
Fidelity's global unit to experiment with variable fees

By Editorial Staff Thu, Oct 5, 2017

The annual management fee will rise if an actively-managed fund outperforms its benchmark index, but will fall if the fund underperforms its benchmark, according to press reports.

Fidelity International, a global unit of Fidelity Investments, has introduced a variable investment management fee, which will fluctuate when funds outperform or underperform their benchmarks, across its entire outside-the-U.S. equity investment offerings, IPE.com reported this week.

A range of share classes for Fidelity equity funds will have a reduced base annual management charge and a “fulcrum fee” that is “symmetrically linked” to fund performance. The annual management fee will rise if a fund outperforms its benchmark index, but will fall if the fund underperforms.

The new share class is expected to launch in the first quarter of 2018, subject to discussions with local regulators, said Fidelity International president Brian Conroy. For more on this fee structure, which is practiced at Orbis Investments, click [here](#).

Fidelity International runs roughly \$894bn (€760.4bn) in equity assets, all of which will become eligible for the new charge structure under the company's plans. The group runs more than €2trn worldwide across all asset classes according to IPE's Top 400 Asset Managers survey.

A fund could post a gain or loss and it wouldn't matter—what matters is whether the fund beats or lags its benchmark, according to Dominic Rossi, global chief investment officer for equities at Fidelity International. If a fund lost money but beat its benchmark it would raise its fee, and if the fund made money but underperformed its index it would lower its fee.

Rossi added that a small number of funds may alter their benchmarks in order to ensure they were verifiable and appropriate for the new fee structure, but emphasized that such changes would be “minimal.”

In a press release, Fidelity said: “Where we deliver outperformance net of fees we will share in the upside and in the case that clients experience only benchmark level performance or below, they will see lower fee levels under this new model. The fee that clients will pay will sit within a range and will be subject to a pre-determined cap (maximum) and floor (minimum).”

The exact level of fees, as well as the floor and ceiling, would be agreed with fund boards, distributors and regulators in the next few months, he said, adding that the new fee structure would “more closely align the performance of our business with the performance of our clients' portfolios.”

Fidelity also said it would pass on the costs of investment research to clients under the European Union's new market rules, called Mifid II, due to go live in January, bucking the trend set by many regional peers who have made a decision to absorb the costs, according to a report in [gamesworlditalia.com](#).

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