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ASSET MANAGEMENT

Better disclosures: The key to establishing a U.K. retail investment culture

Almost everyone involved in U.K. financial markets agrees that something must be done to improve the quality of information provided to retail investors. Regulators know that retail investors lacking a firm understanding of the costs, risks and performance of available investment products are at significant risk, and see protecting these investors as a top priority. Fund managers and distributors know that without better information it will be difficult to convince retail consumers to buy their products, and U.K. households will continue to spurn investment markets in favour of savings.

Although virtually all parties recognise the problem and agree on the need for change, reforming current disclosure rules remains a complex and challenging undertaking. A revised disclosure framework will have to answer vexing questions like: what actually constitutes better information? How can the industry get retail investors to engage with the information it does provide, and what's the best way to present the information so that retail investors can actually understand it and use it to make informed decisions? Any new rules will have to address these difficult questions while also balancing the needs of fund manufacturers and distributors, who will face logistical challenges and significant costs from new disclosure requirements.

Recognising both the need for change and the industry's very real concerns, Broadridge joined the Financial Conduct Authority (FCA) rule-makers working on the new Consumer Composite Investments (CCI) reform package for a series of workshop meetings to discuss these questions and help identify promising solutions.

In this paper we share some of the data and ideas discussed in those meetings. By highlighting these topics, we can hope to establish a common understanding of what the FCA is trying to accomplish with CCI, identify some of the biggest challenges to disclosure reform, and help the regulator and the industry find a way forward that lays the foundation for a robust retail investor culture in the United Kingdom.

Failing to address the retail knowledge gap

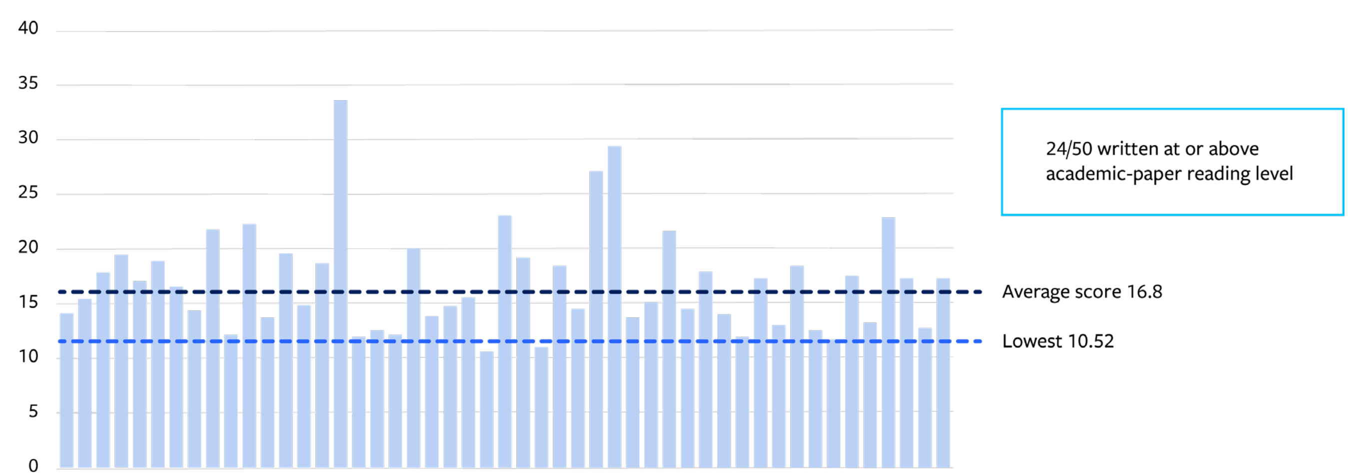
Financial literacy in the U.K. remains poor. Only 47% of Millennials and Gen Zers understand basic concepts like "inflation." Given that lack of basic financial knowledge, it's hardly a surprise that U.K. households usually opt for savings over investments, with only about 8-12% of U.K. household assets held in investments, compared to about 54% in the United States.

It is in the interests of both regulators and fund companies to help address this knowledge gap and ensure that retail consumers who purchase investment products understand what they are getting into and have enough information at hand to make informed decisions.

It's hardly a controversial statement to say that, to date, the industry has not done a very good job on this count.

The Flesch Kincaid Grade Level scale is a widely used readability formula that assesses the approximate reading grade level of a text, based on average sentence length and word complexity. In early 2025, Broadridge used that scale to analyse investment policy descriptions from KIIDs from each of the 50 largest U.K. asset managers. As shown in Figure 1, only five of these disclosures came in at a readability level appropriate for a retail audience with limited financial expertise. Nearly half the disclosures were written at an academic or college level that would be difficult for most retail investors to understand.

Fig. 1 Flesch-Kincaid grade of investment policies across 50 UCITS KIIDs

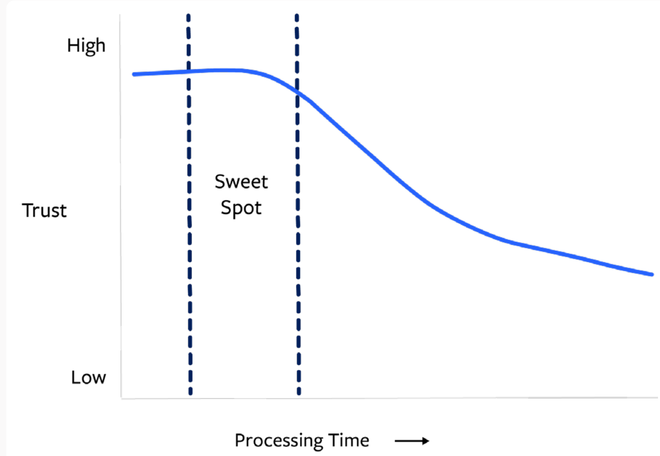


Source: Broadridge Fund Communication Solutions

The inaccessible language used in disclosures has real consequences. **A 2024 study** by the Canadian Securities Administrator revealed that only 16% of retail investors find disclosures simple and easy to understand. That's a critical finding, given that **another** study, published in 2021 in the journal Economic Letters, found that participants—all Master of Business Administration students with a presumed base of basic financial knowledge—who were shown either a traditional disclosure document or a simplified version were far more likely to invest after reading the simple language.

That last finding is consistent with the phenomenon known as Processing Fluency, a cognitive bias in which our opinion of something is influenced by how easily our brain processes it and understands it. We tend to prefer things that are simple to understand and tend to find simple information more believable (Figure 2).

Fig. 2 Processing fluency: Trust vs Processing time



Source: Broadridge Fund Communication Solutions

Disclosure reform and CCI

As demonstrated, there is no shortage of empirical evidence that current disclosures are poorly written. There is also ample evidence suggesting that the inaccessibility of these documents is discouraging retail audiences from engaging with the materials, limiting retail participation in investment markets and, in the worst-case scenarios, leaving uninformed retail investors at risk.

So the question now in front of the industry and the FCA is: What can we do about it?

The FCA has been working hard to answer that question. The regulator's new Consumer Composite Investments framework is set to take effect from 2027, with an option for an even earlier start. Currently, the FCA is working with the industry to flesh out the new rules and define what a simplified, clearer, and more user-friendly disclosure framework would look like in practice.

To date, the regulator has established four Key Principles for the reforms. The new disclosure regime must be:

1. **Flexible, proportionate and technology neutral:** It must encourage innovation and engagement, in part by moving away from prescribed templates;
2. **Outcomes-focused:** It must allow firms to focus on good outcomes as per the Consumer Duty rule;
3. **Enable consumers to get the right information at the right time:** It puts more emphasis on distributors;
4. **Standardisation only where needed:** It encourages experimentation with ways to help consumers to compare costs, risk and performance.

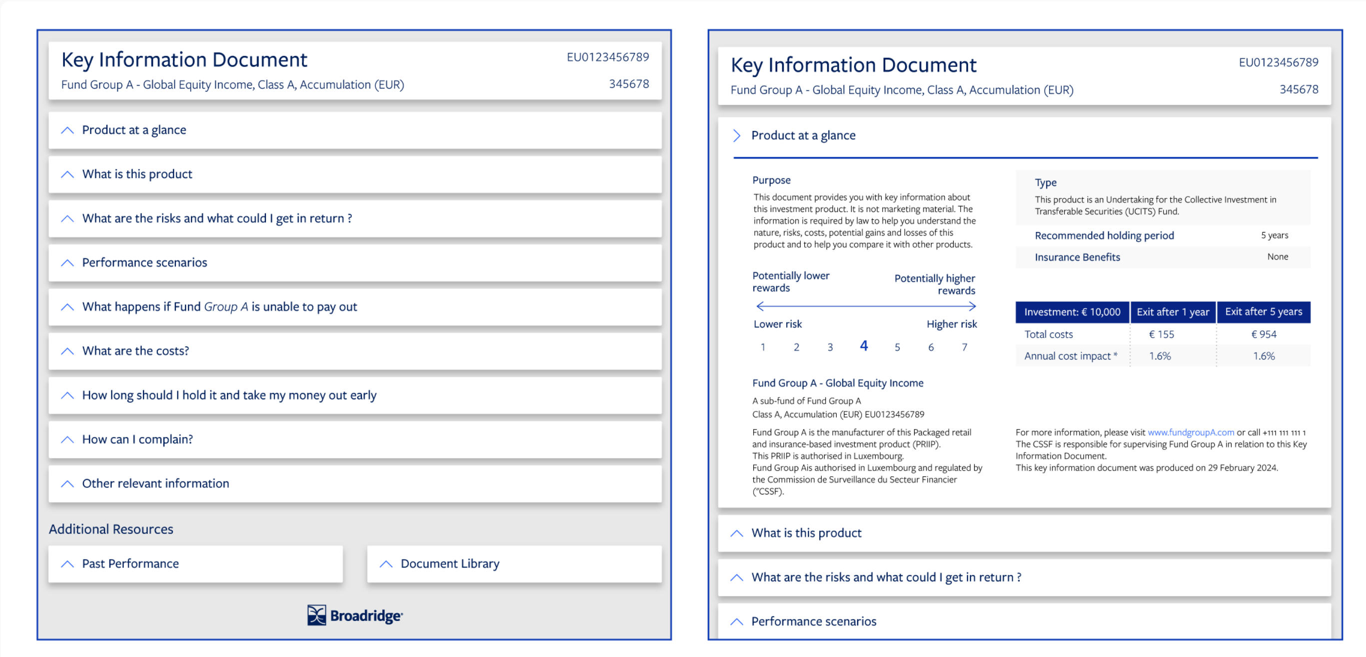
Within the context of these guidelines, the FCA is giving the industry something of a blank slate to come up with more effective disclosures. Of course, that freedom can in itself create issues for fund manufacturers and distributors, who worry that a lack of prescriptive rules could leave them open to second-guessing and even post-facto challenges to Consumer Duty compliance. That's one of the big issues the regulator and the industry will have to iron out. For the purpose of this discussion, however, the important point is that the industry now has broad discretion to innovate and experiment with ways to more effectively present essential information to retail audiences.

Modernising visual presentation

At the most basic level, there are two steps fund manufacturers can take to make retail disclosures more engaging and effective. First, they can improve readability by simplifying the language to a level more appropriate to a retail audience. Next, they can make disclosures more visually appealing and easy for readers to engage with and understand.

It is here that technology comes into play. In the past, one of the main challenges facing fund manufacturers and distributors creating disclosure documents was the sheer volume of the information they needed to include. Today, the industry can take advantage of "layering," to create disclosure documents that are clean, uncrowded and easy to understand. Figure 3 provides an example of how layering can work in a Key Information Document.

Fig. 3 Broadridge concept for layering for retail disclosure



Using this technique, the main product summary document can present only the most important top-line information, and embedded "signpost" links allow the reader to learn more about individual topics by clicking through to more detailed information. QR codes can serve the same purpose.

Leveraging data visualisation

Document design is just one of the tools the industry has at its disposal. Manufacturers and distributors are also experimenting with data visualisation techniques that can make fund information on performance, costs and risk more relevant and easier to digest for retail investors.

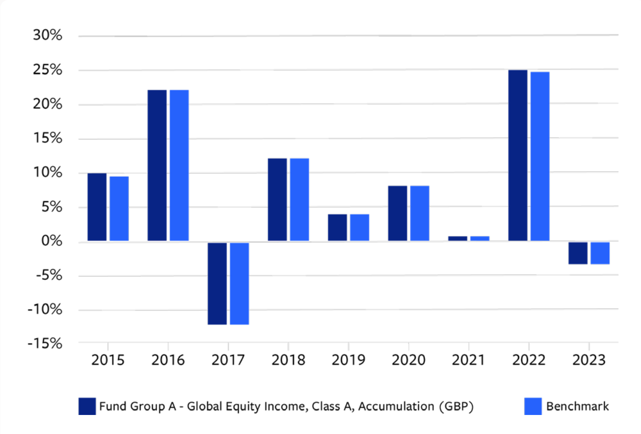
Performance

Figure 4 depicts a typical chart traditionally used to depict fund performance in a product summary document.

The current process of disclosure reform has given the industry and regulators an opportunity to re-think just how helpful this type of chart is to retail investors. After all, almost no one invests in a fund on January 1st and sells on December 31st. Given that fact, just how relevant are these annual results to a retail investor trying to understand how the fund has performed over a period of years, and what that performance would mean to the actual value of his or her investment?

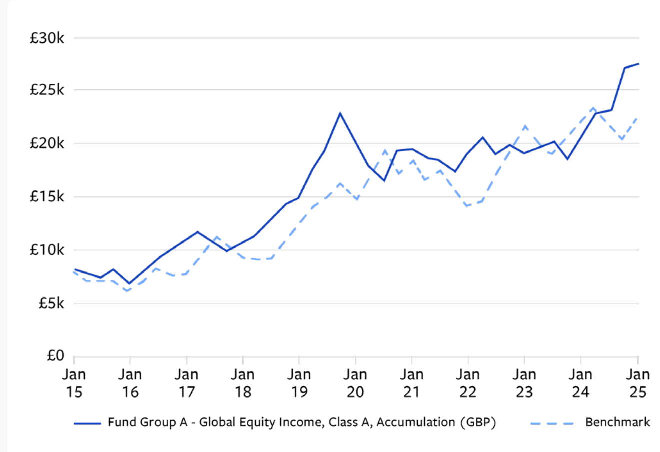
Figure 5 presents a slightly improved presentation, with the line graph at least giving the audience a chance to see continuous performance of the fund over time.

Fig. 4 Performance bar chart



Source: Broadridge Fund Communication Solutions

Fig. 5 Performance line chart

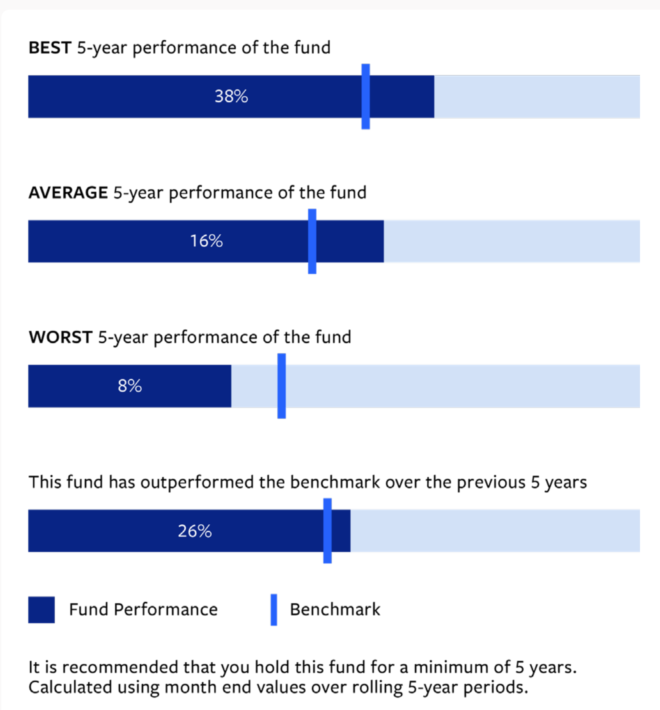


Source: Broadridge Fund Communication Solutions

However, regulators and many industry participants believe that both of these chart types fall short in terms of demonstrating potential real-life outcomes in a way the typical retail investor will understand.

Figure 6 presents the type of creative approach fund companies could add under the new rules to convey performance data in a more meaningful and useful manner.

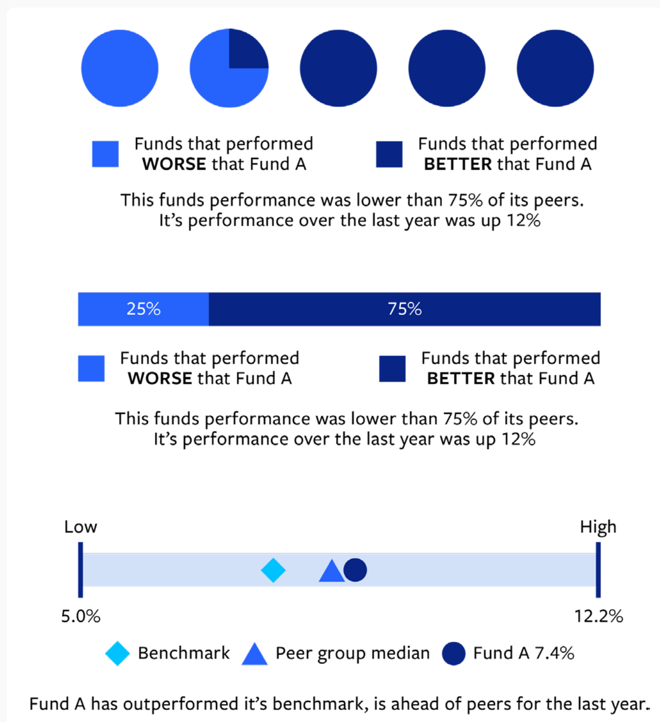
Fig. 6 Performance vs Benchmark



Source: Broadridge Fund Communication Solutions

Figure 7 provides additional examples of how fund companies can innovate to make performance data more intuitive and useful in decision-making

Fig. 7 Quintile and other examples

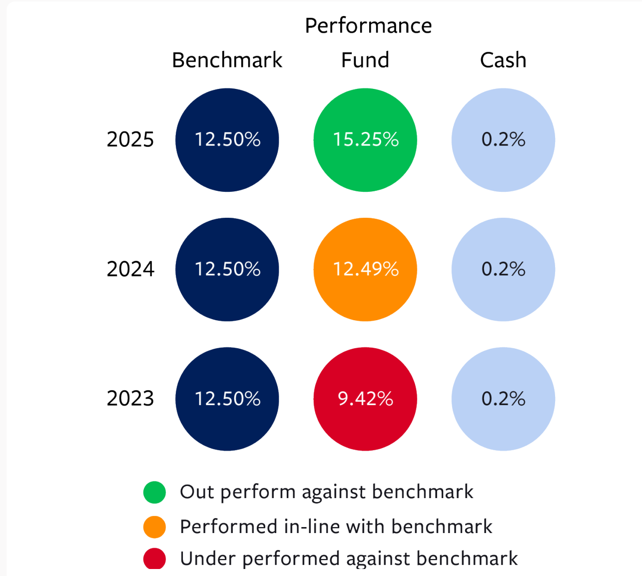


Source: Broadridge Fund Communication Solutions

There's no reason to limit these presentations to index benchmarks and peer groups. To the contrary, providing visual representations of how funds have performed relative to other investment and savings options can help retail investors better understand the potential consequences of their financial choices.

Figure 8 shows some simple examples of data presentations illustrating how one fund performed against both its benchmark and cash. Including this type of data in an easy-to-digest format could help retail investors understand the potential costs and benefits of keeping money in savings versus investment. Incorporating some measure of inflation into the presentations could help investors visualise how their savings assets can be eroded over time, and time and understand how investments can help minimise or even alleviate that erosion.

Fig. 8 Performance against benchmark and cash



Source: Broadridge Fund Communication Solutions

Currently, cost tables included in PRIIPs provide a comprehensive and granular breakdown of fund costs (Figure 9). That approach seems to make sense, since it provides investors with full transparency into all costs and fees associated with a fund.

Fig. 9 Costs table as introduced by PRIIPs

	Cost Type	Description	%£	*
Charges taken from the fund over a year	Ongoing costs	Costs taken from the fund annually	0.42	42
	Transaction costs	Costs related to trading in the fund	0.11	11
Incidental costs you may be charged	Performance fee and Carried interest	These are fees that some funds charge if the fund performs particularly well; this fund does not charge these fees.	None	0
One-off costs paid on entry or exit	Entry Fee	One off charge when you purchase units of the fund	None	0
	Exit Fee	One off charge when you sell some or all your holding in the fund	None	0
		Annual cost of investing in this fund:	**0.53**	**53***

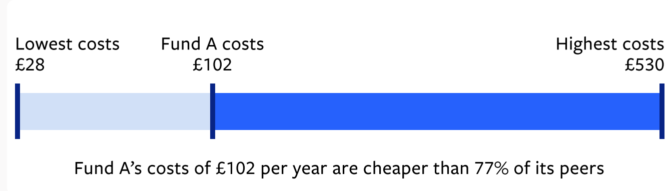
*Estimated costs over 12 months based on an initial investment of £10,000

Source: Broadridge Fund Communication Solutions

However, once again the industry and regulators have an opportunity to consider if there might be additional data points and presentation styles that make this information more meaningful and useful to investors. A good starting point in this process is to ask how investors actually think about costs. For example, when a consumer is buying an egg, does she really care how much of that price tag comes from the cost of feeding the chickens, collecting the eggs or transporting the egg to the market? Probably not. In most cases consumers are concerned about the overall cost and how it compares with the prices of similar products and potential replacements. So, when it comes to funds, it's worth asking if investors are really concerned about the specific breakdown and make-up of the fees they are being charged, or if they just want to know how much they'll be paying per year and how that cost compares with other alternatives?

Figure 10 provides an example of a data presentation format that allows investors to see the fund's total annual cost and how that price tag compares with other available funds.

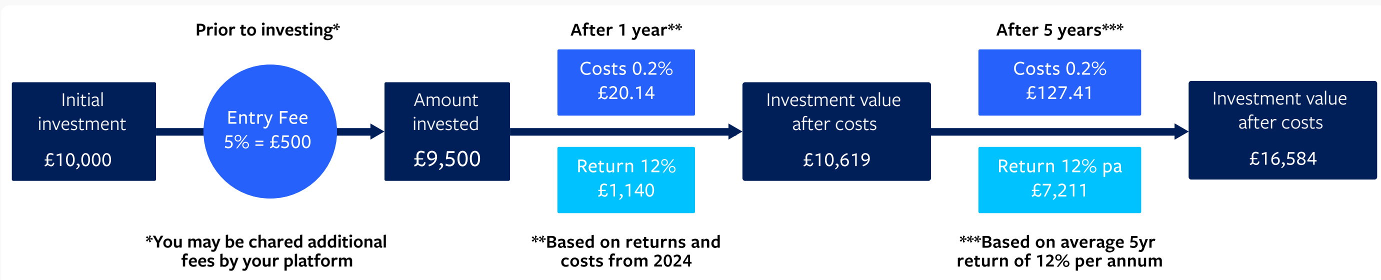
Fig. 10 Annual costs



Source: Broadridge Fund Communication Solutions

Figure 11 shows how fund manufacturers and distributors can go the next step by demonstrating to investors not only how much they are paying, but also how fees work, when they are incurred, and how they impact the value of their investment over time.

Fig. 11 How costs impact investment

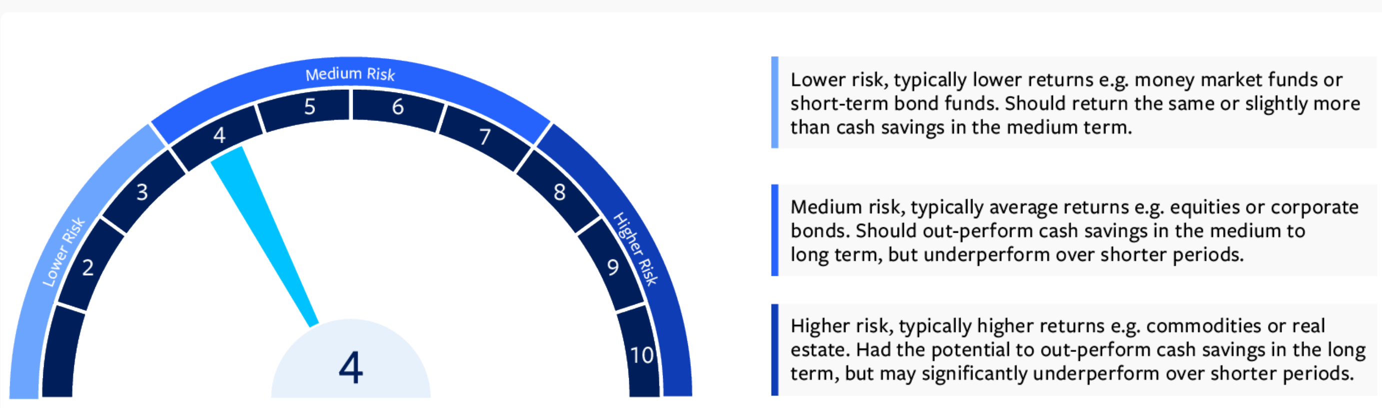


Source: Broadridge Fund Communication Solutions

Risk

The industry can apply the same type of creative thinking to risk. Under the proposed CCI rules, risk ratings will change from a scale of 1 to 7 to 1 to 10. That switch represents an improvement, since most people will more easily grasp relative positioning on a one-to-ten scale. However, the industry can do more. For example, rather than simply indicating where the fund falls on a generic risk spectrum, fund manufacturers and distributors could present an enhanced risk scale, including both graphic representation and narrative text, that explains what the risk spectrum actually represents, indicates where different investment products typically fall, and spells out in general terms the risk-return trade-off at each point on the spectrum (Figure 12).

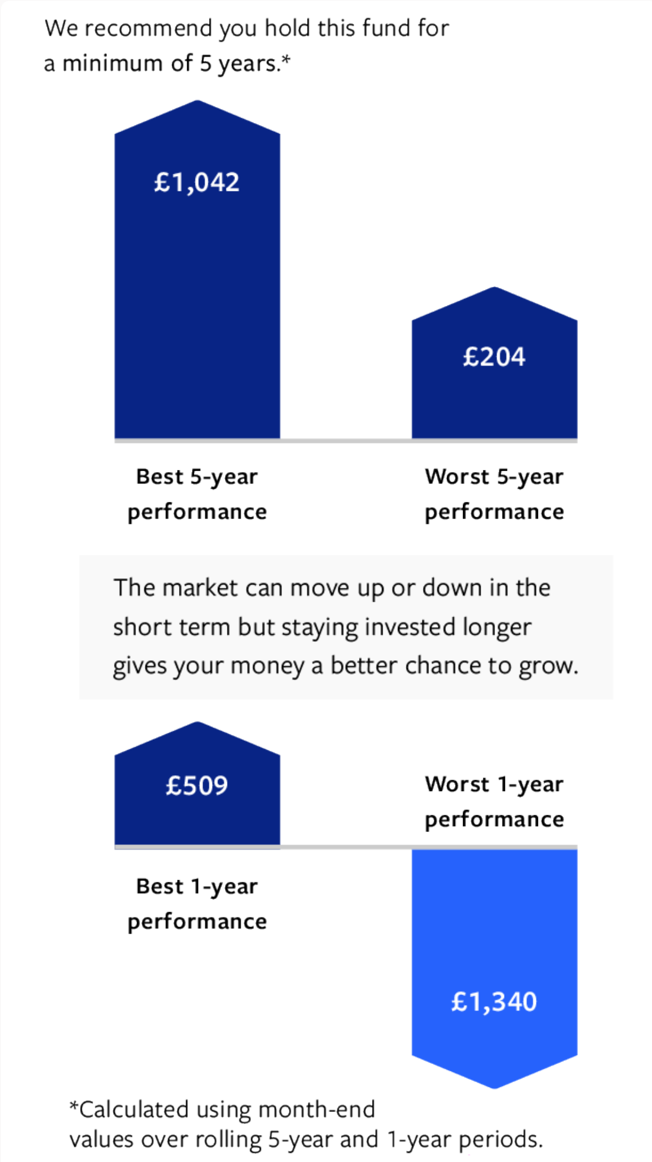
Fig. 12 Enhanced risk scale



Source: Broadridge Fund Communication Solutions

This type of graphic can be supplemented with additional presentations illustrating what this risk level means in practical terms, showing things like the fund's best and worst historic performance over one-year and five-year periods (Figure 13).

Fig. 13 Reward, risk and performance



Source: Broadridge Fund Communication Solutions

Creating a retail investment culture

The ultimate goal of all these potential enhancements is to make it easier for retail investors to access and understand the information they need to make decisions. To that end, it's incumbent on fund manufacturers and distributors to present the most essential of these data points in a single place, in a format that increases the chances that the investor will ingest the information at the right time to inform good decisions.

In most cases, that will mean populating the first page of the disclosure statement with key comparison information, and allowing design teams the freedom to use layering and other tools to create layouts and formats that encourage investors to engage with the information.

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