



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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Can the Twin performance fee share classes deliver better value to investors?

As there are increasing discussions regarding defining and evidencing investment fund value to investors across Europe and in the UK, this report would help to consider whether offering Twin share class structures could offer more 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, if the total cost prior to adding a performance fee was lowered, one could review this statement; 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 and possibly a driver of better value to investors, due to investors only paying potentially higher fees when higher outperformance has been achieved.

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

Thanks to Fitz Partners' Performance Fee Benchmarking Report and previous Fitz Twin Share Classes research, it has been well publicised over the past few years that a number of asset managers have introduced 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, many asset managers are 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 comprised 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) (as is now required in Europe), would reward fund managers appropriately for significant outperformance and in turn might provide greater value.

***A constant increase in number of Twin Share classes:
300 sets of Twin share classes offered by 28 fund promoters in 2023***

In our Fitz Fund Charges database and Performance Fee Benchmarking Report, we have identified 28 promoters (of the 242 asset managers included in our ‘Fund Charges’ database) offering 300 sets of ‘Twin’ share classes domiciled either in Luxembourg, Ireland, or the UK. It is clear that there has been a continued 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 the six years, with 167 sets of Twins identified in October 2019, 252 sets of Twins identified in May 2021, 260 sets of Twins identified in July 2022 and 300 sets of Twins identified this year within the 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, with a now near identical number of retail and institutional Twin share classes.

Share Class Type	Total AUM \$M (Performance Fee)	Total AUM \$M (No Performance Fee)
Institutional	7,448	15,348
Clean	7,373	2,164
Retail	18,688	3,411

In this 30-page report and the appendix attached, we present a detailed analysis of the specific Twin share class universe available, by share 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 within Twin fee structures compared to those in the overall European fund market.

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