

GUIDELINE No KSGN2 : Performance Fees and Ethical Fund Fees (Issued pursuant to section 127 of the KiwiSaver Act 2006)

Performance Fees

Performance fees, by their very nature, should reflect out performance for a specific fund. Usually the assets underlying such a fund are in equities. Where such performance fees are defined, it is usual to have a lower base fee.

Performance fees in general should have three specific characteristics beyond the base underlying fund management fee, namely

- There is a numeric level for the performance fee.
- There is a hurdle rate of return, above which the fee will apply.
- There is a high water mark, to ensure that out performance is not paid for more than once.

I would expect to regard a performance fee as unreasonable if it did not have the three specifics. As well, the full combination of the three variables will be reviewed for unreasonableness.

Ethical Funds

In general terms, the costs associated with an ethical fund are similar to the costs associated with a normal equity fund when bottom-up analysis is undertaken. Hence, for funds with similar asset profiles, I would expect the fee levels of ethical funds to be similar to the fee levels of non-ethical funds. However if a global overlay is used, I would expect the additional cost necessary for the additional services to be quantified.



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Disclaimer

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