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Tideway **Third Party** Funds

What we pay third party fund managers and why

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› Collective Funds *and* Why We Use Them

Like most wealth managers, we use collective investment funds to create our clients' portfolios. These funds pool investors' money with the sole purpose of investing in the stock market.

We do this:

1. To increase diversification. The funds give us exposure to multiple companies (at least 25 for each equity fund and 50 loan securities for each fixed income fund) and this significantly reduces our risk to the failure of any one specific company.
2. To employ specialist investment managers to invest in different areas of the stock market. No one team can cover all the different investment sectors from fixed income through to equities, and no one fund management house has the monopoly on the best investment talent.
3. To defer tax on the gains made on individual securities, with gains only crystallised when a fund is sold.

› Costs of Funds

Each fund must pay for:

- **a corporate structure**
- **a custody service to hold investments**
- **dealing in the underlying securities**
- **reconciling the price of units in the fund and dealing with subscriptions and redemptions**

All our funds are regulated by the FCA which, for consumer protection, sets rules on concentration and liquidity risks. So, they must also cover the cost of compliance.

In addition, if the fund is actively managed, the manager needs to be paid.

All these costs are rolled up into one number and expressed as the Ongoing Charges Figure (OCF) for each fund. The unit price of each fund is calculated daily after the OCF charges are applied, which sets the subscription and redemption price. Historically, there was a 'spread' between these two prices, but today it is generally the same price; there is rarely an upfront cost now to invest in a fund.

Our Cheapest Fund

The cheapest fund we have used (Fidelity's US Equity Index Fund) has an OCF of 0.06% p.a., so for a £50,000 investment, investors pay just £30 a year.

This fund pays no manager as it uses an algorithm to allocate its funds to track the S&P 500 index. It's a very large fund with approximately £9bn invested in it and it operates in the largest, most liquid, most traded, and most competitive equity market in the world – the New York Stock Exchange.

Our Most Expensive Funds

By contrast, one of the most expensive funds we use is Jupiter's Asian Income Fund, which has an OCF of 0.99%. For a £50,000 investment, investors pay £495 per year.

The fund is actively managed by a strong investment team (the lead manager has over 30 years' experience investing in Asia) and it invests in five different stock exchanges, all much smaller and more expensive to invest in than the New York exchange. A typical index fund tracking the Asian index will be twice as expensive as an S&P 500 tracker. Plus, this fund's underlying holdings are very different to those of the Asian index.

The fees have been worth it:

Jupiter Asian Income versus the FTSE Asian Index Net of fees and over the last 5 years



> Why We Pay for Active Management

When investing money on an 'arm's length' basis, particularly life savings that will need to secure your financial future, you would rightly expect a significant amount of due diligence to be carried out before and after investing.

In the case of a loan, you would want to consider the borrower's financial wellbeing – can it pay the interest on its debts and will it be able to return the capital on maturity? How risky is the business or country you are lending to and are you being paid enough interest to warrant the risk?

When buying a share in a business, you would want to know how it made its money, the risks involved in the business, the profits it made, what competitors it had, and so on.

In short, you would want to understand the case for making any investment before you make it and, once made, to monitor that investment to make sure it is on track.

Yet the current trend to invest passively in index funds shortcuts all this due diligence. Passive index funds invest on one criterion only – namely, size. In equities the bigger the company the more shares the passive fund buys. In fixed income, the bigger the company's or country's debt pile, the more loan securities the passive fund buys. There is no other consideration, just size.

For fixed income investing, the passive algorithm makes little sense and in fact feels almost the exact opposite of prudent investing. Buying the debt of the most indebted?

For equities, it is basically blind momentum investing; buy what has gone up the most. Again, expressed like that it seems far from prudent.

In the last decade, passive fixed income investing has not been great. We can see this here by comparing our Balanced Fixed Income portfolio with one of the largest corporate bond index funds from iShares:

iShares Core £ Corporate Bond versus Tideway's Balanced Fixed Income Portfolio since inception (2016)



On the other hand, the rise in a handful of US mega cap tech stocks has propelled the US and World index and has been a hard benchmark for actively managed funds to beat:

Fidelity's World Index Fund versus the Average Global Growth Fund over 10 years



The eagle-eyed will spot that the gap in performance has accelerated since Covid in 2020, as the world leaned more heavily on technology, and then again with the more recent advent of AI.

This gap over the last five years – a little under 4% a year on average – is way more than the extra cost of an active fund. The recent gap in returns is because to reduce risks, active managers are generally mandated to run more diversified portfolios than the index has become. They simply have not been able to own enough Nvidia shares to keep up with the index, as Nvidia's value grew by a factor of 15 from \$320bn at the start of 2021 to the \$5tn it reached in October this year – more than twice the value of all 100 companies in the FTSE 100.

Passive investing has become very popular, attracting more new money in the last decade than active funds. There is now more money invested passively than actively on a global basis.

This massive increase in passive investing has created a positive feedback loop, as more funds get allocated to the shares of the biggest companies. This funnelling of money manifests itself both in the concentration of indices in the biggest companies, and in the valuation of these biggest companies and indices relative to earnings.

As of the end of 2025, around 30% of all money invested using an MSCI world index fund and 40% of all money invested in the S&P 500 index is invested into just 10 companies. And the S&P 500 index is close to the most expensive it's ever been in history when compared to the profits its constituent companies make.

History tells us this won't end well.

1. Historically, the biggest companies have rarely delivered the best future returns to shareholders,

And

2. The more expensive an equity market gets relative to earnings, historically the lower its likely future return.

Basically, passive investing has become a victim of its own success and is getting riskier as more investors follow the herd.

What we get from an active approach

At Tideway, we strongly believe in doing the work, not following the herd, and not taking shortcuts when it comes to investing our clients' funds. We are happy to pay the extra costs to get this done (if you would like to read more about our specific investment philosophy, [click here](#)).

By using active managers rather than investing entirely on an index basis, we're safe in the knowledge that:

- we have greater diversification and better risk management than the index;
- on average, our equity managers are investing in companies with lower valuations relative to their earnings than a passive fund would;
- the due diligence has been done, which gives us the conviction to stay invested during periods of volatility;
- ongoing monitoring of each underlying investment is being carried out, with profits being taken on successful investments and losses cut when things go off track.

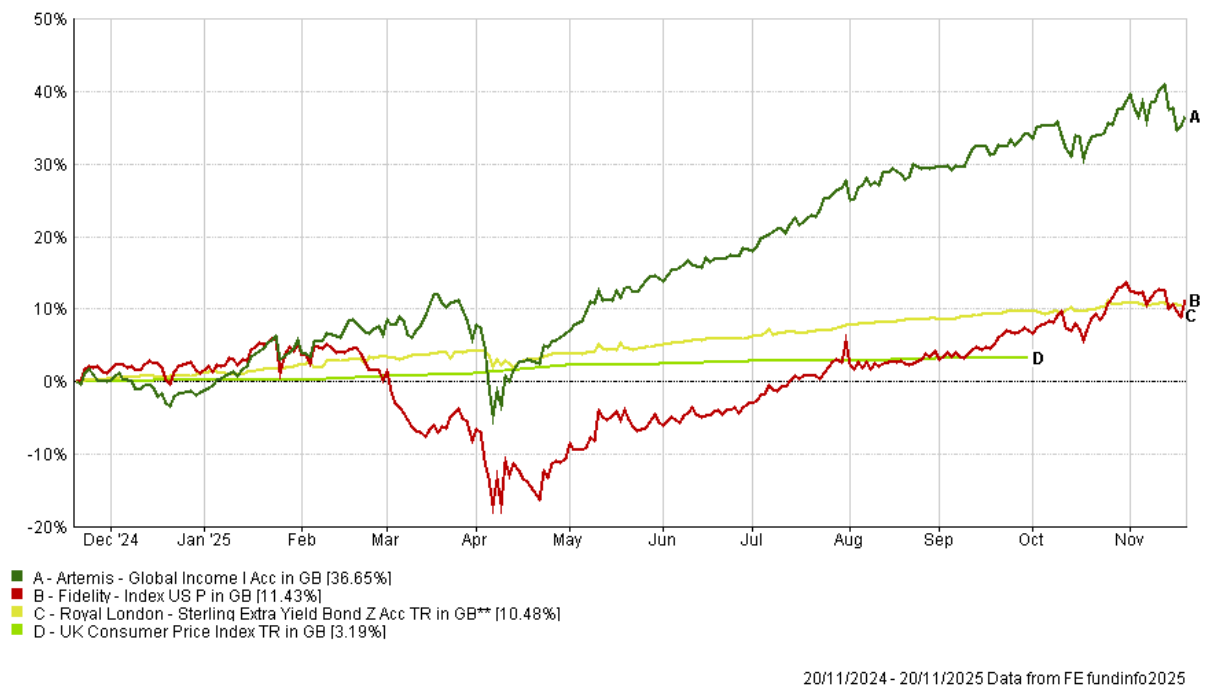
Investing is Not Just About *the* Fund Cost

2025 has been a good year to highlight that investing is far from as simple as just investing in the lowest cost fund.

The chart below shows

- Artemis Global Income (OCF 0.88%) in green
- Royal London Sterling Extra Yield (OCF 0.58%) in gold
- Fidelity's US Index fund (OCF 0.06%) in red
- UK CPI in light green

Different Risks and Different Returns in 2025



Key takeaways

- All three selected funds have beaten inflation in 2025
- The more expensive and actively managed Artemis Global Income has significantly outperformed the cheaper US Index fund in this year by a c30% margin after costs
- Both equity funds have had significant c15% drawdowns during the year, as compared to the Royal London Sterling Extra Yield bond fund which has provided a very smooth return and a bigger return in Sterling than investing in the US stock market
- The chart is a good reminder that the underlying investments of a fund, the risk involved in those investments, the potential for future returns, and the potential for volatility in investment prices are all more important considerations than the costs of the fund

› Tideway's Special Deals

Whilst we are happy to pay for a good investment process in the funds we use, we are keen not to overpay. We work hard to secure the best investment talent at the lowest possible cost.

Tideway uses its scale, its strong relationship with fund managers, and its long-term investing approach (which managers like) to get better terms. We have also helped managers with strong track records launch new funds, to secure the managers we want to invest with at the lowest possible cost.

We have run a comparative test of the OCFs our clients pay versus investors at Hargreaves Lansdown (HL), one of the UK biggest fund discount platforms.

We found:

- Our biggest discount to HL pricing was a saving of 0.51% p.a. in the OCF of one of our funds
- There were no funds where the OCF was lower at HL
- Overall, and on average, our funds had OCFs 0.11% p.a. lower than they were available to investors at HL
- This is equivalent to an average discount of 15% versus HL pricing or, put another way, it's equivalent to an 11% discount on our wealth management fee compared to doing this yourself at HL

› The Current Cost of Third-Party Funds in Tideway's Portfolios

Below are the weighted fund costs for each of our eleven portfolios.

Asset Class	Model	Portfolio OCF Estimate
Fixed Income	Lower Yield	0.29%
Fixed Income	Balanced	0.45%
Fixed Income	Higher Yield	0.55%
Multi Asset	Cautious	0.48%
Multi Asset	Moderate	0.55%
Multi Asset	Balanced	0.62%
Multi Asset	Growth	0.66%
Multi Asset	Adventurous	0.67%
Multi Asset	High Yield	0.63%
Equity	Income	0.79%
Equity	Blend	0.70%

These costs have all been coming down, and in the last five years we have seen around a 30% drop in our third-party fund fees – even after swapping our low-cost S&P 500 tracker to active managers at the start of 2025.

It is also worth noting that the costs of investing actively in fixed income are much closer to the passive investment costs. The iShares Corporate Bond fund quoted earlier has an OCF of 0.2%, so investors are only paying a 0.09% and 0.26% per annum premium to invest in actively managed funds.

› The Future *and* Impact of AI

Finally on investment costs, I will make the bold statement that the way we will invest your money (in terms of the investment infrastructure and costs) will be substantially different in 10 years' time to the way we do it today.

I can say this with confidence based on my 40 years' experience in investing even before we consider the impact of technological advancements, including AI and block chain.

In every decade I have witnessed major changes in the investment infrastructure and investment products we use, and I fully expect this to continue. From insurance company endowments to unit trusts, with-profit funds, SIPPs, model portfolios, index funds and ETFs, financial product providers are constantly innovating.

By sticking to our independent intermediary advice and service model, rather than acting as a product provider, we are free to watch, assess, and exploit those innovations that will reduce costs and improve the investment process in the future.

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Important Information

The content of this document is for information purposes only and should not be construed as financial advice. Please be aware that the value of investments, and the income you may receive from them, cannot be guaranteed and may fall as well as rise.

We always recommend that you seek professional regulated financial advice before investing.

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