

Workplace Pensions: A guide to transaction costs

What's this guide for?

This guide aims to give an overview of what fund transaction costs are, how they work and why they apply. For further information on investing and to see our fund factsheets you can visit legalandgeneral.com/fund-zone.

Alternatively, if you have questions relating to the specific costs and charges that apply to your pension, please get in touch using the details shown in the 'Contact us' section.

Let's start at the beginning...

What's a fund?

Before we get into transaction costs, let's break down what a fund is first:

A fund is a big pool of people (investors) who put all their money together to invest in different things. As a pension saver, you're an investor in one or more of our funds.

Imagine you and your friends all put your money into a big jar. Then a Fund Manager decides how to use the money to invest in different things that can help the money grow (like company shares or precious metals).

Instead of each of you choosing what to invest in on your own, the Fund Manager makes those decisions for everyone. This way, you will hopefully make more money together as you will share the benefits of the investments.

When you invest in a fund, your money is exchanged for units. Each unit you own represents your share of the investment.

What are transaction costs?

Transaction costs usually apply when investor activity causes the Fund Manager to buy and sell investments held by the fund. There will be costs for buying and selling investments, like government taxes, which need to be paid for.

The Fund Manager might need to buy and sell investments when **you**:



Sell units to take money from your pension.



Buy units to invest into your pension.



Switch units between pension funds.

Transaction costs can also happen when the **Fund Manager**:



Trades your investments.

The Fund Manager will occasionally need to buy and sell investments within the fund (known as trading). This helps with their day-to-day management and growing the amount of money in the fund to make sure you get the most out of your investment.

 **Plain Numbers**

Certified 

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How do transaction costs work?

Imagine you want to buy a flat within an apartment block. The flat (or unit) you own represents your share of the entire block (the fund). This would also mean you have a share of the bricks, windows and other features used to make up the building (the assets).

Let's take a look at how it might work:

Buying	<p>To buy the flat, you have to go through an estate agent (the Fund Manager). You might have to cover certain costs like taxes and solicitor fees. These expenses represent the 'cost of doing business' when buying the flat.</p> <p>Similarly, when you buy units in a fund, the Fund Manager has transaction costs. These could include taxes, fees and administrative expenses which are paid for by you (the investor).</p>
Maintaining	<p>Now that you own the property, all flat owners in the block pay their share for the upkeep of the building as a whole. This is known as a service charge and is an ongoing fee to maintain the facilities.</p> <p>Similar to this, a Fund Manager has to manage and maintain the assets held within the fund, adjusting and sometimes trading them to keep the fund on track. Although these actions may add some costs, they help maintain and ideally increase the value of the fund (or building) for all its investors.</p>
Selling	<p>After a time you might be ready to sell your flat, so you once again go through the estate agent. This would also include fees, taxes and solicitor costs.</p> <p>Similarly, if you sell your units in a fund, the Fund Manager has additional costs. These could be transaction fees and any other expenses which are paid for by you (the investor).</p>

So transaction costs come when the Fund Manager experiences costs when they are buying, selling or managing the assets within a fund. These costs are treated as part of your investment and aren't shown as a separate charge in your statements.

Are there any other costs?

You will still have to pay standard fees which are separate from transaction costs. When investing, these costs are referred to as:

- **Fund Management Charges:** This is the varying costs of managing your fund(s). It differs from fund to fund and is reflected in the value of the units of each fund, so it isn't taken directly from your pension pot.
- **Annual Management Charge:** This is the cost of managing your pension. We work out the charge daily and take it once a month by selling units in the fund or funds that you're invested in.

What is Legal & General's approach to transaction costs?

Transaction costs are the actual expenses that occur when buying and selling and at Legal & General we try to be as fair as possible with these costs by using an approach called 'swing pricing'.

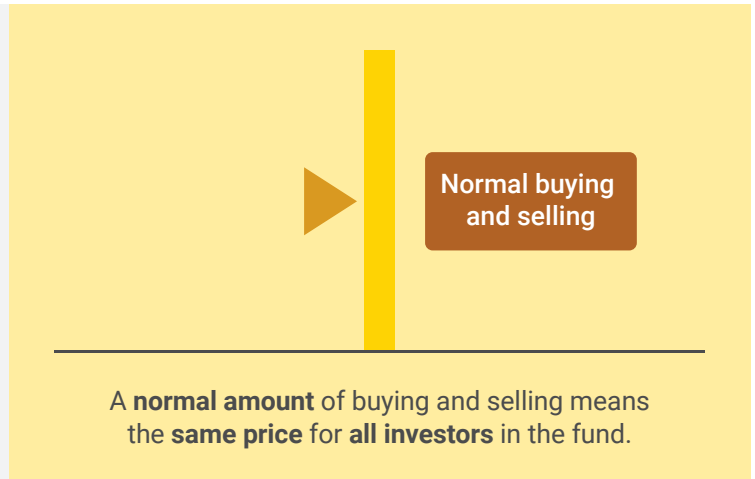
Imagine a dinner where everyone orders different-priced meals. But they split the bill evenly. Those who ordered cheaper meals are paying the same as those who ordered expensive ones. Wouldn't it be fairer if everyone paid for what they ordered? Swing pricing tries to achieve this fairness.

How does swing pricing work?

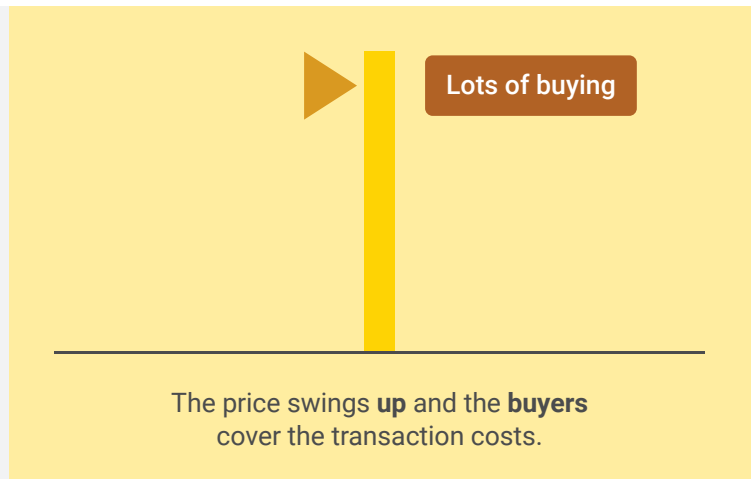
As the Fund Manager buys and sells investments to meet demand, swing pricing makes sure that the costs are covered by those either entering or exiting and not by everyone else in the fund.

When you are putting money into a fund or taking money out, all investors are quoted the same price.

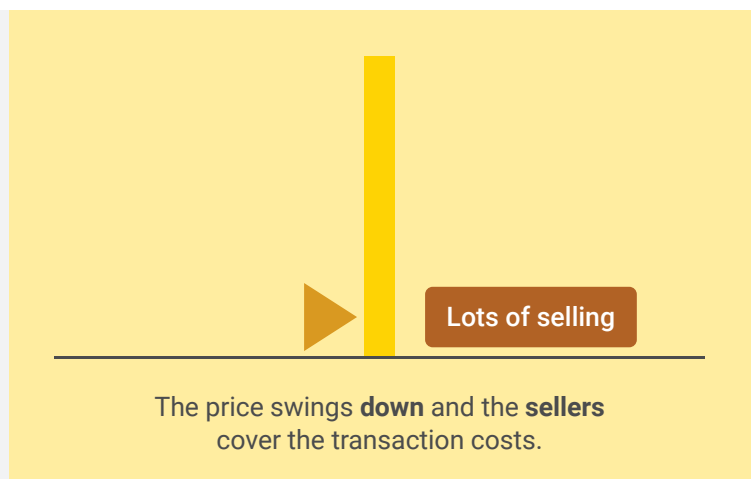
Each day, the total value of all the investments in each fund are calculated and priced which determines the value of your share of the investments.



However, when there is a particularly large amount of buying, the price swings up as there will be more costs to cover as the Fund Manager buys more assets to meet demand.



The same process happens for a large amount of selling, as the price can then swing down. The value of the fund is reduced and those selling pick up the transaction costs.



Fund Manager activity

The Fund Manager may also need to buy and sell investments to help the fund achieve, or go beyond, its objective. There would also be transaction costs for this and it's paid for by the fund and shared by all investors. The price of your units will automatically be updated to account for this.

Quick summary of how transaction costs work

To help summarise the above, here is a breakdown of the different types of transaction costs and who pays for them:

	Investor Transaction Costs	Fund Manager Transaction Costs
What causes them?	These costs are caused by investors (such as yourself) buying or selling units in the fund.	These costs happen when the Fund Manager buys or sells investments as part of managing the fund (eg to meet the fund's objectives by improving performance).
Who pays for them?	Only the investors involved in buying or selling that day. This is done through swing pricing, where the unit price is adjusted to reflect the costs of these transactions.	All investors in the fund share these costs, as they are included in the unit price and the activity made by the Fund Manager is designed to benefit all investors.
Why does this happen?	To ensure fairness, so existing investors who aren't trading don't have to cover these costs.	This is a normal part of running the fund and ensures that it continues to meet its goals for the benefit of all investors.

Contact us

You can view your fund factsheets by logging in to your online account.

For questions about transacting, fees and charges, or any general questions about your pension, please get in touch:

- Visit legalandgeneral.com/myaccount
- Email employerdedicatedteam@legalandgeneral.com
- Call **0345 070 8686**

We're open Monday to Friday, 8.30am to 7.00pm. We may record and monitor calls. Call charges may apply.

Please note:

Our helpline staff cannot offer financial advice. For guidance, consult a financial advisor. You can find one near you by visiting unbiased.co.uk. Fees may apply.

For payment options, visit legalandgeneral.com/adviserchargeguide.

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