Prudential Sued for Pocketing Too Much in Advisory Fees

By Beagan Wilcox Volz, Ignites, December 2, 2015 [subscription required]

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Prudential Investments charged excessive advisory fees on six subadvised funds, keeping more than half of those total fees for itself, a recent lawsuit alleges.

Despite delegating the bulk of the investment management responsibility to the subadvisors, Prudential retained more than $103 million in fees from the funds in question during the most recently reported fiscal year for each. Meanwhile, the subadvisors were paid a total of $98 million, according to the plaintiffs, who include a California medical group and five individual investors.

"In other words, the net fees received by Prudential — the vast majority of which were retained as profits due to Prudential's low costs for providing oversight services — were approximately the same as the fees charged by the subadvisors for performing substantially all investment advisory services for the funds," states the Oct. 30 complaint, filed in Maryland federal court.

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The amount Prudential retained of the total advisory fees — more than half — is similar to the fee splits in other cases, says Niels Holch, executive director of the Coalition of Mutual Fund Investors.

"There are cases where the advisor has kept more than 50%, and there are cases where the advisor has kept something more like a third," he says. "So 50% puts them in the midrange of these lawsuits."

In contrast, the fee split alleged in the case against Axa [Equitable] is "extreme," says Holch. Axa retained more than two thirds of the total advisory fee, according to the plaintiffs. The [Axa] case may the first of its kind to go to trial. Unless the parties settle first, they are slated to be in New Jersey federal court on Jan. 11.