

# PERCEPTIONS OF THE **CTI** FRAMEWORK



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# FOREWORD

The Cost Transparency Initiative (CTI) has been developed by the pensions industry, for the industry. Its objective is to provide a standardised way of identifying and reporting investment costs and charges information to asset owners, DB or DC, to help facilitate greater understanding and to enable appropriate comparisons to be made. By doing this, the CTI framework is also intended to make the costs reporting process easier and clearer for asset managers. The CTI framework remains a voluntary, and free, resource for the pensions industry to use.

CTI has come a long way since its genesis in the work of the Institutional Disclosure Working Group (IDWG), and in previous industry initiatives to improve transparency. Since the launch of the original CTI framework, in May 2019, the CTI Board has continued to develop and publish additional templates, tools and guidance, to meet industry needs. These have included new templates for specific types of investments, such as Liability Driven Investments (LDI), and for services including fiduciary management. The CTI Board is confident that this will lead to greater success of the framework, in terms of usage and implementation across the market. The CTI framework is a 'living' project and is operated on the principle of continuous improvement.

We are very grateful to the participants – in both the survey and the in-depth interviews which were conducted by way of follow-up – for their time and the care with which they tackled the various issues raised. Their feedback and insights are invaluable.

Where comments we received have been individual, personal, or potentially identify specific organisations, we have taken care to preserve anonymity and respect confidentiality. The data we have collected is presented at aggregate level where possible.

We are also grateful to the team at the PLSA, and the partner organisations the Investment Association (IA) and the Local Government Pension Scheme Advisory Board (SAB), as well as to the various members of the CTI Board who have provided time and assistance.

As well as gauging uptake, the feedback we have received as part of this research exercise will inform further development and improvements and we have set out below our intended next steps and responses to the issues raised.

**Mel Duffield**, CTI Board Chair

# EXECUTIVE SUMMARY AND CONCLUSIONS

The CTI is a partnership initiative between the PLSA, IA and SAB and is an industry standard designed to allow investment managers and asset owners to collect and compare costs and charges in a standardised and transparent form. Templates provided include the main account template, the private markets sub-template, the fiduciary management template and the user summary.

The CTI Board has committed to review uptake on a periodic basis. In May 2020 a PLSA survey found that 74% of respondent schemes and consultants had a good level of awareness of CTI and the majority had already requested costs information using the CTI templates.

Since then, knowledge of the CTI Framework has continued to increase to 80% by November 2020, with more respondents now saying they know 'a great deal' (33%) than they did in May 2020 (20%).

Usage has also increased with more than three-quarters now saying they have used the CTI framework to a great extent, or some extent (79%) compared to just over half in May 2020 (56%). Only 5% say they have not used the framework at all, down from 20% in May 2020.

The quantitative and qualitative research carried out by the PLSA on behalf on the CTI Board between October 2020 and January 2021 indicates that schemes, intermediaries and asset managers are transitioning towards a more consistent way of reporting, and understanding, costs and charges.

Some schemes are further along than others, with those who are not using intermediaries, especially the smaller schemes, still in the "data collection stage". Many, including intermediaries, are still in the "data quality assurance stage" where they are reviewing and trying to understand the data received.

Few as yet are in the "action stage", where they have used the cost data they have collected as a component of assessing value for money, switch managers or change their investment portfolio. The larger schemes who have collected data previously, as well as those who rely on intermediaries, are more likely to be moving into the "action stage." Several schemes we spoke to said they expect to begin to act on the data they have received in further reporting cycles during the course of 2021.

Key findings from both our quantitative and qualitative work include the following:

## AWARENESS AND USAGE

- The research has shown that significant progress has been made over the last couple of years, with
  - Most fund managers in the UK now understanding the need for making cost transparency commitments
  - Awareness and usage of the CTI framework increasing significantly among schemes
- Yet some feel either further awareness of the CTI is needed, or that the CTI should be made a regulatory requirement in order to improve uptake even further among asset managers. Smaller schemes, and those collecting the data themselves, were particularly of this view.

## PERCEPTIONS OF THE CTI FRAMEWORK

- Overall, the CTI framework is seen as a significant step forward, particularly in terms of improving the provision and consistency of data.
- The template format is especially praised, as it has made it easier to provide and receive data in a consistent format.
- To date, most have only used the Main Account Template, although most intend to consider using the other templates in the future.
- However, there are some areas where it is not felt to work as well and these include:
  - Specific funds such as credit funds, alternatives and illiquids, pooled funds and LDI
  - Where schemes change funds mid-way through the year
  - Where there is seen to be duplication with regulatory reporting e.g. MIFID reports, especially among asset managers
- The main criticism of the templates is the lack of prescriptiveness around how to complete some of the data fields which has led to a concern about the quality and lack of consistency of data.

## MANAGERS AND INTERMEDIARIES

- There are mixed views of managers, with some being more cooperative than others. Some private equity managers prefer to use the ILPA template rather than the CTI template.
- Nonetheless, most intermediaries and asset owners feel that managers have improved in the last year, with more aligning their data provision with the CTI templates than in previous years.
- The main complaints from both intermediaries and asset owners relate to data accuracy and timing of data being produced.
- Some asset managers believe that some of the requests (by clients or intermediaries) are unreasonable or are a duplication of regulatory reports already provided.
- There are also mixed views of intermediaries, with some asset owners finding intermediaries informative and cost effective, given the time it takes to collect the data. However, some feel they have taken too long to collect the data, while others feel they have not carried out sufficient quality checks.

## DATA ISSUES

- Data issues fall into two key areas: data quality and comparability of data:
  - Firstly, in terms of data quality, the key issues among both schemes and intermediaries include gaps in data where no data has been provided, or the “other” field being used too widely for a wide range of costs, rather than the provision of the granularity that schemes want and require.
  - Secondly, there are concerns about how some costs are being calculated. Both asset managers and intermediaries appear to be calculating these in different ways. This makes it difficult for schemes to make comparisons and leads to many questions and queries.

## INFORMATION USED IN PRACTICE

- Given that many schemes are still trying to collect data and understand the data they have received, few schemes have shared all of the information with their investment committees or trustee boards.
- As a result, not many have used the information to challenge managers or review their investment performance or portfolio.



- Nonetheless, the data has started to provide schemes with a greater understanding of the costs of running the scheme and provide greater ability to review their different asset managers.

## KEY SUGGESTIONS TO BUILD ON THE CTI'S SUCCESS INCLUDE:

- Raising the profile of the CTI/encouraging uptake/making it mandatory.
- Greater guidance and prescription in the templates (about how to complete specific fields).
- Increased guidance and support on the website.

## CONCLUSIONS AND NEXT STEPS

The purpose of this research was to gather perceptions of how CTI is working in practice, as well as to gauge usage of by asset owners and their managers. It is evident that the CTI framework has started to make an impact on the market. As awareness of CTI reporting has increased, asset managers and intermediaries are working together to provide the information that schemes need to understand their costs and charges and we expect this good work to continue throughout the course of this year and beyond. Our expectation continues to be that the CTI framework becomes the standardised way of reporting investment costs, right across the pensions industry.

The research has highlighted several issues which we will seek to address with further improvements to the CTI templates and through additional promotion and guidance. These are set out in further detail below, however in summary these are:

- The CTI Board will be undertaking a programme of promotional activity during 2021 and beyond, including focusing on smaller pension schemes who may have fewer resources. We will continue to keep under review which CTI templates are most useful to schemes and their managers and look to develop further templates or other tools, guided by industry demand.
- We will be considering publishing additional guidance around typical timescales for completing CTI templates, to provide schemes and managers with indications of what might be usual practice and to help manage expectations; as well as further guidance on how to calculate specific types of costs in a consistent way.
- We will be publishing additional case studies later this year, to help schemes understand how best to make use of CTI data, and to challenge their managers where appropriate. We will also be considering whether further guidance could be provided in relation to benchmarking cost information and how this might assist to assess value for money more widely.

The CTI tools and guidance are first and foremost designed to meet the needs of pension schemes and their asset managers, and the feedback we continue to receive is invaluable in helping to ensure that those needs are met most efficiently and effectively. We recognise, however, that many schemes are still part way on a journey towards the end goal of standardised costs data, in a form which will enable them to assess value for money. Our expectation, therefore, is to continue to be responsive and assist schemes by improving the CTI templates wherever we can, as well as delivering new tools and guidance where it might be helpful to do so. As well as providing ongoing updates and improvements during the course of this year, we are committed to providing any additional, new tools and guidance as planned during the periodic review by the end of this year.

# INTRODUCTION

The Cost Transparency Initiative (CTI) framework was launched in 2019. It consists of a set of templates, tools and guidance which are provided on a free-to-use basis. CTI is intended to become the industry standard for reporting costs and charges in institutional investment. Templates that are available for use include:

- The main account template. (This is the main cost disclosure template to be completed by asset managers. It covers the majority of assets and product types. It can also collect data in one place from other sub-templates, for specific asset classes, such as private equity.)
- The private markets sub-template. (This is a cost disclosure template to be completed by asset managers of closed-ended private equity, private debt and real estate (property) funds.)
- The fiduciary management template (a cost disclosure template which may be completed by fiduciary managers.)
- The user summary. (This can be used by pension schemes, and their advisers, to provide a summary of key information. It is an illustration of the categories of costs and charges information which schemes receive.)

The CTI framework is overseen by the CTI Board, which is composed of senior figures across the pensions industry, representing both schemes and asset managers. Part of the Board's responsibility is to monitor and promote take up of the CTI framework and this research report is intended to help the Board fulfil this role.

Following a survey carried out on behalf of the CTI Board in April and May 2020, the PLSA has carried out further quantitative and qualitative research (between October 2020 and January 2021) to understand in more detail how the industry is using the CTI framework and what else can be done to support the industry.

The research had the following elements and methodology:

## QUANTITATIVE RESEARCH

A total of 43 PLSA members took part in the quantitative survey between October 22nd and November 13th. Respondents represented a wide range of schemes including:

- DB only schemes (42%)
- Both DB and DC schemes (40%)
- DC only schemes are represented by 9% of respondents.
- Other types of scheme are represented by 9% of respondents

## QUALITATIVE RESEARCH

The CTI secretariat/PLSA also conducted a series of in-depth interviews between November 2020 and January 2021 with pension schemes, intermediaries (including utilities and consultants) and asset managers, to understand how well the CTI framework has been adopted and to identify possible areas for improvement or development. Specifically, the qualitative research sought to determine:

- Awareness and usage to date of the framework
- Current relationship with service providers
- How the framework has been used to date
- How the information gathered has been used in practice
- What the perceived impact on data quality is

A range of organisations took part in the research including:

- 6 larger schemes
- 3 small/medium sized schemes
- 4 intermediaries (including fiduciary managers, investment consultants and utilities)
- 3 asset managers

It should be noted that a natural limitation of this research is that, while the templates were launched in 2019, the reporting year (end 31 December 2019/5 April 2020, depending on the firm), was the first time that CTI templates were completed by many asset managers, so a degree of familiarisation and adaptation is to be expected as asset managers develop their systems and assets owners learn how to read the data. (We hope that all stakeholders will see further improvements in reporting in the next cycle (31 December 2020/5 April 2021), but this will only be known later in 2021).

It should also be noted that the role of the CTI Board is to provide governance and oversight, including the development of any new templates or guidance, as well as in promoting and raising awareness of CTI. However, CTI is purely intended to be facilitative and does not itself collect or retain costs data from firms; or keep a register of those firms using the CTI template.



# SECTION 1: THE CONTEXT

The research suggests that views and experiences of the CTI framework differ depending on a number of factors including the size of the scheme, previous experience of trying to collect cost transparency data and level and type of usage of intermediaries (e.g. data service providers, fiduciary managers and benchmark providers).

## PRIOR EXPERIENCE OF COLLECTING COST TRANSPARENCY DATA

Some schemes and particularly the larger schemes have been collecting and reporting on costs for several years. As a result, they are already familiar with the process, and also have clear expectations around they would like to receive. Others are still going through a process of familiarising themselves with costs data and working out how best to make use of it.

## SIZE OF SCHEME

Larger schemes tend to have an investment team who, amongst other things, provide cost transparency data reports to trustees and boards. As a result, larger schemes tend to have greater resources to be able to check and interrogate any data they receive.

However, among smaller schemes the responsibility for providing reports may fall to one or two people, who have less time and resources and who also may have less influencing power to question and challenge any data received.

## USE OF INTERMEDIARIES

Many schemes use intermediaries e.g. data service providers, fiduciary managers and benchmark providers to collect cost transparency data, or to assist with data comparisons.

In some cases, intermediaries are used simply to collect cost data from asset managers, while in other cases they are contracted to analyse data and provide benchmarks and a summary of the findings, on the scheme's behalf.

In contrast, some schemes collect costs data themselves without the support of intermediary data firms. Typically, this will be the responsibility of an investment team within the in-house pension fund department. This team will then provide recommendations to trustees on investments, or on monitoring funds. These tend to be larger pension schemes who have bespoke requirements.

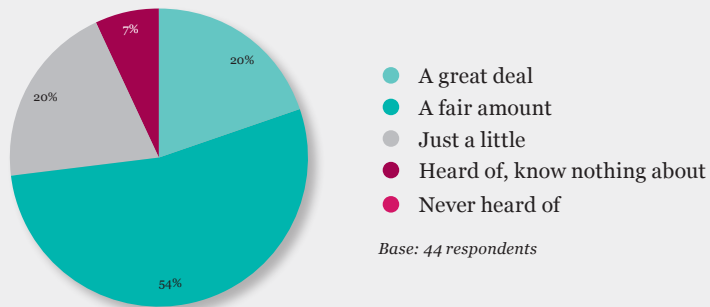
## SECTION 2: CTI

### 2.1 AWARENESS OF CTI IN GENERAL

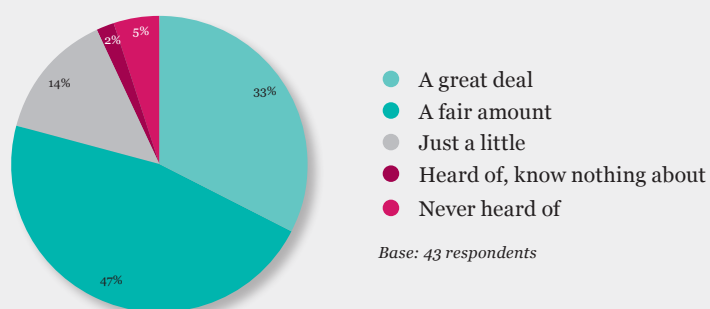
Knowledge of the CTI framework has continued to increase, up 4 percentage points to 80% since May 2020, with more respondents now saying they know 'a great deal' (33%) than they did in May 2020 (20%). One in seven (14%) only know 'a little', while 2% have heard of the CTI framework but know nothing about it and a further 5% say they have never heard of it.

There is similar knowledge between those who represent DB only schemes and those who represent both a DB and a DC scheme.

**KNOWLEDGE OF COST  
TRANSPARENCY INITIATIVE (CTI)  
FRAMEWORK - MAY 2020**



**KNOWLEDGE OF COST  
TRANSPARENCY INITIATIVE (CTI)  
FRAMEWORK - NOVEMBER 2020**



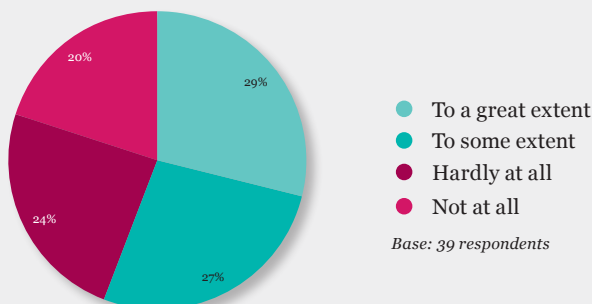
The qualitative research indicates that where schemes are completely reliant on intermediaries to collect the data, they typically have less knowledge of the CTI templates, the data that is being collected and the issues faced in getting hold of that data. However, schemes have good awareness that CTI templates were being used to collect the data

### 2.2 CURRENT EXPERIENCE OF CTI

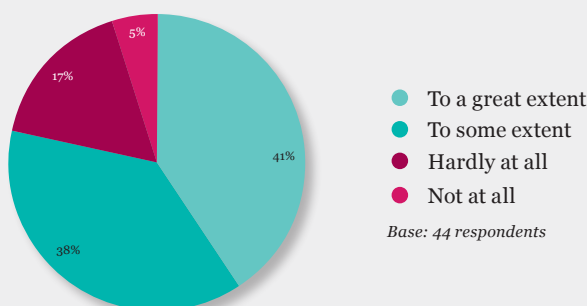
#### USAGE

Usage has also increased with more than three-quarters now saying they have used the CTI framework to a great extent, or some extent (79%) compared to just over half in May 2020 (56%). Only 5% say they have not used it at all, down from 20% in May 2020.

### USAGE OF THE CTI FRAMEWORK TO DATE - MAY 2020



### USAGE OF THE CTI FRAMEWORK TO DATE - NOVEMBER 2020



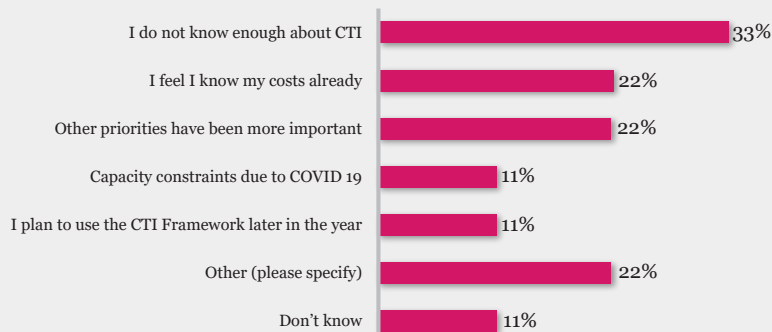
In the quantitative research, more than three-quarters said they had now requested information from their asset manager(s) using the CTI templates – a significant increase since May 2020 (up 21 points to 76%). Three in five (60%) have also obtained information directly from (one or more) asset managers, using the CTI templates.

However, the qualitative research suggests that some schemes and intermediaries have used the CTI templates for the first time this year, with some carrying out a “pilot” on some of their mandates, with the intention to widen usage for all mandates in the forthcoming year.

## NON-USERS

The quantitative research indicates that the main reason some have not used or barely used the CTI framework is due to not knowing enough about it (33%). Other reasons for not using it includes knowing about their costs already (22%), having other priorities (22%), capacity constraints due to COVID-19 (11%), I plan to use the CTI Framework later in the year (11%), Other (please specify) (22%), and Don't know (11%).

### WHY HARDLY USED/NOT USED THE CTI FRAMEWORK TO DATE



Some plan to use CTI later in the year (11%), while others say they use other templates such as the ILPA templates (22%).

The qualitative research also indicates that some of the larger schemes, which have been collecting cost data previously, already have their own systems in place which provide them with the data they need. They have not yet found a use for the CTI templates.

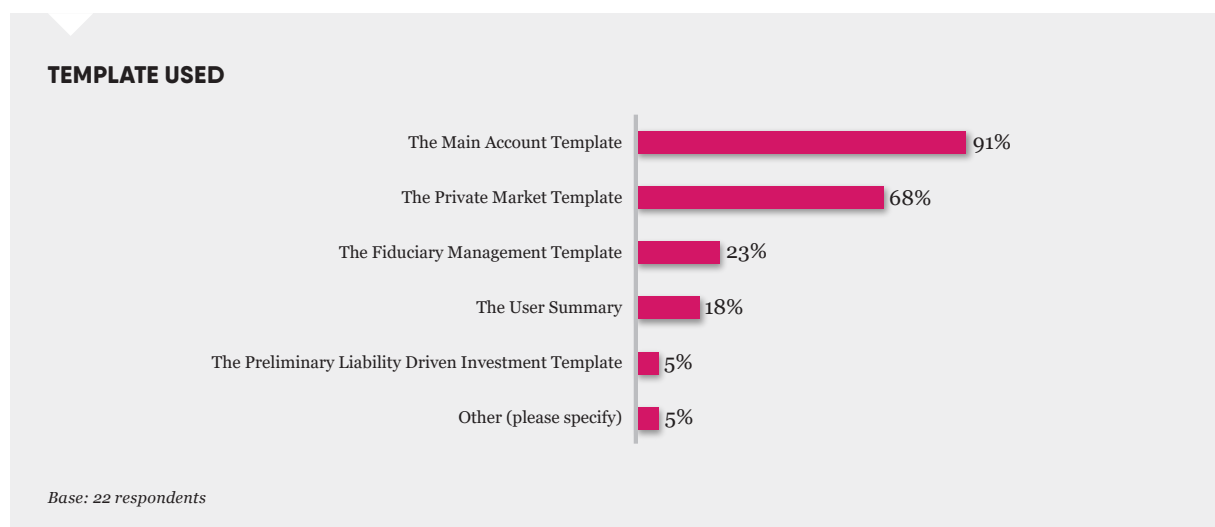
When asked, in the quantitative research, what would encourage them to use the framework, most felt they need to know more about it.

Others suggested that they needed to carry out further analysis of the CTI templates to determine whether the data that is collected provides the same level of information as they currently receive. There appears to be some indication that they do not believe the CTI templates provide the information to the level of granularity that they require.

## 2.3 TEMPLATES USED

In the quantitative research the vast majority said they had used the main account template (91%), while more than two-thirds have used the private markets template (68%).

Fewer have used the fiduciary management template (23%), the user summary (18%) and the preliminary liability driven investment template (5%), with some asset managers believing the fiduciary template does not covers all of the aspects required for the CMA Order.



## 2.4 USE OF THE WEBSITE

When respondents were asked about their use of the CTI website, most appear to not have used it extensively, especially where they use intermediaries to collect their data. Indeed, some felt the website is currently more useful for asset managers.

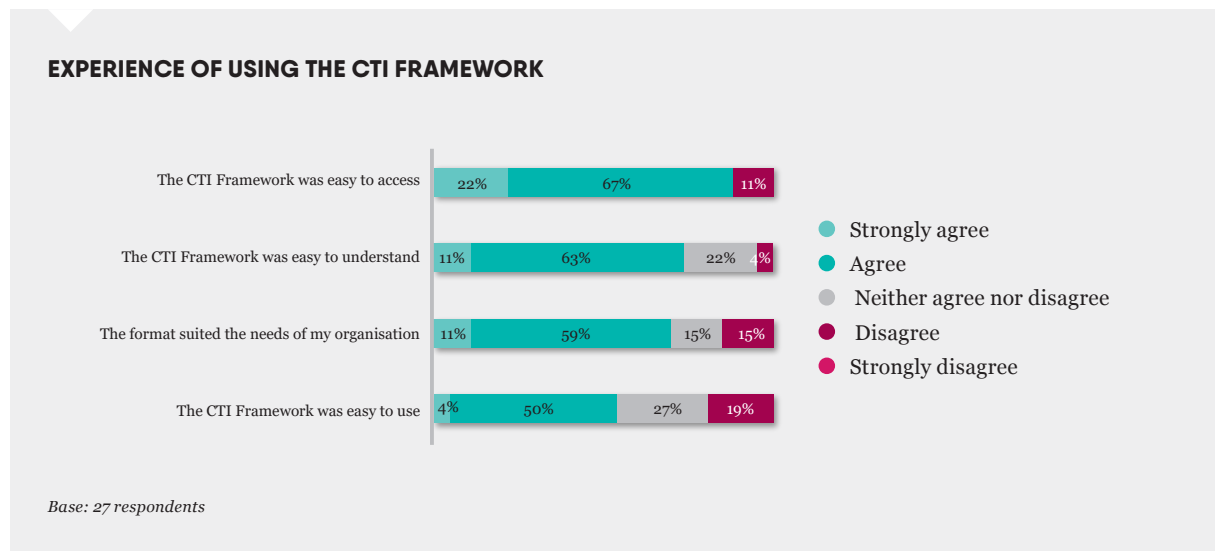
Others have only used the webpage to download the templates. For those that had used it, it was seen to be easy to use and the templates were easy to find.

However, despite the website hosting examples and case studies, few had found these, and felt that providing 'real life' examples of how to work with the templates would be helpful.

## 2.5 PERCEPTIONS OF THE CTI FRAMEWORK

The vast majority found the CTI framework easy to access (89%). Most also found it easy to understand (74%) and the format suited the needs of their organisation (70%).

However, only half found it easy to use (54%), with one in five indicating it was difficult to use (19%).



Overall, most see the CTI Framework as a good step forward, even among those who currently don't use it widely or to its full potential. Functionality is regarded as good across a range of asset classes and processing data is easier using one standard methodology, rather than several.

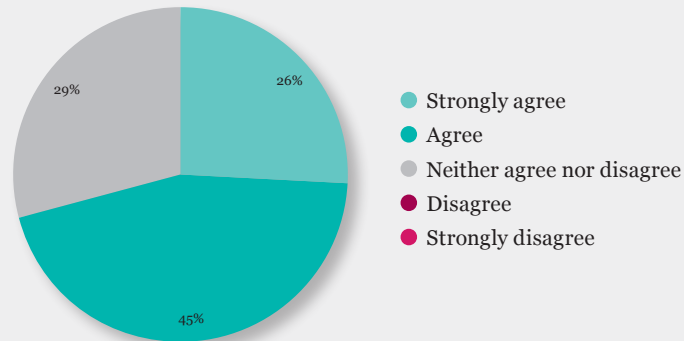
**“I think from our perspective it has been a worthwhile exercise, it has been painful at some points. As we get more used to it and more familiar with it, I think it will become more straightforward and more streamlined. There are a lot of lessons that we have learned throughout this process.”**

**Intermediary user, limited experience of collecting cost data**

Indeed, when asked in the quantitative research whether the CTI framework will deliver benefits to the scheme, almost three-quarters (71%) agreed that the CTI framework will deliver benefits to the scheme. None disagreed, although three in ten (29%) were neutral.

Among those who have either not used or hardly used CTI to date, half agreed it will deliver benefits to the scheme, while the other half were neutral.

#### EXTENT CTI FRAMEWORK WILL DELIVER BENEFITS TO THE SCHEME



Base: 31 Respondents

Both pension schemes and intermediaries, who took part in the qualitative research feel that it has encouraged more transparency, with regard to costs and fees, especially among those who have tried to collect cost data using different means in the past. The CTI templates have helped them set, clarify and standardise the data they are collecting and to help examine what schemes are paying.

However, some managers are concerned about the perceived duplication between some of the regulatory reports and the CTI templates, which they believe confuses clients.

## 2.6 ASPECTS PERCEIVED AS MOST USEFUL

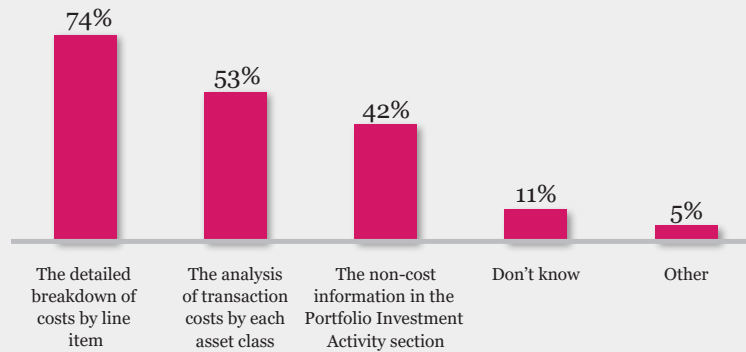
Intermediaries, schemes and asset managers find the use of a template particularly useful. Most feel that the template has made it easier to provide cost data, as well as helping to improve consistency, especially among those who have struggled to obtain cost data in the past.

**“** I think it is good having a standardised template, it is a lot easier having a repetitive form. We know when we get a CTI template it is clear what we have got to do and what goes where.”

Asset Manager

Among those who have used the main account template, most schemes and intermediaries have found useful the detailed breakdown of costs by line item (74%). Half also found useful the analysis of transaction costs by each asset class (53%), while two in five found the non-cost information in the portfolio investment activity section useful (42%).

#### ASPECTS FOUND USEFUL WHEN USING THE MAIN ACCOUNT TEMPLATE



Base: 19 respondents

Asset managers generally have found the main account template easy to use. However, some have commented that it would be helpful if certain aspects of the template were more prescriptive in terms of how to make certain calculations.

## 2.7 AREAS WHERE CTI IS PERCEIVED AS LESS USEFUL

Areas where the CTI Framework is seen as less useful or not working well include:

- Credit funds.
- Alternatives and illiquids including certain asset classes, such as property, and certain structures, like fund of funds.
- Pooled funds.

Some respondents claimed that property funds are only able to provide estimates and can't provide a complete, exact breakdown, so that property assets are not well suited to the CTI templates.

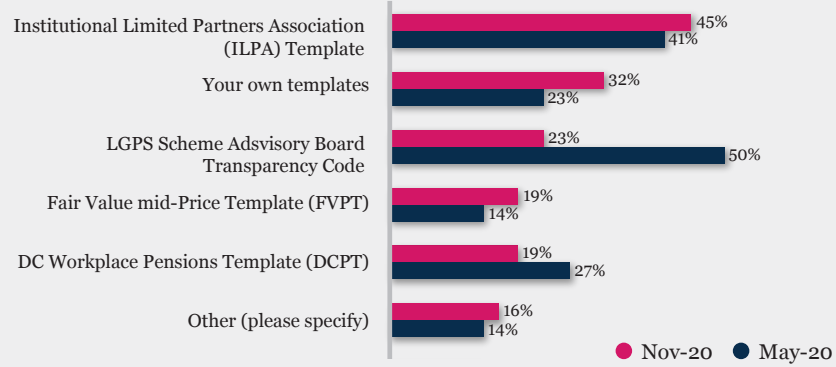
Others also raised concerns that some managers are less inclined to complete CTI templates where they have already completed data returns using the Institutional Limited Partners Association (ILPA) template.

Other comments include concerns about the limitations of the templates in capturing information and providing transparency on fund of funds. Some respondents would like greater granularity around the costs of underlying funds.

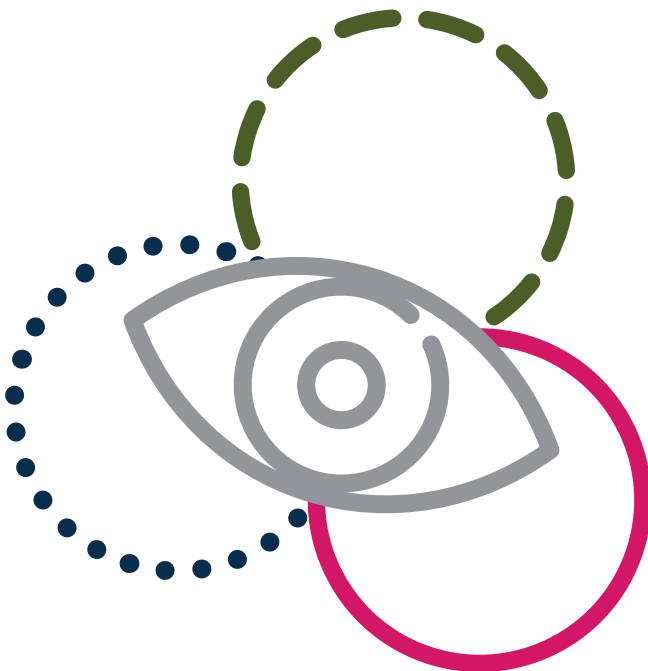
## 2.8 OTHER COSTING TEMPLATES USED

When asked in the quantitative research what other costing templates they use, almost half said they were using the ILPA templates (45%). A third were also using their own templates (32%). Use of these templates was similar in May 2020, although half also used the LGPS Scheme Advisory Board Transparency Code (50%) and a quarter the DC Workplace Pensions Template (27%).

## OTHER DATA COSTING REPORTS USED



Base: 31 respondents (November); 22 respondents (May)





## SECTION 3: RELATIONSHIP WITH SERVICE PROVIDERS

### 3.1 PERCEPTIONS OF MANAGERS

The research indicates there are mixed views of how well asset managers are managing to respond to CTI data requests. Some of the larger asset managers are seen to be engaged and may have staff specifically dedicated to CTI reporting, whereas others are less willing to provide CTI data, or query why this is needed.

In general, larger pension schemes may find it easier to request CTI data from their managers, while smaller schemes (which may have less commercial clout) can sometimes find it hard for their requests to be met. Some found managers can be reluctant to change the way they are already doing things. Specifically, some respondents found that non-UK private market managers will only provide data using ILPA templates.

However, some have noticed there has been an improvement in data provided and a greater commitment to the process in 2020, with more asset managers aligning their data provision with the CTI templates, compared to 2019. Some managers and intermediaries are looking to automate the process further in the future.

**“** *[It] may be other asset owners don't fill it in the same way but we are all learning about what information needs to be sent to the client.”*

**Asset Manager**

Another issue identified by some is the time that it takes for some managers to complete the templates, with some managers finding it hard to meet clients' expectations. Some managers have said that clients' timeframes can be unrealistic, especially in relation to individual mandates or more bespoke requests.

Other asset managers also believe that some of the requests they receive from schemes and intermediaries are not practical given that they don't have all the relevant information, especially in the case of investments where they don't have a direct relationship, or they don't provide the full investment management services.

### 3.2 PERCEPTIONS OF INTERMEDIARIES

Respondents also had mixed views of intermediaries, especially in relation to data collection.

Some have found the information and service provided by their intermediaries informative, efficient, and cost effective, especially those who have never tried to collect cost data previously. They also appreciate the way data is presented, and the ability of the intermediary to challenge data where it might not be right.

Others, however, feel that their intermediary may not have carried out sufficient quality checks and that the data has not been sufficiently validated.

Those who have prior experience of trying to collect data, seem to be more aware of the issues with managers and are therefore more forgiving than those who are new to collecting cost data. In particular, those respondents are aware that the data provided by asset managers can be poor, with intermediaries having to follow up, check and chase asset managers to provide further clarification.

One issue identified by several schemes is the time that it takes to collect the data. Again those with more experience of collecting cost data have greater awareness of the issues that intermediaries face.

The inability of some providers to provide benchmarking data is also mentioned by some pension schemes and some respondents said that further benchmarking would be helpful.

## SECTION 4: DATA

CTI is regarded by many as an important step forward in terms of the costs and charges information which schemes receive from their asset managers. However, the research identified two key issues which arise in practice:

1. Data quality.
2. Comparability of data.

### 4.1 DATA QUALITY

Although CTI data provides welcome additional granularity around costs and charges, many schemes say they are uncertain as to whether the data they receive is accurate or not, although some feel the quality of data has improved significantly since the CTI framework was launched.

In some cases, schemes have identified gaps in the data provided, especially in relation to transaction costs. Others find that, where a data field has been left blank, it can be hard to know whether this is because there is zero cost, or whether it has not been filled in. In other cases, schemes find that managers have made too much use of the 'other' category of costs, which means they are unable to identify the cost. This can lead to additional time reviewing and checking the data.

**“** Quite often managers will provide you with CTI at the top level and miss out on the underlying good information. We don't get granularity which is frustrating.

*High level implicit cost or transaction cost additional granularity would enable you to decompose taxes, broken commissions all those line items that we get from some managers but not others.”*

**Intermediary user, previous experience of collecting cost data**

Without knowing that they have reliable data quality, it is hard for schemes to be sure they can make accurate comparisons. This has led some to call for a way of externally verifying the data they receive, or for third party auditing of the data.

However, respondents also recognised that the quality of data is likely to continue to improve with further reporting cycles and as managers become more familiar with the CTI templates and what is expected of them.

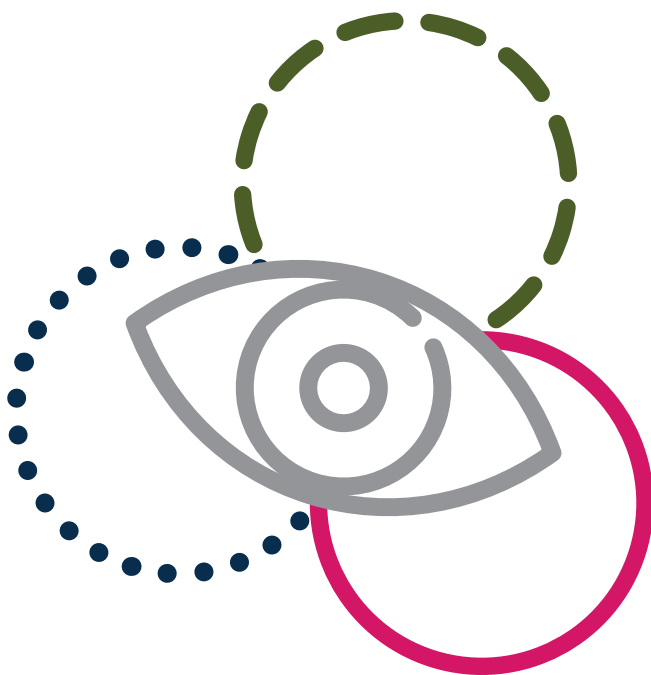
**“** With manager experience we anticipate improvements. When we engage with the client, the data quality is improved. We are helping them to identify the problem and resolve the problems that cause those problems. We anticipate managers will improve over several cycles.”

**Intermediary**

## 4.2 COMPARABILITY OF DATA

Three in ten respondents to the survey say they have experienced technical issues (30%), especially in the way that data is being calculated and interpreted. There is a concern that different managers may be using different methodologies or approaches to calculate costs, for example in relation to transaction or trading costs. This makes data difficult to compare leading to suggestions that the CTI templates should be more 'prescriptive' in terms of how particular calculations/entries are made.

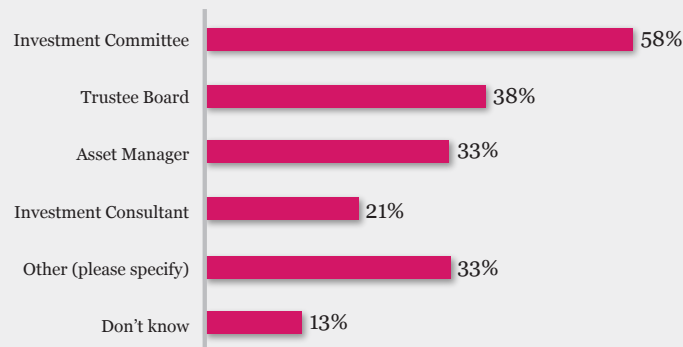
As a result of these inconsistencies, many schemes are having to go back to seek clarification and ask further questions (or for their intermediaries to do this on their behalf) which is seen as timing consuming and resource intensive. Smaller schemes in particular, and those who do not currently use intermediaries, report having less success in challenging managers than larger schemes or intermediaries, in order to obtain good quality data.



## SECTION 5: INFORMATION USED IN PRACTICE

The quantitative research indicates that many have discussed the outcomes from the CTI reporting with their investment committee (58%). Some have also discussed the outcomes with the Trustee Board (38%), asset managers (33%) and investment consultants (21%).

### WITH WHOM DISCUSSED CTI REPORTING



Base: 24 Respondents

Some schemes are sharing the data directly with their investment committees and trustee boards, while others are using the information within their governance reports.

However, only some respondents said they are not currently sharing the information with these groups due to the perceived inconsistency and unreliability of the data. Indeed, some want to be in a better position to fully understand the data before sharing it more widely. Few respondents have discussed the outcomes with cost benchmarking service providers and fiduciary managers.

Similarly, some asset managers say it would be helpful to understand better how schemes are using costs information, so that they know how best to provide data.

### 5.2 HOW THE INFORMATION HAS BEEN USED

In the quantitative research, two-thirds said they had reviewed costs/value for money, as a result of the information received (64%), with one in five saying they had acted on the costs and charges information received via CTI (20%).

The qualitative research also supports these findings, with asset owners indicating that they are beginning to use the data to provide them with an understanding of what they are paying in terms of costs including fees, fund fees, transaction costs etc.

For some who have tried to collect data previously, the use of the CTI framework has provided the reassurance that they have a good understanding of their costs. Some are also using it to benchmark their own costs with others in their peer group. In the quantitative research, almost a quarter said they had used the information as a benchmark (23%).

*“This piece of work has evolved as we have gone through it, so originally it was a cost exercise to get under the skin of what our actual costs are. It has evolved over time and turned into a benchmarking piece to see where we are in comparison with our peers.”*

**Intermediary user, limited experience of collecting cost data**

Few had used the information to review asset allocation (9%), or to review the vehicle/methodology used to access some asset classes (9%); or to challenge managers over costs. Indeed, in the quantitative research, only a third said they had reviewed manager appointments and/or processes, and a further third said they had discussed CTI costs and charges information during a value for money assessment (36% up from 28% in May 2020). This seems to be in part due to schemes still being in the data collection stage.

Others have thought about questioning their managers but are yet to do so, with some saying that trustees are keen to challenge managers more, with a view to potentially changing investment decisions. However, there appear to be some schemes, and especially the smaller schemes and those collecting data for the first time, who have yet to decide how to make use of the data.

*“My experience from presenting this to Trustees is they really like it and they want to use that data to challenge managers a bit more and possibly change the way they invest their assets because this is really useful information to understand what they are paying net of fees.”*

**Intermediary**

Finally, some schemes said that it would be helpful to define for asset owners what is meant by value for money, which would help to put costs information in its wider context.

## SECTION 6: IMPROVEMENTS SUGGESTED FOR CTI

Many respondents made helpful suggestions about ways to improve the CTI framework. These suggestions fall into four key areas:

- Raising the profile of the CTI/encouraging uptake/making it mandatory.
- Greater guidance and prescription.
- Improvements to the CTI website/guidance and support.
- Other areas to consider.

### 6.1 RAISING THE PROFILE OF THE CTI/ENCOURAGING UPTAKE/NEED TO MAKE IT MANDATORY

Although the results of the surveys demonstrate that awareness has increased, some respondents suggested that the CTI framework still needs to be more widely publicised.

Others feel it should be made a regulatory requirement in order to improve both uptake and data provision. Indeed, in the quantitative research, over half thought the CTI Framework should be made mandatory for managers (54%), with half saying the CTI should report poor practice from service providers/asset managers (50%).

### 6.2 GREATER GUIDANCE AND PRESCRIPTION

The key suggestion was for more clarification on what data is being sought, including: expanding on the glossary of terms and guidance, for example on what information can be presented in the 'other' box. Some felt that there needs to be further guidance on what should be a standard methodology for completing templates, or for 'tightening' up existing guidance, particularly around specific asset classes such as Liability Driven Investments (LDI). In the quantitative research, a third believe the CTI should introduce additional guidance for asset owners in using the data from the templates (33%).

### 6.3 IMPROVEMENTS TO CTI WEBSITE/GUIDANCE AND SUPPORT

Suggestions for the CTI website included: making more support available to smaller schemes (which could be via a 'chat function'); making the case studies more prominent on the website; and providing more regular updates on CTI developments and news.

### 6.4 OTHER ASPECTS TO CONSIDER

Other suggestions included providing assistance to schemes by developing benchmarks, to help identify how good a service a scheme is receiving in comparison with those in its peer group (otherwise, schemes are only able to compare costs data with previous years).

Some respondents also felt that the CTI could provide more oversight of costs data in a centralised form, which could mean collecting data in one place or having an online portal where data could be uploaded and accessed.

## SECTION 7: RESPONSE

The role of the CTI Board is to provide governance and oversight, including the development of any new templates or guidance, as well as in promoting and raising awareness of CTI.

The CTI Board will be undertaking a programme of promotional activity during 2021 and beyond, including focusing on smaller pension schemes who may have fewer resources. We will continue to keep under review which CTI templates are most useful to schemes and their managers and look to develop further templates or other tools, guided by industry demand.

The CTI Board monitors the asset classes covered by the CTI templates and will continue to do so, to meet the needs of schemes and managers. Since the CTI framework was originally launched, we have published additional templates and guidance covering LDI and private markets investments.

In relation to interactions with specific asset classes, we work closely with the Association of Real Estate Funds (AREF) to ensure that costs associated with property assets can be reported clearly. AREF provides guidance on its website, for members who are completing the CTI templates.

Similarly, the CTI website contains guidance on how to compare CTI data with ILPA data, which is intended to make the process easier for asset managers and to help avoid duplication.

We will consider whether additional guidance may assist schemes to identify when CTI templates should be used, in light of reporting requirements such as MiFID II, or other standards such as ILPA; as well as how to report costs when schemes change funds mid-way through the year.

Lastly, we recognise that in some cases additional granularity about the costs of underlying funds might assist schemes and the CTI Board's Technical Expert Panel (TEP) is currently taking forward consideration of costs reporting for fund of funds, and whether additional data fields or templates would be helpful.

### 7.1 DATA COLLECTION

The CTI templates are designed to include a wide range of data fields and, depending on the mandate, not all of these will need to be used, so it's normal for a template to be only partially complete. However, if schemes have concerns about missing data, or would like to see specific costs, they should discuss these with their managers (or with their information providers or advisers).

Although CTI has no direct role in collecting costs data itself, the CTI Board works closely with information/data firms to identify areas which managers might be finding difficult to complete and we are currently developing additional guidance to assist managers in understanding what is expected of them.

Because it is not a mandatory reporting requirement, CTI does not set required timeframes for managers to supply data. We also are conscious that different managers and schemes will have varying requirements and that flexibility is often required. Nonetheless, the CTI website and guidance provides some indicative timescales and we will be considering publishing additional guidance in this area to provide schemes and managers with what might be typical practice and to help manage expectations.

We also recognise that data quality is of fundamental importance. We must be clear though that CTI does not itself collect or retain costs data itself and hence is not able to validate data. However, several information/data providers which make use of the CTI templates are operating in the market and have expertise in data checking and validation, so schemes should be able to seek support and advice where needed. As above, we also expect data quality to improve as managers become increasingly familiar with the reporting process and we hope to assist them further by publishing additional guidance.

The CTI website includes several case studies which illustrate how schemes can use costs data to challenge their managers and we will be publishing additional examples and guidance during the course of this year.

## 7.2 BENCHMARKING AND OTHER GUIDANCE

The CTI Board will look at facilitating industry providers sharing benchmarking information. While the regulators (FCA and TPR) already provide guidance on conducting value for money assessments and benchmarking, including how costs should be considered in this context, we believe the industry may find additional guidance helpful which focuses in more detail on investment costs and charges.

CTI has been developed by industry, for industry to use and is not a regulatory requirement. However, the regulators (FCA and TPR) as well as the Government, hold observer status on the CTI Board and may consider introducing regulation in due course which complements the CTI framework. Our expectation is that the CTI framework becomes the standardised way of providing investment costs and charges information for all schemes and their managers.

The CTI Board will be considering areas of the templates where additional guidance may be helpful on how to calculate specific types of costs. The CTI website contains several 'case studies' which explain how schemes have used CTI to interrogate their costs and charges. We will continue to expand examples and guidance provided on the website.

As discussed above, CTI does not collect data itself so is unable to provide a centralised spreadsheet, register or other repository however we will be considering publishing possible additional guidance around benchmarks for certain types of data.

Although CTI doesn't provide a helpline or 'chat function', the three partner organisations – PLSA, IA and SAB – all provide help and assistance and answer queries from schemes and managers in relation to the CTI templates, via their websites.



