Investor Group to Boards: Look At Costs Of Omnibuses

By Staff, Fund Directions, November 2009

Boards should be concerned about up to \$9.6 billion per year in unnecessary costs that shareholders are unaware of paying, says Niels Holch, executive director of the Coalition of Mutual Fund Investors. *The Shareholder Costs of Hidden Mutual Fund Accounts* – a white paper recently released by the coalition – highlights an additional expense of \$48 per fund account when using these "hidden" or omnibus accounts, which hold the transactions of many different investors of a financial intermediary.

Holch recommends more transparency in disclosures to shareholders of payments to third-party intermediaries, the avoidance of conflicts of interest within the sales and distribution system and ensuring that the prospectus policies and procedures line up uniformly across all distribution channels. "Boards should get more information about these fees, such as what's being offered in return and if it is at a fair price," he added.

"There seems to be a larger cost for someone who is transacting through an intermediary or third party," said Holch. 'The board should be concerned if payments are being made to brokers for activities brokers are already responsible for doing." The paper states that for the omnibus accounts these intermediaries are being paid on average between \$19 and \$25 for each client position held in a fund, while the estimated cost for shareholders who purchase mutual fund shares directly is \$10. The coalition estimates that as many as \$200 million accounts are held in omnibuses, according to the paper, not including another roughly \$200 million in 401(k) accounts.

"There's been a growing industry trend for these intermediaries to internalize the transfer agent services and indeed earn additional revenue," said Edward Burke Carey, chairman of the board of the Fifth Third Funds. "Some of these costs mentioned are likely at the account and not the fund level." Carey said for his fund the board does not have any control over the account level fee, which could include costs for the printing and mailing of statements as well as other investor service costs.

"What the white paper leaves out is another cost that the platforms take over, which is the fund administration side," said Stephen Little, chairman of the board of the Unified Series Trust. "That cost component that is taken on by the omnibuses is not quantified here at all."

Carey further noted that the agreements funds have with intermediaries are included in fund disclosures but should specify the types of services and related fees that shareholders are receiving. "Omnibus accounts impose different cost arrangements on fund shareholders – sometimes increasing their costs and sometimes lowering their costs," he said. "We disclose these arrangements in our prospectus in general terms

ecause each arrangement is somewhat unique but the industry has to find out how to
now these costs."