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Implementation Insight

Investment Management Fees:
Capturing Price Evolution

November 2021

Contents

bfinance is an award-winning specialist consultant that provides investment implementation advice to pension funds and other institutional investors around the globe. Founded in 1999, the London-headquartered firm has conducted engagements for more than 400 clients in 40 countries and has 10 offices globally. Services include manager search and selection, fee analysis, performance monitoring, risk analytics and other portfolio solutions. With customised processes tailored to each individual client, the firm seeks to empower investors with the resources and information to take key decisions. The team is drawn from portfolio management, research, consultancy and academia, combining deep sector-specific expertise with global perspective.

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Why read on?

Ongoing analysis of asset manager fees highlights new areas where investors may be able to benefit from pricing trends and patterns.

In this fourth instalment of bfinance's biennial Investment Management Fees series, we again examine the latest fees and identify a handful of segments where institutional investors may find it worthwhile to re-evaluate current costs. Importantly, as in previous studies, the fees shown here are not 'rack rates' but represent **live quotes for real mandates**, proposed during competitive search processes.

SECTION ONE:
THE PRICE OF ESG AND IMPACT
With so many eyes on ESG and Impact investment now, Section One of this paper asks: is there a pricing premium for ESG and/or Impact? An examination of selected Equity and Real Asset segments reveals that fees have fallen significantly in some established ESG/Impact strategy types, while pricing dispersion and discounting for newer sectors are providing investors with excellent opportunities to maximise value for money.

SECTION TWO:
IDENTIFYING POTENTIAL SAVINGS
Section Two considers how investors may be able to identify potential savings, in addition to those already noted in Section One. Granular comparison against more specific peer groups can be productive with structure, sub-strategy type and geography all serving as useful lenses. It may also be helpful to consider the industry dynamics that can contribute to cost compression, such as sector maturity, medium-term performance, pricing transparency and competition from cheaper alternatives.

SECTION THREE:
FEE GOVERNANCE CHECKLIST
Cost governance is now an essential aspect of good governance. This paper closes with a checklist, intended as a reference tool for institutions that are seeking to validate or reduce their overall third-party manager fee load without compromising on preferred investment strategies or the quality of providers and partnerships.

We hope that the material shared in this edition of the Investment Management Fees series continues to empower institutional investors to achieve the fairest possible pricing and maximise alignment of interest in their relationships with asset managers.

Handle with care...

This study is **not comprehensive**, with only a select group of asset classes on display. It is also **unsuitable for benchmarking:** proper fee analysis requires appropriate consideration of mandate sizes, strategy sub-type and style, the investor's location and type, and the likely discounts that could be achieved versus quoted fees at the relevant time.

Investors should note that final negotiated fees tend to be lower than quoted fees: **average discounts** range from 5% to 15% depending on the sector.

Although this paper puts fee reductions in focus, we caution strongly against the pursuit of lower fees with insufficient regard for quality. Net return—not cost—is the most important metric!

PART 1: The price of ESG and Impact

Investors today can benefit from a notable erosion in fee levels for a number of ESG and Impact-oriented strategies.

Some ESG-related sectors are now becoming relatively mature, often characterised in pricing terms by narrower dispersion in fee quotes and more clustering around certain fee-points as well as overall price compression. Other sectors are still very immature, featuring wide dispersion in fees and substantial discounting. Here, we examine a handful of sectors in order to illustrate the latest developments.

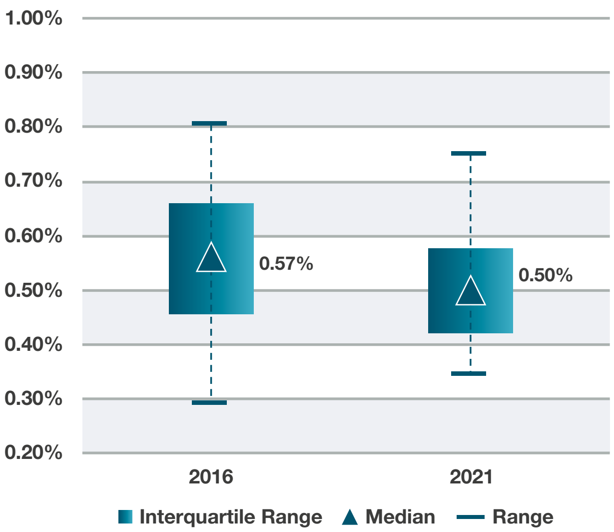
Fee compression factors
Global ESG Equities

- ✓ More providers entering the sector
- ✓ Clients increasingly expecting ESG as 'standard'
- ✓ Improvement in cheaper alternative products e.g. emergence of climate indices
- ✓ Overall trend in equity pricing
- ✗ Increased reporting requirements
- ✗ Greater resourcing

Global equities

Active global equity managers that integrate ESG considerations are now quoting significantly lower fees to prospective clients than was the case five years ago. As shown in Figure 1, the median fee quoted by managers on EUR100 million mandates has declined by 14% since 2016, from 57bps to 50bps.

FIGURE 1: ACTIVE GLOBAL EQUITY WITH ESG REQUIREMENTS" TO "ACTIVE GLOBAL EQUITY (ESG)



Source: bfinance. Fees quoted by managers for specific client searches (prior to final negotiation). Although the strategies are broadly comparable, readers should note that ESG approaches have developed considerably in this period. Pooled fund and SMA proposals both included.

Meanwhile, it is increasingly hard to assess the pricing trends for active global equity strategies that do not integrate ESG considerations, due to their rapidly declining number. This is illustrative of recent 'ESG mainstreaming', with managers bringing sustainability and stewardship considerations into the centre of their businesses – at investment strategy level and at corporate level. As such, any potential ESG pricing premium has now essentially been removed.

The relationship between ESG integration and pricing is a complex one. On the one hand, ESG credibility might be seen as a bastion against broader pressures in active equities, following a decade which has featured massive flows towards Passive or Smart Beta strategies and ongoing cost compression for active management, as charted in previous reports in this series. On the other hand, managers still need to compete vigorously on price in order to attract ESG-oriented clients, amid increasingly stiff competition. Meanwhile, building ESG credibility and capability continues to put pressure on resources, with clients increasingly alert to the potential for 'greenwashing' and demanding clearer reporting.

PART 1: The price of ESG and Impact continued

Dedicated thematic and Impact equity strategies

When we look beyond the new mainstream and consider more specialised equity strategies, however, the picture is more complex. There are a wide variety of strategy types available to investors, as illustrated in a recent article: *Carbon Cuts or Climate Impact? New Choices for Equity Investors*.

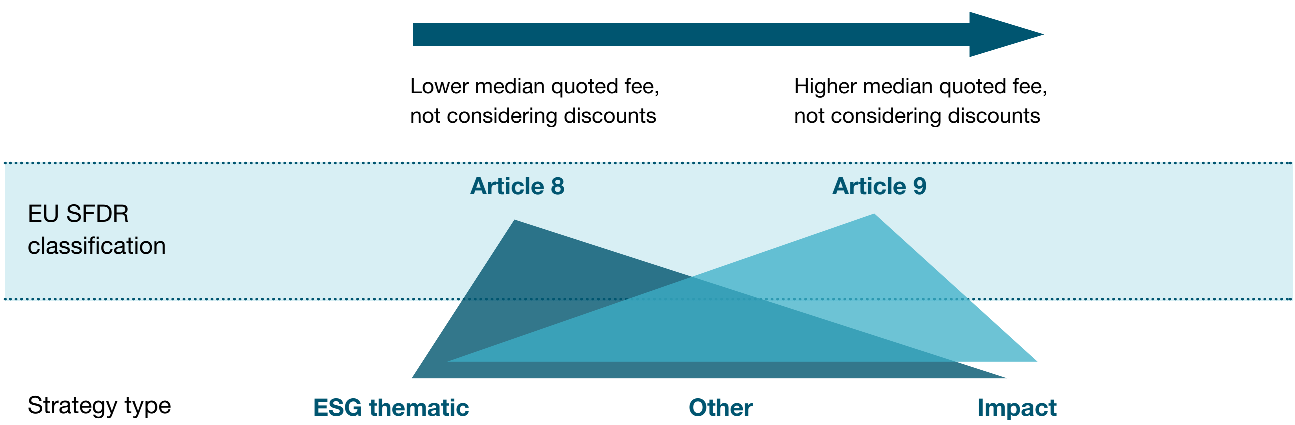
It is very early, perhaps, to be drawing conclusions on the relative pricing of some of these strategy types, including the (sometimes overlapping) sub-categories of impact, ESG thematic, and Article 9[1] strategies. Many of these sectors are relatively new to the market, with a significant number of recent launches. Other factors can also muddy the waters, such as client-specific requirements and structures (e.g. pooled fund offerings versus separate accounts).

Yet, even with these essential caveats, there are some interesting patterns in pricing that investors may find helpful to consider as they explore this emergent sector and negotiate fees. For example, recent search activity in this space (Q4 2021) suggests that there may be an on-paper premium on the pricing of Article 9 strategies, with a slightly higher median and a significantly higher upper quartile fee than we observed in Article 8 strategies. However, this area also featured some of the most aggressive discounting against those quotes, with nearly 30% of the managers proposing Article 9 strategies offering an upfront discount (i.e. discount provided alongside quoted fee in first proposal). These upfront discounts are primarily available from managers whose pricing sits above the median. In these cases, managers are often seeking seed investors and competing to gain a foothold in this growing space.

There may also be a modest premium (or at least a higher median quoted fee) for **Impact** strategies, which explicitly target and are equipped to report on social and environmental outcomes. 'ESG thematic' strategies that do not meet the threshold which we would consider appropriate for an Impact strategy were, on average, a little cheaper in terms of quoted fees.

Investors should not assume that they will necessarily pay more for high calibre managers in any of these segments, especially after negotiation. Careful benchmarking and a strong awareness of the range of fee proposals currently available in the market can help.

FIGURE 2:
DEDICATED IMPACT AND THEMATIC GLOBAL EQUITY STRATEGIES – PRELIMINARY ANALYSIS AT Q4 2021



Source: bfinance, preliminary analysis based on limited manager search activity to date. Upfront discounting is not incorporated. Categorisations are defined by bfinance analysis, not strategy label.

[1] The EU Sustainable Finance Disclosure Regulation (SFDR) Article 9 classification—wherein sustainable investment or a reduction in carbon emissions is the strategy's "objective"— came into effect in March 2021.

PART 1: The price of ESG and Impact continued

Renewable energy infrastructure

As the Renewable Energy Infrastructure sector has matured and developed, investors have benefitted from some significant fee reductions—contrasting with stable infrastructure pricing in other sectors.

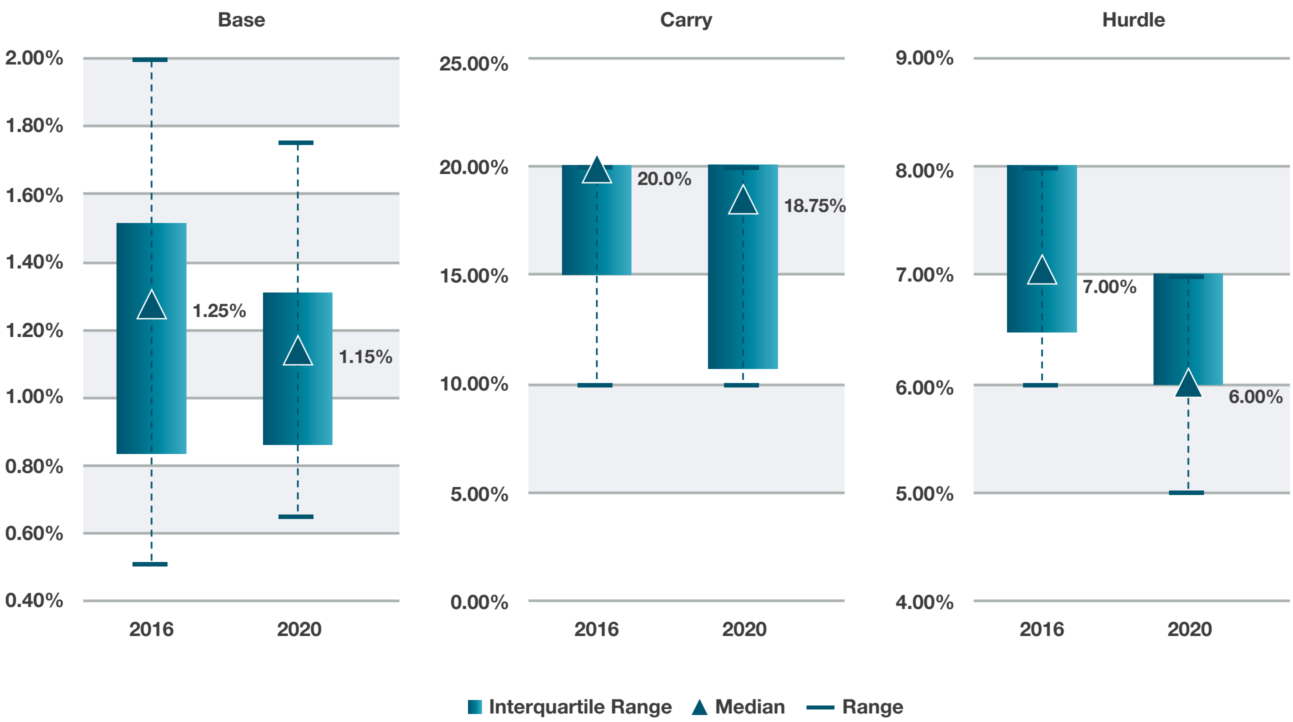
We have observed a modest reduction in quoted base fees for global Renewable Energy Infrastructure strategies, with the median quoted fee for a USD50 million mandate down 10bps versus 2016 **(-8%)** and a fall of 21bps in the upper quartile **(-14%)**. We also see significantly less dispersion in the fees being quoted by managers—a pattern that is characteristic of a maturing sector, where price discovery over time leads to a greater awareness of what competitors are likely to charge for similar products and a reduction in the more extreme quotes.

Importantly, performance fees and hurdle rates have also fallen. Although there are still a lot of managers clustering around the 20% mark on **carry**, we do see an increasingly substantial proportion willing to price between 10% and 15%. In addition, the median **hurdle rate** has declined to 6% from 7%. There is a positive correlation (albeit a weak one) between base fees and performance fees being quoted by managers: strategies with higher base fees tend, on average, to have larger performance fees as well.

Fee compression factors
Renewables

- Declining target returns
- Maturation of sector
- Higher proportion of longer-term (more than ten-year) vehicles
- Ongoing strong demand from investors
- Strategies increasingly feature more development, more greenfield, more complexity

FIGURE 3: QUOTED FEES, GLOBAL RENEWABLE ENERGY INFRASTRUCTURE, 2016 VS. 2021 – USD50 MILLION



Source: bfinance

PART 1: The price of ESG and Impact continued

The decline in fees has been accompanied by a **fall in target returns**, as well as a rise in the proportion of longer-term vehicles versus ten-year private equity-type fund models. The median net IRR being targeted by funds raising capital in 2021 was 8%, down from 9% five years before). In other words, median target returns and fees are now roughly comparable with those available in core-plus infrastructure strategies. The evolution of the renewables sector and changes in managers' strategies were explored in the recent white paper *Renewable Energy Infrastructure: Lessons from Manager Selection*.

The fee reductions in renewable energy infrastructure are more noteworthy when we contrast them with the broader infrastructure landscape. Looking across Value-Add, Core/Core+ and Opportunistic infrastructure in a range of geographies, we see **no visible declines** in median pricing during the last five years, even though there has been considerable downward pressure on expected returns in a highly competitive environment.

That being said, there has been a reduction in the dispersion of fee quotes within sub-sectors such as Value Add Infrastructure—similar to the reduced dispersion which we see in renewables—as the various segments have become more established, differentiated and understood. This maturation is helpful for investors that are seeking to review and benchmark the fees that that they are paying in infrastructure, since it allows for greater clarity and more accurate, appropriate comparisons.

Impact real estate

It is interesting to contrast the increasingly mature pricing picture in Renewable Energy Infrastructure with a much less well-established sector such as *Impact Real Estate* (e.g. Social Housing, Affordable Housing and Care Homes).

The fee quotes in this space are extremely diverse, reflecting the range of strategies that straddle Core to Value-Add profiles, though we do see quite a bit of base fee clustering around the 100bps and 65bps levels. Core strategies tend to be cheaper with no performance fees, while all Value-Add strategies have some form of a performance fee. For some managers, the performance fee relates to both financial and impact objectives, while for others it is purely financially focused.

Return targets are also very diverse, and are not particularly strongly correlated with quoted fee levels. Managers in this sector seem unsure about how to price and investors are unsure about what return expectations are appropriate and realistic. Some investors may have reputational concerns about targeting relatively high returns for an asset class that is, fundamentally, involved in the lives of vulnerable population groups. This diversity can, however, be helpful for investors that are keen to ensure that they do not overpay. The large number of start-up funds in the space and the low transparency around pricing can give well-informed clients a strong hand in negotiations.

Fee compression factors
Impact real estate

- Improving availability of strategies
- Ongoing strong interest from investors, although return and risk expectations vary widely
- Variety of fee structures (base only, base + performance, etc) can (but don't necessarily) impede benchmarking
- Diverse range of strategies, lack of standardisation

Is there an ESG pricing premium?

Industry commentators have been extremely reluctant to posit a pricing premium for ESG, impact or thematic investment, except in quasi-passive strategies. It is challenging to draw appropriate comparisons and numerous caveats stand in the way of making judgements on the subject. Yet, with asset managers pushing hard to demonstrate ESG credibility in existing strategies and launch new strategies, investors can still benefit from fierce price competition and uncertainty. Investors who entered ESG strategies several years ago may well be paying a premium today unless recent renegotiations have been undertaken.

PART 2: Identifying potential fee savings

There are various types of information that can support reassessment of appropriate external asset manager fee levels and even, depending on circumstances, renegotiations or re-tendering.

Helpful information might demonstrate cost compression, show fee tiering by mandate size, clarify alpha generation, or simply help to improve the quality of understanding around fees—which may be obscured by complex cost structures (e.g. multiple interacting price components) or a heterogenous landscape of strategies.

When seeking to identify areas where savings might be most likely, in order to target fee-related research, it can also be helpful to consider the industry dynamics which can contribute towards (or inhibit) price competition and compression. These include sector maturity, client demand, the rise of cheaper alternatives and more. Figure 4—originally published in *Investment Management Fees: Is Competition Working?*—briefly summarises a range of these factors.

FIGURE 4: FACTORS SUPPORTING AND INHIBITING PRICE COMPETITION

	MAY ENCOURAGE PRICE COMPETITION	MAY INHIBIT PRICE COMPETITION
Information	Good/improving visibility and comparability of total costs (including fees, what the fee comprises e.g. transaction costs, and non-fee expenses)	Low/declining visibility and comparability of total costs (including fees, what the fee comprises e.g. transaction costs, and non-fee expenses)
Information	Easy/becoming easier to determine "quality" i.e. value for money (e.g. better performance attribution)	Hard to determine "quality" (value for money)
Information	'Price discovery' in progress (e.g. immature sector)	Pricing well established (e.g. mature sector)
Information	Low/falling cost of production (e.g. larger size, scale)	High/increasing cost of production (e.g. technology, back office, higher research costs post-Mifid II)
Information	Manager selection methods create/enhance competition on price	Manager selection methods do not maximise competition on price (e.g. narrow group of managers and/or pricing not addressed until late stage)
Barriers to entry	Manager selection methods create/enhance competition on price	Manager selection methods do not maximise competition on price (e.g. narrow group of managers and/or pricing not addressed until late stage)
Barriers to entry	Rising number of managers ("early bird" pricing, new competitors may undercut to carve market share)	Few new managers
Number	Rising number of managers ("early bird" pricing, new competitors may undercut to carve market share)	Few new managers
Number	Large number of managers that investor can consider	Small number of managers that investor can consider
Number	Available strategies have high capacity for new inflows	Strategies are capacity-constrained and many are at/near capacity
Homogeneity	Homogeneous product set	Diverse product set, such that peer-to-peer comparison is obscured
Demand	Cheaper alternative products emerge that claim to deliver similar or partly similar outcomes (e.g. smart beta/active equity, ARP/hedge funds)	No "similar but cheaper" alternatives
Demand	Falling demand from investors (e.g. asset allocation trending away from sector/strategy)	Rising demand from investors (e.g. asset allocation trending towards sector, global asset growth)
Demand	Poor mid-to-long-term performance (can weaken demand)	Strong mid-to-long-term performance (can strengthen demand)

Source: bfinance. An earlier version of this table was published in 2019 *(Investment Management Fees: Is Competition Working?)*

PART 2: Identifying potential fee savings continued

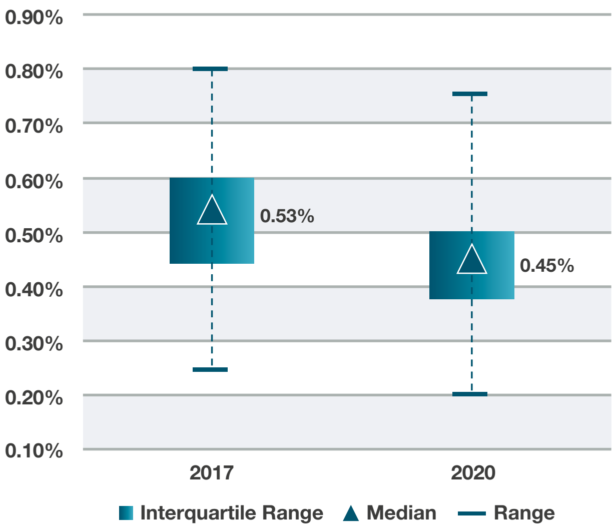
When seeking appropriate information to inform the hunt for savings, it can often be beneficial to carry out more granular analysis of specific sub-sectors or manager peer groups.

Comparison of existing fee levels against those available in a broad strategy area (e.g. "global equities") can be useful as part of a fee review process. However, it may also be beneficial to seek a more detailed view and examine specific peer groups based on their structure, geography, strategy sub-type and more.

Looking closer at: structure

The structure of the fund or vehicle used to access an asset class can be a crucial determinant of overall cost and can affect the investor's ability to benchmark fees effectively against appropriate comparators. The Pooled Fund versus Separate Managed Account dimension of this subject is, perhaps, the one that is discussed most frequently. Here we consider a few other examples to illustrate the variety of ways in which structure may affect the hunt for potential savings.

FIGURE 5: QUOTED FEES, US HIGH YIELD (UCITS FUNDS), 2017 VS. 2020 – USD50 MILLION



Source: bfinance. Data from 28 strategies in 2017 and 37 strategies in 2020.

Example: US high yield in a UCITS structure
The US high yield sector underwent some significant pricing pressure during the last five years, most obviously driven by a period of heavy outflows in 2018 when performance was relatively flat but the total AuM invested in the asset class declined by more than 10% according to market research firm eVestment. However, the asset class is now definitively back in favour with healthy inflows from 2019 onwards and assets under management (AuM) at record highs since late 2020 with minimal expansion in the number of managers available to clients. At bfinance, 28% of all fixed income manager searches conducted for clients in the 12 months to September 30 2021 were for high yield strategies, with the majority of that activity focused on the US market.

When we look at the period 2017–2020, we see some of the strongest pricing reductions in US High Yield strategies offered in a UCITS structure. In 2017 there were fewer offerings in this area. Managers have subsequently prioritised the diversification of their client base, with UCITS funds allowing easier flows of capital from European investors. Firms are now more firmly committed to this dimension of their businesses. With this maturation and expansion in providers we see that median fees fell by 8bps over a three-year period **(-15%)** and the upper quartile declined by 10bps **(-17%)**.

Fee compression factors
US High Yield (UCITS)

- Sustained low yield environment supports consistent downward pressure on cost
- Improved availability of UCITS strategies produces greater competition
- Investor demand highly variable, with large outflows from the overall US High Yield asset class in 2018 but a strong subsequent recovery in AuM

PART 2: Identifying potential fee savings continued

Example: open-end versus closed-end funds in private markets

Comparisons of like-for-like pricing in the vast majority of private markets strategies suggest that fee levels continue to be relatively immovable. The strong client demand underpinning these high figures has been discussed in previous reports within this series. Sectors such as Renewables—illustrated on page 6—are the exceptions, not the rule. While investors have been able to improve the overall cost burden, this is more likely to have been achieved through the increased use of direct investment and co-investment than lower like-for-like fees.

However, it is also important to note the rising availability and popularity of open-ended strategies within a number of segments, including Real Estate, Infrastructure and even Private Equity. These do generally feature lower fees than their closed-end cousins for a number of reasons. First, the amount of active asset management for open-ended strategies tends to be far lower than the more complex value-added or greenfield strategies. Second, the open-ended nature of the strategies means that efficiencies can be gained as funds grow in scale and participants do not need to incur the capital raising and fund closing costs of closed-ended funds. Third, there is greater transparency over the fees of open-ended funds, with considerable investor scrutiny and competition that serves to place downward pressure on fees.

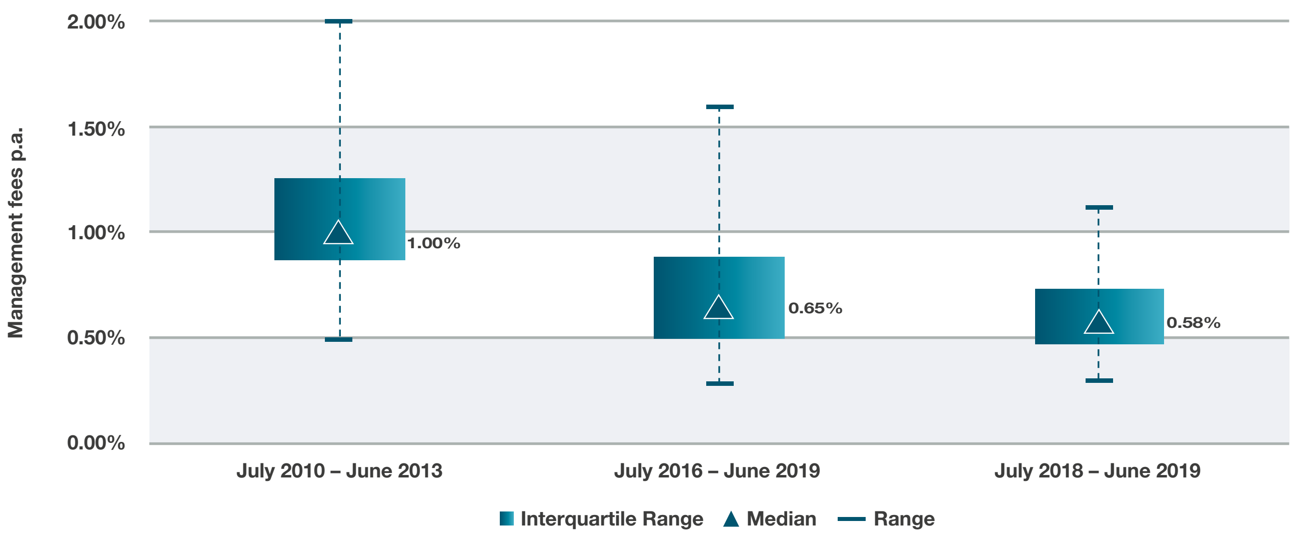
Example: multi-strategy hedge funds via 'platform', 'non-platform' and 'FoHF'

Previous editions of this series have noted massive fee reductions in the Fund of Hedge Funds (FoHF) space (Figure 6) in the decade following the Global Financial Crisis. That pricing now appears to have reached an equilibrium, with no further declines of note in this sector.

Indeed, demand for 'multi-strategy' among bfinance clients has risen dramatically—30-40% of new hedge fund searches launched on behalf of bfinance clients in the 12 months to September 30 2021 were multi-strategy mandates. Investor appetite for broader hedge fund relationships was noted in the recently published white paper *How to Build a Hedge Fund Allocation*.

However, investors seeking multi-strategy hedge fund exposure can consider a variety of potential structures, each with pricing implications. Alongside conventional FoHFs, with their double layer of fees, we see so-called 'platform' multi-strategy approaches (in which the manager actively controls exposures to sub-strategies) and 'non-platform' multi-strategy approaches (in which the investor has exposure to a range of strategies at one manager but without the same degree of active selection/management of exposures). Total Expense Ratios for multi-manager platform structures can add up to nearly 5% depending on the fee pass-through. Non-platform approaches, on the other hand, can end up being significantly cheaper.

FIGURE 6: QUOTED BASE FEES, FUND OF HEDGE FUNDS – USD100 MILLION



Source: Investment Management Fees: Is Competition Working? bfinance 2019. Data from 109 strategies. Management fees only.

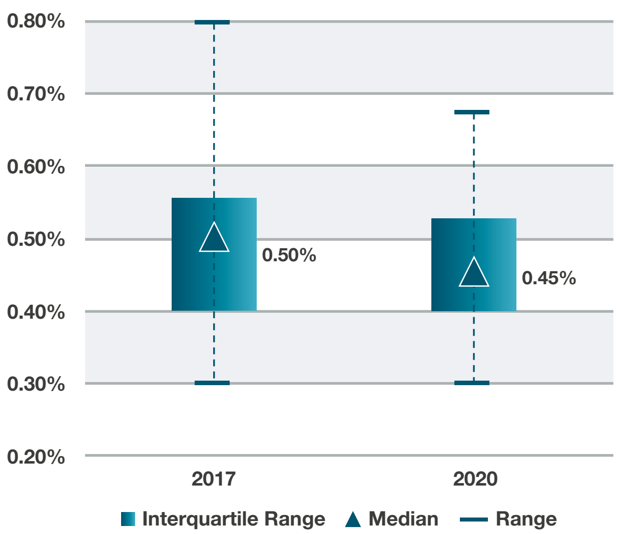
PART 2: Identifying potential fee savings continued

Looking closer at: strategy sub-type

Example: Blended Emerging Market Debt
Blended EMD strategies, which feature the use of both hard currency and local currency bonds, are somewhat newer as a group than standalone Local Currency and Hard Currency strategies. Since the publication of *Emerging Market Debt – To Blend or Not to Blend? (2017)*, we've seen some notable fee reductions as the sub-strategy has matured and gained credibility.

The median fee has declined from 50bps to 45bps in a three-year period **(-10%)**, while the upper end of the range has dropped from 80bps to 67bps giving a considerably narrower range of quotes—typical of a maturing segment that has passed the price discovery phase. This decline is perhaps particularly notable when we consider that there is no passive equivalent to Blended Emerging Market Debt creating fee pressure from below: the active management of Hard Currency versus Local Currency assets is central to the strategy.

FIGURE 7: QUOTED FEES, BLENDED EMERGING MARKET DEBT, 2017 VS. 2020 – USD100 MILLION



Source: bfinance. Data from 24 strategies in 2017 and 38 strategies in 2020.

Fee compression factors
Blended EMD

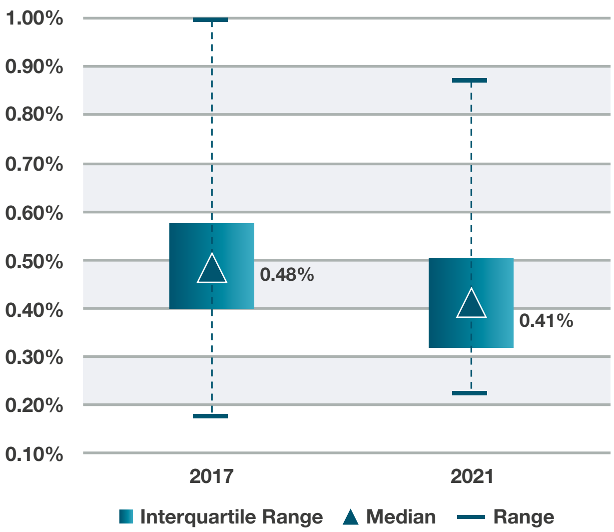
- Maturing asset class
- New entrants to the market, increased competition
- Wide range of performance results
- Lack of passive alternatives

Example: Multi-sector Fixed Income
Many areas of the fixed income manager universe have been under relatively strong and sustained fee pressure for more than a decade, thanks to a low-yield climate that has kept returns somewhat anaemic in comparison with historic levels.

However, the past four years have brought particularly significant movement in the pricing of multi-sector fixed income strategies. These feature a range of sub[1]types—some relatively conservative, others with a more high-yield orientation (see the recently published paper *Multi-Sector Fixed Income: Back in Focus*). As shown in Figure 8, median fees for 'absolute return fixed income' (a more conservative type) have declined from 48bps to 41bps **(-15%)**, while the fee at the lower quartile has dropped from 40bps to 33bps **(-18%)**.

PART 2: Identifying potential fee savings continued

FIGURE 8: GLOBAL ABSOLUTE RETURN FIXED INCOME, 2017 VS 2021 – EUR50 MILLION



Source: bfinance. Data from 37 strategies in 2017 and 44 strategies in 2021.

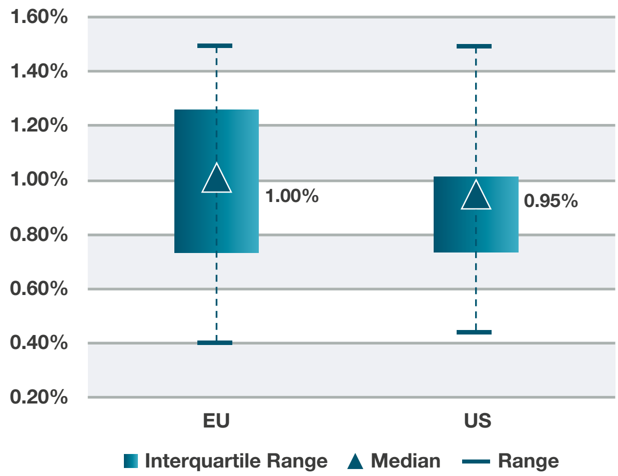
Example: US vs. European Direct Lending
We have seen no evident downward trend in Direct Lending fees since 2017, reflecting a significant increase in demand for this asset class and the reduction in the number of managers. However, Europe still shows a wider dispersion of base fee offerings, which can be seen as somewhat characteristic of a less mature market: although the median fee quoted for an unlevered European direct lending strategy is very similar to that quoted for a US direct lending fund, the upper quartile is more than 20bps higher. In both markets, base fees are now almost universally charged only on **invested capital** (rather than on both invested and committed capital), helping investors to improve cost efficiency in this asset class.

Fee comparisons are complicated by the combination of leveraged and unleveraged fund offerings and the lack of standardisation in terms of the way that managers calculate performance fees. Nearly all managers seek to charge a performance fee, but hurdle rates range from 4% to 8% and performance fees range from 10% to 20%. Leveraged strategies typically reflect higher target returns with a higher hurdle rate, although the **increase in hurdle may not always be sufficient** to reflect the impact of the leverage. Comparing total fee leakage between different offerings requires a scenario-based approach: a 'league table' of managers sorted by cost ratio can re-order as the assumption about gross return changes.

Fee compression factors
Absolute return fixed income

- Sustained low yield environment supports consistent downward pressure on cost
- Maturing asset class
- Performance challenges
- Varying investor appetite (expectations around rising rates are a key factor)
- Diversity of strategy types and lack of clarity can impede effective benchmarking

FIGURE 9: QUOTED MANAGEMENT FEES, UNLEVERAGED DIRECT LENDING STRATEGIES – USD150 MILLION



Source: bfinance. Data for 54 strategies. Data only shows base fees, but readers should note that there is a moderate positive correlation between base fee and performance fee.

Fee compression factors
Direct lending

- Maturing market (Europe)
- Complex fee structures (hurdle, carry etc) obscure comparison and competition
- Increased client demand
- Reduced number of managers available

Fee governance checklist

Among pension funds and sophisticated institutional investors, cost is now a key governance priority—drawing the focus of investment teams, boards/trustees and stakeholders alike. External asset management fees still represent the largest single component of cost for many pension funds, endowments and other asset owners. Savings achieved in this area can make a very significant contribution to overall investment outcomes.

As such, the following questions may provide a helpful internal tool for developing internal governance around this area.

How often do you review external asset management fees as an institution?
Is there a pre-defined minimum frequency? How are results reported to you?

How often do you review fees at the level of the individual mandate?
Are reviews conducted after a pre-defined period? How are the results reported to you?

How are external manager fees assessed/compared? Are surveys or benchmarking exercises providing enough specificity/granularity to be useful? Do they cover strategy type, structure and geography—as well as composition/attribution of costs?

Do you have a process for identifying and acting on potential renegotiation triggers at the asset-class level? Triggers can include a growing universe of providers, overall price trends, new regulations, passive alternatives, etc.

Do you have a process for identifying and acting on potential renegotiation triggers for specific managers? Examples may include rising AuM, strategy outflows, performance and performance attribution.

Does your fee review process take performance and/or 'value for money' into account?
This may include comparison against benchmarks, evaluating peer groups of similar managers and/or analysis of performance attribution.

Does your manager selection process empower you to conduct strong negotiations?
Do you have a high degree of transparency on fees across the broad manager universe?

Do you have good visibility on other costs that can affect net returns? Do you have a robust understanding of whether transaction costs are appropriate? How are various cost variables reported to you?

Where assets are managed by an internal team rather than an external provider, do you have a robust approach for assessing cost and value for money provided by the internal team and comparing against alternative approaches?

Trends at a glance

This paper is not intended to provide a comprehensive review of fee trends across all asset classes, with only a select group of strategy types on display. Please do contact the team if you would like to enquire about other asset classes and strategy types or request a preliminary portfolio fee review. Below is a quick summary containing a number of specific pricing shifts illustrated in this paper:

- Active Global Equities (ESG requirements), median fee down 14% since 2016;
- Active Global Equities, newest manager search activity suggests that there may be a modest premium for Impact and Article 9 (offset by early-bird discounting);
- US High Yield (UCITS), median fee down 15% since 2017;
- Emerging Market Debt (Blend), median fee down 10% since 2017;
- Multi-sector Fixed Income, median fee down 15% since 2017
- Renewable Energy Infrastructure, median base fee down 8% since 2016 and hurdle down 14% (1 percentage point);
- Value-Add Infrastructure, no change in median fee but reduced fee dispersion;
- Fund of Hedge Funds, median fee down 42% between 2010 and 2019 but decline has now stopped;
- Direct Lending, base fees now almost universally charged on invested capital only.

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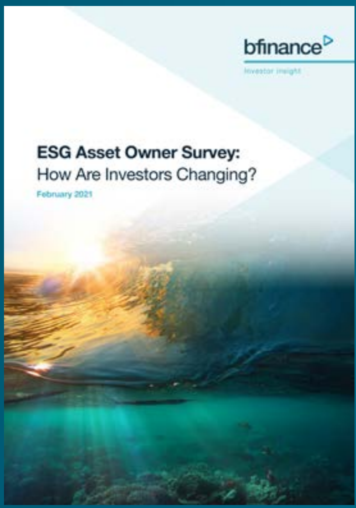
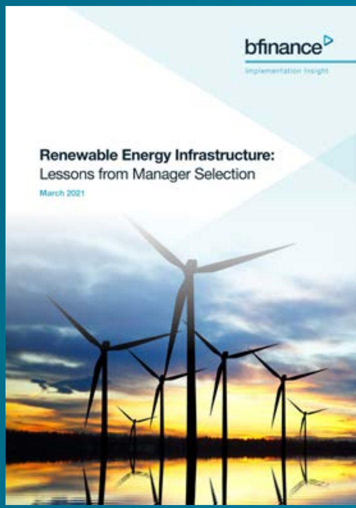
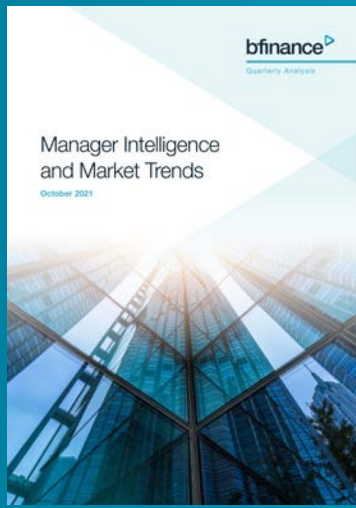


ESG Asset Owner Survey:
How Are Investors Changing?
(February 2021)



Renewable Energy Infrastructure:
Lessons from Manager Selection
(March 2021)



Manager Intelligence
and Market Trends
(November 2021)

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