost and charges incurred over the period, at least once annually.

### PRIIPS Packaged Retail and Insurance-based Investment Products

- standardised methodology

# Transaction Costs

---

## Calculation methodologies of Trading Cost

- Difference between execution price and mid price
- PRIIPS: adding the slippage



# Explicit Cost and Implicit Cost

---

## Trading Cost

- Trading cost is hard to avoid
- The turnover in indices is significant
- Turnover over the past year ending June in the BB Barclays Global Aggregate index and the BB Barclays Global Aggregate Credit index was ~ 35%

# Fee Structures

---

Ad Valorem fees

Performance related fees

Alternative fee structures

## Ad Valorem fees

- Percentage of AUM
- Simple
- Transparent

## Performance Fees

- Alignment of interest
- Requires more administration
- Will change over time

# Fee Structures

---

## Alternative Fee Structures

### Symmetric fee structures

The manager will have a higher participation of the excess return than in 'regular' performance fees but will also participate when there's negative excess return

---

## Conclusion

© Western Asset Management Company, LLC 2020. This publication is the property of Western Asset and is intended for the sole use of its clients, consultants, and other intended recipients. It should not be forwarded to any other person. Contents herein should be treated as confidential and proprietary information. This material may not be reproduced or used in any form or medium without express written permission.

Past results are not indicative of future investment results. This publication is for informational purposes only and reflects the current opinions of Western Asset. Information contained herein is believed to be accurate, but cannot be guaranteed. Opinions represented are not intended as an offer or solicitation with respect to the purchase or sale of any security and are subject to change without notice. Statements in this material should not be considered investment advice. Employees and/or clients of Western Asset may have a position in the securities mentioned. This publication has been prepared without taking into account your objectives, financial situation or needs. Before acting on this information, you should consider its appropriateness having regard to your objectives, financial situation or needs. It is your responsibility to be aware of and observe the applicable laws and regulations of your country of residence.

Western Asset Management Company Distribuidora de Títulos e Valores Mobiliários Limitada is authorised and regulated by Comissão de Valores Mobiliários and Banco Central do Brasil. Western Asset Management Company Pty Ltd ABN 41 117 767 923 is the holder of the Australian Financial Services Licence 303160. Western Asset Management Company Pte. Ltd. Co. Reg. No. 200007692R is a holder of a Capital Markets Services Licence for fund management and regulated by the Monetary Authority of Singapore. Western Asset Management Company Ltd is a registered Financial Instruments Business Operator and regulated by the Financial Services Agency of Japan. Western Asset Management Company Limited is authorised and regulated by the Financial Conduct Authority ("FCA"). This communication is intended for distribution to Professional Clients only if deemed to be a financial promotion in the UK and EEA countries as defined by the FCA or MiFID II rules.