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INVESTMENT

Passive funds war 'will force active managers to cut fees'

BETH BREARLEY

The price war among passive funds will force active managers to lower their fees, industry commentators say.

Fidelity this week became the latest provider to announce it had cut the costs of its index range, with the lowest fee for the Fidelity Index UK fund now at 0.06 per cent.

Nucleus chief executive David Ferguson says it is "impossible to see the prevailing price points of actively managed funds persisting".

He says: "The spread between active and passive ongoing charges figures is now pretty much 100 basis points, which is a lot for any skilled professional to make up this year, next year, every year.

"While the pricing of retail index funds hurtles towards that of the institutional market, active funds remain stubbornly expensive. There are clues to the future in some of the targeted pricing offers but the dam has not yet broken across the wider market."

Hargreaves Lansdown senior analyst Laith Khalaf says it is only a matter of time until active funds are driven to reduce their fees. Active managers are not feeling "too threatened" yet as the passive world is still growing, but Khalaf calls on them to offer better value.

He says: "At the moment 10 per cent of funds' assets under management are passive investments, which have gone up hugely in the last few years, but we are not quite at a tipping point where active funds feel they have to compete on price as they feel they compete on quality.

"We need a change of mindset to see them compete on both fronts. Active funds can't compete absolutely on price but they can compete on value, a combination of price and quality. That is the direction we should head in."

Independent pensions expert Alan Higham expects the rise in popularity of passive funds to indirectly affect the pricing of active funds.

He says: "I don't think active funds will lower prices straight away as a response to passives as the gap is huge. If people are moving to passives because of the cost difference then they are going to move."

He adds it is more likely funds will shut down if they are not performing well or do not have much in the way of assets under management.

If the trend from active to passive continues, the cost pressure on businesses running active funds will mean they will have to look at some form of consolidation, Higham says.

He adds: "It would be nice to see active prices coming down, and as the sector shrinks it will be able to cut costs. So there will be a cost reduction in two scenarios: first, once the sector can take costs out of its base by consolidating poorer-performing funds, and, second, by giving distribution platforms a discount to get the huge volume in."

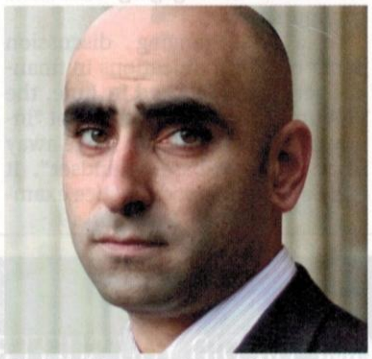
ADVISER VIEW

Jonathan Davis
Managing director
Jonathan Davis Wealth Management

Inevitably competition requires firms to cut back on their profit margins, and in this case it is clearly some of the manufacturers of the passive funds.

I would have thought competitive pressure will move to the active space as well.

Ferguson: 'Dam not yet broken'



Khalaf: 'Only a matter of time'