



Fundspermart (FSM), an online distributor of unit trusts, is revising its fee structure, via the introduction of a “platform fee”, which is effectively a wrap fee.

What is a Wrap Fee?

A wrap fee is a recurring charge for bundled investment services such as advisory, switching, administrative and brokerage, levied by investment advisers on their clients. The advantage of having such a fee is that it is usually simpler and more transparent than the alternative of having a myriad of charges. In addition, wrap fee-based investing advice may help reduce conflicts of interest, as the adviser would be less motivated in "pushing" a poor-performing product that carries a high front-loading sales commission.

The downside is that investors pay the wrap fee whether or not they actively make use of services covered by the fee. In the case of unit trusts, a wrap fee is in addition to any trailer fees that a unit trust manager pays to the fund distributor.

Wrap Fee Offset by Lower Sales Charge

From 1 May 2010, FSM will charge a 0.125% quarterly (equivalent to 0.5% annually) wrap fee for all equity fund holdings, The fee would apply to existing as well as new funds invested via cash or the Supplementary Retirement Scheme (SRS). Funds invested via CPF are however exempted. Correspondingly, FSM is lowering its upfront sales charge from a typical 2.5% to 1.5%. For the month of Apr 2010, a promotional sales charge of 0.75% on a wide of funds is also offered.

How It May Affect You

A new investor with S\$100,000 to invest in unit trusts via FSM would thus pay S\$1,500 in sales fees instead of \$2,500. The quarterly fee will come up to \$125 per quarter. Over 3 years, an investor will be out of pocket by S\$3,000, instead of \$2,500 previously. Long term investors who manage their portfolios passively will thus be most adversely affected by an increase in overall fees.

The wrap fee concept is still rather new in Singapore and not common among fund distributors and financial institutions. To avoid the “platform fee”, long-term passive investors may thus migrate their unit trusts to distributors who have yet to implement such a fee. Other categories of investors would benefit less from such a move.