

Great-West Smacked With Second Fee Suit

By Beagan Wilcox Volz, *Ignites*, February 2, 2016 [subscription required]

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Great-West has been hit with two lawsuits involving mutual fund fees in less than a month.

In the most recent suit, three investors in several of the firm's index and asset allocation funds [claim](#) that the Greenwood Village, Colo.-based firm retains excessive fees for doing little of the work to manage funds that are subadvised by others.

At the same time, the funds at issue in the suit have underperformed their indexes or stated benchmarks, making the amount in fees that Great-West collects "vastly disproportionate to the services it actually renders to the Funds," the plaintiffs claim.

The lawsuit, filed Friday in Colorado federal court, makes claims under Section 36(b) of the Investment Company Act of 1940. A separate case against Great-West and Empower filed in mid-January alleges improper revenue-sharing payments from funds within separate accounts that are part of a retirement plan's group annuity. Claims in the latter case are made under the Employee Retirement Income Security Act.

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Great-West is one of nearly 20 fund firms fighting similar lawsuits that focus on how much the advisor retains in fees versus how much subadvisors collect and the work each firm does.

But the Great-West suit appears to be the first of such cases to involve index funds, according to Niels Holch, executive director of the Coalition of Mutual Fund Investors. Among the funds involved in the suit include the Great-West S&P 500 Index Fund and the Great-West S&P Small-Cap 600 Index Fund.

Great-West retains 96% of each index fund's 25-basis-point advisory fee, according to the complaint. Great-West gets more than 26 times more in fees than the funds' subadvisor, Mellon Capital Management Corp., "even though Defendant performs virtually none of the investment adviser work for those Funds," according to the complaint.

In 2014, for instance, Great-West earned \$4.2 million in advisory fees on the S&P 500 fund and paid Mellon about \$404,000 for its work, the suit states.

The disparity between what the subadvisor retains and the amount the advisor keeps is among the largest he's seen in the cases involving subadvised funds, says Holch, who tracks the cases.