LCP INVESTMENT MANAGEMENT FEES SURVEY 2013

In this current low growth environment, it is essential that trustees get value for money from their investment management service providers.

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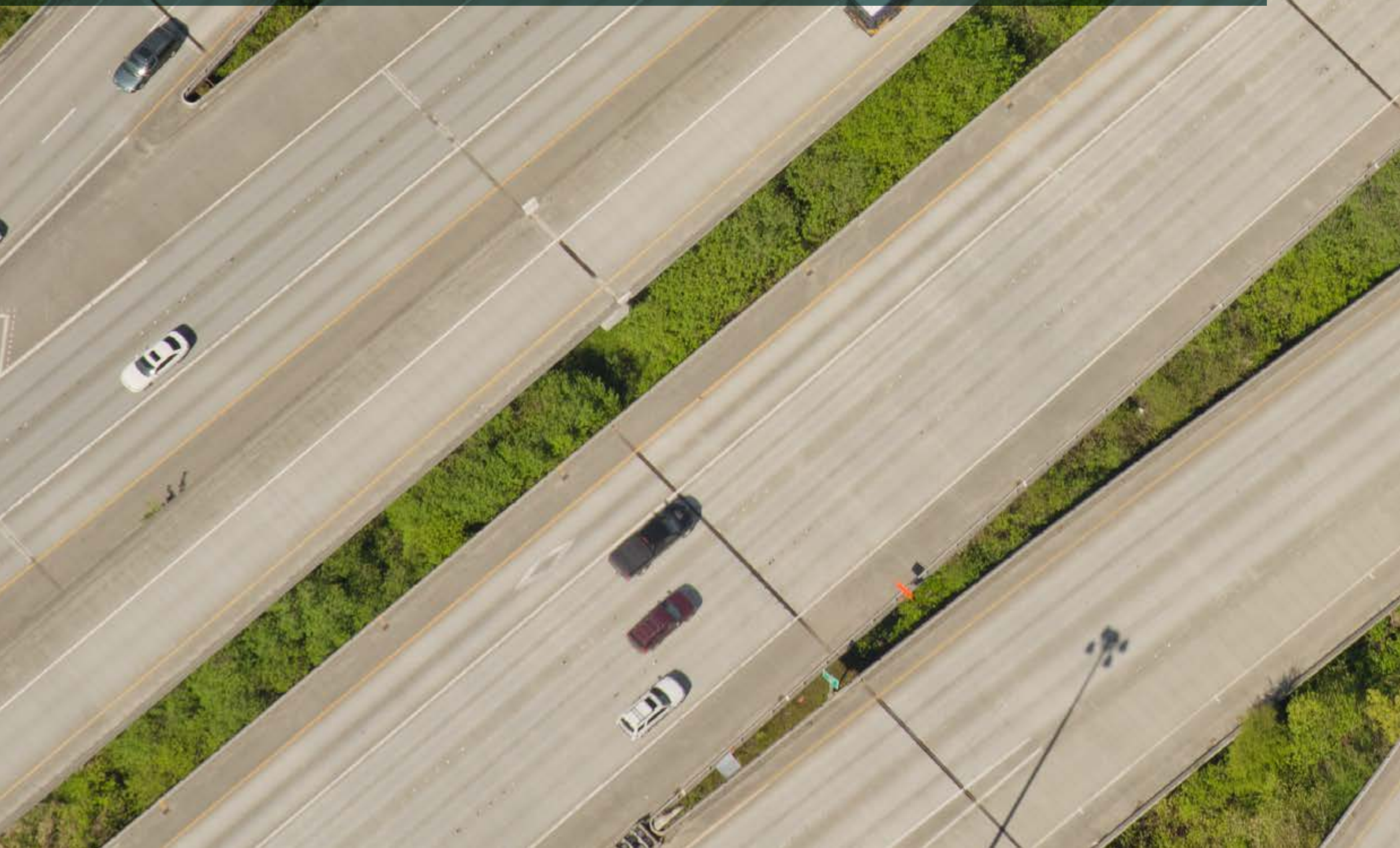

This is the third edition of the Lane Clark & Peacock LLP (LCP) Investment Management Fees Survey. It provides an in-depth analysis of investment management fees and related fee issues.

In total, our survey covers 39 separate asset classes, representing all of the main asset classes invested in by UK pension funds.

LCP is a leading investment consultancy at the forefront of advising companies and trustees on investment strategy, investment managers and related issues.

We would like to thank the following people from LCP who have made this survey possible:

Heather Brown
Jeremy Dell
Beth Dunmall
Lindsey Macgregor
Mark Nicoll
Rebeccah Robinson
Kate Sinclair
Helen Stokes
Ellen Wallace
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For further information about investment management fees and LCP's investment manager research please contact Mark Nicoll or Heather Brown in our London office, or the partner who normally advises you.

For further copies of the report, please contact Nelly Geudin on +44 (0)20 7439 2266 or email enquiries@lcp.uk.com.

The purpose of the report is to highlight the investment management fees payable across different asset classes. This report and the information it contains should not be relied upon as advice from LCP. Specific professional advice should be sought to reflect an individual pension fund's circumstances.

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LCP Investment Management Fees Survey 2013

Mark Nicoll
Partner
LCP

We must not lose sight of our key objective – providing the best possible outcomes for our clients and members means that achieving value for money charging structures is imperative.

Introduction

Welcome to our fourth survey on investment manager fees.

We live in a world where nominal returns have fallen sharply, yet investment management fees have not and they therefore represent a larger slice of total returns than ever before. As a consequence, it is more important than ever to ensure you are getting the best deal possible on fees: paying high fees will significantly harm your performance.

For example, for a portfolio that delivers 5% per annum over a 10 year period, an investment manager fee of 1% per annum will reduce that performance by almost a quarter. On the other hand, this would be just under an eighth of the performance for a manager charging 0.5% per annum.

LCP has long advocated the need for greater transparency of investment management fees and other costs associated with running investment funds. Over the last year, the clamour of various industry bodies (including the Investment Management Association, the ABI (Association of British Insurers), the NAPF (National Association of Pension Funds) and the Office of Fair Trading to name a few) to improve clarity has been growing. Indeed, the new Financial Conduct Authority in its business plan for 2013/2014 has set reviewing fund fee structures as one of its initiatives, citing the increase of additional "hidden" fees and the perception that fund fees are high in the UK compared with other markets. The news that it has launched an investigation into the transition management industry is evidence of its concerns over accountability and transparency.

Against this backdrop of industry pressure on fees, we encourage you to look at scheme running costs, including the fees charged for investment management services, to ensure that you understand whether you are getting value for money in terms of the investment performance that is ultimately delivered to you.

Our survey contains an in-depth analysis of the fees charged by investment managers. It highlights a number of the key issues for you to consider and can be used as a reference document for:

- benchmarking existing manager fee arrangements;
- comparing fees for new investment manager appointments; and
- negotiating fee levels.

Heather Brown
Partner
LCP

Key findings

Transparency of fees has improved.

80%

80% of respondents provided data on indirect costs for this survey.

There has been a significant improvement in the number of investment managers who have provided details of the ongoing charges figure (or total expense ratio (TER)) associated with running their funds, with over 80% of respondents providing data (up from two-thirds in our 2011 survey). However, this is not the case for all asset class universes, with disclosure by the fund of hedge funds universe particularly poor, with only one manager willing to provide details of the ongoing charges figure. This does little to improve the reputation of fund of hedge funds with their multiple fee layers remaining opaque to investors.

1/3

Fewer than a third of respondents provided transaction costs data.

Additional findings

- **Transaction costs are not provided by the vast majority of respondents**

  The ongoing charges figure does not include transaction costs, which are incurred as a result of the underlying assets of a fund being traded. To comply with best practice guidelines investment managers should now provide transaction cost information to investors. Fewer than a third of respondents to our survey provided this data meaning the real cost of investing in a fund remains unclear. Standards in this area need to be raised so that investors can make fair comparisons between funds.

- **Market returns, rather than manager relative performance, continue to be the main determinant of fee levels**

  The structure of flat fee arrangements means that the focus for managers is more on retaining clients than delivering additional performance. For example, the survey found that the typical fee for a £50m global equity mandate is £280,000 per annum. In a period of strong equity returns, such as the last three years to 31 December 2012 when markets delivered about 22%, a manager underperforming by 2% per annum would still be entitled to an annual fee increase of about £35,000, despite the poor relative performance.

- **Performance-related fee scales tend to be in the manager's favour if they deliver target returns**

  The survey found that performance-related fees are generally not attractively structured for investors. For example, for the global equity universe, if a manager delivers its target return of 2% per annum above the benchmark return, it will earn more fees under a performance-related fee structure than it would under a flat annual management charge: we do not believe this is equitable. While performance-related fees should in theory have a greater alignment of interests between manager and investor, we believe more must be done to rebalance fee structures in the investor's favour.

Ongoing charges (UCITS funds) or total expense ratio (insurance-based funds)

Consists principally of the investment manager annual fee and the cost for other services paid for by the pooled fund, such as the fees paid to the custodian, auditors, administrators, managing agents and trustees of the pooled fund. Some of these additional costs are also applicable for segregated mandates (eg custody fees).

Transaction costs

The costs for buying and selling investments, which includes broker dealing commissions and taxes where relevant, eg stamp duty on UK equity and property transactions.

- **Fees vary markedly between different mandates giving investors significant opportunity to negotiate on fees**

  The survey found that there is a wide variation in fees charged; both for similar mandates within asset classes and between different asset classes. For example, the annual management charge for a fund of hedge funds mandate is 10 times greater than the equivalent fee for either a passive equity or bond mandate.

  There is some evidence that investors are challenging the levels of fees being charged, but more can be done, particularly as these fees are high in relation to the returns achieved.

  In an ever competitive world, managers are willing to negotiate fee levels for new and existing clients.

Content

Will Goodhart
Chief Executive
CFA Society of the UK

Clients and potential clients should know about the full range of types of fees and charges which will be applied against their assets.

2. Analysis of fees

Improved disclosure makes for better informed decisions.

2.1 Fees and indirect costs

The disclosure of fees and indirect investment costs, which has been a key feature of all of our investment management fee surveys, continues to attract industry attention. Over the last year, the Investment Management Association (IMA) has set out best practice guidelines for the disclosure of charges and costs[1] for investment managers and the ABI and NAPF, in association with the IMA and SPC (The Society of Pensions Consultants), published "Pension Charges Made Clear"[2] which outlined similar requirements for DC pension providers.

These guidelines call for a more comprehensive measure of costs than just the annual management charge (AMC), particularly where pooled funds are held. We believe that this is provided by the ongoing charges figure, also known as the total expense ratio (TER), which includes both the AMC and many of the additional costs of running a fund (although it excludes transaction costs).

The continual pressure on disclosure seems to be having an impact as we are pleased to report a marked increase in the number of respondents that provided both AMC and TER information for this survey. However, disclosure remains variable in certain asset classes, and notably, the fund of hedge funds in particular continue to be reluctant to provide TER data as well as the AMC. Given that, in some cases, we expect the TER could be in excess of 300 basis points per annum, it seems that such providers would rather keep investors in the dark about the true cost incurred to manage the assets.

The chart overleaf shows, for £50m pooled fund mandates, the typical AMC and additional indirect costs that make up the TER for a number of the main asset classes used by UK pension schemes. The aim of this analysis is to highlight the additional running costs for pooled funds, which are ignored by some investors when investing in pooled funds.
The analysis is based on those managers that provided both AMC and TER data and therefore we have not been able to include those asset classes where little or no data was provided.

Annual management charge
The headline quoted annual fee rate applied to the value of assets under management.

Basis point
Investment management fees are often expressed as a percentage of assets. The term "basis point" can also be used, where one basis point is hundredth of one per cent (0.01%). For example a fee of 0.30% pa is often described as 30 bps pa.

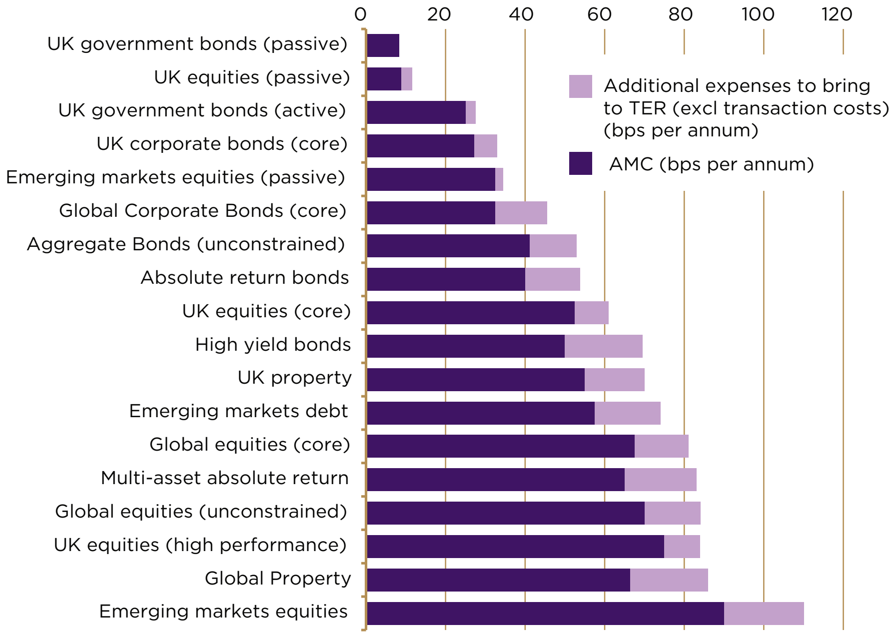
Gavin Orpin
Partner
LCP

Despite continued industry pressure, the majority of fund of hedge fund managers are still unwilling to disclose the actual cost of them managing pension scheme assets, in particular the fees of the underlying hedge funds (which often triple the costs) are very rarely disclosed.

[1] Enhanced disclosure of fund charges and costs, IMA, September 2012

[2] Pension Charges Made Clear: Joint Industry Code of Conduct, November 2012

Overall costs for a range of asset classes



Indirect costs are between 0% and 40% of the AMC, with these being particularly high percentages of the overall fee in emerging markets and high yield bonds.

2.2 Transaction costs

This is the first fee survey where we have asked investment managers to provide information on typical transaction costs incurred within pooled funds. These costs are not included in the TER. This disclosure is a requirement of the best practice guidelines referred to earlier in this section.

Over 65% of respondents provided no transaction cost information and, as such, there is insufficient data to conduct a meaningful analysis. Many managers stated that the information was not readily available and cited the difficulty of splitting out the average cost of dealing commissions and taxes, while others would only be willing to provide this information on a case by case basis as they consider transaction costs to be confidential to them.

LCP viewpoint

Investors should consider the TER when making investment decisions as it provides a truer indication of the costs being paid to manage assets. The TER for some pooled funds can be considerably higher than the AMC.

We are encouraged to see the improvement in response rates for the provision of TER data for most asset classes, thereby allowing investors to better understand and assess whether they are receiving value for money.

Managers' responses about transaction costs are rather disappointing, suggesting nearly two-thirds of managers are unable or unwilling to comply with best practice guidelines. We look forward to managers providing better information in future.

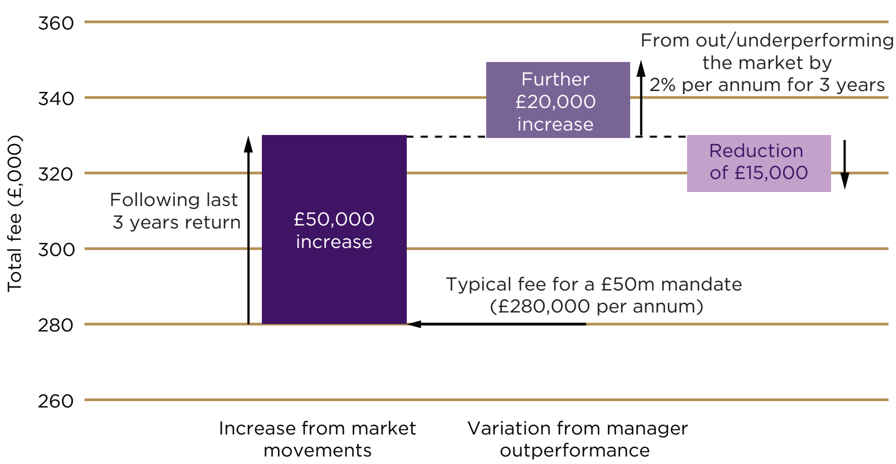
2.3 Alignment of interest

The typical fee charging model for UK pension fund investment managers is one where a fixed rate is applied to the size of assets managed. This means that fees earned by the investment manager are larger if the size of mandate increases.

This means that it is the performance of the asset class, rather than the relative performance of the manager, which is the main determinant of how fees vary over time. We consider this further below.

The chart below shows the variation in fees from market movements and manager relative performance.

Variation in annual fee resulting from market movements



The bar on the left, which is based on a £50m active global equity mandate, shows how the fee would have increased over the last three calendar year period (three years is often the period that managers agree a performance objective for their funds) as a result of market movements alone. For example, in the three years to 31 December 2012, equities rose by 22% overall. Most investment managers will offer slightly better annual fees for larger sums invested, but even allowing for this annual management fees for a starting £50m mandate would have increased from £280,000 to around £330,000 as a result, an increase of £50,000.

The bars on the chart show the extent to which the fee paid to a manager varies depending on a manager's relative performance. Taking into account that fee rates decrease in percentage terms as assets increase, a manager outperforming by 2% pa over the same three year period, would have seen his annual fee increase to around £350,000 (ie a further increase of around £20,000). Yet a manager that underperformed

by 2% pa over the same period would still see his fee increase to around £315,000, clearly less than the out-performing manager, but nonetheless significantly higher than the fee at the outset despite the underperformance.

The impact on the subsequent fee as a result of market movements over the same period was over two and a half times more important than the relative performance of the manager.

The conclusion here seems clear: for asset classes where market movements are a major driver of the level of investment performance achieved by the investor, there is arguably little alignment of interests between the investment manager and investor in the fees charged for the management of that mandate.

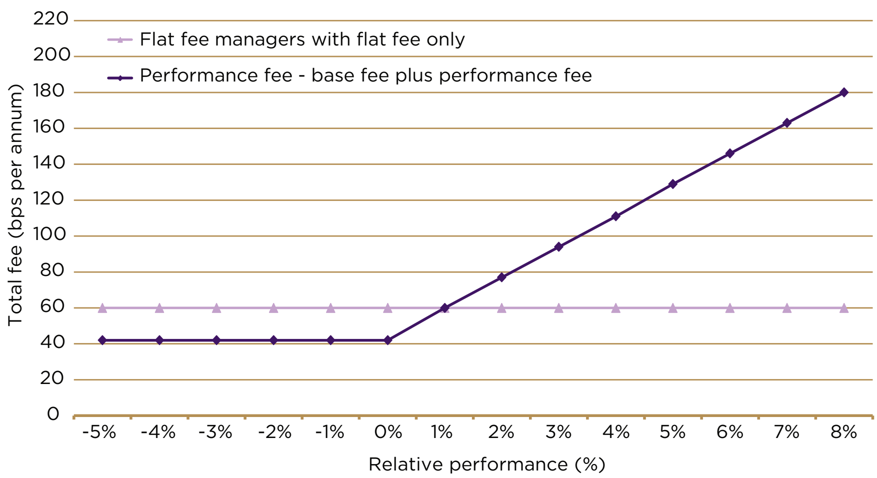
2.4 Are performance-related fees the answer?

The rationale for a performance-related fee is that investment managers should enjoy additional revenue if they are successful, but see revenue trimmed back if performance falls below an acceptable level.

The availability of performance-related fees varies widely by mandate. For example, close to three-quarters of active global equity managers offer a performance-related fee alternative for segregated mandates, but this is often not offered if a pooled approach is adopted.

The chart below shows pictorially the average performance-related fee basis, offered by managers, for a £50m active global equity mandate.

Performance-related fee basis
Typical £50m active global equity mandate



Performance-related fees
Usually have two elements to the fees charged, namely a base fee that is related to the level of assets under management and a performance element, related to the manager's performance relative to the benchmark.

Performance-related fees are normally made up of a base fee, after linked to asset value, plus a performance bonus element. The average annual base fee is 42 basis points, which compares to the equivalent non-performance-related fee of 60 basis points. Managers are also entitled to a performance-related fee element, which on average is equivalent to around 18% of any outperformance achieved. A manager outperforming by about 1.1% would earn the same fee as the non-performance related comparison, despite a 2% outperformance target but considerably more if performance is higher.

Clearly this has a greater alignment of interest than simply a base annual fee. However, most of the benefit seems to be in the manager's favour as an annual fee of at least 42 basis points is always paid as a minimum. What is more, this fee basis positively encourages the manager to take more risk as the manager can earn considerably more if performance over the period is well above 1.1% (yet the manager knows he will always be entitled to at least an annual fixed fee of 42 basis points).

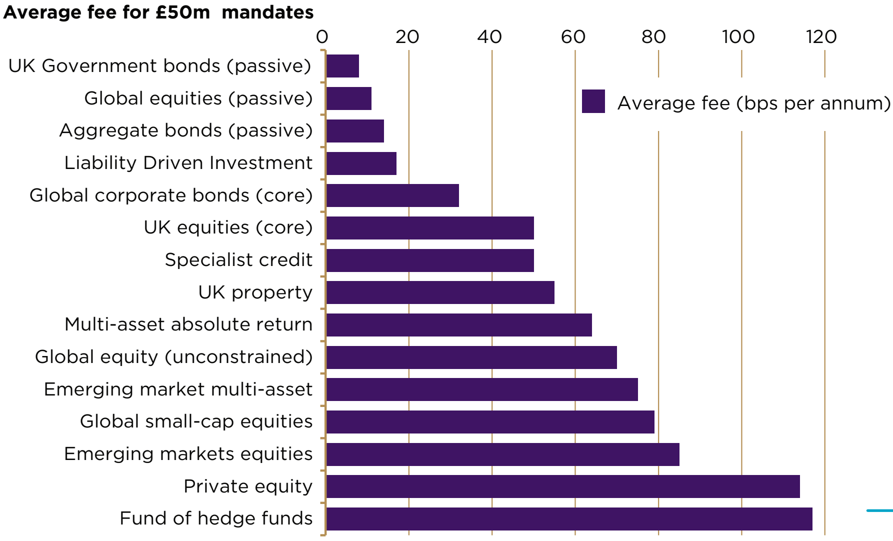
LCP viewpoint

Performance-related fee bases result in a higher alignment of interest than a fixed fee rate, but most fee bases offered are not attractive as the manager still tends to earn a relatively high fixed base fee, even if performance is below expectations.

We believe that a better structure would be one whereby the base is much lower, perhaps fixed in monetary terms so as to cover the manager's running and research costs only, and more is included in the performance bonus element to properly incentivise the manager to deliver added value in the mandate. The maximum fee that can be earned should also be capped so as to discourage excessive risk taking simply to generate a higher fee.

Negotiating fees

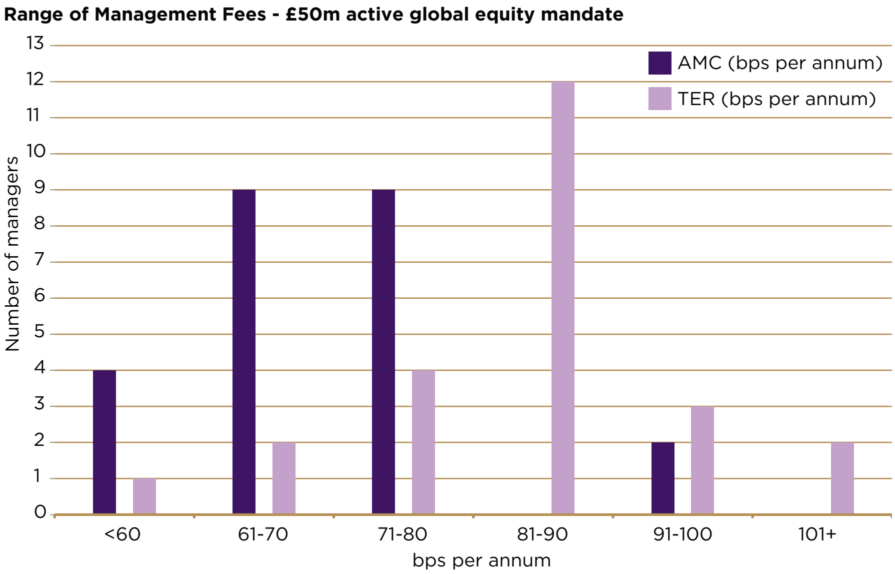
The chart in section 2.1 shows a wide variation in the level of fees charged for different mandates. Based on £50m mandates, the AMC alone (ignoring other indirect costs) varies from £40,000 per annum for a passive UK government bond mandate to £585,000 per annum for a fund of hedge funds mandate.



Heather Brown
Partner
LCP

Trustees should not settle with the standard fee rate offered to them.

Even within the same asset class investment management fees can vary widely. The chart below shows for a £50m active global equity mandate the range of AMCs and TERs for those survey participants that provided both sets of data:



The lowest TER amongst survey respondents was below 60 basis points per annum, whereas the TER for two of the respondents was more than 100 basis points per annum.

This variation of fees by mandate and within mandates provides significant opportunity to negotiate on fees. Reliable benchmarking data, such as that provided in this survey, should help assess the extent to which there is scope to negotiate fees. The following case studies illustrate examples of where fee savings have been achieved.

Case study 1

Consolidating two existing mandates and negotiating with two managers for the best offer

For a client with two £100m passive mandates managed by two different managers, LCP approached both for a fee quote for managing the total £200m passive mandate. This led to a round of negotiations and a substantial discount.

26%

Discount on base fee achieved

Equivalent to £160,000 (7 basis points) per annum

Case study 2

LCP benchmarking exercise

As newly appointed investment consultants, LCP requested fee reductions across all existing mandates, including a £550m passive equity mandate, with total assets managed of £2bn.

15%

Discount on base fee achieved

Equivalent to £110,000 (2 basis points) per annum

Case study 3

LCP asked investment manager to consider the total group assets

The client had considerable group assets both in the sponsor and its pension schemes. LCP requested the manager to aggregate all other assets held in relation to the group and propose a new fee basis for a £75m equity mandate.

38%

Discount on base fee achieved

Equivalent to £60,000 (5 basis points) per annum

Conclusion and action

As well as using reliable benchmarking data to negotiate fees at the outset of a manager's appointment, we encourage trustees to undertake a review investment management fees at least every 3 years, or when there is material change in the mandate. The factors that could lead to a strong negotiating position in fee discussions are:

- the amount of assets has grown beyond initial expectations;
- disappointing manager performance;
- basis on which assets are managed has changed;
- the manager manages additional assets for the client, or related companies in the same company group; and
- fees for long standing mandates have become less favourable when compared with the broader market.

LCP viewpoint

Even a small saving in fees can accumulate to a large number over time.

There appears to be significant scope to negotiate on fees both for new and existing mandates. Trustees should use the information in this survey, at least every three years, to assess whether they are getting value for money from their investment management fee arrangements.

Content

Andrew Cheseldine
Partner
LCP

Pension charges will continue to be put under the microscope by politicians and press alike, and rightly so. Our job at LCP is to help ensure as much transparency as possible, identifying what separate charges and costs apply.

Annual management charge details by asset class

In this Appendix we set out details of the AMC, including an indication of how such charges vary across managers, for each asset class.

For the purpose of this survey we have grouped together similar mandates into the following asset group definitions.

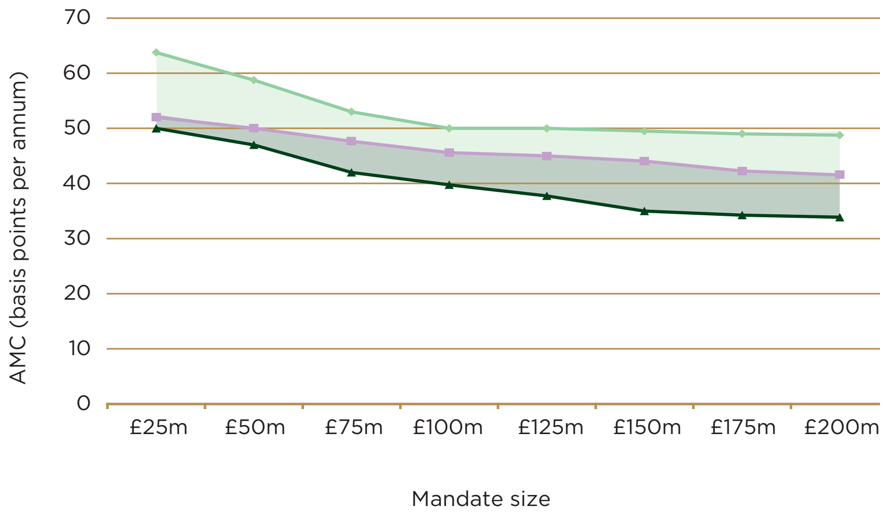
Equities

Equity mandate definition

Company equity gives the owner a share in that company, and hence a share of its profits, typically received through the payment of dividends.

UK equities (core): mandates which target outperformance of a UK equity benchmark index return or equivalent by up to 2.0% per annum.

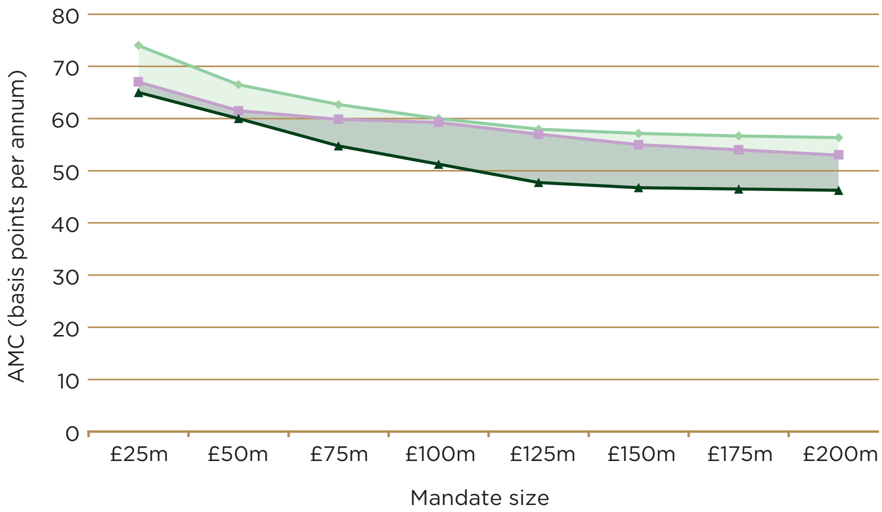
UK equities (core)



	AMC per annum (£,000)							
Top quartile	159	294	398	500	625	743	858	975
Median	130	250	357	456	563	661	739	831
Bottom quartile	125	235	315	398	472	525	599	678

UK equities (high performance): mandates which target outperformance of a UK equity benchmark index return or equivalent by over 2.0% per annum.

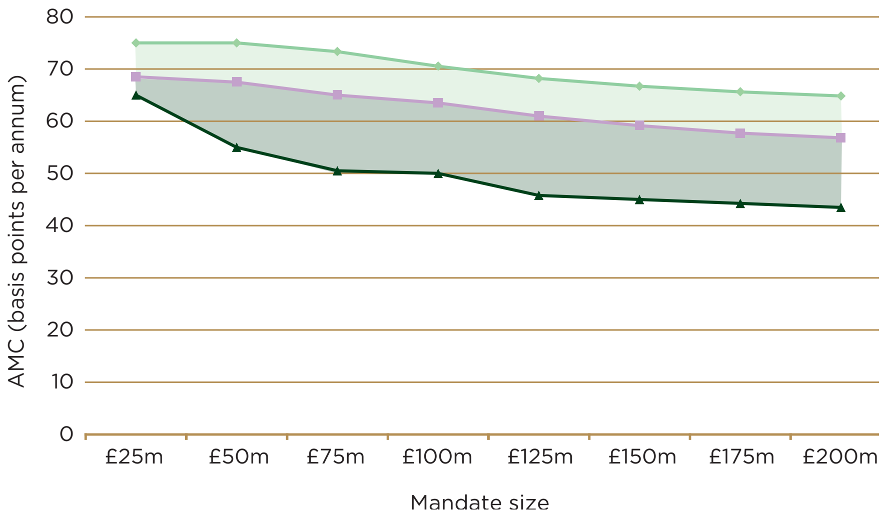
UK equities (high performance)



	AMC per annum (£,000)							
Top quartile	185	333	470	600	724	857	992	1,127
Median	168	308	449	593	713	825	945	1,060
Bottom quartile	163	300	411	513	597	701	814	925

UK equities (unconstrained): mandates which target outperformance of a UK equity benchmark index return or equivalent over the long term. The manager takes little/no account of the benchmark index when managing the mandate and usually will have a high outperformance target and a high risk tolerance.

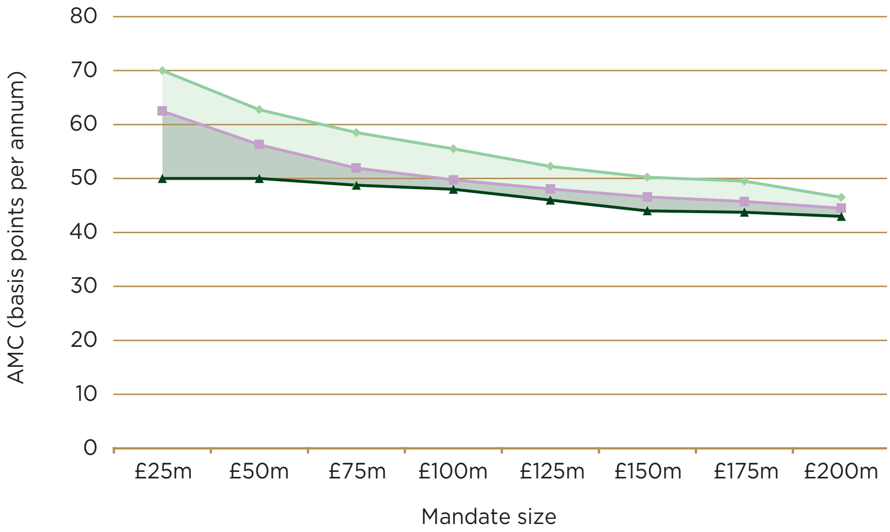
UK equities (unconstrained)



	AMC per annum (£,000)							
Top quartile	188	375	550	705	852	1,000	1,149	1,297
Median	171	338	488	635	763	888	1,010	1,136
Bottom quartile	163	275	379	500	573	675	774	870

Global equities (core): mandates which target outperformance of a global equity benchmark index return or equivalent by up to 2.0% per annum.

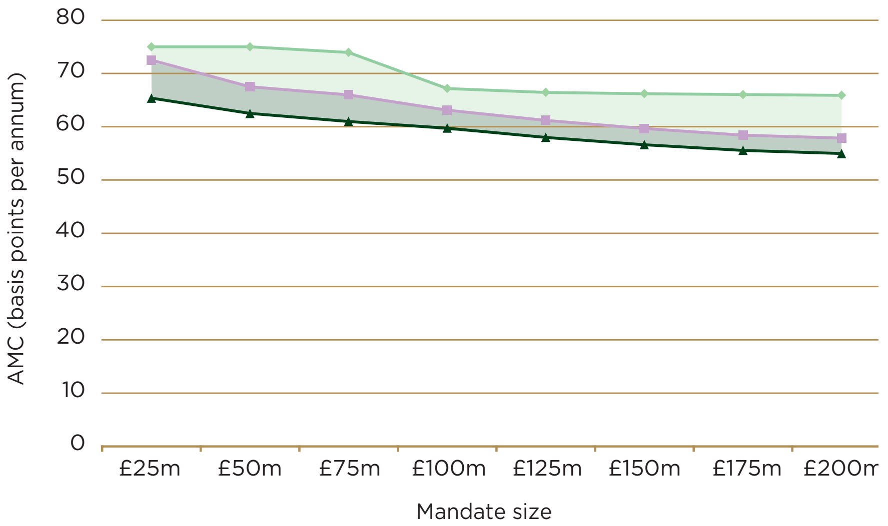
Global equities (core)



	AMC per annum (£,000)							
Top quartile	175	314	439	278	653	754	866	930
Median	156	281	389	249	601	699	801	890
Bottom quartile	125	250	366	240	575	660	766	860

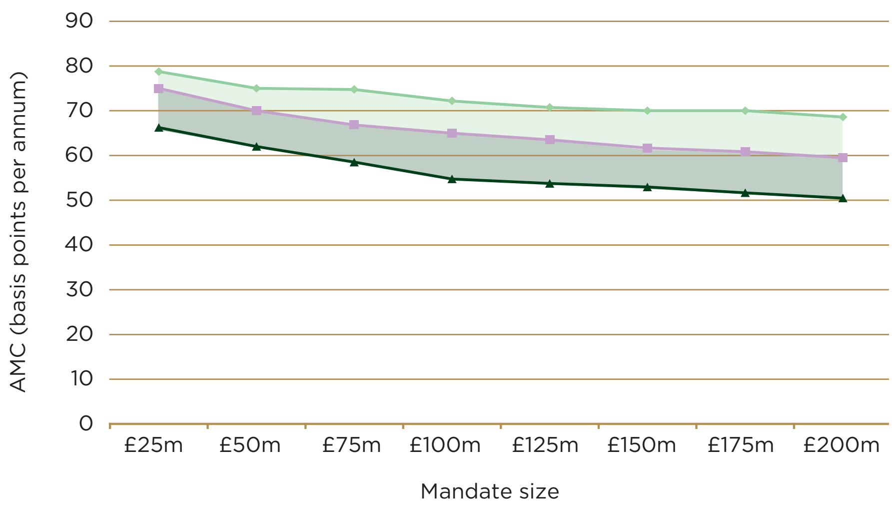
Global equities (high performance): mandates which target outperformance of a global equity benchmark index return or equivalent by over 2.0% per annum.

Global equities (high performance)



	AMC per annum (£,000)							
Top quartile	188	375	555	672	831	993	1,156	1,318
Median	181	338	495	631	765	895	1,022	1,158
Bottom quartile	163	313	458	598	725	849	973	1,099

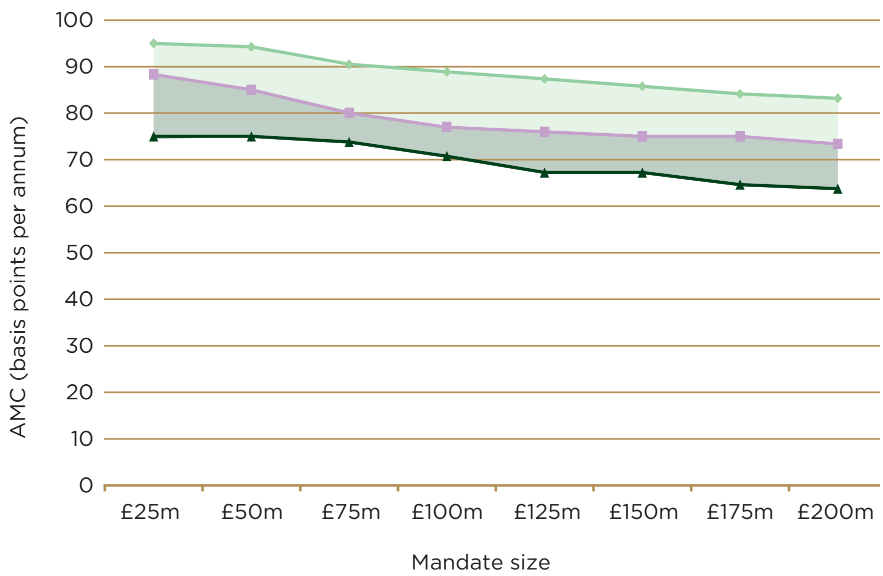
Global equities (unconstrained)



	AMC per annum (£,000)							
Top quartile	197	375	561	722	884	1,050	1,225	1,372
Median	188	350	501	650	794	925	1,065	1,190
Bottom quartile	166	310	439	548	672	794	904	1,009

Global equities (unconstrained): mandates which target outperformance of a global equity benchmark index return or equivalent over the long term. The manager takes little/no account of the benchmark index when managing the mandate and usually will have a high outperformance target and a high risk tolerance.

Emerging market equities

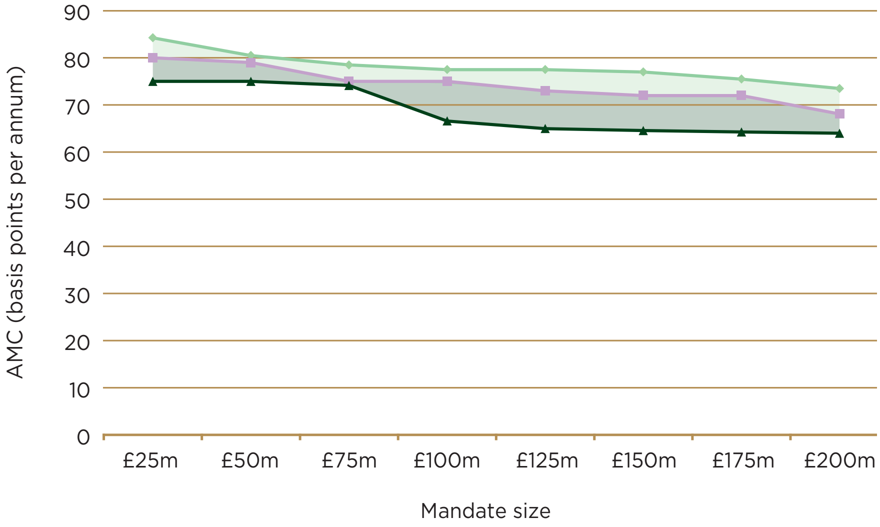


	AMC per annum (£,000)							
Top quartile	238	471	679	889	1,092	1,287	1,473	1,664
Median	221	425	600	770	950	1,125	1,313	1,468
Bottom quartile	188	375	554	708	841	1,009	1,131	1,276

Emerging market equities: mandates which invest in equities for markets which are developing such as China, Russia, India and Brazil. These investment markets are characterised by high levels of risk and often higher investment returns when compared to developed markets.

Global small-cap equity: typically an equity portfolio invested in the shares of companies with market capitalisations from around £15m up to around £400m. These fund typically aim to outperform indices such as MSCI World Small Cap Index by 1-2% per annum.

Global small-cap equity



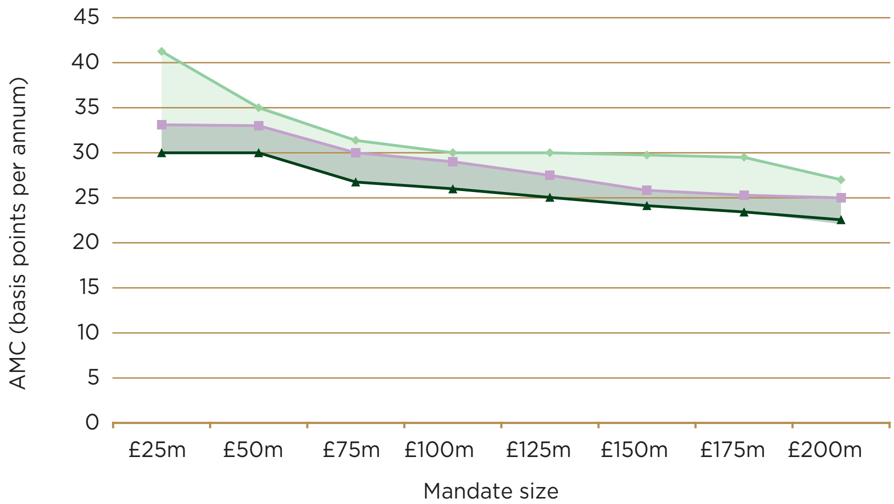
	AMC per annum (£,000)							
Top quartile	211	403	589	775	969	1,155	1,321	1,470
Median	200	395	563	750	913	1,080	1,260	1,362
Bottom quartile	188	375	556	666	812	968	1,125	1,280

Bonds

Bond mandate definition

Bonds comprise securities issued by companies, governments and other organisations that pay a series of regular payments and, at maturity, a final lump sum payment. The payments are either fixed in nature or can be increased by reference to some index, such as the Retail Prices Index.

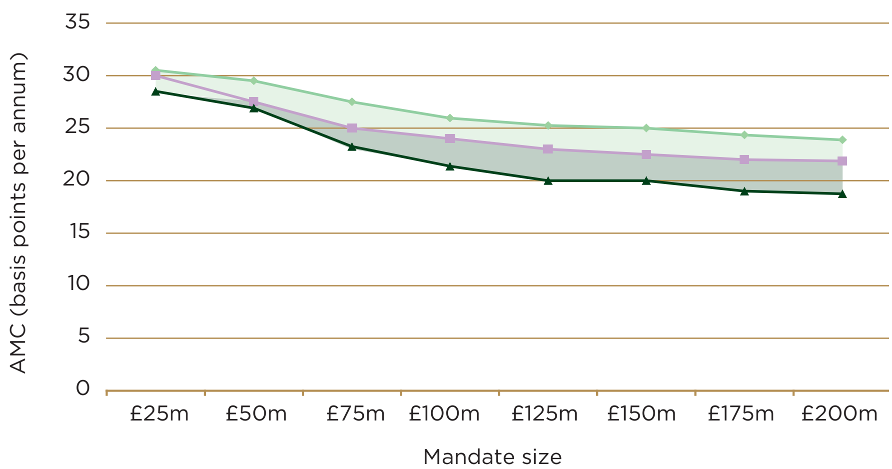
Global corporate bonds (core)



	AMC per annum (£,000)							
Top quartile	100	173	240	300	368	420	473	540
Median	75	150	218	272	325	375	432	480
Bottom quartile	69	130	188	250	281	323	351	381

Global corporate bonds (core): mandates which target outperformance of a global corporate bond benchmark index return or equivalent by up to 1.5% per annum.

UK corporate bonds (core)



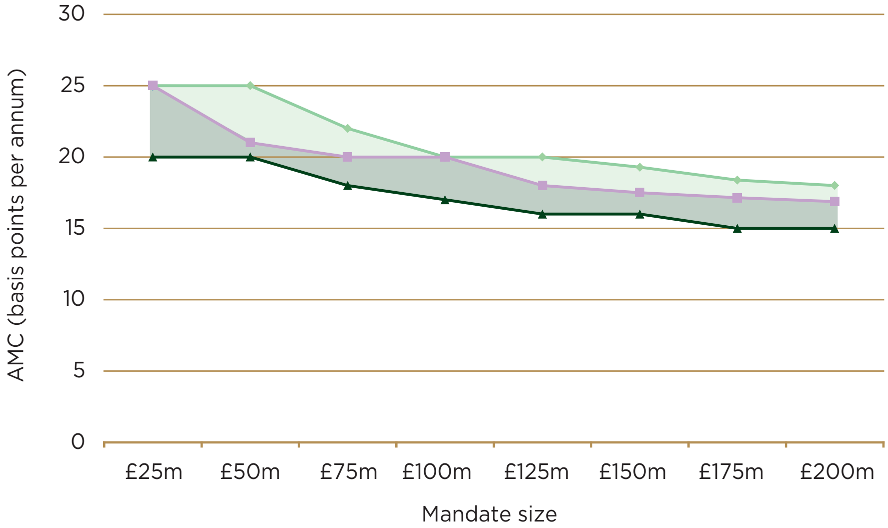
	AMC per annum (£,000)							
Top quartile	76	148	206	260	316	375	426	478
Median	75	138	188	240	288	338	385	438
Bottom quartile	71	135	174	214	250	300	333	375

UK corporate bonds (core): mandates which target outperformance of a UK corporate bond benchmark index return or equivalent by up to 1.5% per annum.

3.1 Asset management charge details by asset class

UK government bonds (active): mandates which invest in debt issued by the UK government managed on an active basis.

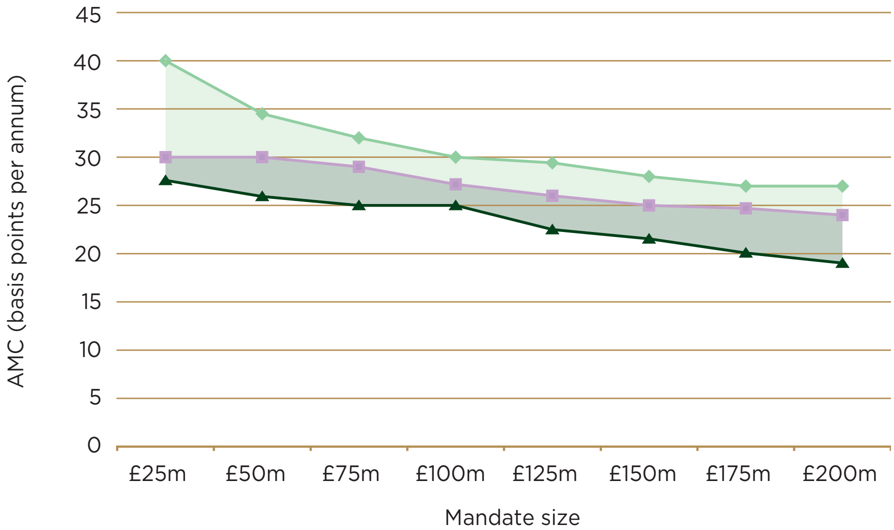
UK government bonds (active)



	AMC per annum (£,000)							
Top quartile	63	125	165	200	250	289	322	360
Median	63	105	150	200	225	263	300	338
Bottom quartile	50	100	135	170	200	240	263	300

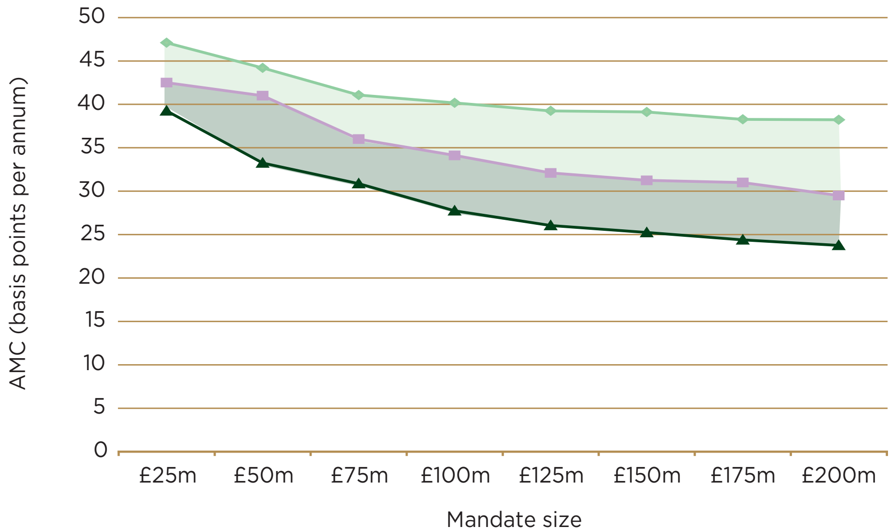
Aggregate bonds (core): mandates which target outperformance of a combined corporate bond and gilt benchmark index return or equivalent by up to 1.5% per annum.

Aggregate bonds (core)



	AMC per annum (£,000)							
Top quartile	100	173	240	300	368	420	473	540
Median	75	150	218	272	325	375	432	480
Bottom quartile	69	130	188	250	281	323	351	381

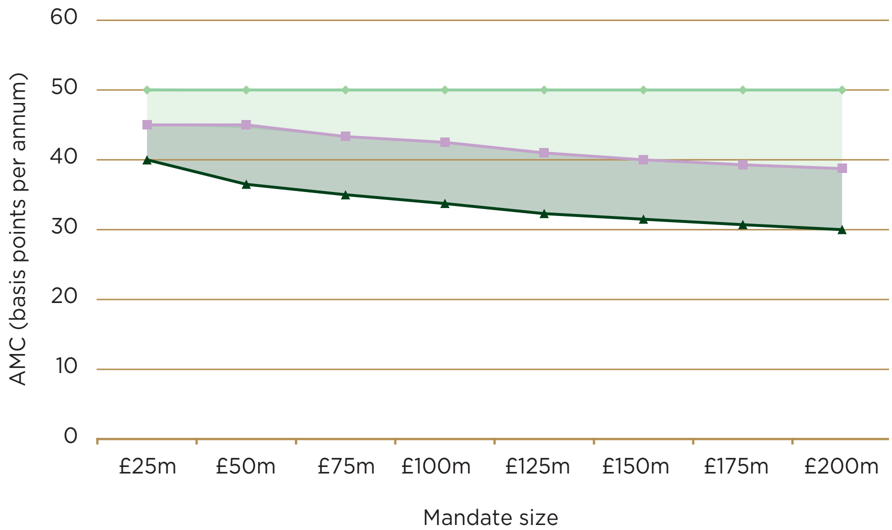
Aggregate bonds (unconstrained)



	AMC per annum (£,000)							
Top quartile	118	221	308	402	491	587	670	765
Median	106	205	270	341	401	469	543	590
Bottom quartile	98	166	232	278	326	379	427	475

Aggregate bonds (unconstrained): mandates which target outperformance of a combined corporate bond and gilt benchmark index return or equivalent by over 1.5% per annum. The manager takes little/no account of the benchmark index when managing the mandate.

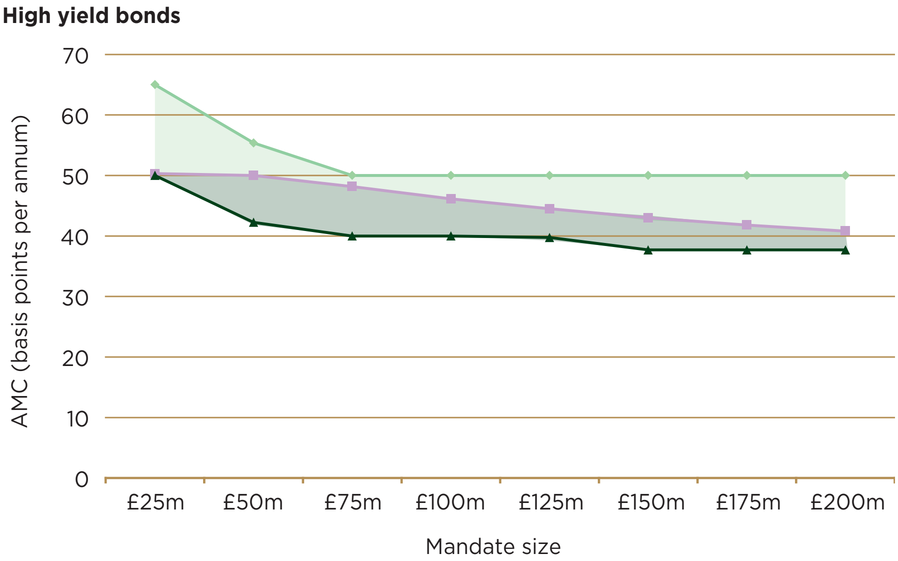
Absolute return bonds



	AMC per annum (£,000)							
Top quartile	125	250	375	500	625	750	875	1,000
Median	113	225	325	425	513	600	688	775
Bottom quartile	100	183	263	338	404	473	538	600

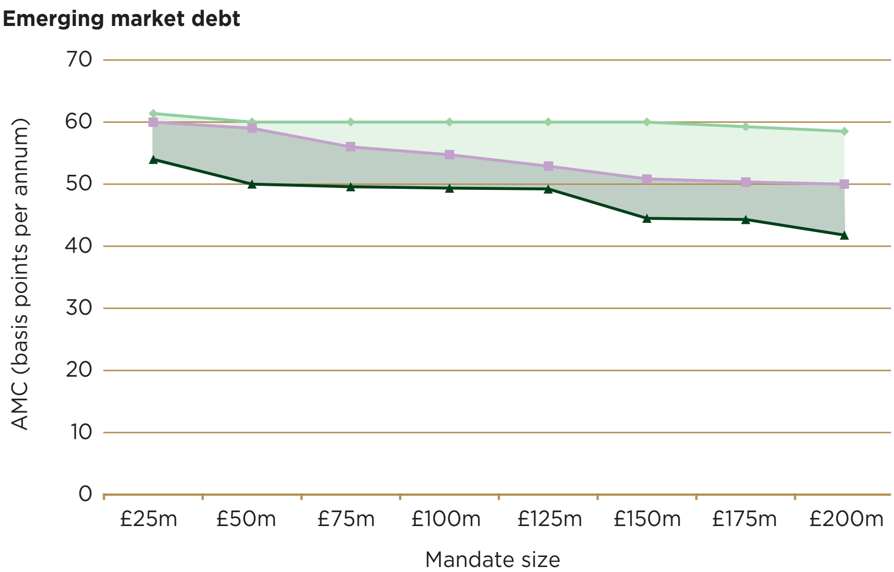
Absolute return bonds: mandates invested in debt (typically both government and corporate) and often currency markets, which is usually managed on an unconstrained basis and aims to deliver positive absolute returns, rather than being benchmarked against a market index.

High yield bonds: mandates invested in government or corporate bonds with a S&P credit rating below BBB.



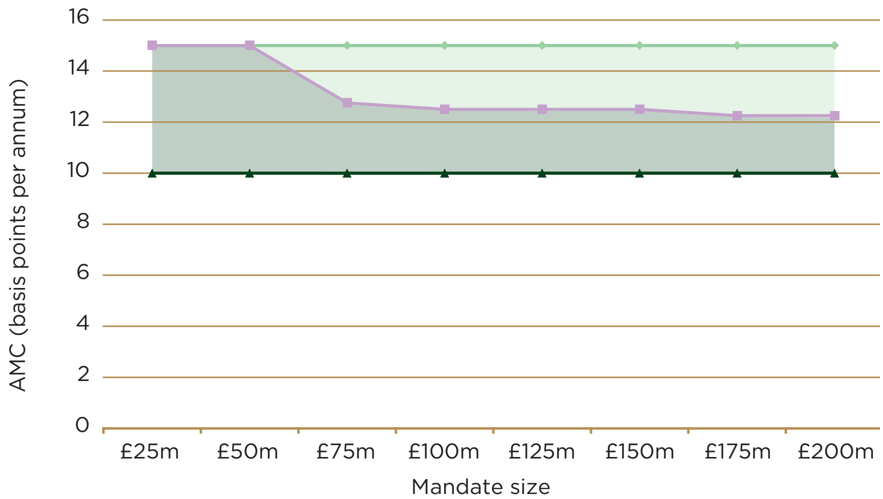
	AMC per annum (£,000)							
Top quartile	163	277	375	500	625	750	875	1,000
Median	126	250	361	461	556	645	732	816
Bottom quartile	125	211	300	400	497	566	660	754

Emerging market debt: mandates which invest in government or corporate bonds within developing nations such as China, Russia, India and Brazil. Their investment markets are characterised by high levels of risk and often higher investment returns (than developed markets).



	AMC per annum (£,000)							
Top quartile	153	300	450	600	750	900	1,037	1,170
Median	150	295	420	548	661	763	881	1,000
Bottom quartile	135	250	372	494	615	668	775	836

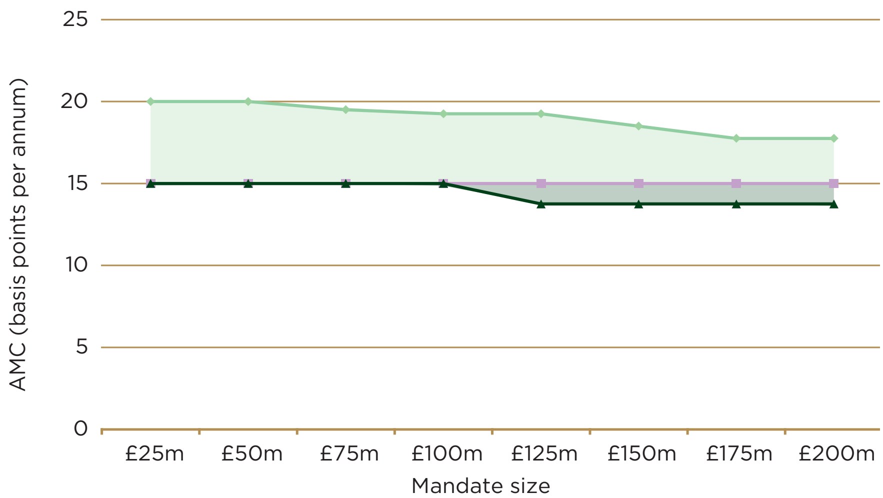
Liquidity cash



	AMC per annum (£,000)							
Top quartile	38	75	113	150	188	225	263	300
Median	38	75	96	125	156	188	214	245
Bottom quartile	25	50	75	100	125	150	175	200

Liquidity cash: mandates which diversify short-term money market securities, such as deposits, certificates of deposit and commercial paper. The main focus of these mandates is high liquidity and capital preservation.

Enhanced cash



	AMC per annum (£,000)							
Top quartile	50	100	146	193	241	278	311	355
Median	38	75	113	150	188	225	263	300
Bottom quartile	38	75	113	150	172	206	241	275

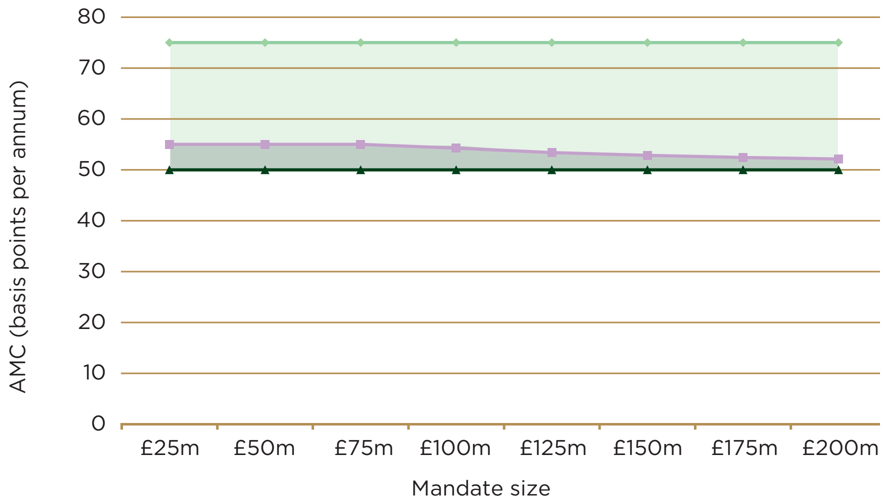
Enhanced cash: mandates which are actively managed and aim to outperform liquidity cash funds, after fees.

Property

Investments in buildings and land and can involve developments and/or the ongoing management of property. For pension scheme investors, property normally refers to commercial property such as offices, shops and factories, rather than residential. Returns come from rental income and capital appreciation.

UK property: mandates which are primarily invested in property in the UK.

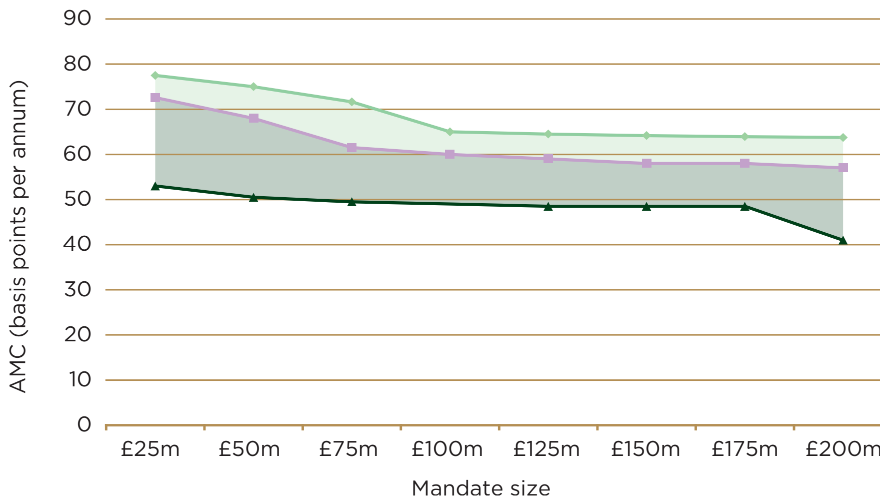
UK property



	AMC per annum (£,000)							
Top quartile	188	375	563	750	938	1,125	1,313	1,500
Median	138	275	413	543	668	793	918	1,043
Bottom quartile	125	250	375	500	625	750	875	1,000

Global property: mandates which are primarily invested in global property pooled funds.

Global property



	AMC per annum (£,000)							
Top quartile	194	375	537	650	806	963	1,119	1,275
Median	182	340	461	600	738	870	1,015	1,140
Bottom quartile	133	253	371	490	606	728	849	820

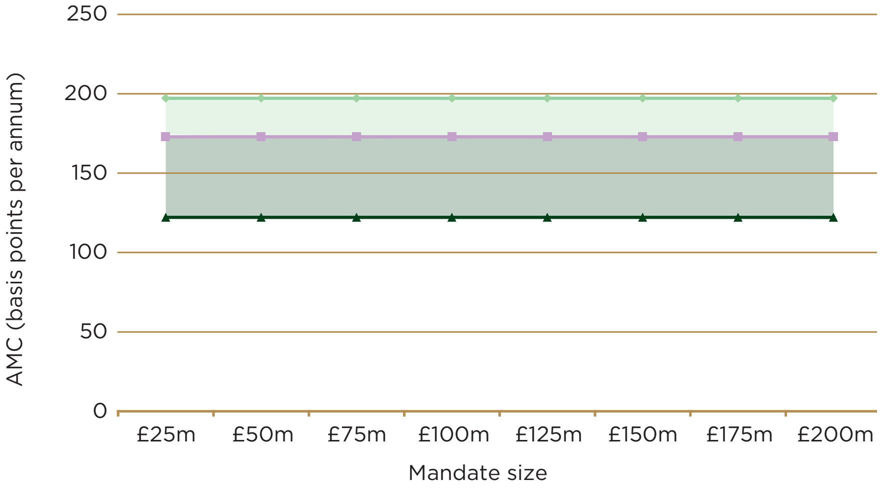
Alternative asset classes

Alternatives mandate definition

These are asset classes that have not traditionally been used by pension schemes. Many alternatives target absolute returns rather than relative returns, and managers typically charge much higher fees than for "traditional" asset classes such as equities and bonds.

Active currency: mandates in which the manager attempts to generate returns through taking overweight or underweight positions in different currencies. As leverage can be involved, for the purpose of this survey, we have considered mandates that have a volatility target of 10% (ie approximately half the level of equity volatility).

Active currency

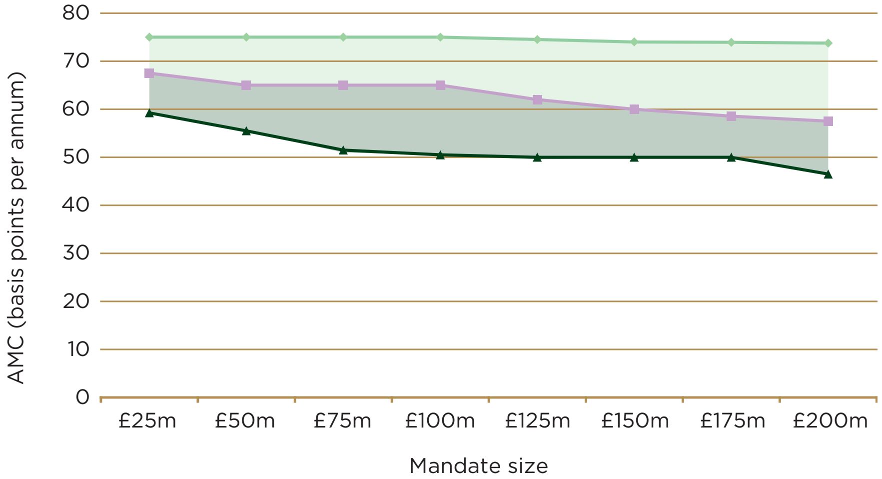


	AMC per annum (£,000)							
Top quartile	493	986	1,479	1,972	2,465	2,958	3,450	3,943
Median	432	864	1,297	1,729	2,161	2,593	3,025	3,458
Bottom quartile	305	611	916	1,222	1,527	1,833	2,138	2,443

Most active currency funds funds offer a performance-related fee. The data assumes that all managers have outperformed cash by 4% (before fees) and show the final fee incorporating the performance-related element

Multi-asset absolute returns: mandates which provide exposure to a broad range of traditional and alternative asset classes in one fund. These funds target either absolute returns or returns relative to an inflation benchmark and aim to deliver performance with significantly less volatility than equities.

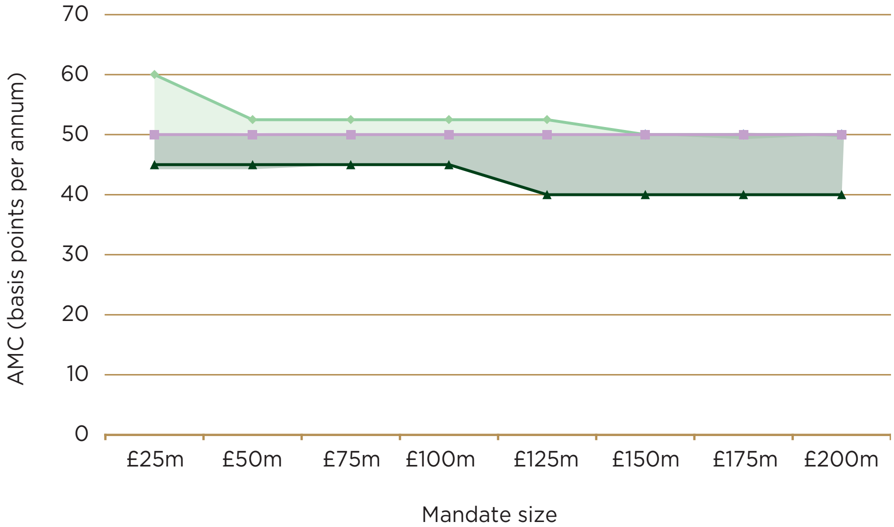
Multi-asset absolute returns



	AMC per annum (£,000)							
Top quartile	188	375	563	750	931	1,110	1,294	1,475
Median	169	325	488	650	775	900	1,025	1,150
Bottom quartile	148	278	386	505	625	750	875	930

Specialist credit: includes mandates such as multi-asset credit and secured loans. Multi-asset credit mandates predominantly invest across a broad range of credit asset classes, predominantly in sub investment grade markets, to capitalise on attractive market dynamics that have resulted from the reduced level of lending to companies from banks.
A secured loan mandate is a fixed income asset class comprising loans in highly leveraged companies. These loans pay a floating rate of return, expressed as a spread over LIBOR.

Specialist credit



	AMC per annum (£,000)							
Top quartile	150	263	394	525	656	750	875	1,000
Median	125	250	375	500	625	750	875	1,000
Bottom quartile	113	225	338	450	500	600	700	800

Other asset classes

UK corporate bonds (unconstrained): mandates which target outperformance of a UK corporate bond benchmark index return or equivalent by over 1.5% per annum. The manager takes little/no account of the benchmark index when managing the mandate.

Socially responsible investments: mandates which invest in global equities taking into account social, ethical and/or environmental factors in the investment process being followed.

Liability driven investments: investment approach which focuses more on the underlying liabilities than has traditionally been the case. It is typically used to allow trustees to manage inflation or interest rate risk closely. We have shown unleveraged arrangements.

Fund of hedge funds: mandates which invest in a range of underlying hedge funds. Most fund of hedge funds offer a performance-related fee. The data assumes that all managers have outperformed cash by 4% (before fees) and show the final fee incorporating the performance-related element.

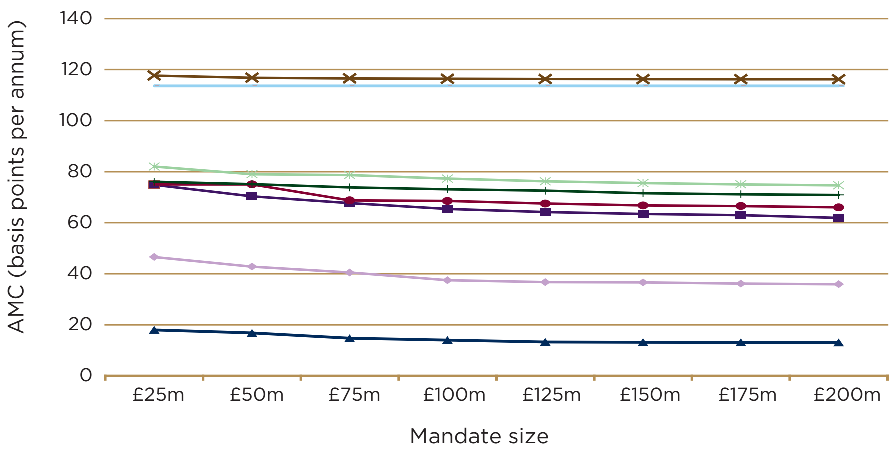
Listed infrastructure: mandates which invest in the equity of quoted companies whose primary business is the ownership and / or management of infrastructure assets. Assets are actively managed.

Commodities: mandates which comprise a range of physical goods, eg foodstuffs such as wheat as well as metals or energy and raw materials such as oil. The approach is implemented typically wholly or largely via derivatives.

Emerging market multi-asset: these funds offer exposure across emerging equity, bond and currency markets in one fund. The objective is generally to achieve an absolute return around 10% per annum.

Private equity: mandates which invest in shares (or sometimes other security types) of companies or funds that are not publicly quoted. Private equity mandates often involve high levels of leverage.

Other asset classes

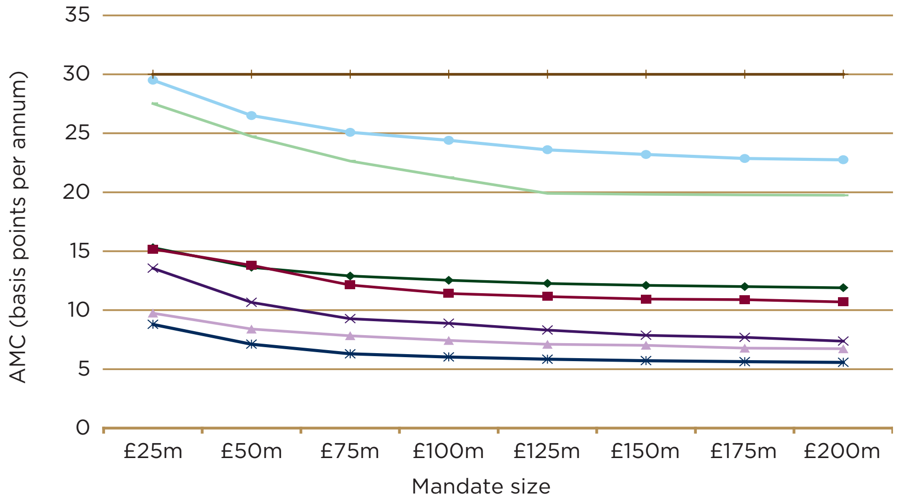


	AMC per annum (£,000)							
UK corporate bonds (unconstrained)	116	214	303	374	459	549	632	718
Socially responsible investments	187	352	508	654	802	952	1,101	1,238
Liability driven investments	45	84	111	140	166	198	229	261
Fund of hedge funds	294	584	874	1,164	1,454	1,744	2,033	2323
Listed infrastructure	205	395	590	773	953	1,133	1,313	1,493
Commodities	188	375	516	685	844	1,001	1,164	1,320
Emerging market multi-asset	190	376	554	731	907	1,073	1,244	1,417
Private equity	284	568	852	1,136	1,420	1,704	1,988	2,272

Mean fee rates are shown due to insufficient data.

Passive management: is available for most equity and bond markets. We provide below typical fee rates for a selection of passive asset classes.

Passive



	AMC per annum (£,000)							
Aggregate bonds	38	68	97	125	153	182	210	238
UK corporate bonds	38	69	91	114	139	164	191	214
UK government bonds	24	42	59	74	89	105	119	135
Global equities	34	53	70	89	104	118	135	148
UK equities	22	36	47	60	73	86	99	112
Emerging market equities	74	133	188	244	295	348	400	455
Socially responsible investments	75	150	225	300	375	450	525	600
Commodities	69	124	170	213	249	297	346	395

List of respondents

The following is a list of respondents in our survey. There were a further seven respondents that did not wish to be named.

Aberdeen Asset Management Limited

Acadian Asset Management

Alcentra Limited

Alliance Bernstein Institutional Investments

Allianz Global Investors

Artemis Investment Management Limited

AXA Investment Managers

Babson Capital

Barings plc

Beach Point Capital Management

BlackRock Investment Management

Cantillon Capital Management LLP

Capital Group

Dimensional Fund Advisors

F & C Asset Management plc

Fidelity

Havenport Asset Management Pte Limited

Henderson Group plc

Hermes Fund Managers Limited

Heronbridge Investment Management LLP

HSBC Global Asset Management

Intermediate Capital Group plc

Insight Investment Management Limited

Invesco Asset Management Limited

Investec Asset Management Limited

IronBridge International

J O Hambro Capital Management

Jupiter Asset Management

Kames Capital

Lazard Asset Management Limited

Legal & General Investment Management

Martin Currie Investment Management Limited

MFS International UK Limited

Mirabaud Investment Management Limited

Morgan Stanley

Neptune Investment Management

Newton Investment Management Limited

Odey Asset Management LLP

Pantheon Ventures Limted

Partners Group

Pomona Capital

Principal Global Investors (Europe) Limited

Putnam Investments

Pyrford International plc

Record Currency Management Limited

Royal London Asset Management

Ruffer LLP

Schroder Investment Management Limited

Scottish Widow Investment Partnership

Standard Life Investments

State Street Global Advisors Limited

T. Rowe Price

The Cambridge Strategy (AM) Limited

THS Partners

Trilogy Global Advisors, LLC

TT International Investment Management

UBS Global Asset Management

Vanguard Asset Management Limited

Wellington Management Company LLP

Western Asset Management Company Limited

Notes

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