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Family Offices Drive Down External Asset Mgmt Fees By 10%

By Danielle Verbrigghe June 11, 2018

Family offices are putting "relentless pressure" on external management fees as they seek to offset higher costs they face in other areas, according to a survey from Family Office Exchange.

Family offices surveyed reduced their spending on external management fees by 10% between 2014 and 2017. That offset rising costs associated with external planning and internal operations, which increased 8% and 6%, respectively, over the same period for survey respondents, which included 109 family offices with an average investable asset base of $543 million.

Fee compression is driven both by the commoditization of asset allocation, and the movement of capital into passive strategies, says **Kristi Kuechler**, managing director of the investor market for Family Office Exchange.

"Family offices, like most investors, are increasingly wary of paying alpha fees for beta performance," Kuechler says. "Only when they believe that a manager can deliver excess returns are they likely to be willing to pay that additional fee."

Family office executives point to a growing focus on lowering fees in order to boost returns for families.

Reducing "cost is a big way of adding value to the families," says **Mauricio Gruener**, co-founder of **GFG Capital**, a Miami-based multi-family office with approximately $1 billion in assets under management. "Savings translate into higher returns."

Over the past few years, family offices have been increasingly pressuring U.S. and European equity managers to reduce their fees and expense ratios, Gruener says.

"Active managers have become very fee conscious and are more aggressive and willing to cut their fees," Gruener says. Concessions are often linked to the amount of capital committed to a strategy, he says.

In addition, family offices have been increasingly turning to low-cost vehicles or passive management.

"There's very few actively managed strategies that have been able to do better than their underlying index over a long period of time," Gruener says.

GFG Capital recently made a change to its models to allocate a percentage of large-cap value, large-cap growth and international developed equity assets to actively managed exchange traded funds (ETFs), aiming to lower fees and further diversify portfolios, Gruener explains.

There are multiple ways family offices are going about reducing fees paid to external managers, says **Andrew Hart**, president and chief advisor of **Delegate Advisors**, a $1.8 billion multi-family office.

In the private markets, family offices are increasingly looking to cut out the middleman by engaging in direct deals.

"Larger family offices are pooling assets to go direct and using the expertise that families have in various sectors to identify and directly invest in private opportunities, cutting out the layer of private fund fees."

Family offices have also been putting pressure on active managers on liquid strategies to lower their fees. For example, some municipal bond separately managed account (SMA) managers have been willing to drop their fee to as low as 10 basis points or less for significant allocations, Hart says.

"The prices are just continuing to come down," Hart says.

More family offices are starting to use passive strategies in vehicles like ETFs.

Family offices are "starting to become more skeptical about the value that's being added by active managers over time," Hart says.

Gruener, of GFG Capital, points to some scenarios where the firm is still willing to pay a higher fee to a manager, Gruener says.

"As long as a manager produces alpha and delivers results in a consistent basis, you're more willing to pay for fees," Gruener says. "If they have a distinct strategy, which is unique, you're willing to pay for that."

Managers that can provide outsize returns in markets where there is a large spread between top quartile and mid managers, can still command a premium, says Hart, of Delegate Advisors.

"If you're going to spend on manager fees, they would rather do it in a place that they have a much higher confidence that they're going to get paid well for the fees they're spending and the difference in quality is significantly different," he says.

Ultimately, both managers and advisors need to demonstrate they are adding value to justify their fees.

"I think the only way you're going to be paid well for advice is if you can prove that your advice adds real value over time and that it's worth paying you for that advice," Hart says.

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