

SHIFTS IN CLASSES AND PRODUCTS: INTERMEDIARY FEE SURVEY 2022

A Barrington Partners *Survey Brief*
November 2021

Barrington Partners will publish its ninth edition of the Intermediary Fee Survey in 2022. This survey brief discusses, at a high level, the history of intermediary payments, the approach Barrington takes in collecting data, and several of our Survey findings.

Anti-Trust: All of Barrington's work regarding Intermediary Fees is covered by an anti-trust policy. While data is collected at the individual arrangement level, Participants were precluded from providing the names of any distributors. As a result, no analysis was made, nor was any attempted to be made, to identify specific intermediaries or to compare the payments to a particular intermediary.

The goal of the Intermediary Fee Survey is simple:

Provide market data on the level of intermediary fees being paid, broken down by distribution channels/platforms, classes and types of fees paid. Allow each participant in the survey to compare their fees paid against all other participants.

firm initials and comparing your data against 'other, which is all participant data with the exclusion of your firm, so that your data does not influence averages.

ABC Report: Barrington produces an ABC report that creates a fictitious ABC participant and modifies all the other participant numbers. Barrington's

agreement with participants allows us to show this document to firms evaluating participation in the report; however, Barrington has committed to not provide electronic or hard copies of

the full ABC report to non-participants. While there are graphics in this document from the ABC deck, they don't provide a view of results across participants. Barrington would be happy to schedule a meeting or virtual call with any firm interested in seeing depictions that are described but not shown in this document.

Survey Brief: This brief has three main sections:

1. **Recent History** – Issues impacting Intermediary Fees.
2. **Survey Updates** – Changes to the survey in 2022.
3. **Intermediary Fee Survey Process**– Overview of the survey and approach to the analysis.

Key Metrics: 2016-2020	2016	2018	2020
Participants	37	49	42
Fee Arrangements	6,355	8,508	7,717
AUM (\$T)	\$1,822	\$2,049	\$1,914
Total Fees Paid (\$B)	\$6.11	\$6.49	\$5.13
Total Fee BPS	33.6	31.7	26.8

Participant Reports: Each participant will receive a report that is individual to that firm. Each report involves re-tabulated the report data report, allowing each of that firms data points to be indicated by their

1. RECENT HISTORY

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 Class Shares** are now 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.

2. SURVEY UPDATES

Barrington has interviewed and consulted many past participants to gain input on how the Survey should change in 2022. The answers were about small changes rather than big.

- a. **Active Transparent and Non-Transparent ETFs** will be considered for a new category. All groups so far have told us that Passive

- Transparent remains a category with no intermediary fees being paid.
- b. **Advisor Paid – Other Expenses** is a growing area of expense supporting items such as conferences, data and other distributor activities. Barrington is talking to groups about approaches to collecting this data at the distributor level (unidentified) and apportioning the expense across all arrangements with that firm.
 - c. **Trending** will continue with data from the current and three prior surveys, covering an eight-year period.
 - d. **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.
 - e. **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.
 - f. **No 12b-1 Classes in the NTF Platform** – Barrington will better police that the No 12b-1 class in the NTF is a retail class with funds commonly paying in the 30-40 BPS range. Arrangements where No 12b-1 funds are paying in the range of 15 BPS belong in the No 12b-1 class in the I-NTF platform.
 - g. **Survey Report** – Barrington does not contemplate changes to pages in each platform presentation.
 - h. **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.

- i. **Board Caps** – The survey changed how Board Caps were presented in 2020 and the feedback has been positive. Our plan is to

Class Categories for 2020 Intermediary Fee Survey				
	Share Class Categories	Definition	Change	12b-1 Payments
1	I-Institutional	Institutional class with no 12b-1 fees. I class arrangements frequently include sub-TA and revenue sharing.	Unchanged - Better Defined	0 BPS
1a	I - NTF	The I-NTF is distributed on the NTF platform but pays a lower total than the traditional NTF fee of 35-40 BPS. This class will be reflected as the I class in the NTF platform.	Unchanged - Better Defined	0 BPS
2	No 12b-1-Retail	Retail share class that competes with the A class but w/o a Sub-TA.	Unchanged - Better Defined	0 BPS
3	A	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.	Unchanged	25 BPS
4	12b-1: ≤ 25 BPS	12b-1 fees over 0 and up to and including 25 BPS. Advisors may also pay sub-TA &/or Revenue Sharing.	Unchanged	Over 0 BPS and up to or equal to 25 BPS
5	12b-1: > 25 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.	Unchanged	Over 25 BPS up to and equal to 75 BPS
6	C	~100 BPS 12b-1 fees plus Service Fee &/or Revenue Share.	Unchanged	Over 75 BPS

have this presentation remain largely the same in 2022.

- j. **Level 3** AUM was 1% of the 2020 survey. We will seek guidance to see if we drop this category.
- k. At this time the questions under the General Tab are either no longer necessary or did not prove useful in the analysis. We will remain open to other suggestions.

3. INTERMEDIARY FEE SURVEY PROCESS

The focus of this section of the survey brief is to examine how this Survey structures the comparison of Intermediary Fees and consider how these fees are changing over time.

Drill Down Approach to Survey Results

The Survey starts at a high level, examining a firm’s payments across all arrangements. Progressively the survey then drills down to look at payments in increasing specificity. The components of the drill down (explained in detail below) are:

- a. **Platforms** include the 13 different categories of channels of distribution. ETFs may add a 14th category.
- b. **Classes** are broken down into six standardized class categories.
- c. **Components of the Payment** breaks down the type of payments made: 12b-1, Service Fee or Revenue Sharing.

The Survey looks at results for each class within each platform, meaning that the survey drills down to 74 different sub-categories (I-NTF has only two class categories) within the survey, allowing participants to view a like-to-like comparison at a detailed level.

Components of Intermediary Fees

BPS	BPS	\$	BP
12b-1 Fund Paid	Service Fee Fund Paid	Service Fee Fund Paid	Revenue Sharing Advisor Paid
	Service Fee, Advisor Paid	Service Fee Advisor Paid	Revenue Sharing New Sales Advisor Paid

- a. **12b-1** fees are paid by the fund up to a level set by class; the fees can cover either distribution or shareholder servicing costs or a combination of the two. While 12b-1 fees are most commonly set at 25bps, they may be as low as 5-10bps on some funds or as high as 100bps on C shares.
- b. **Servicing Fees:** Commonly called sub-TA, these fees are generally paid by the funds, but can be supplemented by advisor payments to cover the servicing of shareholders by intermediaries. These fees are commonly structured in either BPS or \$ per account.

Some firms consider any payment made by the advisor to be revenue sharing.

- c. **Revenue Sharing** payments are designed to support Distribution and Marketing (“D&M”) and are always paid by the advisor or the funds’ distributor. Revenue sharing payments are generally paid in BPS on AUM or BPS on first-year sales.

Discussion of Intermediary Fee Payments

- ❑ Intermediary Fees compensate distributors for providing shareholder servicing as well as distribution.
- ❑ There can be confusion around the different entities that pay intermediary fees. In this analysis we focused on two entities: the Funds themselves, as directed by the Fund Board, and the Advisor/management company or other affiliates such as a service company. For payments that are the responsibility of the Funds, the transfer agency typically will make the actual payment and will then be reimbursed by the Funds based on a previously agreed approach. Regardless of the entity making the payment, it does not change the source of the payment.
- ❑ Service Fees (also called sub-TA or Sub-Transfer Agency) are payments made to intermediaries for providing service to shareholders. Funds will generally pay for these tasks up to a pre-determined cap. The cap can be set by the Board or the Advisor at the fund complex level (the most common), the class level, or the arrangement level (the least common). Advisors will pay the portion of the service fees over the cap and will categorize as Advisor Paid Service Fee or as Revenue Sharing (see ‘Servicing Fees’ in prior section).

Categorizing Intermediary Fees is Challenging

- ❑ In order to compare intermediary fees, there needs to be enough similarity that the comparison is useful. While there are five different distribution channels that are well recognized in the industry, the payment types within these channels can still differ significantly. The best example is the difference between Supermarket No-Transaction Fee (“NTF”) payments that are commonly 35-40 BPS and payments on Supermarket Transaction Fee (“TF”) accounts which commonly have fees of 15 BPS or less. Since the level of payments differ significantly, these fee arrangements need to be compared separately.
- ❑ As a result, this survey breaks the channels into 13 platforms. Adding to the wide range of actual payments, Intermediaries and fund

companies will negotiate fees on each relationship. Distributors generally develop a fee structure they prefer and request a consistent level of payments from fund companies. Most fund companies report that they are unable to negotiate fees to any significant extent, while a few fund complexes have more success. Negotiations have become more complicated as most fund companies now have the transfer agency or operations group negotiate service fees/sub-TA while a separate group negotiates revenue sharing. As a result, there is little uniformity among a fund company's intermediary fee contracts.

- Fund companies must track all their fee arrangements and verify the monthly or quarterly payments made to intermediaries. Verification of these payments can be made

Channel	Platform	Overview
Broker/Dealer	Brokerage	Firms that distribute through commission-based brokerage accounts. (Includes Insurance & Bank.)
	Advisory	Fee only advisors. These share classes generally are not available to clients purchasing shares in a full-service account.
	Retirement Recordkeeper	Retirement accounts originating through Brokers.
Supermarket/RIA	NTF	No Transaction Fee platform where costs are generally paid in BP.
	TF (Fee Only)	In Transaction Fee accounts the investor account is charged for transaction costs.
	Retirement Recordkeeper	Retirement accounts originating through Supermarkets. Many supermarket firms charge a different amount for these assets.
Bank	Ultra HNW and Institutional Bank Channel	The differentiator between this platform and the Retail/Regional Bank Channel is the general size of the accounts. Ultra HNW and Institutional accounts are generally very large accounts. Assets may flow from a private bank or certain trust departments. If your firm does not differentiate between these categories in agreement, then select the most appropriate platform.
	Retail/Regional Bank Channel	This platform has smaller accounts than the platform above. Relationships may be with bank trust departments, banks brokerages that do not clear through a 3 rd party or branch networks. Bank Trusts that do not clear directly fall under a clearing relationship.
Insurance	Mutual Fund Assets (Retirement or non-Retirement)	Variable Investment Trusts ("VIT") payments on intermediary fees are generally very different than mutual funds.
	VIT Assets (Retirement or non-Retirement)	This platform is for insurance companies with non-retirement assets that invest in mutual fund products.
	Retirement Recordkeeper	The assets in this platform are related to insurance companies with retirement recordkeeping platforms.
Retirement Recordkeeper / TPA	Retirement Recordkeeper	Retirement platform sponsors that do not fall into one of the other categories. Include distributors that specialize in IRA rollover assets where payment structures in some relationships are different

more complex because some intermediaries provide very little transparency on their underlying shareholder accounts.

- As noted previously, for anti-trust reasons survey participants are not allowed to disclose how they have categorized intermediaries and are precluded from providing the name of any intermediary in the questionnaire. Barrington does provide some guidance but each participant in the end must make their own determination of how to categorize an intermediary.

Types of Fee Arrangements

- Barrington gathers data based on each **fee arrangement**, and the fee types, within an intermediary agreement. An arrangement is defined as a specific fee payment structure for a certain group of assets, share class(es) and/or investment style.
- Barrington asks each survey participant to provide enough fee arrangements to account for at least 75%-80% of their total AUM represented in each platform. However, most participants reported arrangements that account for a much higher % of assets.

Delineation of Channels and Platforms

Reaching consensus with Participants on channel and platform delineation was one of the more difficult parts of the survey design. However, since this following approach was adopted in 2014, there has only been one change through 2020.

Retirement

While there are four different retirement platforms in the structure, participant firms continue to confirm that the structure of the payment arrangements will vary based on channel/platform and that these categories should be kept separate.

Share Class Comparisons

- **Share Classes** –Participants use their own class nomenclature; but slot each share class into one of six categories.
- While A, C and I shares reflect industry accepted meanings (in reality these classes are not identical), the same does not hold true for any other class category. Barrington classifies all other classes based on the

level of 12b-1 payments.

The share class categories (also refer to the table on Page 2) are:

- **Class I – Institutional** do not pay 12b-1 fees but can pay service fees and/or revenue sharing
- **No 12b-1 – Retail** are funds that compete with Class A payments of ~40 BPS in service fees &/or revenue sharing without paying a 12b-1.
- **12b-1 (up to 25)**: 12b-1 fees over zero and up to & including 25 BPS (these funds are generally similar to an A class but pay slightly lower 12b-1 fees.

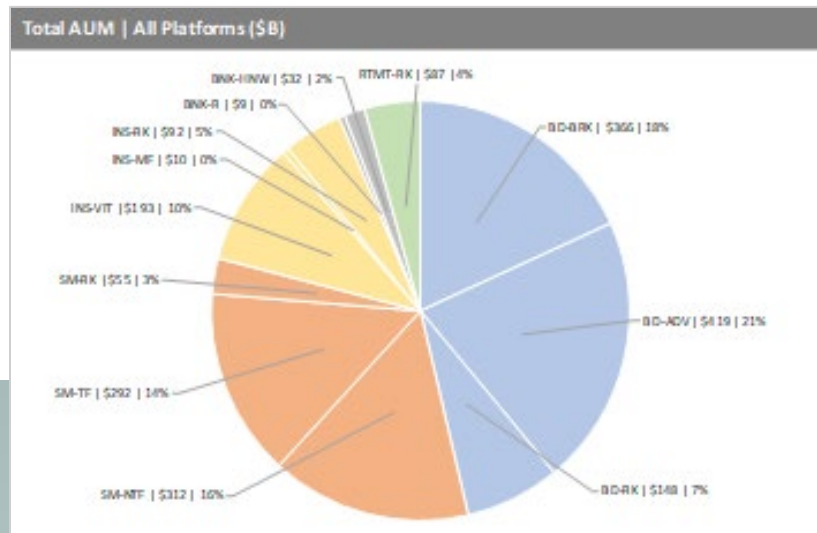
- ❑ **Class A:** these funds have a 25 BS 12b-1 fee and can also pay service fees &/or revenue sharing
- ❑ **12b-1 (over 25):** 12b-1 fees greater than 25 BPS and include many of the R classes other than the R6 which is generally a clean share class.
- ❑ **Class C:** have 12b-1 fees that range up to 100 BPS and the funds can also pay service fees &/or revenue sharing

The degree of use of different classes matters to the overall level of fees in a particular platform. While it is easy to jump to a conclusion that ‘our fees are high (or low)’, Trustees and firms should resist that temptation until they review the payment structures by class. It is important that the level of payments be appropriate to the class of shares.

Assets by Platform and Class

The following chart shows assets by platform in 2020.

Since the survey report is specific to each participant, each firm will also see their breakdown in comparison to this one.



Structure of the Intermediary Fee Survey Report

The 2022 report has the following two sections:

1. **Introduction and Overview** – this section explains the process and results of the survey, high level data reviewing payments across all channels and platforms and results on issues such as fee caps.
2. **Template by Platform** – After the introduction, the report is structured in 14-page sections that use an identical approach to examine 12 platforms. The I-NTS section and the potential ETF sections will be shorter.

Once a reader understands one template, they can quickly reference data for a different platform in order to compare and contrast.

ADVISERS

Advisers who understand the challenges you face. We build actionable solutions for you. We build actionable solutions for you. We build actionable solutions for you.

INDUSTRY INSIGHT & INTELLIGENCE

- Our focused best practices research documents successful approaches to operational issues.
- We bring together empirical research and industry data to produce competitive intelligence you can use.
- Benchmarking surveys produce detailed perspectives of your costs and processes.

OUR CONSULTING PROCESS

Assessment. This first phase involves exploring the issues, interviewing all the individuals that are involved or have a vested interest in the process or solution and creating an assessment report that allows everyone involved to see the full picture before moving to the next phase.

Research. Research may take many forms based on the issue, but generally this phase involves developing a range of viable solutions. This phase typically involves empirical research to consider how other firms solved the same issue.

Determine and Implement a Solution. Barrington will help a firm work through a process to determine the best solution, negotiate and contract with vendors as necessary and then complete any required implementation.

BARRINGTON'S BENCHMARKING SURVEYS

2022

Intermediary Fees Survey seeks to establish 'market rates' for the payments of 12b-1, sub-TA and revenue sharing within each platform of five intermediary distribution channels

Transfer Agency P&L Survey addresses the revenues, expenses and profitability of a transfer agency operated by a fund company (applicable to firms that still operate their own transfer agency and/or have a large direct book of accounts)

Intermediary Oversight Survey focuses on benchmarking how firms manage their intermediary oversight responsibilities and sub-accounting activities, and the ways their oversight programs are evolving.

Private Funds Administration Fee Survey addresses the pricing of types of fees for both in-house and outsourced operations support for private funds, including Hedge Funds, Private Equity Funds, Hybrid Funds (HF holdings with PE structure), Illiquid or Real Asset Funds, Alternative fund of funds, feeder funds, and ERISA only funds.

2023

Fund Audit Fees Survey uses our pioneering methodology to determine if overall audit fees for a fund company are within a reasonable range based on a relative complexity factor.

Fund Accounting & Administration Cost Survey asks the question, "How do a fund company's overall fund accounting and administration costs compare to what others are paying given the complexity of the funds' portfolios?"



For information on Barrington Partners' benchmarking surveys as well as our entire array of services, please contact Hubbard Garber, hgarber@barringtonp.com, 617.407.1782, or visit our website at <https://www.barringtonp.com/>.