MetWest Excessive-Fee Case Moves Forward

By Beagan Wilcox Volz, *Ignites*, June 21, 2016 [subscription required]
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Metropolitan West has lost its attempt to throw out a lawsuit over the fees charged by its $77.9 billion Total Return Bond Fund.

A federal judge in California last week denied MetWest's December motion to dismiss the case, ruling that the plaintiff can proceed to discovery, the stage of litigation during which the parties exchange information related to the allegations.

The plaintiff claims that although the fund has grown significantly in recent years, it has not shared economies of scale with investors in the form of reduced fees. The fund represented $68 billion when the lawsuit was filed in October, more than 11 times its $5.8 billion in assets at the end of 2008, according to Morningstar data.

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At least seven firms were hit with such suits in 2014, including Russell, BlackRock, NY Life, J.P. Morgan, First Eagle, Davis and Harbor. In 2015, at least five firms were sued: Calamos, State Farm, Fiduciary Management Inc., Prudential and MetWest. Thus far this year, it appears that only two firms — Great West and T. Rowe Price — have been sued over fees under the Investment Company Act of 1940.

"I would expect that both the plaintiffs and defense counsel are waiting to see what happens in the Axa trial," says Niels Holch, executive director of the Coalition of Mutual Fund Investors. The Axa excessive-fee trial wrapped up in June. It was the first of the latest string of cases to go to trial, and the outcome could have a big impact on the other similar cases in various stages of litigation.

"That [case] will be a turning point one way or another," Holch says.

The plaintiffs in '40 Act excessive-fee cases have never won at trial, although they have obtained many settlements. The terms of the settlements are typically not disclosed.

The attorneys that represent the plaintiffs in '40 Act fee cases generally work on a contingency-fee basis, and given the number of cases they've filed in recent years, their resources may be stretched thin, adds Holch.