Invesco Axes Redemption Fees, Adds Purchase Blocks

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By Hannah Glover, Ignites

Invesco will join the growing list of firms that have axed redemption fees on their funds, but it will also add a new policy designed to avert large, frequent trades within its products.

Starting in January, the firm will eliminate the 2% penalty assessed on investors who redeem or exchange a fund within 31 days of purchase, and roll back its exchange limits policy. That policy generally restricted investors from exchanging shares out of a fund to four times per calendar year, according to an Oct. 7 regulatory filing.

In place of redemption fees and exchange limits, Invesco will introduce a "purchase blocking policy," designed to "limit the effects of excessive trading in the Funds." That policy will prohibit any investor who redeems $5,000 or more from a fund in a single trading day from reinvesting in that fund for 30 calendar days.

Companies industrywide adopted redemption fees last decade as a means of thwarting would-be market timers from jumping in and out of funds, which can increase costs for other, long-term shareholders. But in recent years several firms have peeled back those measures for some or all of their funds. **Van Kampen**, which Invesco acquired from **Morgan Stanley** in 2010, dumped redemption fees on 15 of its funds in 2008. Invesco's decision also follows similar choices by **Putnam**, **Mainstay**, **Henderson Global Funds**, **Franklin Templeton**, **First Eagle**, **Forward**, **Pimco** and others. In May, **J.P. Morgan Funds** likewise repealed the redemption fees on 26 funds, leaving the family completely redemption-fee free.

Invesco's shift to a purchase blocking policy comes in response to feedback from intermediaries, according to spokesman Ivy McLemore. Tracking "round-trip trades," or instances in which a shareholder sells and then repurchases shares within the same fund, and ensuring the correct redemption fee is applied can be operationally onerous. "This [purchase blocking] policy provides consistency across almost all of our open-end retail funds and is more straightforward," McLemore says.

The new policy applies to all funds except for Invesco's Money Market Fund, Tax-Exempt Cash Fund, Premier Portfolio, Premier Tax-Exempt Portfolio, Premier U.S. Government Money Portfolio and variable insurance funds. Also excluded from the purchase blocking policy are two interval closed-end funds, the Invesco Van Kampen Senior Loan Fund and the Invesco Prime Income Trust. "Purchase block has been determined to be an effective tool to minimize the negative effects of excessive short-term trading," according to an overview of the new policy sent to clients.

Other firms with similar policies for certain funds include **American Funds** and **Artio Global Investors**. **State Farm**'s purchase blocking policy prohibits purchasing shares in

a fund for 30 calendar days after redeeming $2,500 or more in a single day, according to regulatory filings.

Invesco's new purchase blocking policy makes several exceptions for systematic and other trades, including those in fee-based accounts, plan-level omnibus retirement or employee benefit plans, retirement plan rollovers, non-discretionary rebalancing of funds of funds, and conversions and characterizations of individual retirement accounts (IRAs). Invesco says it will work with recordkeepers, broker-dealers, bank trusts, insurance companies and other intermediaries and their systems providers to help those distributors implement the new plan. In certain instances, intermediaries may apply their own policies, provided Invesco feels they can reach the same goal, according to regulatory filings.

Since firms started levying redemption fees, they have faced pushback from intermediaries, particularly 401(k) recordkeepers, says Russell Kinnel, director of fund research at **Morningstar**. Purchase blocking policies are "a milder tool" in impeding market timers, he says, adding that since the market-timing and late-trading issues brought regulatory scrutiny to the industry nearly a decade ago, both firms and their distribution partners have invested heavily in systems to better monitor and stop such activity. Still, he says, to the extent market timers still do lurk among the investor populace, collecting redemption fees that then are returned to the fund to cover the costs of more frequent trades is fairer to the long-term investors in the fund, Kinnel says.

The real question is not whether one policy is more effective, but whether firms can ensure either is uniformly enforced, says Neils Holch, executive director of the **Coalition of Mutual Fund Investors**. With about 50% of all mutual fund trades occurring in omnibus accounts, firms lack the transparency they need to see whether their funds' policies are being implemented. That is particularly true if the broker-dealer is using its own policy to monitor trades, he says. The mishmash of rules also makes discerning which policy is in place a challenge for investors, says Holch. "It's not a very uniform system right now," Holch says.

Replacing redemption fees that ding fund investors for withdrawing assets with a policy that simply prohibits sellers from reentering could be seen as less punitive by shareholders, especially at a time when volatile markets have made investors skittish, says Dave Swanson, founder of **SwanDog Strategic Marketing**.

But in truth, few investors would really be affected by redemption fees, given that most invest for the long term, he says. That environment has companies looking at how they position their products from all angles, he says. "Investors don't need another reason not to invest," he says.