Subadvisors Face Pressure to Shave Management Fees

By Clare Trapasso, Ignites, December 10, 2014 [subscription required]

Fierce competition, a slew of excessive-fee lawsuits and the rise of passively managed funds are putting pressure on the fees that subadvisors can command.

“There’s always pressure on subadvisors to reduce their fees,” says Tim Clift, chief investment strategist at Chicago-based Envestnet. “We’re seeing more subadvisors being replaced by index products.”

*   *   *   *   *

Another wrinkle for subadvisors is that a slew of fund firms, including Harbor Capital Advisors, Axa, BlackRock, **Davis,** First Eagle, Hartford Funds, JPMorgan, **Voya, Principal,** Russell and SEI, have been hit with excessive-fee lawsuits for how the management fees are divvied up between the advisor to the fund and its subadvisor.

This has heightened the scrutiny surrounding subadvisors and the fees they charge by fund boards, institutional plans and consultants, says Todd Cipperman, managing principal of Cipperman Compliance Services.

“Boards are really questioning fees,” he says. “Unless you have really outsized performance, it’s hard to justify an outsized fee.”

Niels Holch, executive director of the Coalition of Mutual Fund Investors, says the suits will have the biggest impact on the advisors that hire the third-party managers, rather than the underlying subadvisors.

“The central argument in a number of these cases is the advisor is delegating most of the portfolio selection to the subadvisors, but is taking a large fee to supervise the work being done by others,” Holch says.

Subadvisors already work in a very competitive environment, he says.

“The fee reductions are going to come out of the most non-competitive part of the advisory fee rather than the subadvisory fee,” Holch says.