

Court Rejects BlackRock's Bid to Axe Fee Suit

By [Beagan Wilcox Volz](#), [Ignites](#), March 31, 2015 [subscription required]

[BlackRock](#) has failed to convince a federal court in New Jersey to scrap a lawsuit brought against the firm last year over excessive management fees.

The plaintiffs of the consolidated suit allege that BlackRock violated the Investment Company Act of 1940 by charging excessive advisory fees for its Global Allocation and Equity Dividend funds. Those funds represent \$54.8 billion and \$27 billion, respectively, according to data from [Morningstar](#).

BlackRock provides the same or nearly the same investment service to unaffiliated funds it subadvises as it does to the two proprietary funds but at a much cheaper cost, the complaint states.

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U.S. District Court Judge Freda Wolfson notes that allowing the case to proceed is not a signal that BlackRock's arguments lack merit or that the plaintiffs will be able to prove their case. The court is not obligated to "test the strength of the allegations" the plaintiffs make at this stage of the litigation, Wolfson states, adding that the court must construe the facts in the plaintiffs' favor at this point.

"In sum, assuming that the [proprietary] funds pay as much as 106% higher fees for BlackRock advisory services than the subadvised funds pay for the same or substantially the same services, plaintiffs' allegations support the inference that the funds' fees are disproportionately large and outside the range of what could be negotiated at arm's length for BlackRock's advisory services," according to the decision.

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The suit against BlackRock is one of numerous others filed in recent years that focus on the relationship between advisory and subadvisory fees. [First Eagle](#), [John Hancock](#), [JPMorgan](#), [New York Life Investment Management](#), [Russell](#), [SEI](#) and [Voya](#) are also fighting such claims.

Cases against [Axa](#), [Hartford](#), [Harbor](#) and [Principal](#) have survived motions to dismiss.

"The journey is just under way," says Niels Holch, regarding the case against BlackRock and the others that have passed the motion-to-dismiss phase. Wolfson goes into greater detail than other judges have in other cases about how the BlackRock plaintiffs met the burden to show that their claims are plausible, Holch notes.