

UKLA Technical Note

Alterations to investment management fees

Ref: UKLA / TN / 403.1

LR 11; LR 15

Changes to an investment manager's annual and performance fees are classifiable under LR 11. The most common query we receive on manager fees is how such amendments should be classified.

Where the maximum value of the change can be clearly calculated, the class tests provide an accurate indicator of the value of the variation. However, often the whole basis of the fee is changing and it is difficult to establish a comparison between the old and the new fee and therefore determine the maximum value of the variation. For example, this is the case when the hurdle rates of a performance fee change or where the annual management fee is no longer based on a percentage of net assets under management but instead on a percentage of gross assets. In such circumstances, advisers often argue that the impact of the variation on the issuer will be small or even result in a reduction in fee payable, having regard to the likely future performance of the issuer. However, our approach to classification generally rules out having regard to future performance assumptions and where there is no definitive way of calculating the maximum value of the variation, the variation will be treated as uncapped and require shareholder approval under LR 11.

In such circumstances, issuers often propose to cap fees in order to demonstrate that LR 11.1.10R does not apply. If they choose to do so and if the maximum value of the variation is capped so that the total fee payable to the investment manager in any 12-month period is limited to less than 5% of NAV, we accept that LR 11.1.10R will apply and shareholder approval is not required.