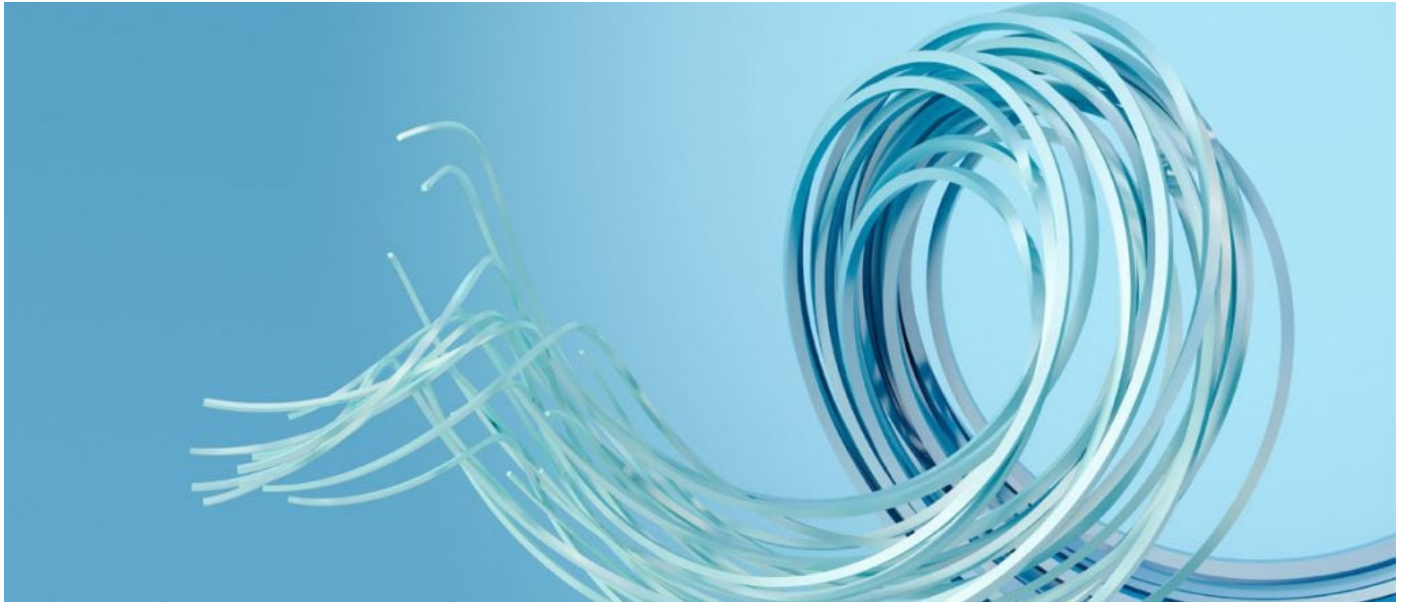


Understanding the Problem with Fixed Fees in Efficient Asset Classes

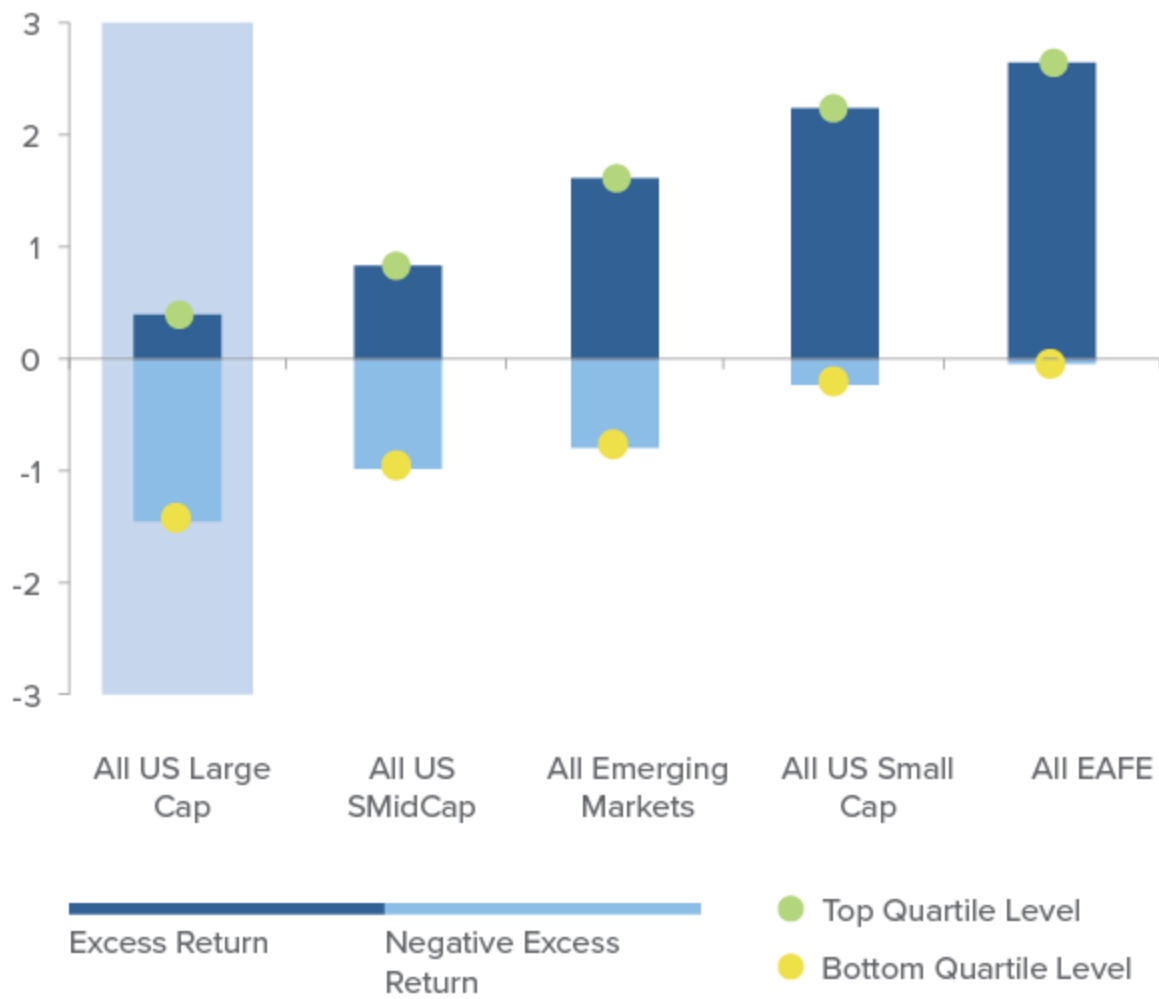
 westwoodgroup.com/insight/understanding-the-problem-with-fixed-fees-in-efficient-asset-classes/



Fees should reflect the market rate for beta, the alpha potential of the asset class, unique manager/product attributes and the overall probability of a favorable outcome.

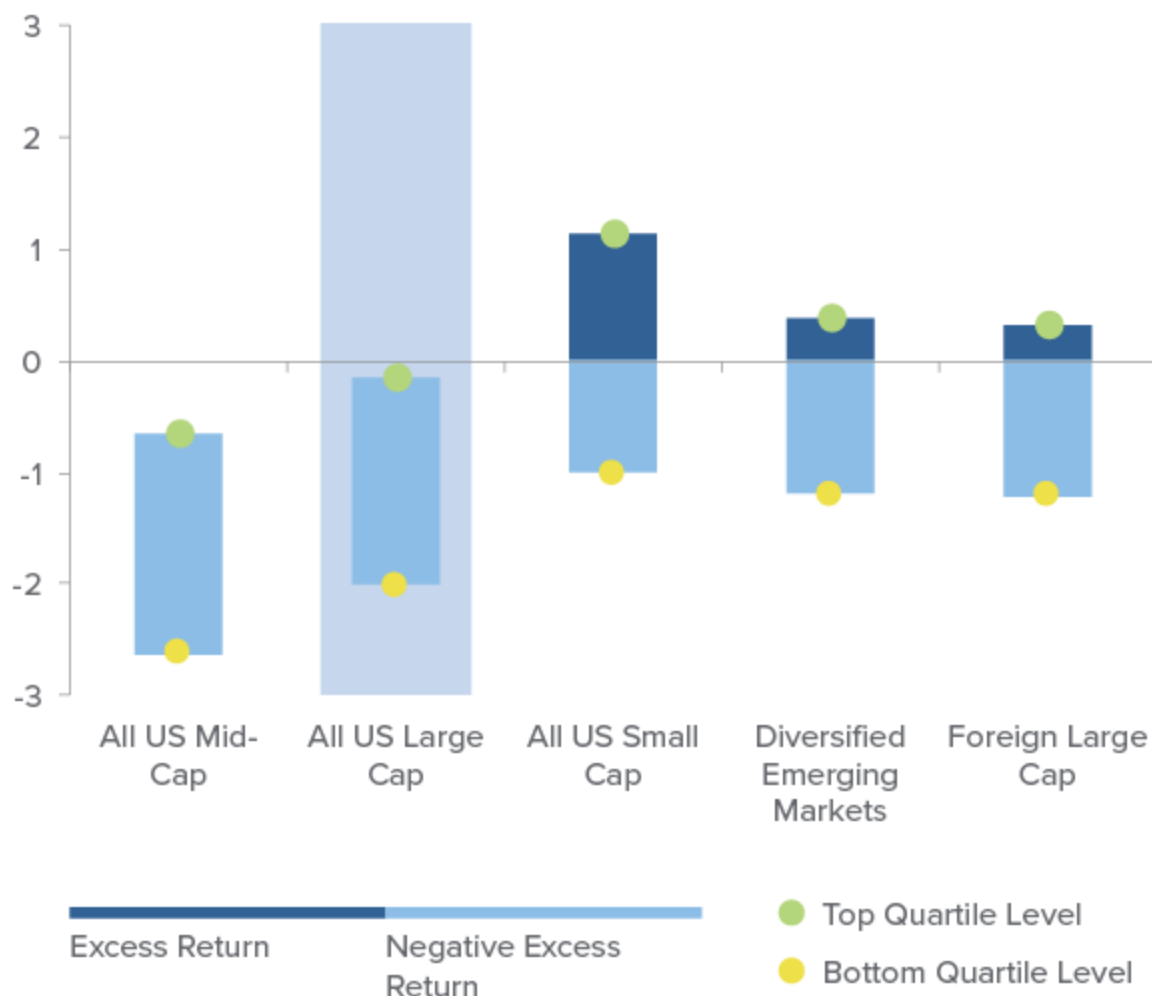
We believe the largest misalignment between client advantage and active manager compensation occurs most often in U.S. Large Cap.

Institutional Strategies 10-Yr Annualized Excess Returns (%)
Top & Bottom Quartile Levels, Net of Fees



Source: eVestment

Mutual Funds 10-Yr Annualized Excess Returns (%)
Top & Bottom Quartile Levels, Net of Fees



Source: Morningstar Direct

Without the proper fee symmetry between the asset manager and asset owner, the relative value proposition during periods of outperformance may not be enough to offset periods of underperformance when you consider a high fixed fee in the context of the asset class — further adversely skewing the probability of winning for active investors.

Applying sound reasoning, investors could potentially improve the probability of winning by aligning with a sensible fee structure that offers symmetry with a favorable outcome, combined with a high active share strategy, understanding that these are the two corollaries that truly impact the odds for investors.

While an extremely limited number of asset managers have experimented with Fulcrum Fees, we affirm that traditional Fulcrum Fees and other fee structures may not be best aligned for a traditional efficient asset class like U.S. Large Cap where beta is priced like a commodity and the true value of active management needs to be measured in relative risk-adjusted terms.

Learn more about our sensible fee structure that is better aligned for asset managers.

Westwood Sensible Fees™

A performance-based fee generally introduces the following risks: (i) performance-based fee arrangements may cause Westwood to make investments that are more risky or speculative than otherwise; (ii) Westwood may receive increased compensation (compared to a fixed fee) based on unrealized appreciation as well as realized gains on assets in the client's account, (iii) clients may pay a performance fee even if an account declines in value, and (iv) no compensation or refund is paid if Westwood underperforms the benchmark. Sensible Fees are only available to those investors which are "qualified clients," as defined in Rule 205-3 of the Investment Advisers Act of 1940.

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