

Current Issues:

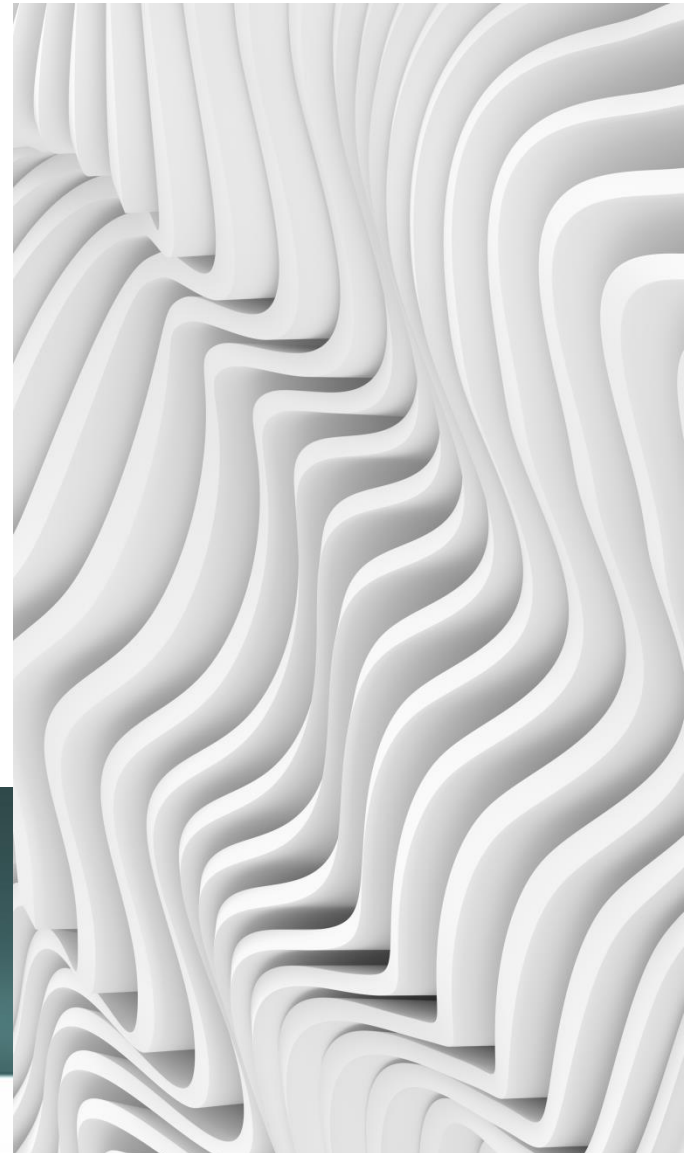
- 1) Intermediary Fees**
- 2) Service Provider Update**
- 3) Securities Lending**

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**BARRINGTON
PARTNERS**



Introduction



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Some information in this presentation draws upon the results of various different Barrington Reports. Barrington depends on the data responses of participants in these reports, so we are careful about confidentiality in any presentation materials. (ABC data is randomized.) Results are accurate to the best knowledge of Barrington.



Intermediary fees have been the subject of intense industry focus and regulatory scrutiny.

1. While the SEC's '**Distribution in Guise**' investigation did not result in clear, specific rules, it has motivated the industry to work towards better clarity and transparency on services and payments. However, the industry still employs a multitude of payment levels and approaches.
2. While the **DOL Fiduciary rules** never went into effect, the **SEC's Reg BI rules** have now gone into effect, accomplishing many of the same goals of 'best interest' regulations.
3. A **large shift is taking place** in the classes being used in third-party distribution. The I class category was the third largest category, in terms of AUM, in our 2014 survey. By 2018, I class was up by over 150%. In 2020 the I Class was over 40% of all AUM in the Survey.
4. **Clean Classes** are gathering assets quickly, but like other class categories, the structure of payments from these classes is not consistent. Triple clean is one category of Clean: (no 12b-1, no Service Fee, and no Revenue Sharing payments). Double clean means there is no 12b-1 or Service Fee, but there may be revenue sharing.



Intermediary fees have been the subject of intense industry focus and regulatory scrutiny.

- a. **Active Transparent and Non-Transparent ETFs** will be added in a new category. All groups so far have told us that ETFs only pay 1 fee to distributors (rather than a fee broken into different categories).
- b. **Advisor Paid – Other Expenses** is a growing area of expense supporting items such as conferences, data and other distributor activities. Barrington will collect data at the distributor level (unidentified) and apportioning the expense level across specified arrangements.
- c. **Share Classes** – Firms told us to stay focused on issues of concern to their Trustees. For example, we were told not to add classes that do not pay an Intermediary Fee as the Trustees are not concerned if there are no payments. Firms also confirmed that it is too early to get rid of the C or Retirement (12b-1>25) categories.
- d. **I-NTF** – In the Top Arrangements tab under platform we have added a platform called I-NTF to make sure we understand which agreements are in that channel. I-NTF became the eighth largest category (out of 12) in 2020.
- e. **Advisor Payments** – Some firms consider any payment by the advisor to be Revenue Sharing, but others believe there is a distinction between Advisor Paid Service Fee and Revenue Sharing. In the survey this year, firms will indicate with each arrangement the percentage of Service Fee that is paid by the Fund and if that payment should be categorized as Advisor Paid Service Fee or Revenue Sharing.
- f. **Board Caps** – The survey changed how Board Caps were presented in 2020 and the feedback has been positive. Our plan is to have this presentation remain largely the same in 2022.



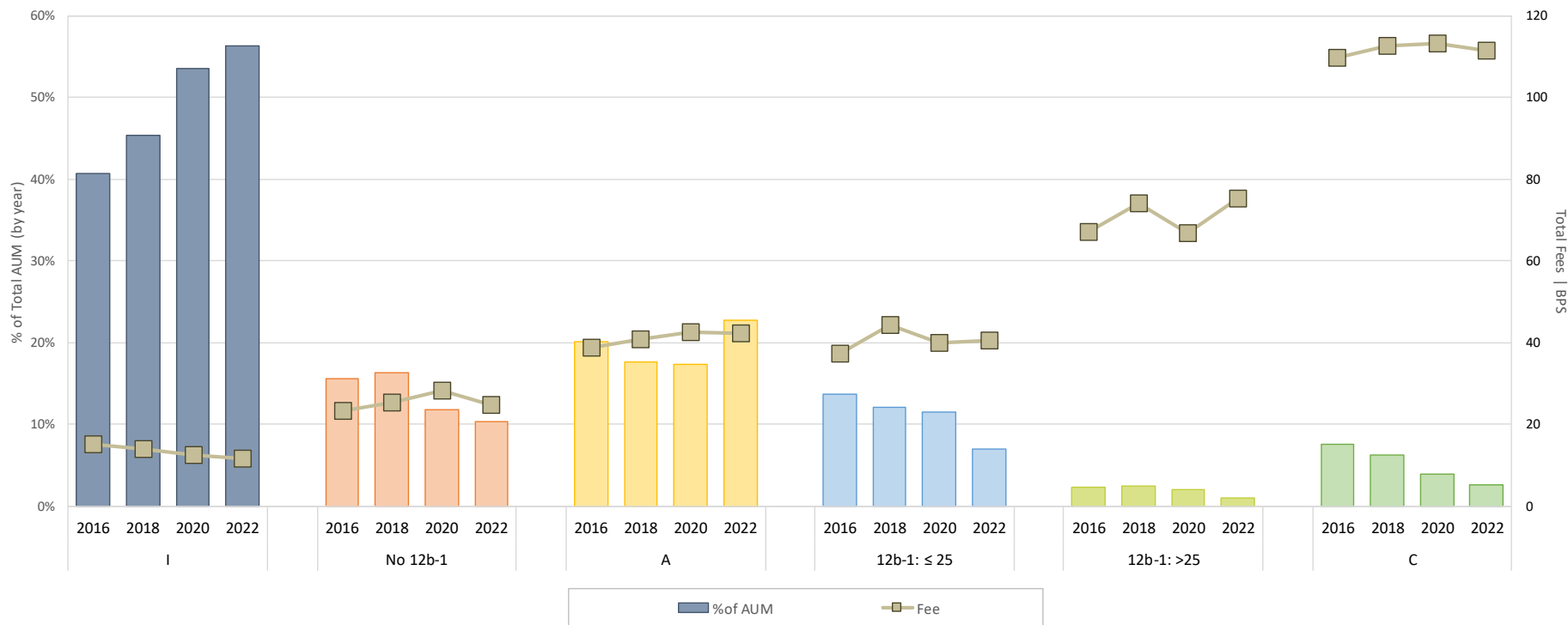
Key Metrics: 2014 - 2022

| | 2014 | 2016 | 2018 | 2020 | 2022 |
|-------------------------------|---------|---------|---------|---------|---------|
| Participants | 38 | 37 | 49 | 43 | 40 |
| Fee Arrangements | 3,514 | 6,355 | 8,508 | 9,193 | 7,428 |
| AUM (\$B) | \$1,534 | \$1,822 | \$2,049 | \$1,975 | \$2,681 |
| Total Fee (\$MM) | \$5,392 | \$6,115 | \$6,493 | \$5,414 | \$6,642 |
| Total Fee BPS | 35.2 | 33.6 | 31.7 | 27.4 | 24.8 |
| AUM (\$k) | \$19.5k | \$18.5k | \$19.4k | \$23.9k | \$12.6k |
| W/A Service BPS | 12.4 | 11.9 | 12.4 | 11.8 | 10.5 |
| Service Fees (When Paid) | | | | | |
| Service Fee - BPS | 16.0 | 14.3 | 15.0 | 14.3 | 13.9 |
| Service Fee - Fund Paid - BPS | 12.4 | 11.3 | 12.2 | 11.5 | 11.8 |
| Service Fee - \$ | \$16.35 | \$15.94 | \$16.11 | \$16.22 | \$16.42 |
| Service Fee - Fund Paid - \$ | \$15.56 | \$15.04 | \$15.33 | \$15.16 | \$16.24 |
| Advisor Paid - BPS | 7.0 | 7.2 | 6.9 | 5.4 | 5.5 |



Class AUM Trends

Fee and AUM Trends by Platform by Share Class | 2016 - 2022

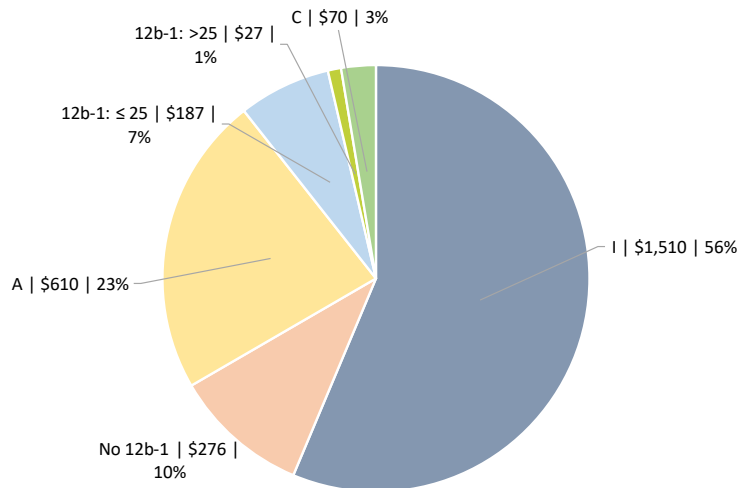


Trend Data Analysis: This first slide shows AUM by share class category and the Weighted Average Fees in BPS.

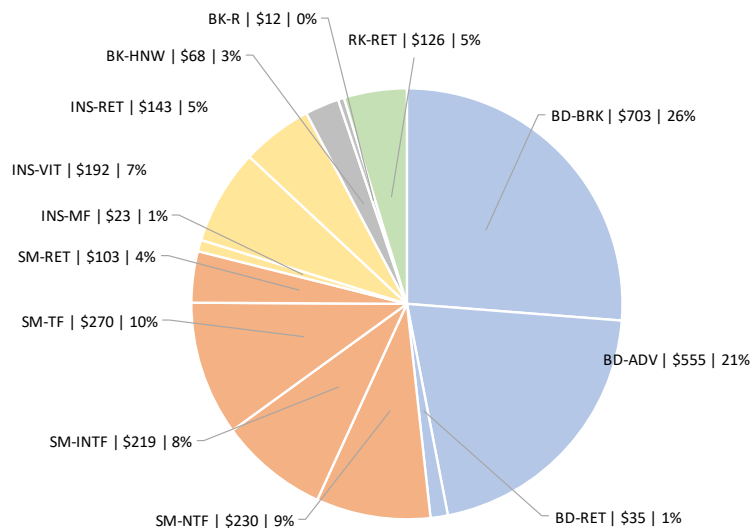
1. Interestingly, fees are basically flat for Classes I and A and 'No 12b-1' across the four Survey years. The change in fees in the other classes appears to be more noise rather than anything meaningful.
2. The only notable growth in AUM is Class I which continues as the largest class. All other classes are decreasing or maintaining.



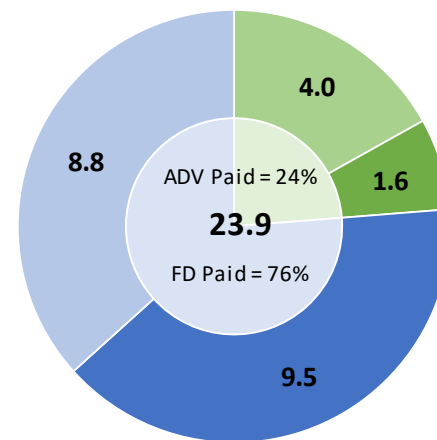
Total AUM | All Share Classes (\$B)



Total AUM | All Platforms (\$B)

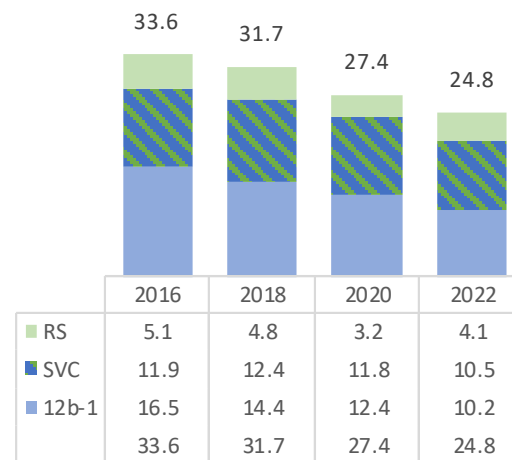


OTH | Weighted Fee in BPS



■ Rev Share ■ SVC | ADV ■ SVC | FD ■ 12b-1

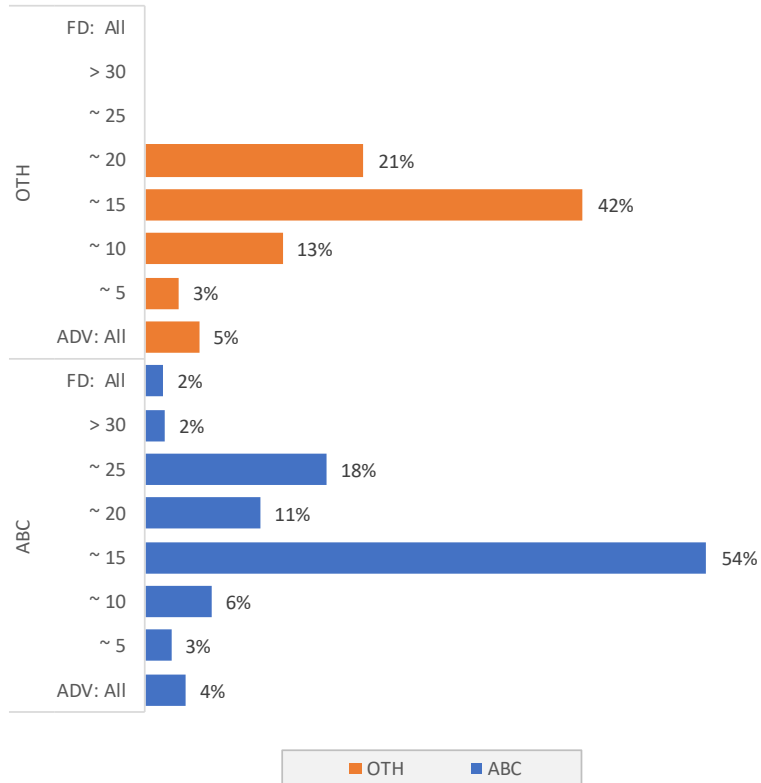
All | Fee Trend: by Type



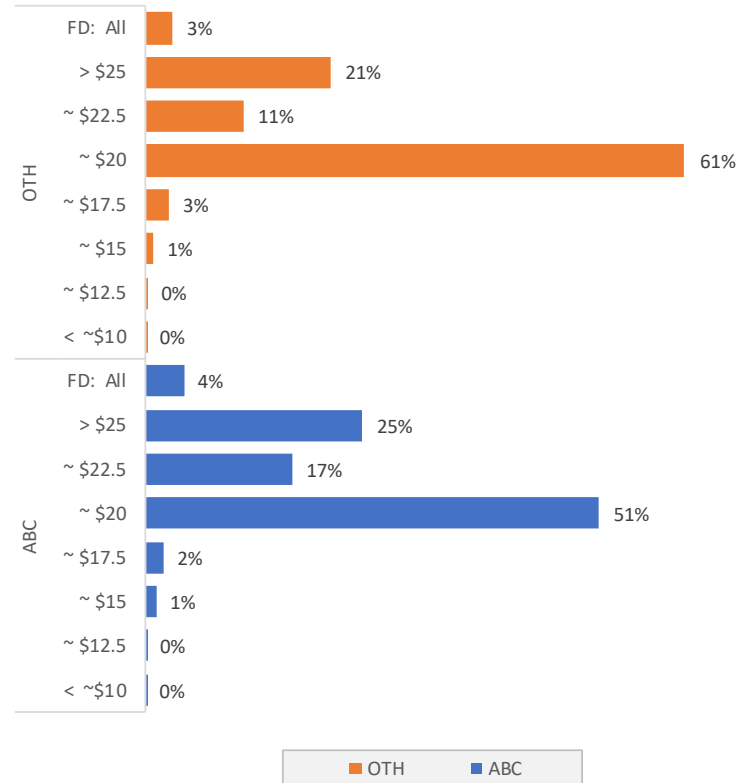


Board Caps

% of AUM by SVC Fee Cap | BPS



% of AUM by SVC Fee Cap | Per Account

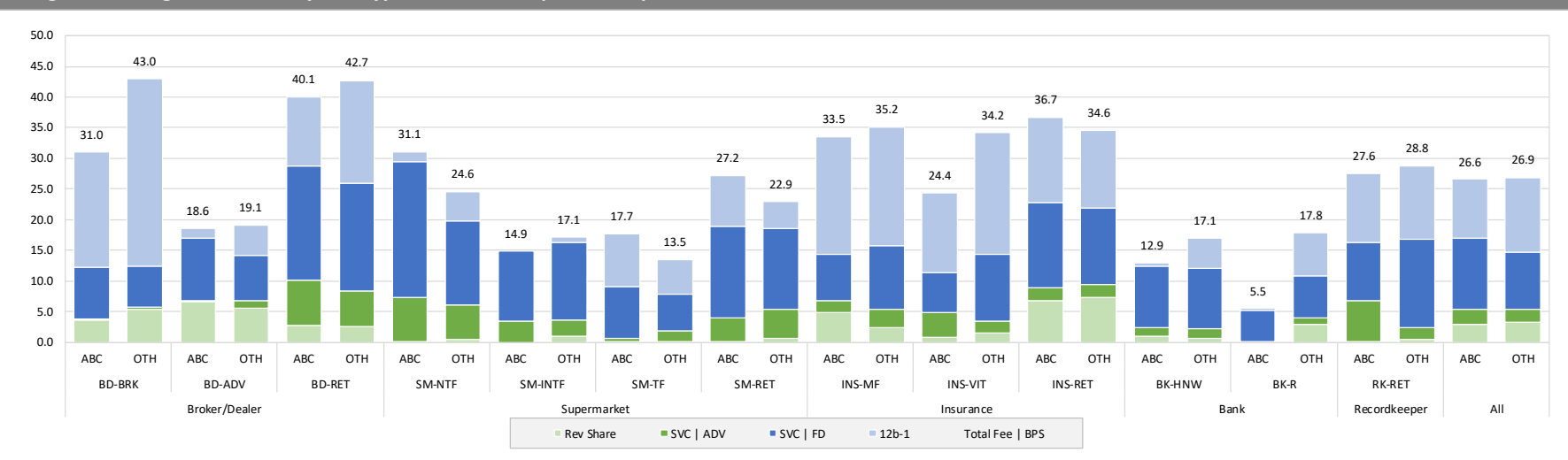


Board and Management Cap: BPS on the left and \$ on the right. 15 BPS and \$20 are the two most common Board Cap levels.



View of Average Fees by Platform

Weighted Average Fee in BPS by Fee Type and Platform | ABC Compared to Other





Class Comparison Categories

Class Definitions for 2022 Intermediary Fee Survey

| Share Class Categories | 12b-1 Payments | Definition |
|---------------------------|---|---|
| I-Institutional | 0 BPS | Institutional class with no 12b-1 fees. I class arrangements frequently include service fee/sub-TA and revenue sharing. |
| No 12b-1-Retail | 0 BPS | Retail share class that competes with the A class but w/o a Sub-TA. No 12b-1 Funds are structured to pay 35-40 BPS but without use of a 12b-1. |
| A | 25 BPS | Perhaps the most standardized class in the industry. The A class has a standardized 25 BPS 12b-1. Arrangements may also include Sub-TA and/or revenue sharing payments. |
| 12b-1: ≤ 25 BPS | Over 0 BPS and up to or equal to 25 BPS | 12b-1 fees over 0 and up to and including 25 BPS. Advisors may also pay sub-TA &/or Revenue Sharing. |
| 12b-1: > 25 BPS | Over 25 BPS up to and equal to 75 BPS | This category includes a range of R classes (excluding the R-6) 12b-1 fees greater than 25 BPS plus Service Fee &/or Revenue Share. |
| C | Over 75 BPS | ~100 BPS 12b-1 fees plus Service Fee &/or Revenue Share. |



Payments are Broken down by the type of Platform

| ABV | Platform | Overview |
|-----------------|---|---|
| BD-BRK | Brokerage | Firms that distribute through commission-based brokerage accounts. |
| BD-ADV | Advisory | Broker-Dealer charges end-investor fees based on assets. This platform includes self-directed and certain Class A shares offered load-waived. |
| BD-RK | Retirement Recordkeeper | Retirement accounts originating through Brokers. |
| SM-NTF | NTF | No Transaction Fee platform in which the intermediary does not charge a per-transaction fee on trades; intermediary fees are generally paid in BP. |
| SM -INTF | I-NTF | This category will remain in the Supermarket/NTF category in the I class, but will allow Barrington to specifically track which arrangements are available on I-NTF. |
| SM-TF | TF | Transaction fee platform where the intermediary charges a the investor account a per-transaction fee on trades. |
| SM-RK | Retirement Recordkeeper | Retirement accounts originating through Supermarkets. |
| INS-MFA | Mutual Fund Assets (Non-Retirement) | Insurance companies with non-retirement assets that invest in mutual fund products. |
| INS-VIT | VIT Assets (Non-Retirement) | Variable Investment Trusts ('VIT') payments on intermediary fees are generally very different that mutual funds. |
| INS-RK | Retirement Recordkeeper | Retirement accounts originating through Insurance Companies. |
| BNK-HNW | Ultra HNW and Institutional Banks | Ultra HNW and Institutional accounts may flow from a private bank or certain trust departments. |
| BNK-R | Retail/Regional Bank Channel | Banks relationships may be with bank trust departments, banks brokerages that do not clear through a 3 rd party or branch networks. |
| RTMT-RK | Retirement Recordkeeper | Retirement recordkeeping sponsors and third-party (TPSs) that do not fall into one of the other categories. |
| ETF | Passive and Active ETFs | Intermediaries are paid different amounts based on the fees charged by different types of ETFs: Passive, Active-Transparent, Active-Semi-Transparent. A unitary fee is paid based on the total expense ratio. |



In-House to Outsourced

1. Many in-house operations have already been outsourced, but other services are also being outsourced
 - a. Examples: Financial reporting, expense administration, certain tax work
2. Team and capabilities lift-outs (i.e., Franklin Templeton transfer agency)
3. Drivers
 - a. Distinguishing activities (focus on what we do best)
 - b. Most effective allocation of limited personnel, technology and/or financial resources
 - c. Outdated technology
 - d. Risk mitigation and controls



Changing Service Providers

1. Willingness to change
 - a. Less fear of conversion – refined processes and automation
2. Sharp increase in RFPs across back-office service spectrum
3. Drivers (in no specific order):
 - a. Chronic service issues
 - b. Service delivery model and service model challenges
 - c. Understanding current competitive landscape - need for updated vendor diligence, especially in areas of technology, data and controls
 - Technology – ongoing investments and future roadmap
 - Data – Access via portal, comprehensiveness, real-time vs. batch
 - Controls – Workflow tools/integrated control environment through operating lifecycle
 - d. Opportunity to outsource services in conjunction with RFP (frequently Fund Administration)
 - e. Top tier/important client
 - f. Rapid growth cannot be supported by current provider Fees



Securities Lending can generate increased income for a fund but also introduces extra risks.

Summary

1. 51% of all Open-End Funds and 53% of all Exchange Traded Funds are generating securities lending income as of Dec 2021.
2. Lending Income can range from a fraction of a BP to 266 BP per 2021 filing data.

| | 2018 | 2019 | 2020 | 2021 | Q1 2022 |
|-----------------------------------|-------------|-------------|-------------|-------------|-------------|
| Lender Earnings (Billions) | 9.80 | 8.66 | 7.20 | 9.28 | 2.17 |

Source DataLend:

3. There are 3 primary models for lending (Custodian Agency, Third Party Agency, Direct Lending).

Regulatory Environment

1. SEC does not have a rule that is specific to securities lending. Fund companies operate under 3 options: an exemptive order, certain guidelines, or no-action letters.
2. SEC Modernization requires additional securities lending disclosure. N-CEN includes securities lending information (aggregate value, net income etc.).
3. The SEC Commission voted unanimously in support of a proposed rule (10c-1) designed to strengthen the transparency and efficiency of the securities lending market.
4. Under the newly proposed rule, data about securities lending transactions would be reported to a registered national securities association within 15 minutes.



Managing Risk in a Securities Lending Program

There are several risks that a lender is exposed to in a lending program including: counterparty default risk, collateral re-investment risk, market risk, liquidity risk, legal risk operational risk, compliance risk.

Barrington's view is that there are 4 primary risks

1. **Counterparty default risk**
 - Mitigated by agent indemnifying against borrower default
2. **Collateral reinvestment risk**
 - Mitigated by investing in liquid assets like Money market funds, repurchase agreements, or deposits
3. **Operational risk**
 - Mitigated by having the right technology that supports the funds lending environment. Emerging blockchain and artificial intelligence technologies could be significant
4. **Compliance risk**
 - Due to the lack of regulatory guidance each organizations compliance could be different and will need to be monitored closely



Founded in 1995, Barrington Partners specializes in providing strategic consulting, research and investment banking services exclusively to the investment management industry.

- ***Sole focus*** – strategic consulting, research and investment banking in the investment management industry
- ***Organization structure*** – only senior staff who have spent their entire careers in the industry
- ***Broad entree*** – Barrington has worked with a vast majority of US fund companies and a large percentage globally
- ***Access to data*** –Barrington’s benchmark research is only available to participants
- ***Extensive industry expertise*** – apply best practices and solutions to unique business issues
- ***Independent perspective*** – enables us to deliver the most appropriate solutions
- ***Constant interaction with advisors and fund trustees*** – allowing Barrington to collect empirical information quickly and quietly

- **Significant expertise in addressing the business of mutual funds, separate accounts, ETF’s and alternative funds**
 - Barrington addresses the following areas of mutual fund activity: 15c, product positioning, class rationalization, operations for front to back office, technology, compliance, risk and legal
 - Five major bi-annual quantitative surveys (Audit Fee Benchmarking, Fund Accounting Cost Survey, Transfer Agency Cost Survey, Intermediary Fee Survey, Intermediary Oversight Survey)
 - Sponsor of five issue-based Industry Forums: Intermediary, Fund Administration, Risk, Middle Office and UCITS. (maximum of 20 participating mutual fund companies each)
 - Extensive number of Intermediary *Best Practices* engagements
 - Extensive consulting practice with advisors and trustees
 - Investment banking covering both operations and advisory





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