

Impact of Cost on an Investment

The tables below demonstrate the large impact that costs and charges can have on an underlying value of an investment.

Investment	£500,000
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Cost A	0.30%
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Cost B	1.50%
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Investment A					
Period	Initial Value	Return	Cost	Cost (£)	Final Value
Year 1	£500,000	20%	0.30%	£1,800.00	£598,200.00
Year 2	£598,200	15%	0.30%	£2,063.79	£685,866.21
Year 3	£685,866	12%	0.30%	£2,304.51	£765,865.64
Year 4	£765,866	17%	0.30%	£2,688.19	£893,374.62
Year 5	£893,375	6%	0.30%	£2,840.93	£944,136.16
Year 6	£944,136	-5%	0.30%	£2,690.79	£894,238.57
Year 7	£894,239	-10%	0.30%	£2,414.44	£802,400.26
Year 8	£802,400	2%	0.30%	£2,455.34	£815,992.93
Year 9	£815,993	10%	0.30%	£2,692.78	£894,899.44
Year 10	£894,899	16%	0.30%	£3,114.25	£1,034,969.10

Investment B					
Period	Initial Value	Return	Cost	Cost (£)	Final Value
Year 1	£500,000	20%	1.50%	£9,000.00	£591,000.00
Year 2	£591,000	15%	1.50%	£10,194.75	£669,455.25
Year 3	£669,455	12%	1.50%	£11,246.85	£738,543.03
Year 4	£738,543	17%	1.50%	£12,961.43	£851,133.92
Year 5	£851,134	6%	1.50%	£13,533.03	£888,668.92
Year 6	£888,669	-5%	1.50%	£12,663.53	£831,571.94
Year 7	£831,572	-10%	1.50%	£11,226.22	£737,188.53
Year 8	£737,189	2%	1.50%	£11,278.98	£740,653.31
Year 9	£740,653	10%	1.50%	£12,220.78	£802,497.87
Year 10	£802,498	16%	1.50%	£13,963.46	£916,934.06

Investment A	
Final value (end of year 10)	£1,034,969
Capital growth	£534,969
Average return	8.30%
Total cost	£25,065

Investment B	
Final value (end of year 10)	£916,934
Capital growth	£416,934
Average return	8.30%
Total cost	£118,289

Difference (A-B)	
Final Value	£118,035
Total Cost	-£93,224

Investment A has a yearly OCF of 0.30% while Investment B has a much larger OCF of 1.5%.

With equivalent yearly rates of return for both investment A and B, the value of the Investment B is £118,035 less than the value of Investment A after 10 years.

This difference is due solely to the larger costs charged to Investment B of £93,224. These costs have a direct impact on the reduction in value of the underlying investment every year as well as a reduction in compounded gains.

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