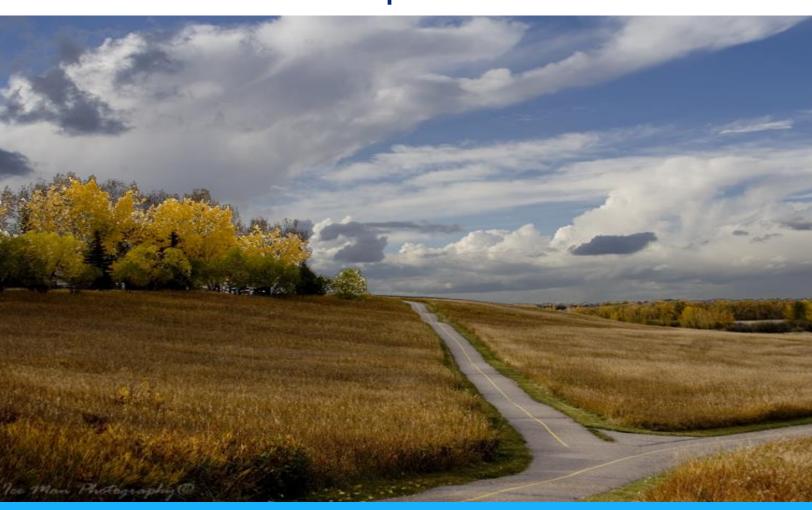
Performance Fees, An Alternative Way Offering Investors Choice.



A detailed study of the performance related fees offered in dual "Twin" share classes across Europe.



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Performance Fee and No Performance Fee Share Classes - Extra Choice for Investors.

Performance fees have made some positive headlines recently. They have been linked to product innovation which can be seen as a nice change from usually being a topic of controversy and debate amongst investors, fund managers or even politicians. Performance fees are viewed by some as a way to align investor and fund managers' interests, but they still remain for others an extra cost, a "bonus for just doing their job" and a concern as they could encourage risky investment behavior.

As there is more and more talk of defining and evidencing investment fund value to investors, the impact of adding an extra cost on top of existing total fund operating costs would seem the exact opposite of what one should do when chasing value. In an industry where management fees remain the main driver of funds' costs, only a substantial drop in management fees and in turn a lower level of Ongoing Charges Figure (OCF) would make a use of performance related fees attractive.

Twin share classes have identical entry requirements and target market. Their difference resides in their fee structure, with one charging a performance fee.

As we built the Fitz Partners Performance Fee Benchmarking Report and whilst conducting calculations for funds included in our Fund Charges database, we noted that among the 140 asset managers we cover, some were increasingly introducing pairs of almost identical share classes. These share classes have identical entry requirements and target market with the only difference between the two classes being that one of the 'non-identical Twin' share classes has a performance fee element and a different level of overall operating expenses. It appears that, in light of ongoing discussions regarding providing investors with value and choice, asset managers are increasingly giving investors the right to *choose* whether or not they would prefer to pay known levels of fixed fees or instead would rather be charged a more variable fee structure made of a lower known operating charge and a variable additional performance fee. In effect, the alternative to the traditional model known as "ad valorem", offers investors, on one

hand, a discount through lower level of management fees during periods of underperformance but on the other hand, a higher level of fees during period of outperformance, which if structured adequately using tools such as Clawback and High Water Mark (HWM) would reward fund managers adequately for significant outperformance.

More choice from more asset managers: 167 sets of Twin share classes offered by 22 fund promoters

In our Fitz Fund Charges database and Performance Fee Benchmarking Report, we have identified 22 promoters offering 167 sets of 'Twin' share classes domiciled either in Luxembourg, Ireland or the UK.

It is clear that there has been an industry-wide increase in the launch of performance fee Twins. When a similar research was conducted by Fitz Partners in 2017, we found that there were only 43 pairs in existence in our Fund Charges database, the majority of which were institutional. This number has increased dramatically with over half of the 167 pairs now being designed for the retail market. It is becoming apparent that after much discussion in the industry as to the value of incorporating performance fees into funds aiming at professional or institutional investors, asset managers are also giving retail investors a choice.

Twins' AUMs by share class

	Total AUM \$M (Performance Fee)	Total AUM \$M (No Performance Fee)
Institutional	6,309	10,226
Clean	2,970	1,575
Retail	2,371	1,300

In this 20 page report and in the appendix attached, we present a detailed analysis of the specific Twin share class universe available, by class types (Retail, Clean, Institutional) and fund characteristics, comparing operating fee levels, performance fee structures, the impact of performance related charges on overall share class costs as well as a deep dive review of management fees in use, specifically in Twins' fee structures and in the overall European fund market.

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Share Class Universe

Number of Twin Share Class sets by Share Class Type Asset Managers offering Twin Share Class Sets

Overall Difference in Management Fees & OCF

Comparison of Fee Structures between "Twin" Sets

Fee Structure Differences by Share Class Type

Management Fees

Ongoing Charge Figure (OCF)

Performance Fee Cost Impact by Share Class Type

Institutional

Clean

Retail

Fee Structure Differences by Asset Class

All Share Types

Institutional

Retail

Performance Fee Cost Impact by Share Class Type & by Asset Class

All Share Types

Institutional

Retail

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Performance Fees Cost Impact by Cross-Border Jurisdictions

Twin Fee Structures & Their Comparable Independent Share Classes

Performance fee Structures

Management Fees

Appendix – An Excel spreadsheet listing all Funds with Twin share classes, and describing side by side performance fee and non-performance fee share classes, presenting their ad valorem fees as well as their performance fee characteristics.



FITZ Performance Fees "Twin" Share Class Research Order Form

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Existing subscriber to Fitz	erformance Fee Benchmarking Report & Database: FREE
Non-subscriber to Fitz Pe	ormance Fee Benchmarking Report, Research only: £2,500.
One-off subscription to F	Performance Fee Benchmarking Report & Database + Free Research: £5,000.
Auto-renewal subscription	to Fitz Partners Fee Benchmarking Report & Databases + Free Research: £4,500.
(Price per year & includes	permanent 10% discount - Initial Term: 2 years)
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If you wish to receive our Performance Fee "Twin" Share Class Research, please fill the order form above, mentioning your choice of subscription and send a scanned copy to:

laura.guthrie@fitzpartners.com or hugues.gillibert@fitzpartners.com

If you wish to discuss the Research further, please contact Laura (0203 301 0862) or Hugues (0203 301 0861).