



Investment Advisory Fees Benchmarking Report

10th Annual Edition

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Acknowledgements

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1. Introduction

Once again, over the past year, there has been a particularly strong focus within the asset management industry on fund fees, fund costs, fund value and profitability. This has been driven by pressure from several factors, but particularly by the increasing costs and fees related regulations in Europe and in the UK. In the past few years, we have witnessed a continuous push from regulators requiring asset managers to benchmark their fees as part of the UK Assessment of Value or the more recent Value for Money reviews in Europe. More recently we have received requests to benchmark fund fees in even more detail as part of some of our clients response to the CBI (Central Bank of Ireland) “Dear Chair” letter. Some clients would now, not only, benchmark their funds based on their top level share classes’ OCFs or even their operating fees but they are also benchmarking in detail the components of their management fees, whether these be ManCo fees or net investment advisory fees. This requirement of even greater levels of granularity and depth in benchmarking is likely to continue as regulators apply further pressure on asset managers to consider fund value by benchmarking and reviewing among other value drivers, all their costs supported by investors across Europe.

In such an environment we are very pleased to present our Investment Advisory Fees Benchmarking report. We trust it will be of great value to our customers conducting their business successfully through managing their costs efficiently while remaining within their profitability objectives. The main aim of this report is to be the leading source of data enabling fund promoters and their Transfer Pricing experts to compare the advisory fees they pay for their funds as a share of their management fees as well as measuring their levels of gross or net profits with those of the industry.

The data presented in this report brings greater transparency and better understanding of the level of Investment Advisory paid by the funds, mostly as part of their overall Management Fee. By offering unrivalled benchmarks of the cost of the advisory function by funds’ asset class, investment area and size, we are providing a unique tool to establish the true level of investment advisory fees paid by the European fund industry.

The disclosure and description of Advisory Fees in funds’ literature is extremely poor and, in some cases, misleading. While conducting our research we found that some funds’ literature disclosed wrongly their Management Fee under the heading Advisory Fee when this does not purely cover the functions and research relating to stock selection and asset allocation.

Following the trend in Europe to produce periodic thorough fee reviews, we believe that this report will support an increased emphasis on fund governance and fee transparency. The evolution of the European Fund industry towards stronger governance has reinforced the requirements for robust fee benchmarks such as those already delivered by Fitz

Partners in many areas of the funds operations, including Advisory Fees and Performance Fees.

Finally, in Europe the link between fund net performance and successful fund distribution has become more and more apparent. The appropriate engineering of adequate fee structures based on robust and accurate benchmarks and the allocation of resources fully justified by good fund governance, also make complete sense for fund companies in their quest to maximise fund net performance.

2. Definitions, Methodology & High Level Asset Class Benchmarks

2.1. Background to the report

Interest in the issue of Investment Advisory Fees has increased substantially in recent times, partly because of its links to fund performance as well as the need for an accurate benchmark when it comes to the measure of asset management firms profitability and partly because of greater interest from tax authorities in transfer pricing arrangements. Our analysis is the result of specific requests from our personal contacts in the mutual fund industry and in economic consultancy or legal firms.

It should be noted that virtually none of the data within this report is in the public domain. We invited a broad cross-section of leading fund promoters to participate in this study, by providing us with their advisory fee data, which we have then aggregated and presented in such a way as to preserve confidentiality. In some cases, the advisory function is outsourced, and the rate will be a purely commercial one. In other cases, the advisory function is carried out internally. Even here, it will be essential, or at the very least highly desirable, for the internal transfer pricing mechanism to reflect a commercial rate.

2.2. Disclosure and Settings of Fee Arrangements

Gross Management Fees vs Clean (Net) Management Fees.

Outside Fitz Partners detailed fee calculations, the only visible aspects of fund fees structures to the public are mostly in the quoted management fee and the Ongoing Charges Figure (OCF) or Total Expense Ratio (TER). The annual management fee quoted within funds' literature is a charge paid directly from a mutual fund's assets to the fund sponsor. In addition to meeting the cost of investment advisory services which are purchased either internally or externally, this gross charge may also provide for certain administrative services, also annual distribution fees or 'trail fees' payable to intermediaries when these commissions are still in existence. There is invariably a residual balance after all such payments have been made which the gross profit is delivered to the 'fund sponsor'. For our purpose, the fund sponsor will frequently represent an individual division, often the marketing/product development function, of a much larger organisation.

Gross Profit for Fund Sponsor = Gross Fund Management Fee (made of Quoted Management Fee including Distribution Fees) **less** Advisory Costs

More recently, as most cross-border asset managers have been launching new share classes net or clean of any rebates or distribution fees, we are now able to also measure a Net profit benchmark for fund sponsors in our report. The separate measure of advisory fees to Clean classes only delivers an accurate benchmark of Net Profit:

Net Profit for Fund Sponsor = Clean Quoted Management Fee less Advisory Costs

Fund houses must regularly review their level of Investment Advisory fees across their fund range. A problem naturally arises when attempting to set a commercial rate for these services, because a breakdown of disclosed gross management fees charged to funds is not in the public domain. Negotiations between the sponsor and the providers of investment advice are then limited by the absence of quantifiable data. This may lead to the agreed fee levels being relatively arbitrary, especially when the issue is one of transfer pricing between two internal departments. Where the investment advisory company and the fund sponsor company are domiciled in different jurisdictions, the pricing level and its effect on relative profits will clearly have an implication for tax liabilities. We have described in our last section the specific advisory fee levels in place when investment advice is delivered either externally (8.2.1) or by promoters' subsidiaries regarded as a separate legal entity (8.2.2).

2.3. Participants

The following Asset Managers have been included in this report. Either their Advisory Fees were disclosed clearly enough in the funds' literature or they have agreed to give us access to their precise Investment Advisory Fees schedule. We would like to thank all participants for their support, time and effort to provide us with this unique dataset. The participants have been named in order to demonstrate the relevance of the statistics throughout this report, although the results have been presented in a way that protects the confidential nature of the data and make impossible the identification of any individual promoter's or fund's fee arrangements.

- Amundi
- BNY Mellon
- Franklin Templeton
- Goldman Sachs
- JP Morgan
- Lemanik
- Manulife
- Mediolanum
- Morgan Stanley
- Pictet
- St James' Place
- True Potential
- Wellington

*Further asset managers have been included within our data/research, however did not wish to be listed.

2.4. Data Sample

Our total sample size of 1,389 fund products is more than sufficient to produce statistically valid benchmarks within the majority of these asset classes listed below. This corresponds to a total of over 7,200 distinct fee structures.

The funds in our sample represent a total of \$1,568.57bn in net assets.

The diversity of the funds present in our current study ensure that our benchmarks are relevant for any cross-border funds in Europe.

All funds within our study are domiciled either in the UK, Luxembourg or Ireland. Although the advisory fee arrangements might concern advisory outside Europe, all these arrangements are valid for European domiciled funds.

2.4.1. Breakdown by Asset Class

The report covers specifically the following asset classes:

Asset Class	Number of funds*	% of the sample
Equities	533	38.4%
Bonds	306	22.0%
Cash/Short-Term	46	3.3%
Mixed Equities/Bonds	86	6.2%
Index Tracking Equities	175	12.6%
Index Tracking Bonds	66	4.8%
Alternative Investment	70	5.0%
Convertibles	6	0.4%
Fund of Funds	88	6.3%
Asset-Backed Securities	5	0.4%
Other	8	0.6%
Total	1389	100%

(* Asset class categories with less than 5 funds were excluded from our study)

2.4.2. Total Net Asset by Asset Class

The final sample includes Total Net Assets of US\$ 1,568.57bn broken down by asset class as follows:

Asset Class	Total Net Assets (\$m)	TNA Mean (\$m)	Min TNA (\$m)	Max TNA (\$m)	Std Dev TNA (\$m)
Equities	528,646.93	991.83	0.82	20,532.06	2,014.41
Bonds	216,845.17	708.64	6.64	9,969.65	1,116.49
Cash/Short-Term	284,476.87	6,184.28	39.56	102,647.64	15,980.13
Mixed Equities/Bonds	119,977.54	1,395.09	11.05	20,056.83	3,018.74
Index Tracking Equities	133,542.33	763.10	1.88	14,490.16	1,515.18
Index Tracking Bonds	36,016.80	545.71	2.94	2,723.01	748.30
Alternative Investment	73,011.07	1,043.02	5.97	10,426.53	1,624.43
Convertibles	2,478.69	413.12	24.22	1,002.56	365.82
Fund of Funds	165,982.13	1,930.02	3.94	10,210.60	2,560.51
Asset-Backed Securities	5,214.11	1,042.82	250.08	2,122.75	627.90
Other	2,380.35	297.54	14.15	1,476.41	454.31
Total	1,568,572.01	1,392.29	0.82	102,647.64	4,270.47

2.5. Fund Management Revenue

Gross Management Fees.

There is an inconsistency in Europe in that sometimes annual commissions to distributors are rebated on a non-transparent basis from the quoted fund management fee, and in other cases there is a separately quoted, transparent distribution fee. To achieve greater consistency, we have calculated what we term “gross management fees” (i.e. including both transparent and non-transparent distribution fees).

Clean Management Fees.

On the other hand, the continued launch of so-called “clean” share classes for cross-border funds has once again allowed us to include statistics of “clean” management fee net of any distribution fees for 94% of the fund products present in our fund universe and deliver net profit revenue levels and benchmarks.

Our data sample is generating gross management fees of over \$10.6 billion, or 0.68% of total net assets of \$1,568.57 billion. Actively managed Equity funds account for around half of that total (gross management fee revenue of \$6.5 billion) and have average gross management fees of just above 1.08%

When restricting to those funds where net (clean) management fee data is available, we see an average overall net management fee of 0.55%. Considering only equities, net management fees average 0.75%.

2.6. Multiple Types of Advisory Fees Benchmarks

Base advisory fee averages will give a good benchmark for flat fee structures or entry levels for structures with sliding scales. Adjusted advisory fees (2.8 below), in comparison, will be a better indicator in regard to the cost actually paid for the advisory function. A third indicator is the dynamic benchmarks for which cost functions have been calculated. With this dynamic measure investment managers will be able to benchmark their advisory costs depending on the asset class, investment area and the size of their funds.

2.7. Base Advisory Fees

Whilst some funds have a flat advisory fee rate applied at fund level, others have a sliding scale structure, so that increasing tiers of assets are charged at lower rates. Our analysis highlights that the asset-weighted average base fee across the sample is 0.308%, whilst the straight mean average is 0.366%. This demonstrates that base advisory fees (outside any sliding scales) studied in our sample might reflect some economies of scale.