



# 2023 Mutual Fund Audit & Tax Surveys

## MFDF Presentation

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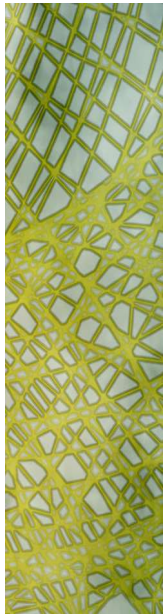
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# The 2023 Mutual Fund Audit Survey



## Why participate

Investment Advisors participate in this survey to answer the following question:

Are *overall* audit fees (associated with the annual audit) for the fund company within a reasonable range of what other fund companies are paying when considering the complexity of the funds' portfolio?

Barrington creates a regression model that uses 35 factors to predict the price that should be paid for an audit based on the cost of all audits in the survey. Barrington then rolls up those costs at a fund complex level.

1. The model calculates a **Complexity Score**, which compares each fund's complexity against the average fund, which is set at 1.0x. Complexity represents the work necessary to complete an Audit.
2. A **Cost Factor** is also calculated, which is the actual price, adjusted for Complexity. A cost factor of \$1.00 represents 'Right Priced' across the survey.

Barrington has completed seven biennial versions of this survey.

### 2023 proved to be a very interesting year:

1. Inflation is a factor for the first time since 2007.
2. COVID and the Great Resignation changed dynamics of staffing at Audit Firms.
3. Off-shoring and Remote staff also changed the dynamic around Geography.
4. ETFs are playing an increased role in the industry and there is an interesting dynamic between passive and active ETFs.

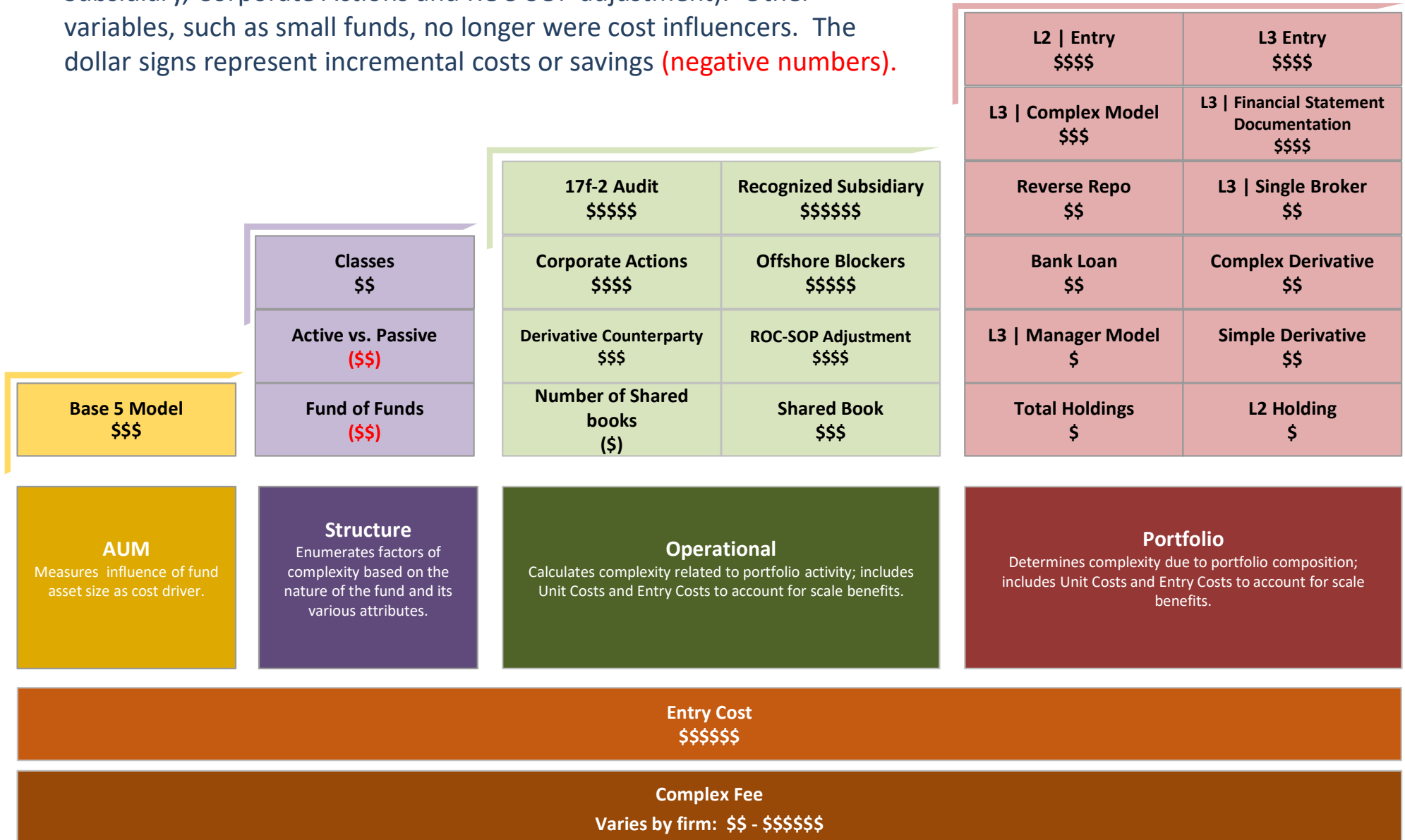
Participants include small, medium and large firms. 15 of the participants from the 2021 survey also participated in 2023.

	Year			
	2017	2019	2021	2023
Total AUM	\$7.3T	\$4.3T	\$6.5T	\$15.9 T
# of Funds	3,854	2,609	2,964	3,417
# of Unique Firms	27	20	26	27
Total Audit Fees	\$118,975,984	\$77,796,500	\$94,136,582	\$112,522,741



# Methodology

The 'building blocks' depiction summarizes the Audit fee drivers in the 2023 Survey. A number of new elements were tested in the 2023 Survey, and several proved to be cost drivers (17f-2 Audit, Recognized Subsidiary, Corporate Actions and ROC-SOP adjustment). Other variables, such as small funds, no longer were cost influencers. The dollar signs represent incremental costs or savings (**negative numbers**).

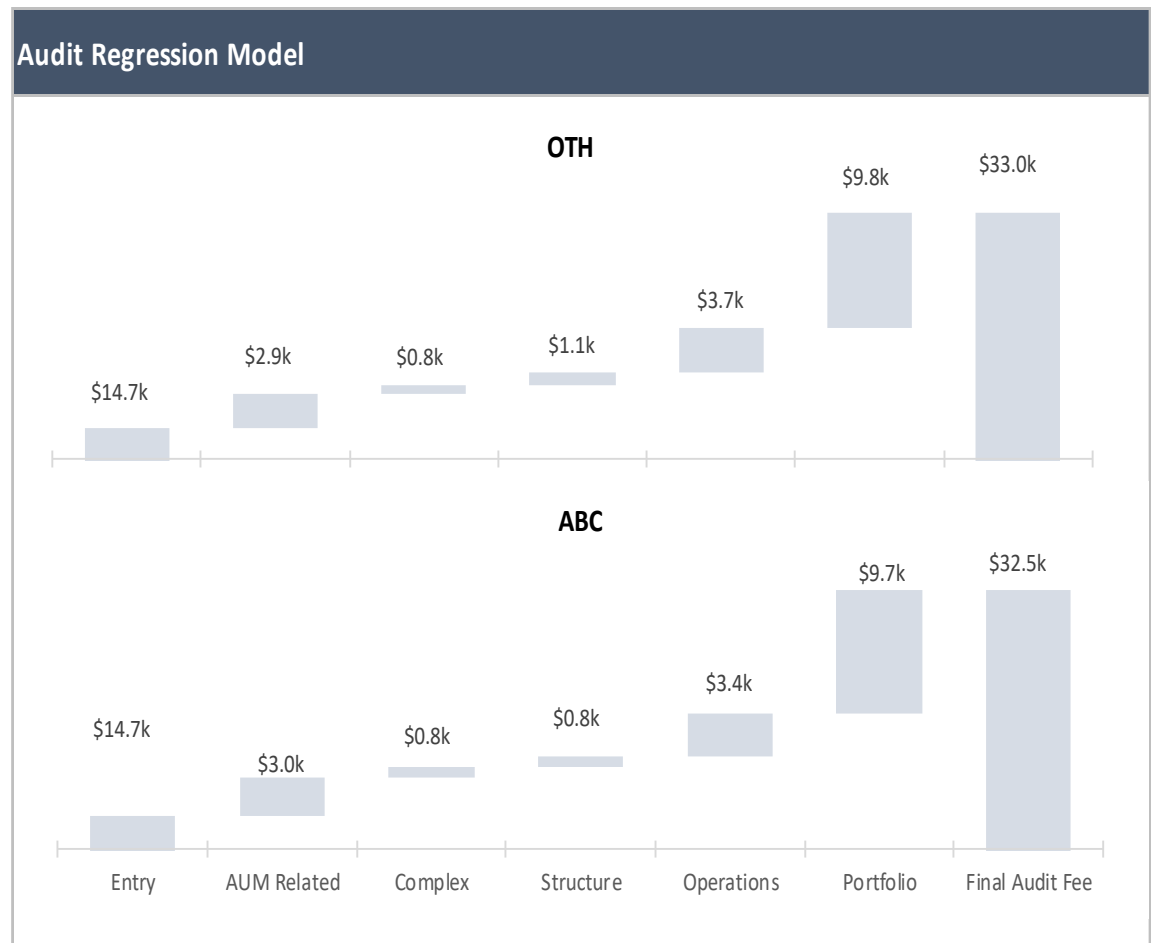




Barrington developed a regression model for this Audit Survey. The model isolates the drivers of cost by factor in two ways: the first instance of a factor is the entry cost, and the unit cost represents additional instances.

Creating factors for each of the major building blocks within the previous slide allows Participants to compare the model results for their firm (bottom part of each depiction) in comparison to *OTH (all firms but yours)* in the top portion. The first category in both graphs – Entry – is applicable for both the complex and the initial fund.

Barrington examined over 90 variables and 650+ combinations of datasets to create our complexity models. The outcome is a computation of complexity units for each fund. The average complexity factor across the Survey is set to 1.00x.



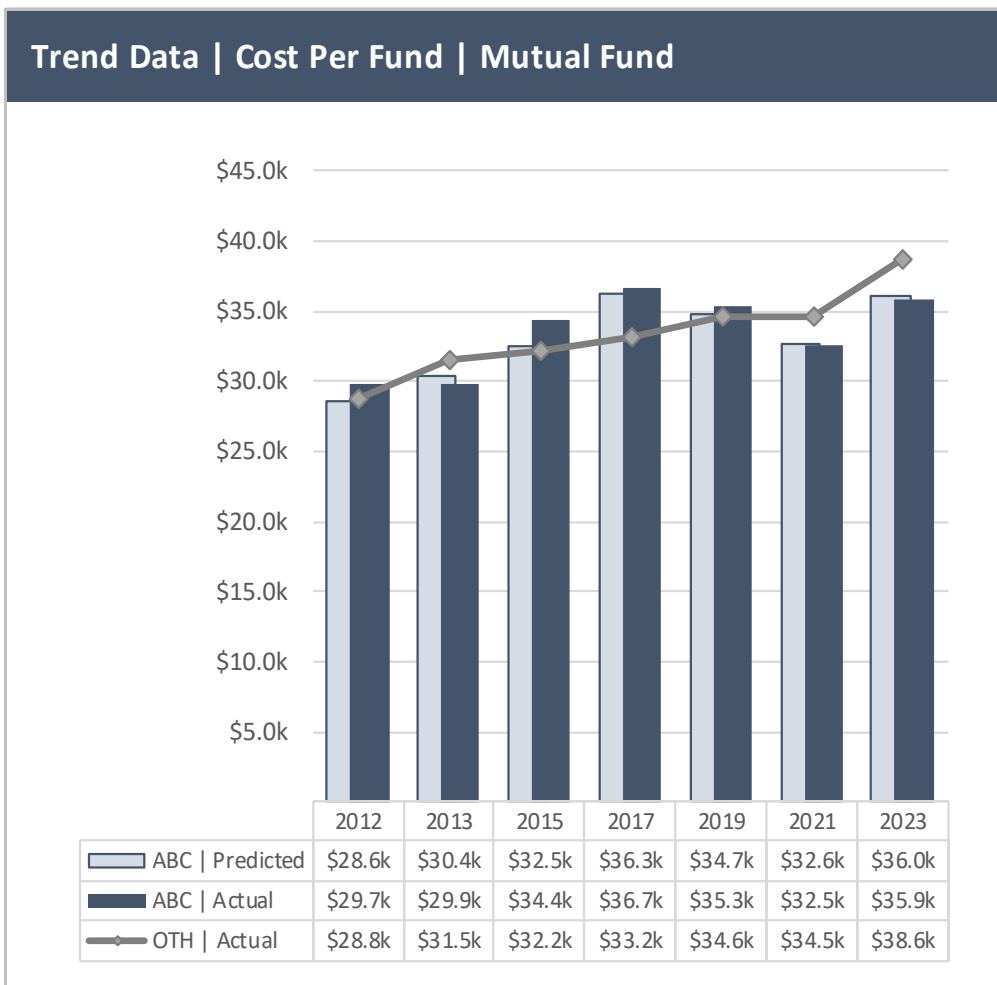


**Key Findings** (Additional supporting depictions are provided throughout the final Report.)

**1. After years of modest audit fee increases (typically tied to the cost of living), proposed and agreed audit fees increased measurably.**

Participants reported that inflation was offered as the rationale. Firms with the lowest cost factors had the highest proposed and agreed % fee increases.

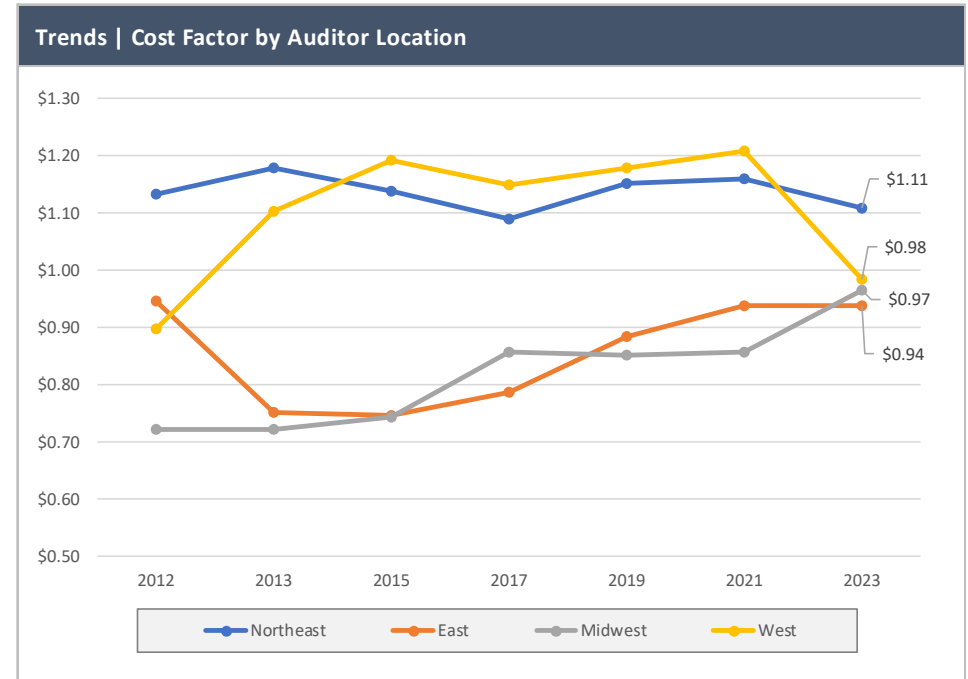
**2. There is a cost factor advantage for work conducted offshore ... up to a point.** In this year’s Survey, firms were asked to estimate the percent of work conducted at (a) the client’s office, (b) auditor’s offices, (c) remote US, and (d) offshore locations. The Survey demonstrated that the cost factor advantage begins to diminish if more than 25% of the work is conducted abroad. It does not appear that firms with offshore audit work enjoy anything more than small cost advantages.





**Key Findings** (Additional supporting depictions are provided throughout the final Report.)

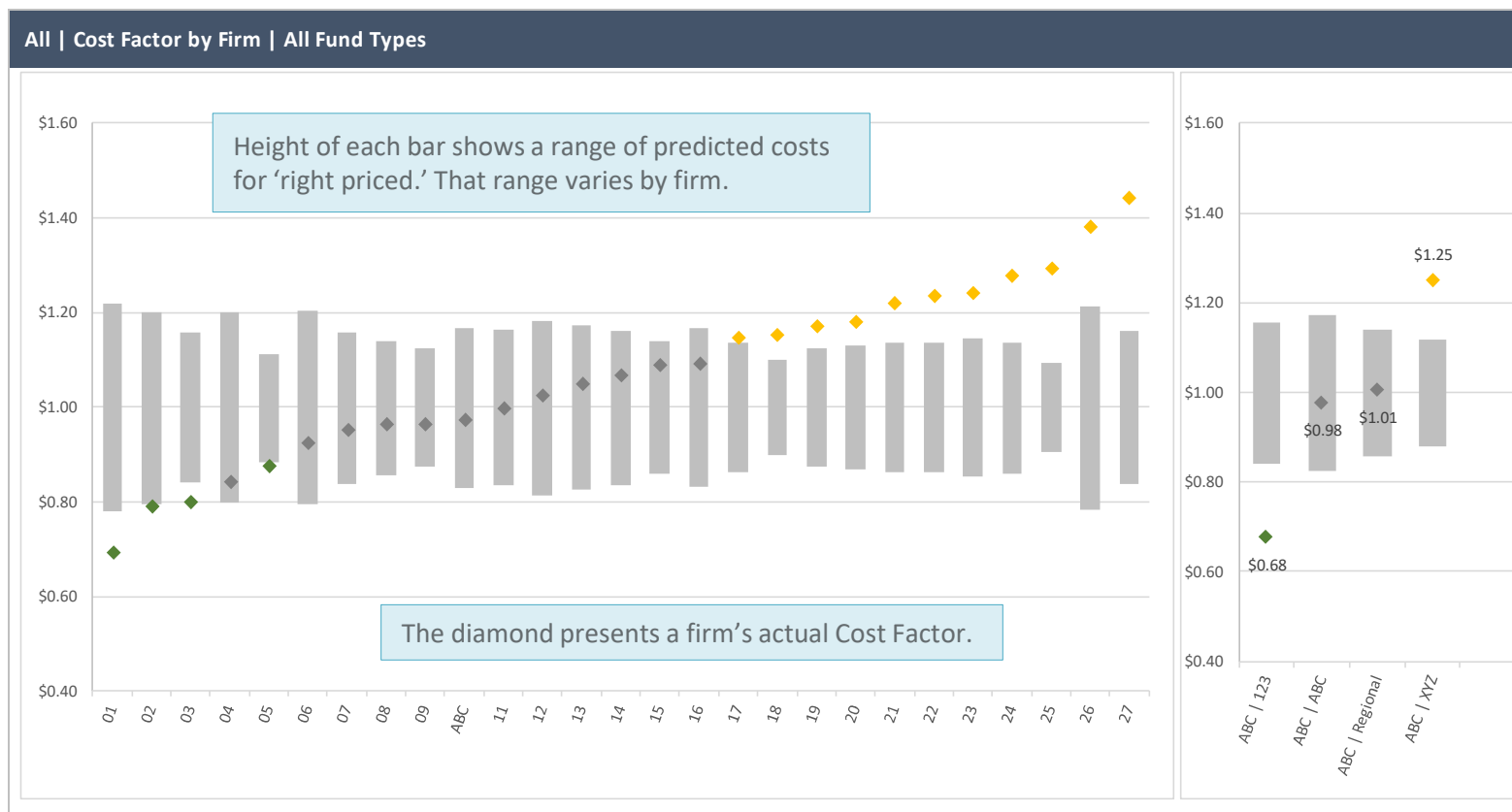
- 1. Audit Fee Increases – Geography.** The chart to the right illustrates a very material reversion to the mean on costs for audit. The prior spread was ~30% and that has reduced to less than a ~15% spread. While only the Northeast retains a materially higher cost, we applied a cost factor adjustment to the West, consistent with prior years. Not only did expensive geographies decrease, but inexpensive geographies increased. The change in cost may be a reflection of audit work no longer taking place on-site.
- 2. Frequency of Auditor Negotiations.** More frequent pricing discussions suggested a fee advantage for those Participants, and potentially up to an average of ~10% on fees. (As the corollary, there was no evidence that a multi-year contract was beneficial from a cost factor perspective.)
- 3. Active ETF audit costs are more similar to Mutual Fund structures than Index ETFs.** Average active ETF audit costs are ~\$26,000 whereas average index ETFs audit costs are ~\$17,000. (The number of ETFs in the survey has increased to 424.)





## Presentation of the Findings

1. (This is an ABC depiction. What is the ABC Deck?)
2. Are results within the predicted range at a complex level, or above or below?
3. How does each firm compare to others?
4. Barrington makes adjustments for Geography and other factors.

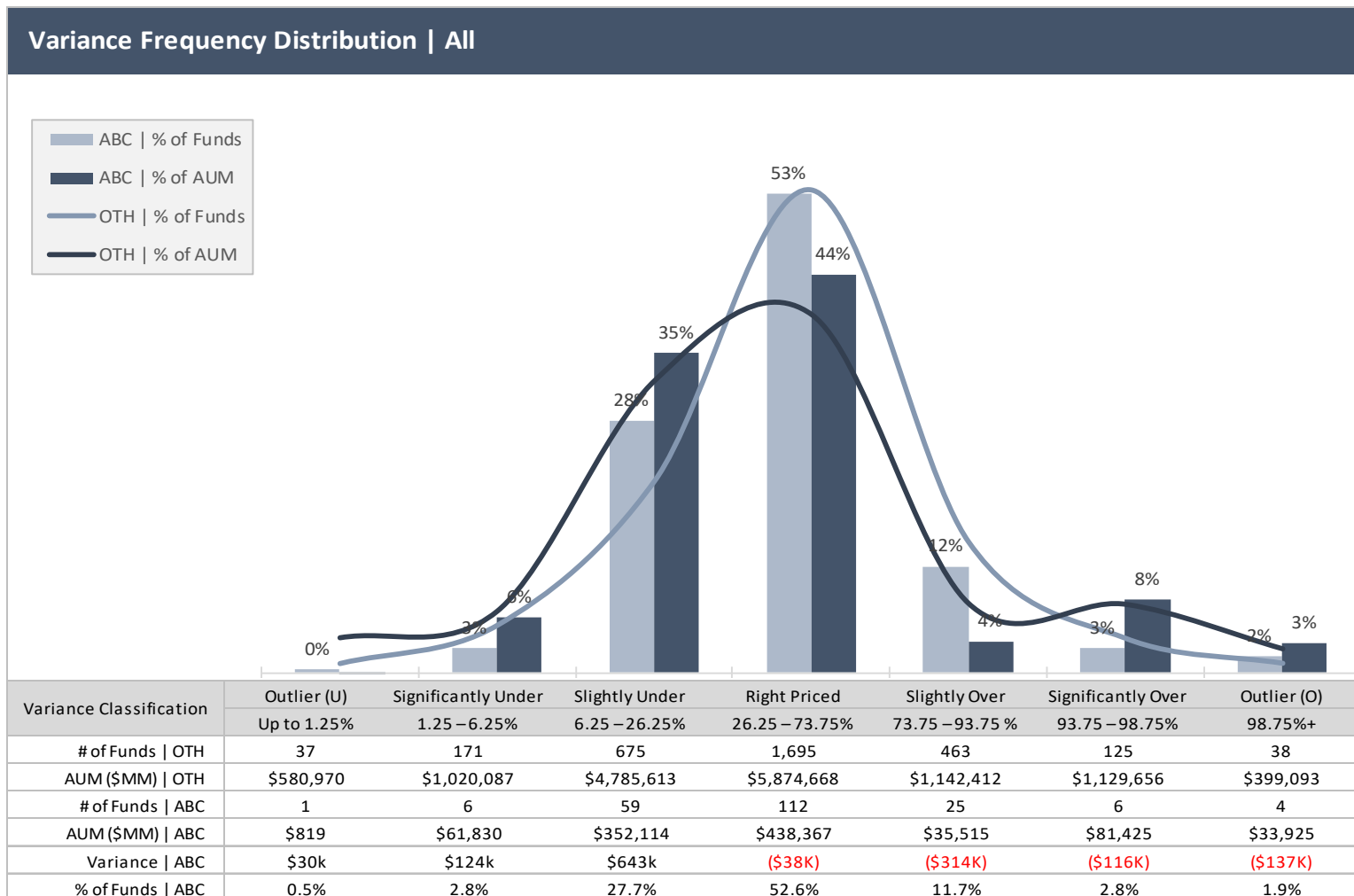






### Results within a Fund Complex

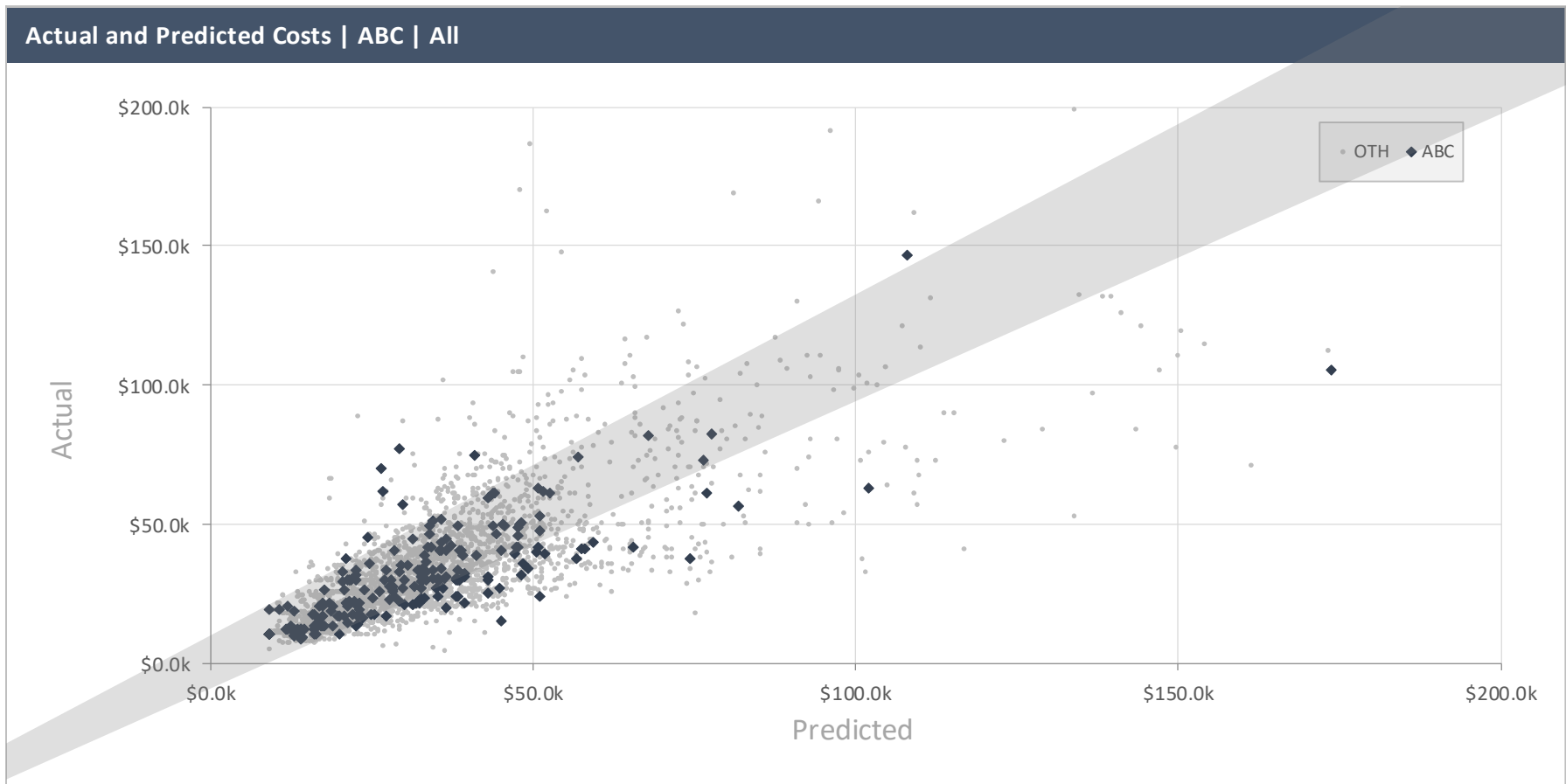
1. The variance frequency distribution graph below shows the distribution within a fund group of each fund and its slotting from Outlier (U) to Outlier (O) based on the variance between actual and predicted cost.
2. Results to the **left of Right Priced** indicate funds progressively lower than predicted cost, while funds to the **right of Right Priced** are progressively higher than predicted cost.





## Visuals can help picturing the results and drivers of over or under payment

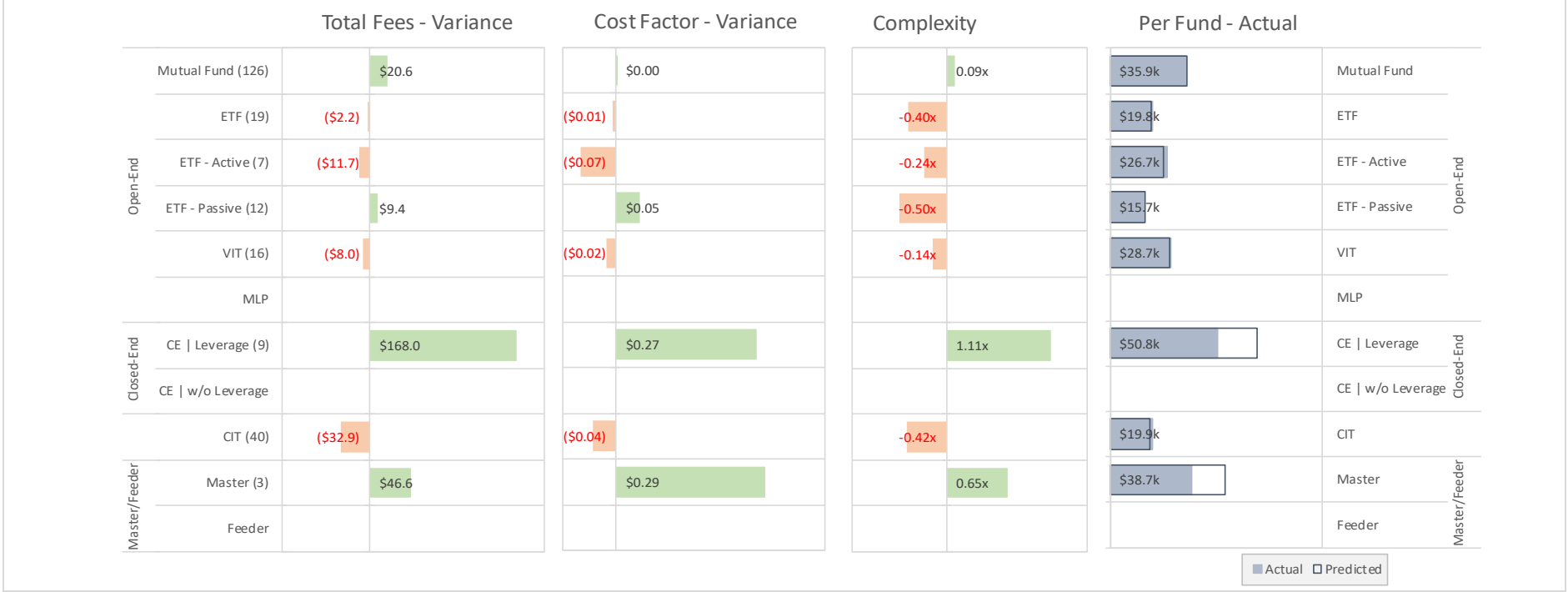
1. The scattergram below shows ABC (dark dots) v. other participant funds (light gray dots).
2. The gray band represents funds within the predicted payment range.
  - a. Funds above the gray band are overpriced.
  - b. Funds below the gray band are underpriced.

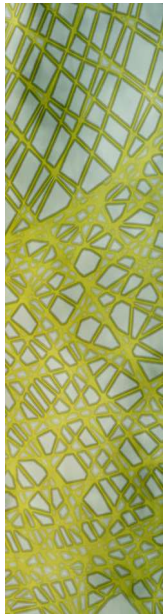


Barrington also provides very detailed factor and correlation data to the analysts involved in researching the results of the survey.

Key Metrics   Fund Type   ABC Compared to OTH		#Funds	Avg AUM (\$MM)	Cost Factor	Complexity	Per Fund - Actual	Per Fund - Model	Per Fund - Variance	BPS - Actual	BPS - Model	Total Fees - Actual	Total Fees - Model	Total Fees - Variance	Cost Factor - Variance	Min	20th	Median	Avg	80th	Max	
Open-End	Mutual Fund	ABC	126	\$6,444.6	\$1.00	1.09x	\$35.9k	\$36.0k	\$0.2k	0.0556	0.0559	\$4,518.7k	\$4,539.3k	\$20.6k	\$0.00	\$8.7k	\$22.8k	\$30.8k	\$35.9k	\$46.6k	\$146.5k
		OTH	1,786	\$6,724.5	\$1.00	1.17x	\$38.6k	\$38.5k	\$0.1k	0.0574	0.0573	\$68,988.8k	\$68,829.3k	\$159.4k	(\$0.00)	\$4.9k	\$22.0k	\$33.4k	\$38.6k	\$49.1k	\$223.6k
	ETF	ABC	19	\$449.4	\$1.01	0.60x	\$19.8k	\$19.7k	\$0.1k	0.4399	0.4373	\$375.6k	\$373.4k	\$2.2k	(\$0.01)	\$12.7k	\$12.7k	\$17.2k	\$19.8k	\$21.2k	\$45.6k
		OTH	404	\$655.5	\$1.00	0.61x	\$20.1k	\$20.1k	\$0.0k	0.3062	0.3059	\$8,108.2k	\$8,101.9k	\$6.3k	(\$0.00)	\$12.7k	\$12.7k	\$17.2k	\$20.1k	\$25.0k	\$87.9k
	ETF - Active	ABC	7	\$187.5	\$1.07	0.76x	\$26.7k	\$25.0k	\$1.7k	1.4241	1.3353	\$106.9k	\$175.3k	\$11.7k	(\$0.07)	\$16.3k	\$18.1k	\$20.8k	\$26.7k	\$33.8k	\$45.6k
		OTH	123	\$443.2	\$1.00	0.82x	\$26.9k	\$27.0k	\$0.0k	0.6077	0.6081	\$3,312.8k	\$3,315.0k	\$2.1k	\$0.00	\$12.7k	\$17.8k	\$21.4k	\$26.9k	\$33.9k	\$87.9k
	ETF - Passive	ABC	12	\$602.2	\$0.95	0.50x	\$15.7k	\$16.5k	\$0.8k	0.2611	0.2742	\$188.7k	\$198.1k	\$9.4k	\$0.05	\$12.7k	\$12.7k	\$16.5k	\$15.7k	\$17.2k	\$21.8k
		OTH	281	\$748.4	\$1.00	0.52x	\$17.1k	\$17.0k	\$0.0k	0.2280	0.2276	\$4,795.3k	\$4,786.9k	\$8.4k	(\$0.00)	\$12.7k	\$12.7k	\$16.0k	\$17.1k	\$18.8k	\$49.5k
	VIT	ABC	16	\$889.6	\$1.02	0.86x	\$28.7k	\$28.2k	\$0.5k	0.3229	0.3173	\$459.6k	\$451.6k	\$8.0k	(\$0.02)	\$12.4k	\$11.0k	\$30.1k	\$28.7k	\$34.2k	\$41.7k
		OTH	260	\$965.8	\$0.98	1.01x	\$32.6k	\$33.1k	\$0.5k	0.3379	0.3432	\$8,486.3k	\$8,617.9k	\$131.6k	\$0.02	\$12.4k	\$22.7k	\$30.1k	\$32.6k	\$40.3k	\$111.1k
MLP	ABC																				
	OTH	8	\$1,033.5	\$1.02	1.97x	\$66.3k	\$64.8k	\$1.5k	0.6416	0.6272	\$530.5k	\$518.6k	\$11.9k	(\$0.02)	\$38.4k	\$38.4k	\$50.2k	\$66.3k	\$105.0k	\$105.0k	
Closed-End	CE   Leverage	ABC	9	\$1,493.8	\$0.73	2.11x	\$50.8k	\$69.4k	\$18.7k	0.3399	0.4649	\$456.9k	\$625.0k	\$168.0k	\$0.27	\$29.9k	\$37.7k	\$45.7k	\$50.8k	\$54.7k	\$105.8k
		OTH	103	\$719.0	\$1.03	1.74x	\$59.0k	\$57.4k	\$1.6k	0.8207	0.7980	\$6,077.5k	\$5,910.0k	\$167.5k	(\$0.03)	\$26.6k	\$30.3k	\$38.8k	\$59.0k	\$66.9k	\$316.0k
CE   w/o Leverage	ABC																				
	OTH	33	\$583.0	\$1.01	1.72x	\$57.1k	\$56.7k	\$0.4k	0.9787	0.9718	\$1,882.8k	\$1,869.5k	\$13.3k	(\$0.01)	\$23.1k	\$30.8k	\$46.2k	\$57.1k	\$65.8k	\$168.3k	
CIT	ABC	40	\$3,829.5	\$1.04	0.58x	\$19.9k	\$19.1k	\$0.8k	0.0520	0.0498	\$796.2k	\$765.3k	\$32.9k	(\$0.04)	\$9.7k	\$10.6k	\$14.4k	\$19.9k	\$22.8k	\$62.8k	
	OTH	561	\$3,764.8	\$0.99	0.57x	\$18.6k	\$18.8k	\$0.2k	0.0494	0.0498	\$10,435.3k	\$10,522.6k	\$87.3k	\$0.01	\$5.7k	\$10.6k	\$19.3k	\$18.6k	\$22.0k	\$78.9k	
Master/Feeder	Master	ABC	3	\$860.1	\$0.71	1.65x	\$38.7k	\$54.3k	\$15.5k	0.4501	0.6308	\$116.1k	\$162.8k	\$46.6k	\$0.29	\$15.5k	\$26.8k	\$43.8k	\$38.7k	\$51.6k	\$56.8k
		OTH	15	\$5,195.2	\$1.09	1.27x	\$45.5k	\$41.7k	\$3.8k	0.0876	0.0803	\$682.8k	\$625.6k	\$57.3k	(\$0.09)	\$15.0k	\$19.6k	\$38.1k	\$45.5k	\$66.2k	\$101.1k
Feeder	ABC																				
	OTH	34	\$3,383.6	\$0.99	0.55x	\$17.9k	\$18.1k	\$0.3k	0.0528	0.0536	\$608.0k	\$616.5k	\$8.6k	\$0.01	\$8.7k	\$8.7k	\$15.9k	\$17.9k	\$20.5k	\$99.2k	
Total	ABC	213	\$4,713.6	\$0.97	0.99x	\$31.6k	\$32.5k	\$0.9k	0.0670	0.0689	\$6,723.2k	\$6,915.4k	\$192.1k	\$0.03	\$8.7k	\$17.2k	\$30.1k	\$31.6k	\$42.0k	\$146.5k	
	OTH	3,204	\$4,660.6	\$1.00	1.00x	\$33.0k	\$33.0k	\$0.1k	0.0709	0.0707	\$105,800.2k	\$105,612.0k	\$188.2k	(\$0.00)	\$4.9k	\$16.0k	\$33.0k	\$33.0k	\$43.6k	\$223.6k	

## ABC Key Metrics | Fund Type



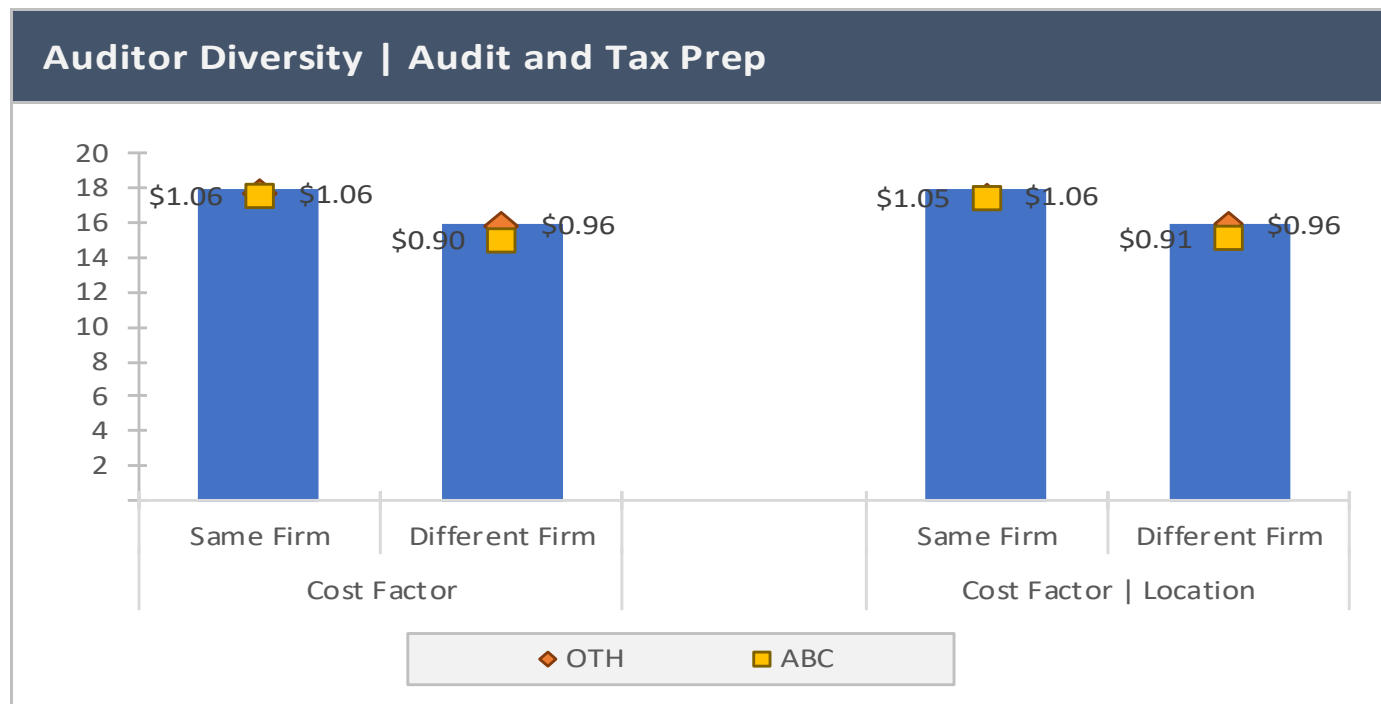


# The 2023 Mutual Fund Tax Survey



- Originally part of the Barrington Fund Audit survey in 2015 when it was added at the request of the board of a large mutual fund complex.
  - There are different audiences for Fund Audit and Tax surveys. Mixing the surveys was confusing.
  - Additionally, the Audit Survey considers costs over an Audit cycle, while Tax considers costs over a calendar year. Generally, these periods do not match.
- Concluded that a Tax Survey would be easier to design, easier to complete, and be more analytically useful if done as a separate process.
  - Fund audits are all essentially similar. They follow requirements set out in law as to process and required output, essentially for all funds.
  - Tax processes, on the other hand, can follow radically different models.

- In the 2021 Audit survey an increasing number of firms were outsourcing their tax operations.
- The results suggest firms may achieve cost savings when audit and tax functions are handled separately. Nearly half the participants in the 2023 Audit survey are employing this approach.





- Fund audits generally have one service provider, the fund auditor.
  - In rare cases, such as fund mergers, there may be more.
- Tax compliance has multiple processes:
  - Tax provision preparation calculations
  - Tax provision preparation assembly
  - Tax provision review
  - Tax return preparation:
    - Federal income and excise tax returns
    - State Returns
    - Foreign returns
  - Tax return review
  - Shareholder tax reporting
  - Tax qualification calculation



The table to the right illustrates just one process grouping. The survey can capture up to eight different process groupings based on the primary source of labor (below) to accomplish each tax process.

	Process Grouping 1	
	Primary Source of Labor	Estimated Costs
<b>Tax Provision Preparation   Calculation</b>	* Select *	
Aggregation of Internal Sleeves	* Select *	
Aggregation of External Sleeves	* Select *	
Tax Analysis of Corporate Actions	* Select *	
Tax Analysis of Complex Securities	* Select *	
Wash Sales	* Select *	
Straddles	* Select *	
Constructive sales	* Select *	
PFIC Identification	* Select *	
Calculation of income adjustments on PFICs held	* Select *	
<b>Income Calculations on Derivatives and Special Instrument Types</b>	* Select *	
REIT adjustments	* Select *	
Equalization calculations or consent dividend calculations	* Select *	
Other Tax Preparation - Calculation Costs	* Select *	
Residual Tax Provision Preparation - Calculation Costs (Auto Calc)	* Select *	
<b>Tax Provision Preparation   Assembly</b>	* Select *	
<b>Tax Return Preparation</b>		
Federal, State and City Tax Return Prep	* Select *	
Excise Tax Return Preparation	* Select *	
<b>Tax Return Review</b>	* Select *	
Oversight	Internal/Advisor	
Signer of return	* Select *	N/A
<b>Other Tax Process Expenses</b>		
Calculation of fund distributable income and required Subchapter M and excise income and capital gain distributions	* Select *	
Subchapter M qualification testing	* Select *	
Section 817(h) testing for insurance company separate accounts	* Select *	
Shareholder tax reporting	Internal/Advisor	
Other unallocated tax process cost	Unallocated	
<b>Total Costs</b>		

* Select *
* Select *
Internal/Advisor
Fund Auditor
Fund Auditor - 2
Fund Auditor - 3
Other Accounting Firm
Other Accounting Firm - 2
Other Accounting Firm - 3
Other Tax Service Provider
Other Tax Service Provider - 2
Other Tax Service Provider - 3
Fund Administrator





- Different investment styles, as reflected in Morningstar categories, result in considerable differences in the necessary tax processes.
- **Survey goal is to compare costs for similar complexity levels across different service delivery models.**
  - Funds vary enormously in their level of tax complexity.
  - Barrington normalizes the complexity levels and compares funds of equivalent complexity against the universe of funds responding to establish relative costs.



A report is created for each survey participant.

Reports can be useful in contract negotiations with service providers and in determining the correct tax processes and service provider mix for a complex.

In recent years there has been movement in the tax services process models:

**Change in Service Model:** Many non-audit firm service providers have gotten out of the tax compliance business by aligning with the tax departments of accounting firms.

**Outsourcing Trending to Audit Firms:** Fund complexes have also been moving away from internal tax department compliance work, with many fund complexes outsourcing some or all tax work or complete tax departments being lifted out into audit firm tax departments.

**Resources Necessary to Support Tax Work:** Many fund complexes lack the internal resources to do this type of analysis themselves.

Similar to the Fund Audit Survey, the Fund Tax Survey will be completed biennially.