

A Fairer Deal on Fees

Fee structures in the asset management industry are too high for the value they offer

By Watson Wyatt Worldwide Thinking Ahead Group

IT IS TIME for pension funds to take a hard look at the fees they are paying to their active managers, and what it is they are paying for. Total annual costs of running a pension scheme have increased by about 90% globally over the past five years, according to our research, and now average 119 basis points for large funds compared with an average of 63 basis points in 2002. Around 65% of this is paid in fees to external investment managers, with around 30% being paid to brokers in the form of commissions resulting from the actions of those managers. The corresponding figures for Hong Kong are 91 basis points (2002), rising to 120 basis points (2007).

A key reason for this is the rise in investors' focus on alpha, which has increased their appetite for alternatives, such as hedge funds, private equity and real estate. Hedge funds typically charge an annual base fee of 1-2% on the value of committed capital, plus a 20% performance fee; and private equity fees are similar. This is far more than the typical annual fees charged by traditional long-only managers (which would often be below 50 basis points).

Investors naturally assume that they are paying these high fees to reward manager skill, or alpha. But in most cases they are wrong. Instead, they are paying 'alpha' fees for 'beta' performance, because the main driver of returns in recent years has been the strength of the markets. This has encouraged managers to leverage their portfolios to boost returns, which means that investors are

often paying up for leveraged beta (market returns multiplied by gearing).

The first step towards a change for fairer fees is for investors to understand what proportion of alpha their managers are taking in fees, even if they are doing a good job. This needs to be set at a reasonable level, and be better structured to align interests.

Possible ways to achieve fairer fee structures

1. Always set hurdles, such as T-bills or a realistic fixed percentage reflecting the expected long-term beta exposure (which may even be leveraged beta). Managers would then collect fees only on performance above this benchmark rate. Setting the benchmark at zero when cash is returning around 5% per annum means that a performance fee of 1% is levied on clients' money (as well as the base fee), even before it is put to work.
2. Charge performance fees based on a rolling three-year basis, or longer, rather than on an annual basis. This would reduce the 'option value' and makes performance fees fairer for investors.
3. Ensure base fees reflect actual costs, rather than value of assets under management. The latter encourages asset gathering, which can harm performance.
4. Finally, ensure fee structures reflect the particulars of the industry, rather than having standardisation. A low capacity strategy, or one that



requires a costly global infrastructure, is justified in charging higher than average base fees. Conversely, a strategy that can absorb several billions of dollars, or has low infrastructure costs, should not have that luxury.

The whole area of fees and incentives is extremely complex, and the solutions will take some time to work through. However, there are signs of movement. Flaws in fee structures tend to become exposed when markets falter, and many managers will no longer be able to justify their charges without beta to bail them out. Larger pension funds are also aware of the roles played in their portfolios by alpha and beta, and are embracing new products and risk management tools that separate the two. If active managers want to win over more of this sophisticated, long-term money, they will need to offer institutional clients a fairer deal. **W**

更公平的收费机制

与所提供的价值相比，资产管理业的收费实属过高

文/ 超前思维组



退休基金是时候认真检讨基金经理所收取的费用及其付出费用后所得到的服务。根据我们的研究所得，过去五年全球退休基金计划的每年费用总额增加了约90%，目前大型基金费用平均为119个基点，而2002年则平均为63个基点。其中约65%用来支付外聘投资经理，另外约30%用来支付投资经理交易产生的经纪佣金。香港的相关费用亦由2002年的91个基点，上升至2007年的120个基点。

基金费用上升的主要原因是投资者愈来愈关注alpha，以致令他们对对冲基金、私人股票及房地产等另类投资产品的兴趣亦提高。对冲基金一般收取投资资本的1-2%作基本年费，另加20%表现费。私募基金收费大致相同。这远较传统「只限长仓」经理普遍收取的年费为高(有关费用一般低于50个基点)。

投资者支付高昂费用，自然会假设费用是用作奖励投资经理的技能或alpha，但这种想法在大多数情况下都是错误的。相反，他们可能是付出alpha价钱但获得beta回报，因为

近年回报的主要动力其实归因于市场本身潜力。这鼓励了投资经理利用杠杆效应推高投资组合的回报，即是投资者经常须支付杠杆beta的费用(市场回报乘以杠杆比率)。

要令收费更为公平，投资者应先了解投资经理在收费中计入alpha的比例，不管基金的表现如何出色。收费需要设定在合理的水平，并应与利益挂钩。

建议 — 可能达至更公平收费机制的方法：

1. 经常设置回报下限，如短期国库券(T-bill)或一个反映预期的长期beta风险系数(可以是杠杆beta)的合理固定百分比。这样，投资经理只有在表现优于此基准水平时才会收费。当每年现金回报约为5%时将基准设定为零，即使尚未开始运作，这表示已向客户徵收1%表现费(以及基本收费)。
2. 以三年或以上年的滚存收取表现费用，而不是按年收取。

这样能减低「期权价值」，令表现费用对投资者来说更为公平。

3. 确保基本费用反映实际成本，而不是管理下的资产价值。后者鼓励资产结聚，业影响表现。
4. 最后，确保收费机制反映业界特点，而非统一收费。

产能较低或全球基建所费不菲的策略，收费较平均基本费用为高是可以理解的。相反，能够吸纳数十亿元或基建成本低的策略，则不应如此奢侈。

整体而言，计算费用与奖金是极为复杂的事宜，而有关建议仍有待落实。然而，目前已经出现改善的迹象。随著市场不断改变，收费机制日渐公开，基金经理已经不能在没数据支持下收取费用。大型退休基金亦已经意识到，alpha及beta在投资组合中的作用，并把握机会推出将两者分开的新产品及风险管理工具。基金经理如希望争取更多更长远的业务，应当向机构客户收取更公平的费用。 W

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