THE
INVESTMENT
ASSOCIATION

VALUE ASSESSMENT

When purchasing any product or service, getting value is an important consideration. This is no different in financial services, and this is increasingly relevant as 75% of the UK's households use the services of an investment manager.

Value has also been an area of focus for the UK regulator. The Value Assessment, introduced in September 2019, is part of the Financial Conduct Authority's (FCA) new measures aimed at improving outcomes for investors and is one of the measures taken after the FCA's Asset Management Market Study.

What is different about the Value Assessment is that in most activities in life – for example, buying a car or taking a holiday, people decide whether they think they have received good value. The market then adjusts; manufacturers create new products or holiday destinations thrive or decline. Equally, independent third parties may also provide ratings or commentary to help people pick the best options.

This is true in investment management too. Regulators have gone further however and asked the investment management firms themselves to determine whether they consider the individual funds they offer to be providing good value, and to take action if they are not.

The Value Assessment must be performed at least once a year and requires the investment manager to ask itself a series of questions about whether its funds are delivering value to investors and to take action to fix any areas of poor value they identify. The assessment explores what the fund is delivering against what the investment manager said it would deliver, and if investors are paying a fair price for what is being delivered.

Fund boards are required to have at least two independent non-executive directors (INEDs) to provide independent challenge on behalf of investors. INEDs and the chair of the fund's board – who may also be independent – have a particularly important role in overseeing the process of the Value Assessment. The chair has a prescribed responsibility under the Senior Managers and Certification Regime to ensure that the board completes a Value Assessment and acts in the best interest of the fund's investors.

The Investment Association (IA) supports UK investment management, supporting British savers, investors and businesses. Our 250 members manage £7.7 trillion, £1.8 trillion of which is on behalf of European clients – providing the UK with an important economic contribution in the form of export earnings, tax paid, and jobs created.

January 2020

ASSESSING VALUE

Investment managers are required to consider value against a minimum of seven criteria, which includes cost, but also requires quality of service and performance to be taken into account when assessing what is a good outcome for investors.

The assessment is at the level of the fund, including each share class, that people invest in. Investors may invest in the fund through an adviser or a platform. The services and charges of the adviser and platform will not be considered in the assessment.

Assessing value can be subjective so investors will also need to decide for themselves, together with their advisers (if they use them), what represents good value.

1. **Quality of service** to investors, such as efficiency of administration, timeliness of reporting, and how successfully they engage with the companies they are invested in.
2. **Fund performance** considered over an appropriate timescale given the fund's objectives and strategy.
3. The **investment manager's costs** for providing the service that each fund charge relates to.
4. Potential savings and benefits from **economies of scale** due to the size of the fund.
5. The **comparable market rates** for similar funds offered by other fund managers.
6. The investment managers' charges for other **comparable services** it provides, including institutional mandates, such as for pension schemes, with a similar size or investment objective.
7. The appropriateness of investors being in **classes of units** with higher charges than those applying to other similar share classes of the same fund.

REPORTING TIMELINE

Investment managers must publish each year a report describing the assessment they have carried out, as well as its conclusions. This report can be included in the firm's annual report, or in a separate composite report if the investment manager is reporting on two or more funds. The FCA has not provided a template for these new Value Assessments, so it is for the investment manager to decide how best to present the information.

Depending on their business models and the nature of their fund ranges, firms may consider it more effective to use a separate composite report, comprised of two or more funds, to be able to undertake the assessment effectively across their fund range and provide investors with a report that gives a wide-ranging assessment of the funds available.

The Value Assessment report must be published within four months of the fund's annual accounting date, or, if included in a composite report covering a number of funds, within four months of the date for which the Value Assessment was performed. All annual reports published from the end of January 2020 will either include a report on the Value Assessment, or information on when the composite report will be available.

Accounting year ends on...		Value statement in annual long report by...
31 August 2019	Next accounting year	31 December 2020
30 September 2019	Rules effective	31 January 2020
31 October 2019	Rules effective	29 February 2020

Value Assessment reference date...		Value statement in composite report by...
30 September 2019	All funds	31 January 2020
31 December 2019	All funds	30 April 2020

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