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# Managers Accept Fees Far Below Stated Levels as Asset Owners Gain Upper Hand

By Mariana Lemann May 3, 2019

Institutional asset managers are dropping equity fees far below stated levels as the draw of passive strategies and industry consolidation are giving asset owners the upper hand in fee negotiations. Within certain asset classes and mandate sizes, the difference between stated and negotiated fees on institutional separate accounts can exceed 30 basis points, according to eVestment.

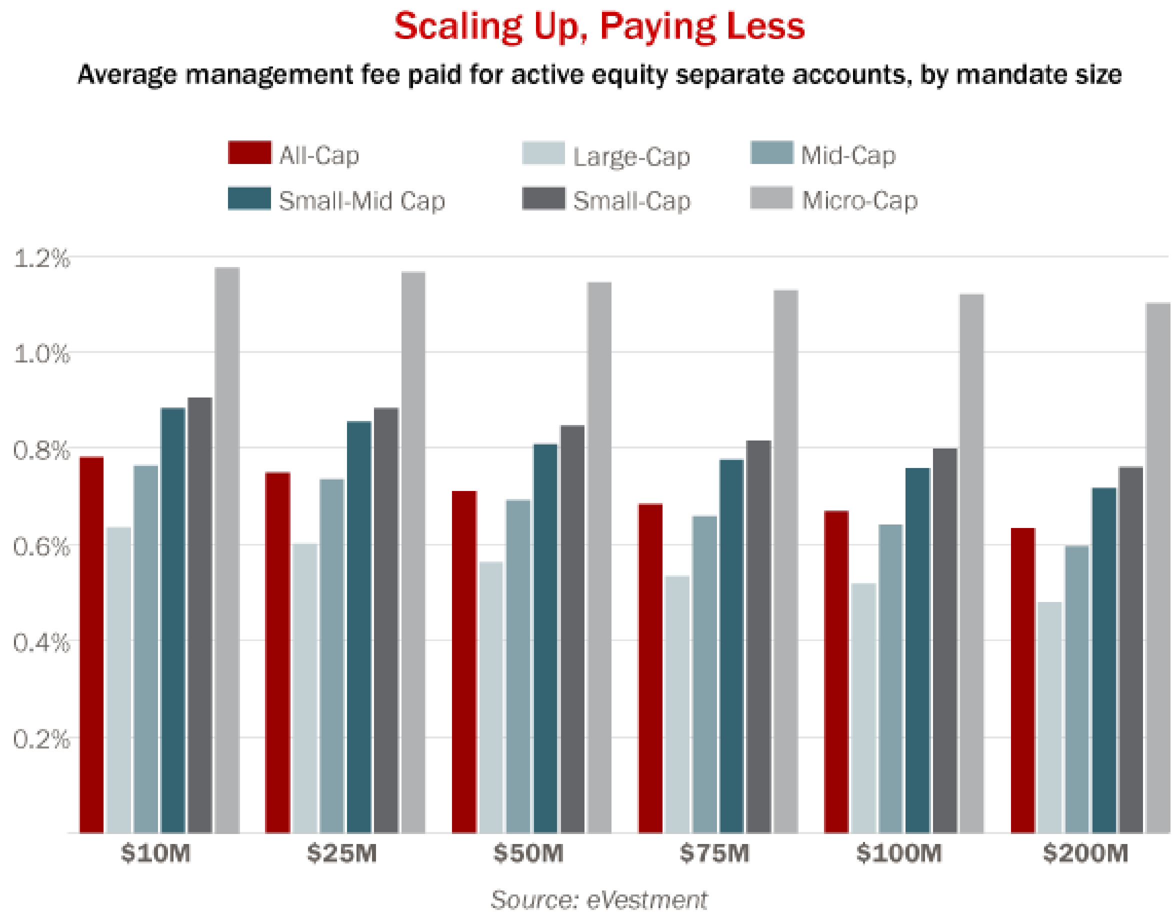
Fees play an increasingly decisive role in the sales of institutional separate accounts.

“The willingness of asset managers to negotiate sooner in the process has increased to…be competitive in different search mandates.”
Mark Wood
Callan

The decline in fees is emblematic of the state of the industry, where overcapacity leads “too many asset managers chasing too few dollars,” says **Philip De Santis**, head of product management at Dallas-based asset manager **Westwood Group**. “The asset owners really have leverage in the marketplace today.”

Within U.S. large-cap value, the gap between stated and negotiated fees is 18 basis points for mandates below $100 million, according to the report. Stated fees average 56 basis points and negotiated fees 38 basis points for average mandates of $58 million, according to 14 public pension documents.

“It shows a fair amount variation in an established category,” says **Peter Laurelli**, global head of research at eVestment.




The report, published this week, is based on data collected through eVestment's analytics database and its Market Lens tool, which draws negotiated fees from public pension documents.

The widest gaps are found within small-cap mandates, based on a smaller sample of public documents for negotiated fees. The delta between stated and negotiated fees for U.S. small-cap growth mandates larger than $250 million tracked by eVestment is 30 basis points, where stated fees average 77 basis points and negotiated fees average 47 basis points. The data comes from five documents with average commitment of $367 million.

Callan, which conducts fee surveys, has seen similar trends, says **Mark Wood**, a senior v.p. and U.S. equity investment consultant.

"The sample size provided in [eVestment's] report is small for some of these asset classes," he says. "Our data has shown that the delta is a little bit smaller in these small-cap asset classes for larger mandates than what may be illustrated."

Another industry development not captured in the data is when fee negotiations are taking place.

**"**The willingness of asset managers to negotiate sooner in the process has increased to…be competitive in different search mandates, instead of potentially getting all the way to a finalist presentation before offering the negotiated fees," Wood says.

In addition, most-favored-nation clauses requiring managers to charge the best terms available, have pushed fees down.

"[Managers] that do have that in place with certain clients, it is a trickier negotiation in that it promotes a fee floor… depending on the type of account and the asset size [of the] mandates," Wood says.

Westwood Group offers most-favored-nation clauses to its clients, De Santis says. “That creates really big hurdles for asset managers to just lower fees to a fair market rate because it potentially causes them to reprice their book. That is a hurdle that all asset managers face, particularly the large majors that have huge books of business. Performance fees are a way of disintermediating that issue with the [most-favored-nation].” Westwood is pushing a performance fee structure based on risk models.

Industry fee data “gives asset managers an understanding of the amount of flexibility they may have to have when competing for public pension assets and it also gives, on the other side, institutional investors an understanding of how flexible asset managers may tend to be in certain universes when competing for assets,” Laurelli says.

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