

# Performance Fee Twins: Offering Investors Choice.



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



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**May 2021**

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

We have seen in our May 2021 Performance Fee Benchmarking Report that during the past year, many asset managers have already reviewed their use of performance fees as a result of the newly introduced ESMA guidelines being followed across Europe.

As there are more and more discussions regarding 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 aiming to offer value to investors. However, performance fees are still viewed by some as a way to align the interests of fund managers and their investors. In an industry where management fees remain the main driver of funds' costs, a drop in management fees, and in turn a lower level of Ongoing Charges Figure (OCF), would make the 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 have built our Fitz Partners Performance Fee Benchmarking Report and conducted calculations for funds included in our Fund Charges database over the past few years, we have noted that among the asset managers we cover, some were increasingly introducing pairs of almost identical share classes. These 'Twin' 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 periods 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:  
252 sets of Twin share classes offered by 23 fund promoters***

In our Fitz Fund Charges Database and Performance Fee Benchmarking Report, we have identified 23 promoters (of the 161 promoters we cover) offering 252 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 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 steeply over the course of four years, with 167 sets of twins identified in October 2019 and 252 sets of twins presented in the current Fitz Fund Charges Database. It is becoming apparent that, after much discussion in the industry as to the value of incorporating performance fees into funds aimed at professional or institutional investors, asset managers are also giving retail investors a choice.

Twins’ AUMs by share class

|                      | <b>Total AUM \$M<br/>(Performance Fee)</b> | <b>Total AUM \$M<br/>(No Performance Fee)</b> |
|----------------------|--|---|
| <b>Institutional</b> | 11,258                                     | 17,121  |
| <b>Clean</b>         | 4,774                                      | 3,731   |
| <b>Retail</b>        | 17,565                                     | 2,894   |

In this 21-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, and the impact of performance related charges on overall share class costs. We also provide a deep dive review of management fees in use in Twins’ fee structures as well as in the overall European fund market.

## Table of Contents

### 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

### Fee Structure Difference by Domicile

- Fee Structure Differences by domicile (Cross-Border Jurisdictions)
- 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.**



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**FITZ Performance Fees “Twin” Share Class Research Order Form**

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**Company Legal Name:** \_\_\_\_\_  
**First Name** \_\_\_\_\_  
**Surname** \_\_\_\_\_  
**Position in the company** \_\_\_\_\_  
**Address** \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
**Email** \_\_\_\_\_  
**Telephone** \_\_\_\_\_  
**VAT number** \_\_\_\_\_

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***If you wish to subscribe to our Performance Fee “Twin” Share Class Research, please fill the order form above, mentioning your choice of subscription and send a scanned copy to: [hugues.gillibert@fitzpartners.com](mailto:hugues.gillibert@fitzpartners.com) or [laura.guthrie@fitzpartners.com](mailto:laura.guthrie@fitzpartners.com) .***

***If you wish to discuss the Research with us, please contact Laura Guthrie (0203 301 0862) or Hugues Gillibert (0203 301 0861).***