Q4 2022

Post-Negotiated Fee Analysis

Active Management Fees in Public Equity Stabilize

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Executive Summary

Investment Metrics, a Confluence Company's Fee Analyzer is the industry's leading source of post-negotiated manager fees. Fee Analyzer is an interactive tool used to benchmark 65 investment styles. The tool compares post-negotiated fees across many different plan types, mandate sizes, and asset classes. With Fee Analyzer's reliable fee data, asset allocators and asset managers gain competitive insights, which in turn leads to better decision-making surrounding active management fees.

In this report, we spotlight fee trends for active managers across public equity and US fixed income. We examined separate account and commingled fund mandates between $20 million and $75 million. In total, more than 490 observations were utilized in this research report.

Active managers struggled in 2022 against their respective benchmarks, at a median level. Unsurprisingly, active management fees decreased compared to three years ago, across the Investment Metrics active manager peer groups we reviewed.

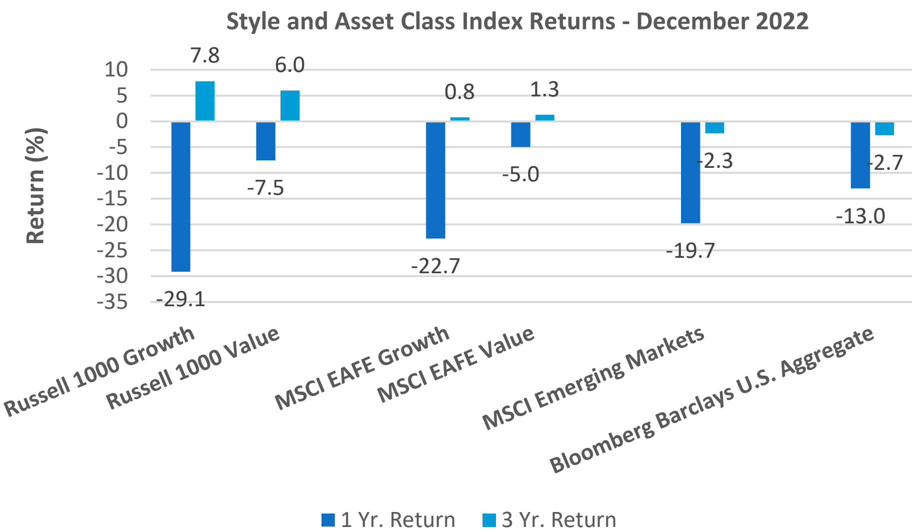
Highlights

- Active managers struggled to perform in 2022's down market.
- Post-negotiated active management fees have fallen, at an average level, over the past three years in non-US large-cap equity, emerging markets equity, and US broad core & core plus fixed income peer groups.
- US large-cap equity active managers maintained their average level over the three years. This is most likely due to those active managers remaining with mandates demonstrating the value they bring with regards to research and stock selection.

Poor Performance by Active Managers

Both public equity and fixed income markets struggled in 2022. In particular, growth stocks and emerging market equities were atrocious over the calendar year. Surprisingly, the Bloomberg Barclays US aggregate fixed income index also performed poorly. Normally, the fixed income asset class protects investors when equity markets crater, but that did not happen in 2022. Unfortunately, at a median level, active managers were not able to perform well in this environment based on data from the Investment Metrics (IM) active manager peer groups. However, it is important to note that the wide range of returns between the 75th and 25th percentile performance figures does demonstrate that some active managers navigated this volatile market effectively. The best active returns in the calendar year came from managers in the US large-cap value peer group. Some of the top performers include

Federated Hermes Strategic Value Dividend portfolio, Marshfield Associates Equity portfolio, and Logan Capital's Concentrated Value portfolio. Over the longer-term, three years, we saw positive active returns from active managers in the US large-cap value, emerging markets equity, and US broad core & core plus peer groups.



Investment Metrics (IM) Peer Group Active Returns - December 2022

	1 Year			3 Year			
	75th Percentile	**Median**	**25th Percentile**	**75th Percentile**	**Median**	**25th Percentile**	***Portfolios***
IM US Lg Growth Equity	6.8	-0.7	-4.4	0.1	-1.5	-3.4	**188**
IM US Lg Value Equity	5.6	2.6	-1.7	3.6	2.0	0.6	**223**
IM Non-US Lg Growth Equity	6.0	-1.4	-7.0	2.9	1.1	-0.4	**93**
IM Non-US Lg Value Equity	-2.2	-4.7	-10.3	1.7	-0.1	-1.6	**110**
IM Emerging Markets Equity	5.6	-0.8	-5.4	3.4	1.2	-0.5	**135**
IM US Broad Core Fixed	0.6	0.1	-0.3	0.9	0.5	0.2	**132**
IM US Broad Core Fixed Plus	1.0	0.1	-0.6	1.7	1.1	0.5	**138**

Active Management Fees Stabilize

We examined the post-negotiated fees for active managers comparing the average fee for mandates between $20 million and $75 million over the past two years. Included in the analysis were both separate accounts and commingled funds. Fees within public equity seem to have stabilized over the past year. We only saw a one or two percent decrease in the average post-negotiated fee. US broad core & core plus fixed income asset managers saw the largest percent decrease over this period. In addition, we compared the average post-negotiated fee to the average stated fee for $50 million-mandates (stated fees are entered into the Investment Metrics global database by asset managers). Predictably, there is a difference between stated fees and actual post-negotiated fees. There is a large different in the emerging markets equity active manager universe. We expect the stated fees in our Investment Metrics Global Database to come down for emerging markets equity active managers to be more in-line with reality.

	Separate Acct. and Commingled Fund Mandates Between $20M and $75M						
	Dec-2020 Post-Negotiated Fee - Avg.	*Dec-2021 Post-Negotiated Fee - Avg.*	*Percent Change*	*Dec-2022 Post-Negotiated Fee - Avg.*	*Percent Change*	*Observations*	*Stated Fee - Peer Universe Avg. (Investment Metrics Database) - $50M Mandate*
US Lg Growth & Value Equity	53	53	-1%	53	1%	156	56
Non-US Lg Growth & Value Equity	74	73	-2%	72	-1%	108	70
Emerging Markets Equity	83	79	-6%	77	-2%	68	86
US Broad Core & Core Plus Fixed	30	29	-3%	27	-7%	161	30

Active Management Fees Going Forward

Over the past three years we have seen active management fees decrease, but this trend has moderated over the past year as active managers demonstrate their research and stock selection capabilities. Those active managers that were not able to perform in the down market of 2022 will most likely see their assets go to passive strategies, or to other active managers that performed well in this difficult environment. Within US large-cap equity we have already seen the trough with post-negotiated active management fees. Those active managers that have demonstrated their research and stock selection capabilities should begin to push back against fee compression, and look for top quartile fees compared to peers.

Conclusions:

- Active management fee compression will start to moderate because good performing active managers will retain their assets.
- Top performing active managers should start to negotiate for higher fees because of their demonstrated ability to navigate a difficult capital market environment.
- Stated fee levels should start to decline to become more in line with post-negotiated fee levels.

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