NATIONAL CENTER FOR
FAMILY PHILANTHROPY

Family Giving Online Knowledge Center
Board Activities and Training Procedures

TITLE: **Description Of Investment Fees And Charges**

SOURCE: ***Investment Issues for Family Funds: Managing and Maximizing Your Philanthropic Assets***

DESCRIPTION OF INVESTMENT FEES AND CHARGES

The five types of fees commonly charged investors include:

Commissions. Fees charged by retail brokers for every transaction made for the client. Unless an account is of institutional size—$20 million or more can be the norm—retail brokerage commissions are the costliest fees in the industry. If a private account is sufficiently large to be individually managed, costs are defined as trading costs and are a function of a calculation that includes the commission costs of the broker who executes the transaction and the actual execution cost at the time the trade is final. The variance in the impact the trading cost has on the portfolio can be significant.

Consulting Fees. Administrative costs and fees charged by outside consultants hired to provide one or two specific functions related to portfolio management, such as a manager search, are considered consulting fees. Typically these can be $10,000 or more per consultant, not including any fee for monitoring of the hire. There may also be associated termination costs.

Custodial charges. Charges imposed by the keeper of the securities—a brokerage house or major bank that serves as intermediary between manager and investor. Such charges include custodial fees for instrument holding and dividend and interest gathering, transaction (trading) charges, and cash management fees. Trust management fees are lower than custodial charges because of the conservative, low activity nature of trust management.

Management fees. These fees are paid for money management (not including trading costs) and are based on the amount of money and type of account under management. They are applied at the end of each quarter based on the annual calculation. Management fees and costs vary according to the type and complexity of the account. Fixed-income accounts are easier and thus less costly to manage than are equity accounts. A standard fee for an equity portfolio might be 1 percent (100 basis points), for a bond portfolio 1/2 to 3/4 percent and a balanced account somewhere in between. The fee percentage decreases as the portfolio size increases. Each firm has a schedule that defines the thresholds. In mutual parlance the fee is referred to as a “load.”

Performance fees. This type of fee is sometimes used in partnership with a management fee. It is calculated annually as a percentage of the gross gains of the partnership interest at the end of each year. It is important to ask a manager to give you a status report net of fees and taxes. The fee is not deductible as an investment expense against federal income taxes. The deductibility of other expenses is limited by law.