SEI Latest Firm Hit With Excessive-Fee Lawsuit

By Beagan Wilcox Volz, Ignites, December 16, 2013 [subscription required]

The number of lawsuits that explore a relatively new area of potential liability with mutual fund fees is growing quickly.

SEI is the latest to join the ranks of firms that are fighting lawsuits in which the plaintiffs allege the companies are charging excessive mutual fund fees in subadvised funds. This is evidenced by the fact that the advisors delegate most day-to-day management duties to subadvisors, but pocket a big portion of advisory fee revenues, the plaintiffs say.

The suit filed last week in federal court in Pennsylvania against SEI is the fourth in as many months. In September, ING and **The Principal** were hit with similar allegations, and in October Russell was hit as well.

Axa and **The Hartford** lost their bids to dismiss such suits in 2012 — a positive development for the plaintiffs. This may be spurring plaintiffs' attorneys to file new cases.

"It's very hard to bring these … cases," says Niels Holch, executive director and founder of the Coalition of Mutual Fund Investors, which tracks excessive-fee suits. "No one's really succeeded. So to get beyond a motion to dismiss is quite a significant hurdle to overcome."

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The plaintiffs also allege that SEI has not shared the funds' economies of scale with investors and has instead "appropriated" the savings for itself.

SEI has charged the same fee rates on the funds at issue "for as many as 17 years despite the SEI funds' asset growth through additional investments of as much as 307% during this time," the complaint states.

Holch of the Coalition of Mutual Fund Investors says the fact that the SEI funds at issue do not have breakpoints may make this case unusual.

"In fact, it's more common than not" for funds to have breakpoints, he says.

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Holch says the complaint is well argued. “On its face, it does seem inappropriate for an advisor to completely outsource the advisory role to a subadvisor and still retain 40% of the advisory fees,” he says. “That just doesn’t seem right.”