Roma Burke – 13 May 2015

LCP Investment Fee Survey 2015

LCP Investment Manager Fee Survey 2015

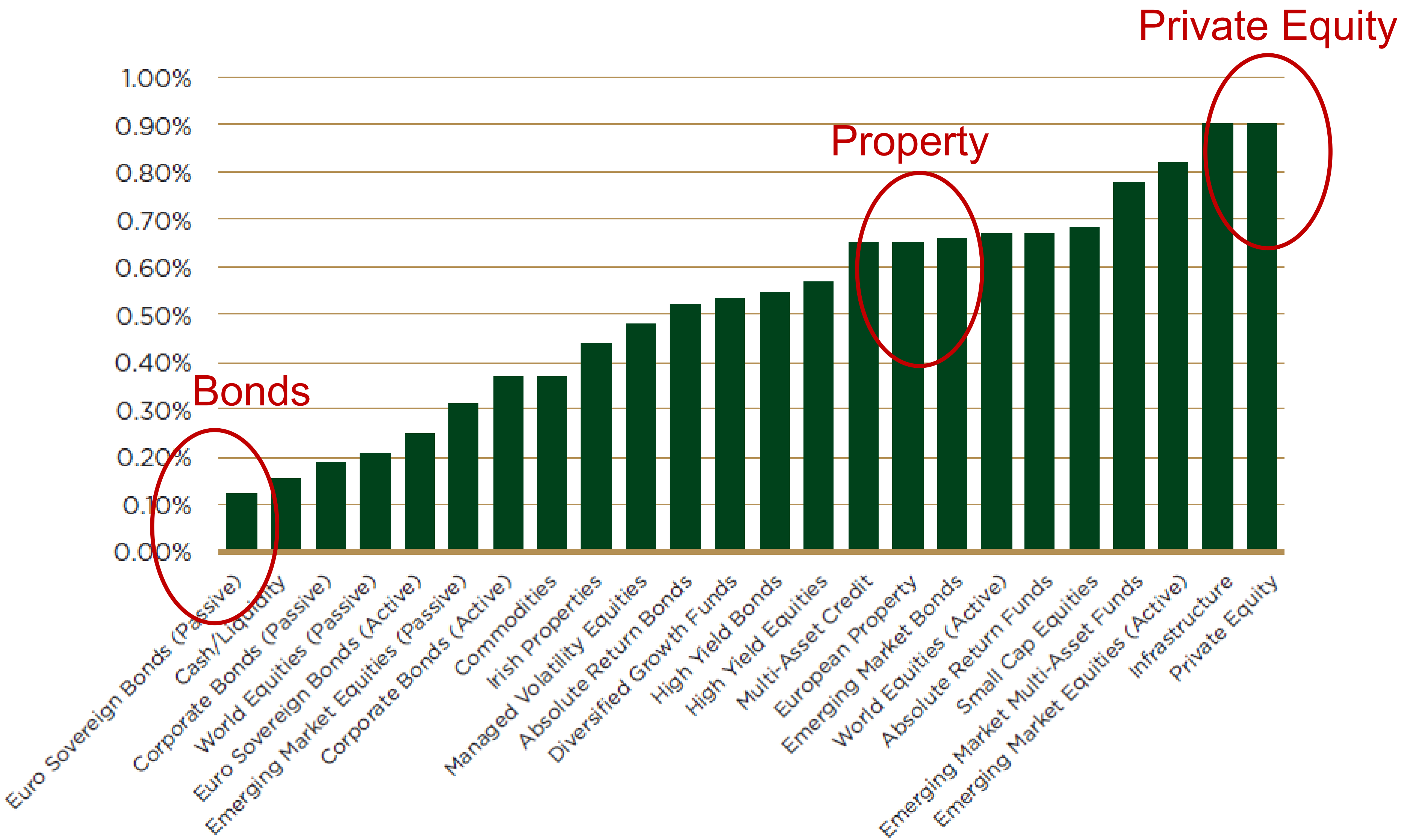
- 27 investment managers surveyed
- Respondents responsible for management of >80% of assets for Irish occupational pension funds
- 20 asset classes surveyed
- Asked about: fees, transaction costs, willingness to negotiate

Fee Model in Ireland

- Fixed rate typically applied (eg 0.5% of assets)
- As assets increase, fees automatically increase
- Typical fee for €30m active equity mandate = €200,000 pa

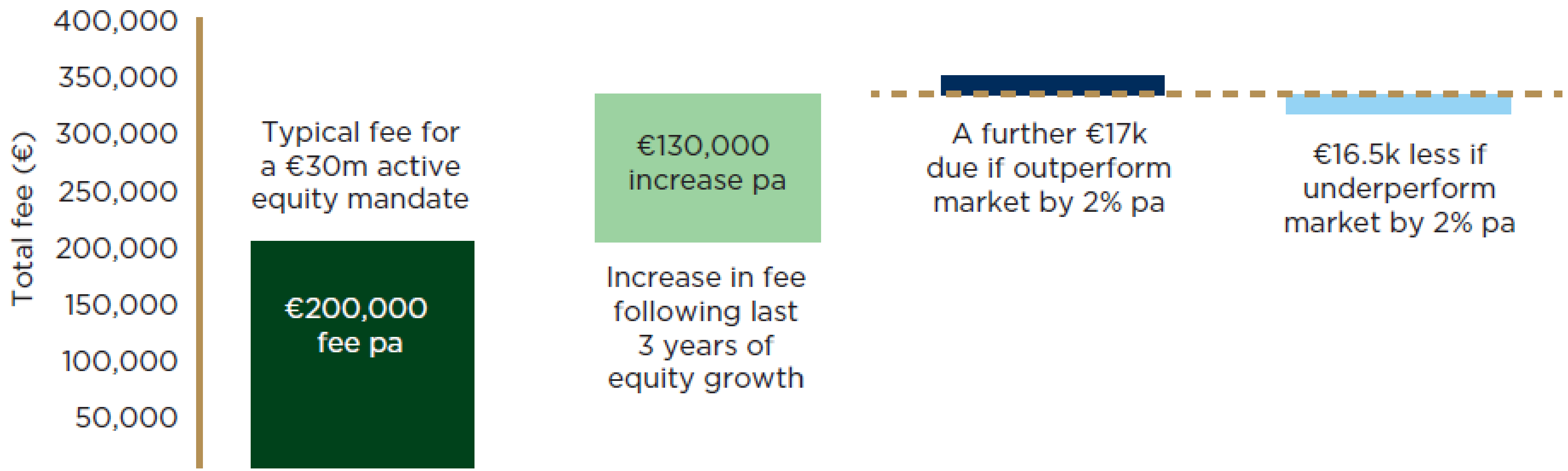
- Fees depend on
  - where assets are invested (equities, bonds, etc) and
  - type of management (active or passive)
- Fees primarily driven by returns on asset class, not relative performance of manager
- Size of mandate is often important
- Transaction fees payable in addition

Fees differ by asset class



Graph above shows the fees based on a €30m mandate

Fees driven by market returns – not relative performance



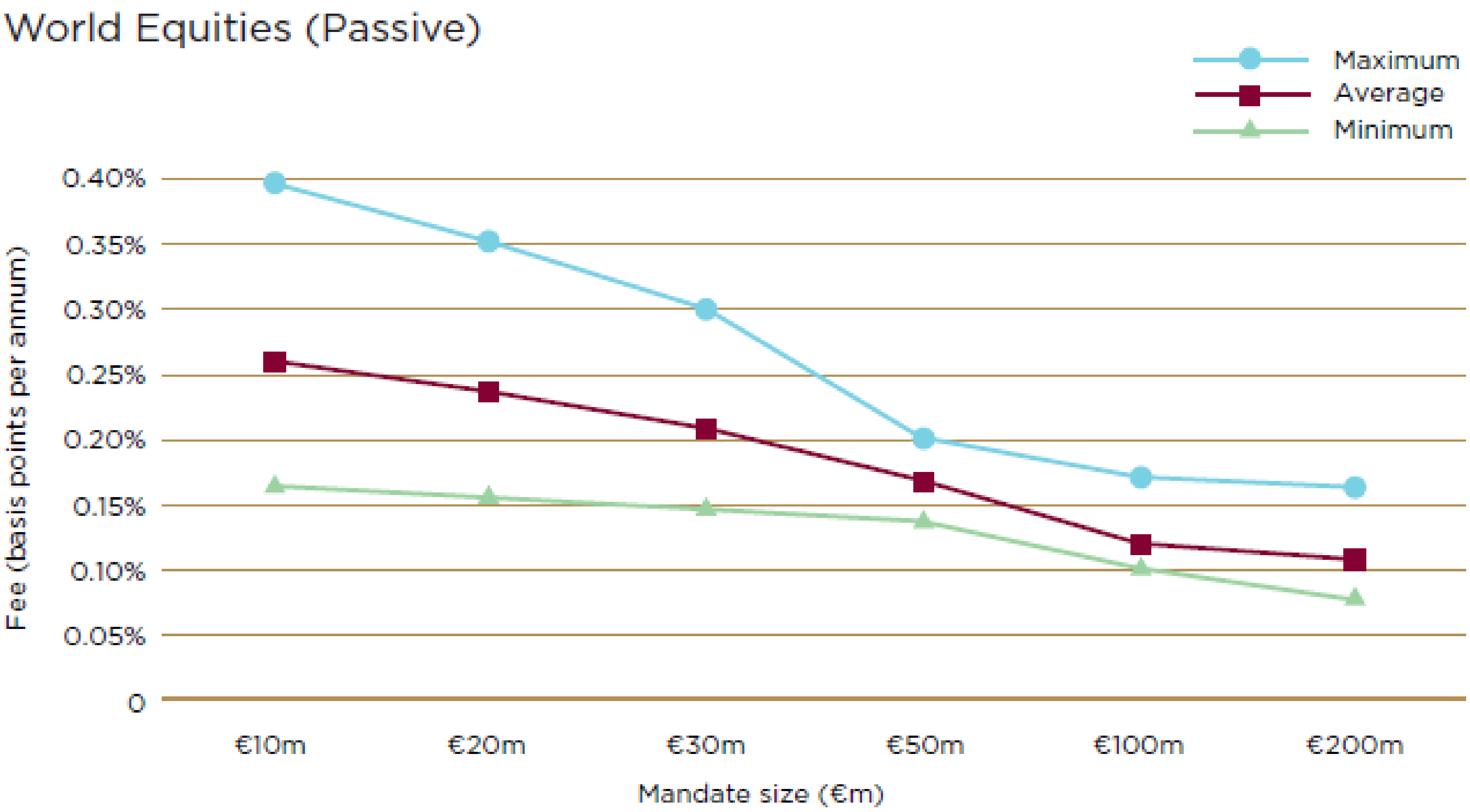
Where fees are primarily driven by market movements, there little alignment of interests between investment manager and investor

Other fee options could be considered

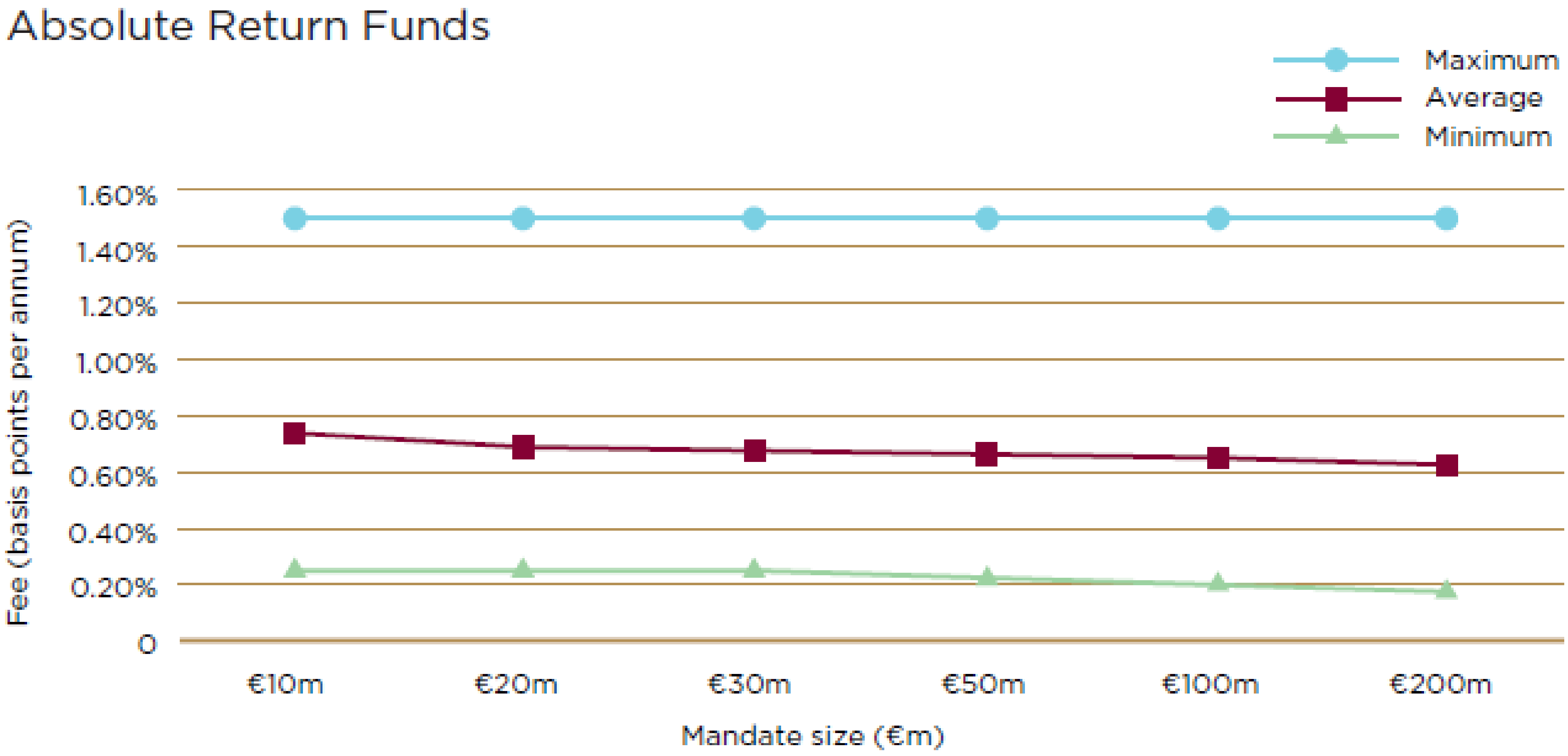
1. Low base fee (% of assets) + performance related fee, or
2. Fixed fee to cover costs + performance fee

- Take-away:
  - Availability of performance-related fees varies
  - Fees should be capped to discourage excessive risk taking
  - Additional challenges associated with option 1
  - Should USG be looking at option 2?

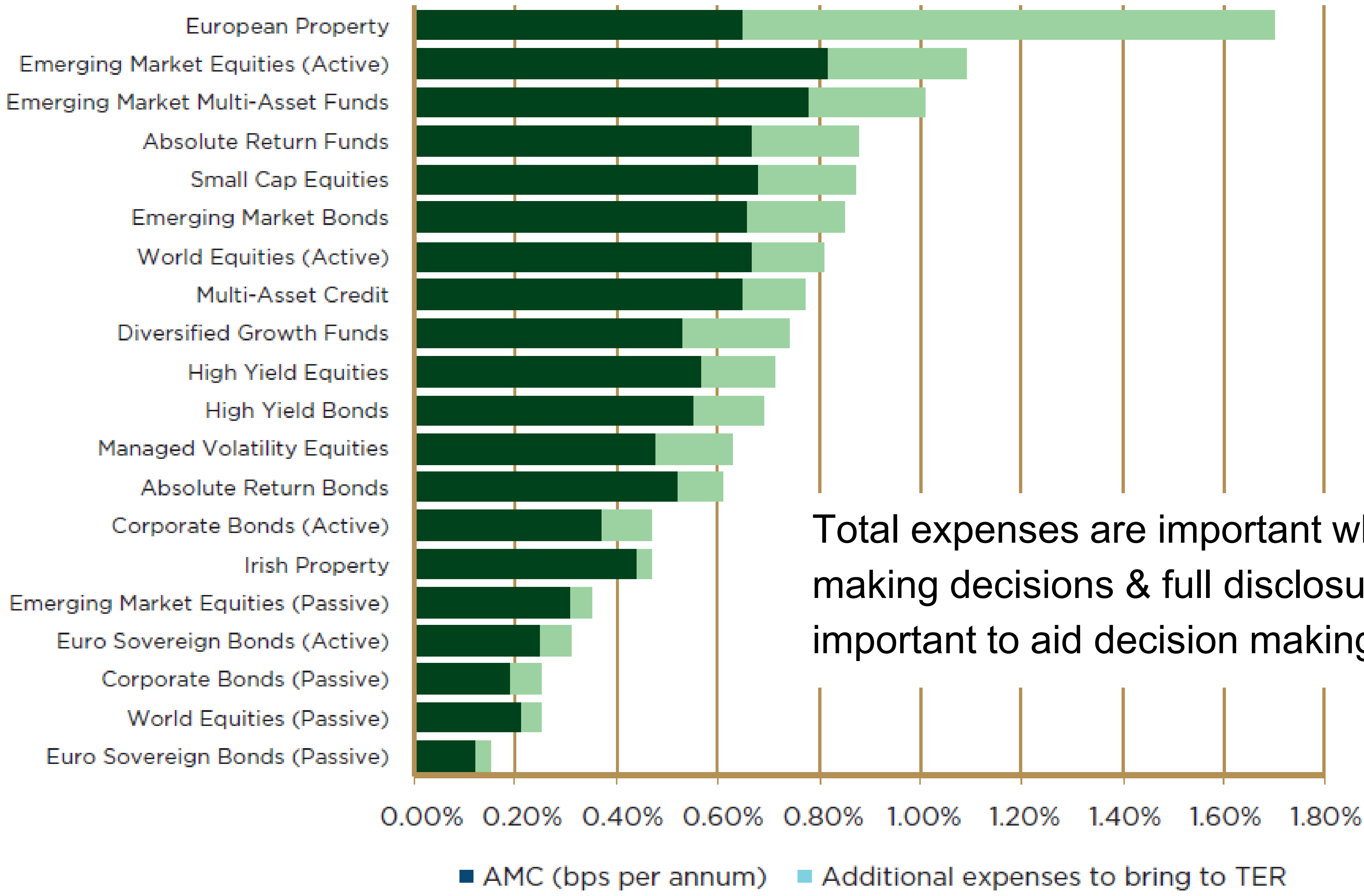
Size of mandate can be important



But not in all cases



Transaction costs can be significant



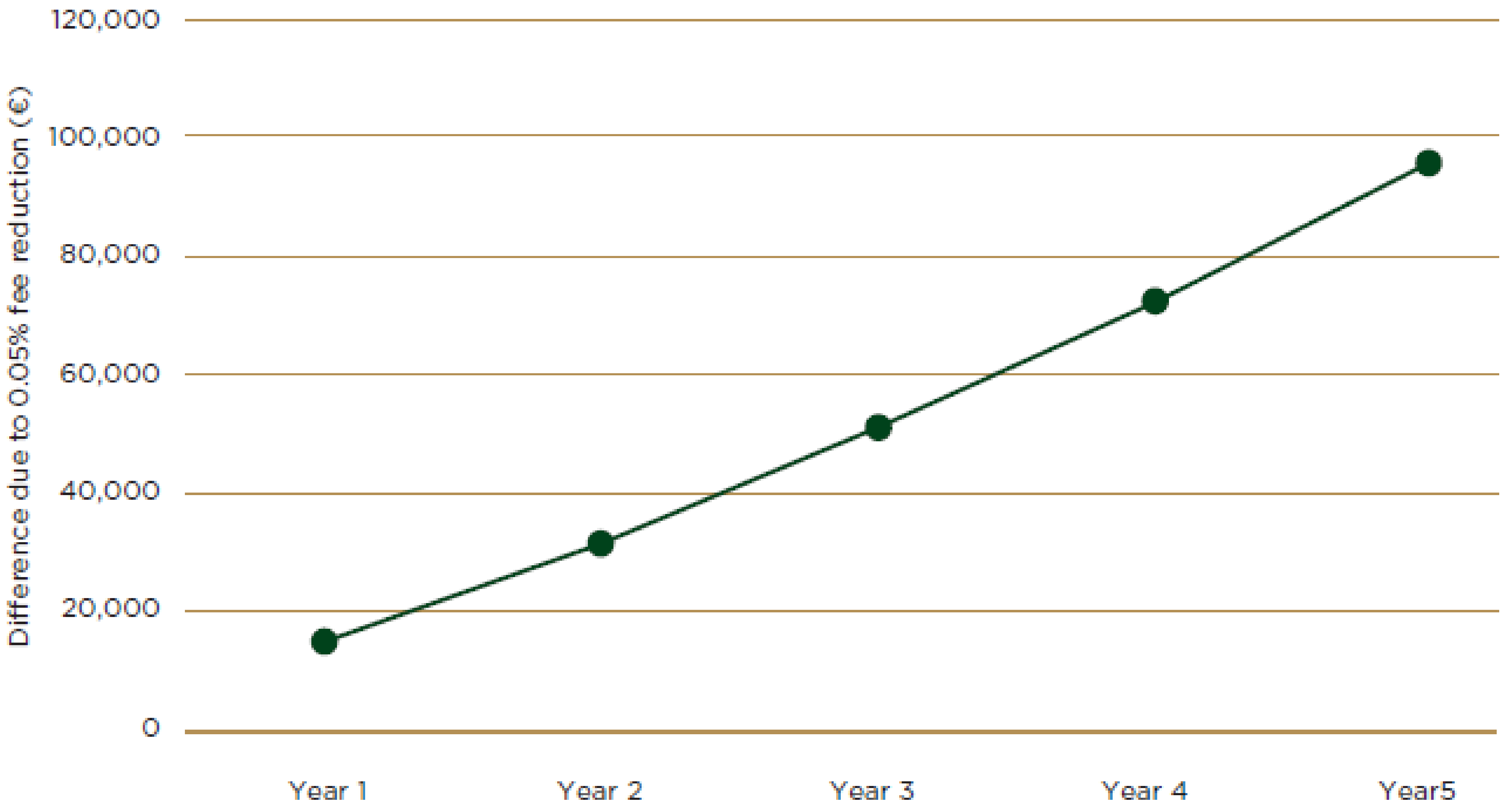
Total expenses are important when making decisions & full disclosure important to aid decision making

What influences fees?

- Size of mandate
- Future expected cashflows
- Longstanding relationship
- Fee agreements with client's consultants
- Level of demand for particular product
- Reporting requirements
- Manager's relative performance

It is important to negotiate fees

Lower costs = better retirement outcomes



A reduction of just 0.05% on a mandate of €30m will lead to savings of over €90k over 5 years

Take home

- Lower costs = better retirement outcomes for individuals
- Seek value for money (not simply the lowest cost)
- Transparency vital
- Ongoing oversight and negotiation important
- A national scheme has scale -this will help with negotiations

- USG has an opportunity to be innovative about the fee structure