

Intermediary Fees Questioned as I-Share Flows Rise

By [Whitney Curry Wimbish](#), *BoardIQ*, October 23, 2012 [subscription required]

Flows into institutional shares trump flows into any other type of class, a new study from **Barrington Partners** shows, driven in part by larger investors that do not want to pay for recordkeeping services. But the influx of money into the share class raises significant questions for independent directors, especially whether their I shares include an intermediary fee payment and whether it fits into the share class's total expense limit set by the board and the adviser. The firm found some advisers are forced to contribute to intermediary fee payments when the fee surpasses the expense limit – a situation that can harm an adviser's stability.

“Boards are being asked to approve these intermediary fee payment arrangements,” says Hubbard Garber, the firm's managing partner. “There's no benchmark on what those fees should look like. Fund companies don't publish information you could pull out, nor does **Morningstar**. Even what we found in our survey, the way that the fund company and the adviser will split those payments is really highly varied.”

Another matter the study raises is the wide range of costs imposed by various distribution channels, placing omnibus accounting as one of the most expensive options.

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Because large distributors with an omnibus account can quickly meet a minimum account requirement, I shares can potentially be accessed by more investors. But because an intermediary fee may be charged in an omnibus account structure, the I shares still may end up being costly in spite of the class's low-cost objective, says Niels Holch, founding partner of **Holch & Erickson** and executive director of the **Coalition of Mutual Fund Investors**.

“If you step back from the I-share issue, it's the broader omnibus problem,” he says. “Omnibus costs more for both the adviser and the fund, and when it comes to I shares, those costs are going up too because of the omnibus structure. Omnibus is being used really to generate fees for brokers more than helping investors.”