

# Monitoring client and investment fees

Mike Limbacher, Tools Product Associate  
Rich Lynch, COO

## It's part of being a fiduciary

### Global Fiduciary Precept #5: Control and account for investment expenses

- Practice SA-4.4: *Fees for investment management are consistent with agreements and with all applicable laws*
- Practice SA-4.5: *“Finder’s fees” or other forms of compensation that may have been paid for asset placement are appropriately applied, utilized, and documented*

## It's in the news

- Congress/DOL working on legislation/rules to improve disclosure for 401(k) plans at the plan sponsor and participant level
- Recent lawsuits focused on fees:
  - *Hecker v. Deere*
  - *Braden v. Wal-Mart Stores, Inc.*
  - *Martin v. Caterpillar Inc.*
  - *Jones v. Harris*
- Trade and popular media filled with stories on the affect of excessive fees on performance.

## It's the right thing to do and good business

- Transparency levels the playing field, which ultimately favors more competent advisors and benefits the participants or investors
- Disclosure must be understandable
  - The American Jobs and Closing Tax Loopholes Act (H.R. 4213) – plan service provider disclosures
  - DOL plan participant disclosure regulation
- Expertise in this area enables advisors to reassure current clients and win potential new ones (Practice S-1.4/A-1.5 applies)

## Client level fees

- Fees paid on a periodic basis.
  - Paid via invoice or paid from client assets.
- Examples:
  - Advisor fee, Wrap fee, Recordkeeping Fee, Custodian Fee
- Are they appropriate for the services rendered?
  - Are the services necessary?

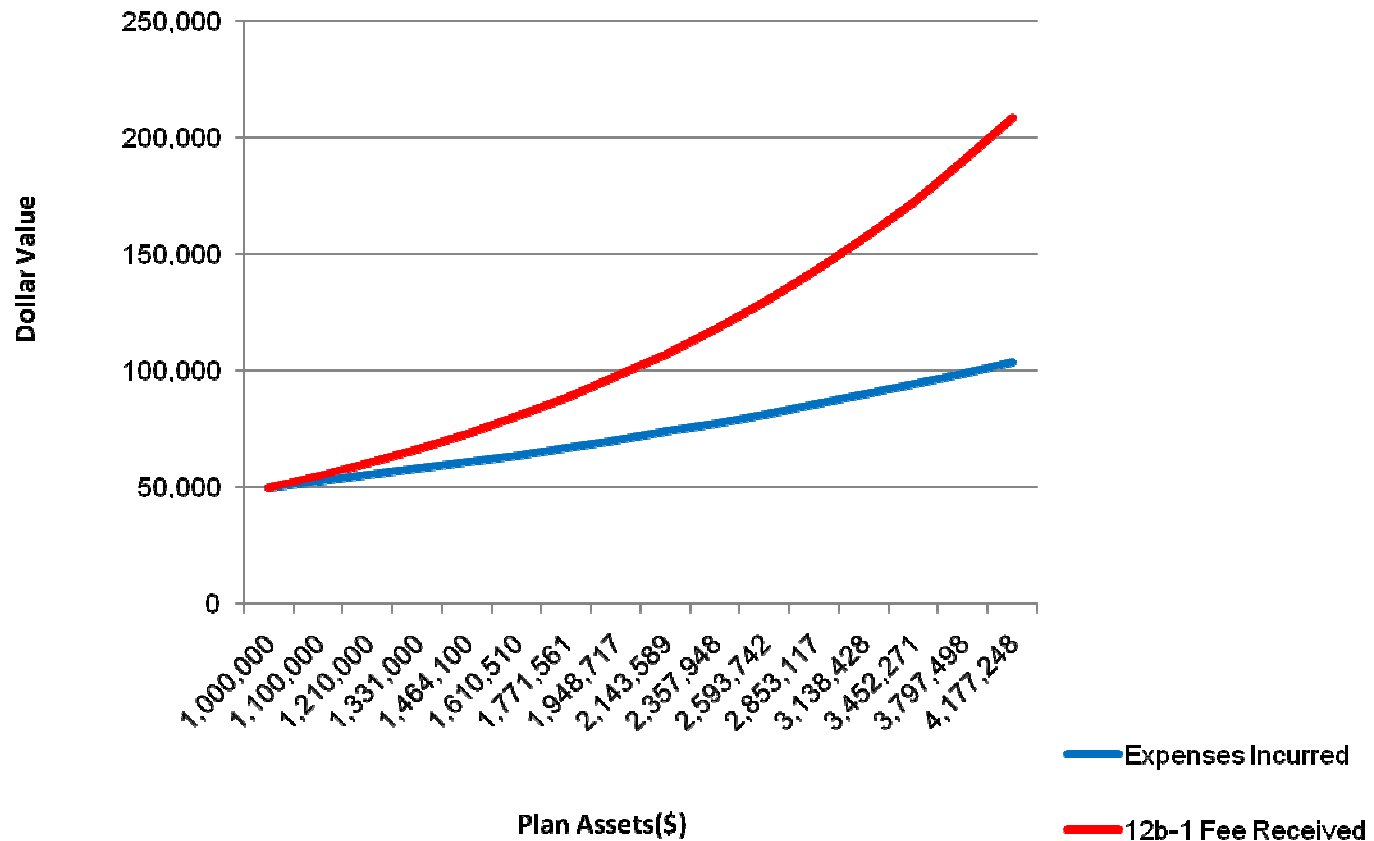
## Operational fees

- The “Expense Ratio”
- Portfolio management fee
- 12b-1 fee
  - Sales v. service
- Sub-TA fee
- Wrap fee

## The expense ratio

	Prospectus Net Expense	Audited Net Expense	Prospectus Gross Exp.
Data Source	Fund Prospectus	Audited Annual Report	Fund Prospectus
Time period	Upcoming fiscal year	Previous fiscal year	Upcoming fiscal year
12b-1 fees	Yes	Yes	Yes
Management fees	Yes	Yes	Yes
Admin./ Asset-based fees	Yes	Yes	Yes
Sales/ Trans. charges	No	No	No
Waivers/ Reimbursements	Yes	Yes	No

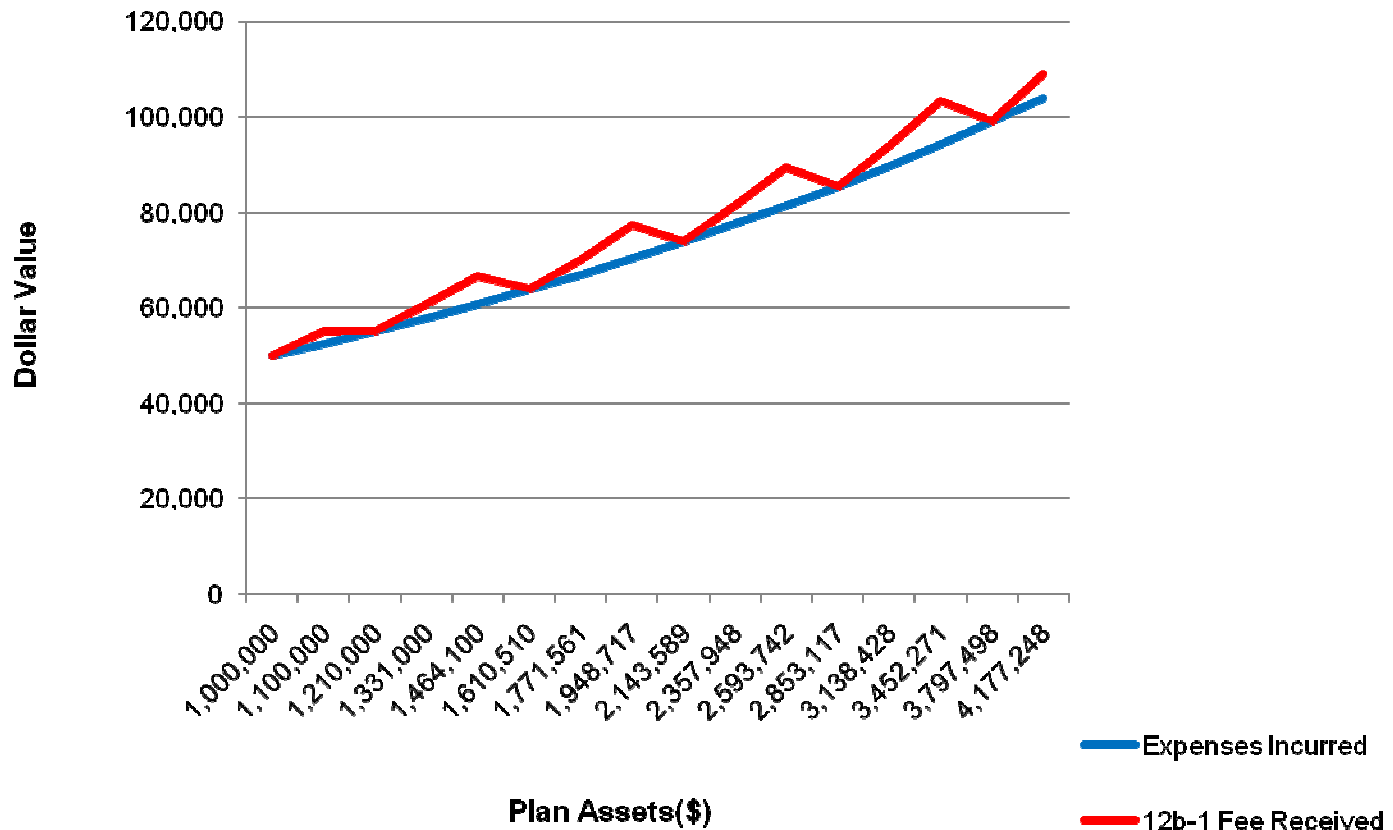
# 12b-1 fees without periodic analysis



Example for illustrative purposes only.



# 12b-1 fees with periodic analysis



Example for illustrative purposes only.

## Shareholder fees

- Loads
  - Can an alternative share class be purchased?
- Redemption fees
- Other transactional fees
  - Exchange fee
  - Finders fee

# Reporting and benchmarking

- fi360 Fee & Expense Report
  - [Sample Report](#)
- Fiduciary Benchmarks
  - [Sample Report](#)
- ICI Fact Book
  - [Fund Averages](#)

## Trading fees

- Brokerage costs
  - For the client
  - For the investment (avg. approx. 40 bps)
- Turnover ratio
  - Is the cost of trading worth the reward?
- Bid/Ask Spread
  - Implicit costs (avg. approx. 50 bps)

## Where do you find the data?

- Client agreement
- Brokerage agreement
- Record keeper/TPA Agreements
- Form 5500
- Fund Prospectus and SAI

## Thank you—Announcements

- Visit the fi360 Blog for more information on this topic and to continue the conversation: <http://blog.fi360.com>
- A recording of this and previous webinars will be available in the archive: [www.fi360.com/webinars](http://www.fi360.com/webinars)
- Report attendance for one hour of CE for your AIF or AIFA designation on your next designation renewal form.
- Email [resources@fi360.com](mailto:resources@fi360.com) for any follow up questions

## fi360 Updates

- The 2011 fi360 Article Competition is now underway, now partnered with Wealth Manager:  
<http://www.fi360.com/articlecompetition>
- Save-the-date for the 2011 fi360 Conference taking place May 4 – 6 in San Antonio, TX!
- Sign-up for a FREE trial to the fi360 Toolkits, which includes access to the Fee & Expense reporting included in today's webinar and much more -  
[http://www.fi360.com/main/tools\\_register.jsp](http://www.fi360.com/main/tools_register.jsp)
- Fi360's AIF and AIFA programs are back on the west coast at The Wharton School of the University of Pennsylvania in San Francisco July 12 and 13 - 15 respectively. Email [carl@fi360.com](mailto:carl@fi360.com) for more information.
- Fi360's annual article competition is underway and we encourage all AIF and AIFA Designees to visit the Designee Portal to learn more about the benefits of participation!