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Policy Group
Private Pensions and Arm's Length Bodies Directorate
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Submitted via email to: pensions.investment@dwp.gsi.gov.uk

RE: Investment Innovation and Future Consolidation: A Consultation on the Consideration of Illiquid Assets and the Development of Scale in Occupational Defined Contribution schemes

Dear Sirs,

BlackRock[1] is pleased to have the opportunity to respond to the consultation on Investment Innovation and Future Consolidation, issued by the Department for Work and Pensions.

BlackRock supports a regulatory regime that increases transparency, protects investors, and facilitates responsible growth of capital markets while preserving consumer choice and assessing benefits versus implementation costs.

We welcome the opportunity to comment on the issues raised by this consultation paper and will continue to contribute to the thinking of the DWP on any issues that may assist in the final outcome.

We welcome further discussion on any of the points that we have raised.

Yours faithfully,

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[1] BlackRock is one of the world's leading asset management firms. We manage assets on behalf of institutional and individual clients worldwide, across equity, fixed income, liquidity, real estate, alternatives, and multi-asset strategies. Our client base includes pension plans, endowments, foundations, charities, official institutions, insurers and other financial institutions, as well as individuals around the world.

Executive summary

Thanks to auto-enrolment, more and more UK citizens are saving for their retirement. However, saving rates are only part of the challenge: their pension investments must also work hard for them. To realise this, pension funds need access to a wider range of investments that suit their members' long-term horizons. Alternative and less liquid investments are an important part of diversified portfolios, given their low correlation to equities and bonds – reducing risk, and improving returns. Less liquid long-term investments such as infrastructure are also especially suited to the long-term profile of Defined Contribution pension funds and provide protection against the risk of rising inflation. Enabling more of this type of investment will be mutually beneficial for both individual savers and the wider economy. BlackRock recently sponsored a research report from the Pensions Policy Institute entitled '*DC scheme investment in illiquid and alternative assets*', which considers the benefits of investment into illiquids in more detail.[2] We therefore welcome the DWP's consultation on the Consideration of Illiquid Assets and the Development of Scale in Occupational defined contribution schemes.

Reporting on illiquid assets and scheme consolidation

We support the DWP's proposals to encourage pension schemes to consider further their policy towards illiquid assets, and, where appropriate, to consolidate assets with other schemes. We recommend basing the threshold to comply with requirements to report on illiquid asset policies on the scheme's AUM, rather than number of members, as this will reflect more accurately a scheme's ability to make a material allocation to illiquid assets.

In addition, we believe the DWP should consider developing a comparison and benchmarking tool for members and governance bodies to compare, contrast, and benchmark their scheme's investments.

With regard to scheme consolidation: the economies of scale and ability to access more tailored investment strategies can be expected to be in the best interests of end-investors and members. Any steps to increase consolidation will, however, ultimately only be successful if they are accompanied by a focus on developing engaged governance bodies who are equipped to deliver objective oversight of the larger schemes they are responsible for. The DWP should also consider encouraging asset pooling arrangements, drawing on the lessons learnt from the similar exercise with DB schemes.

Performance fees and the fee cap

Performance fees are widely used across a full range of investments in illiquid and long-term assets. The typical structure of these fees look to align incentives between the asset managers and end-investors / scheme members: increased fees are only paid to the manager where they deliver investment outperformance to the client. At present, governance bodies may be deterred from investing in illiquid assets managed with performance fee arrangements due to, among other things, regulatory pressure to reduce costs, as well as uncertainty around the future level of the charges cap (given the prospect of an upcoming review).

The DWP's proposed alternative assessment method for the fee cap provides welcome flexibility. However, it still in effect requires that there is a maximum overall fee,

[2] The full report is available here.

knowable in advance, or that allocations to investment solutions charging performance fees are relatively small. It is possible that schemes may be able to access illiquid investment solutions with a 'blended' or flat fee structure, instead of a performance fee structure. There is a trade-off between each of these options, and different schemes may prize the certainty of one structure over the flexibility of the other, depending on their preferences and constraints.

Either way, a fixed charges cap potentially narrows the investment opportunities available to DC investors. Illiquid asset classes require high levels of expertise and specialised management, which translates into higher fees and typically use of performance fees. Limiting the overall fees investors can pay will reduce the proportion of their portfolio they can allocate to illiquid, patient capital investments, or, within a given 'illiquid' allocation, tend to push schemes to hold relatively more liquid investments. We note that the charges cap does not apply to DB schemes, arrangements which contain third-party promises, or products that guarantee members' benefits. This creates an uneven playing field between DC investors and other types of investors, such as those in DB schemes, in terms of the investment opportunities available to them.

We advocate a more flexible application of the fee cap, which would enable sophisticated schemes that fulfil certain conditions to enter into arrangements with uncapped performance fees, outside the overall cap. We suggest this should only be permitted with strong investor protection controls, and only for types of performance fee structures which are clearly aligned with investors' interests.

Responses to questions

1. ***We would welcome comments on the following proposals around reporting pension schemes' approach to investing in illiquid assets. We would also welcome any other proposals which use reporting to prompt consideration of illiquid assets.***
    a. ***Scope: 'Relevant schemes' (broadly, schemes offering money purchase benefits other than from AVCs alone) with 5,000 or 20,000 or more members (or alternatively £250m or £1bn assets to provide for money purchase benefits) would be in scope of the proposed requirement. Would an asset-based or a membership-based threshold be more proportionate and effective?***
    b. ***Reporting their policy: Schemes in scope would be required to explain their policy in relation to illiquid investments in their Statement of Investment Principles***
    c. ***Reporting their actions: Schemes in scope would be required to report annually on their main default arrangements' approximate percentage holdings in illiquid assets, and with a breakdown in holdings of the trustees' choosing.***

We support this proposal. We agree that for the proposal to be workable, schemes will need a degree of flexibility in how they identify what constitutes an illiquid asset. This flexibility should be aligned with the wider concept of patient and long-term capital, such as the definitions used in the FCA's recent permitted links consultation.[3]

'Relevant schemes' should be identified by the scheme AUM: the number of members is not a good indicator of which schemes are best suited to invest in illiquid assets to

[3] BlackRock's response to this consultation is available here.

the extent that it does not necessarily reflect the amount of assets or the sophistication of a scheme's governance arrangements. We also note that the minimum 'ticket size' for illiquid investments is usually around £5mn to £10mn. Assuming a typical 10% allocation to illiquids, this would suggest a minimum scheme size of £50mn to £100mn. This would need to be taken into account when determining whether a scheme is considered a 'relevant scheme'.

In order to encourage more investment into illiquid assets the DWP may also wish to consider developing tools for comparing and benchmarking default investment options. Such a tool could leverage the pensions dashboard to enable members to compare and contrast default investment options against peer groups and to enable members to undertake qualitative comparisons against other schemes. Such a dashboard should cover objectives, costs, and performance (in terms of both risk and return).

2. ***Do you think Government should encourage or nudge smaller occupational DC pension schemes to consolidate? If this should only happen at some point in the future what factors should be taken into account in determining that point?***

3. ***We would welcome views on the following proposals around pension schemes reporting their position on the potential benefits of future consolidation, or any other associated proposals.***

    a. ***Scope: 'Relevant schemes' with fewer than 1,000 members (or alternatively less than £10m in assets to provide for money purchase benefits) would be in scope of the proposed requirement.***
    b. ***What should be reported: Schemes in scope could be required to explain their assessment of whether it would be in members' interests to be transferred into another scheme with significantly more scale. Should charges, investment, governance and administration all be compared? Is a reference scheme, or other guidance needed for comparison?***
    c. ***Reporting vehicle: The requirement could be added to the value for members assessment which forms part of the Chair's Statement and published annually.***
    d. ***Updating frequency: The explanation of whether it is in members' interests to consolidate should be updated at least every 3 years, and after any significant change in size or demographic profile.***

4. ***What do you think about the use of indicators such as trustee knowledge and understanding, open or closed status or member demographics to identify and encourage schemes to consider consolidation? What indicators do you recommend and how could they best be communicated and verified?***

Overall, we support the DWP's initial approach. The consolidation of smaller schemes can be beneficial to the extent that it supports good outcomes for the end-investors / scheme members. In particular, consolidation can enable better asset allocation decision-making, improved resourcing for risk management, thorough due diligence of investment options, and the ability to benefit from scale by negotiating lower costs. A good starting point would be to encourage schemes to actively consider the benefits of consolidation and to disclose the outcome of any such consideration. Any steps to increase consolidation will, however, ultimately only be successful if they are accompanied by a focus on developing engaged governance bodies who are equipped to deliver objective oversight of the larger schemes they are responsible for.

In addition to this, the DWP could also ask smaller schemes to consider their options related to asset pooling arrangements. These arrangements, which are utilised in defined benefit schemes, allow smaller schemes to combine their commitment base, and therefore may allow them to access discounted management fees by virtue of their increased scale. The success of these arrangements in relation to defined benefit schemes is indicative of the potential for these arrangements to be successful in relation to defined contribution schemes. Indeed, we note the DWP's recent approval of Collective Defined Contribution (CDC) schemes, which in part reflects the ambition to achieve better outcomes for members by pooling DC assets, leveraging scale and capacity.

5. ***To what extent are performance fees used or required for funds which offer illiquid investment such as venture capital, infrastructure, property, private debt and private equity? Are market practices changing?***

The large majority of illiquid asset strategies are marketed directly to professional or institutional investors, and charge a performance fee or use carried interest as part of their fee structure. We see this across the full spectrum of illiquid asset classes, including real assets, private equity and private credit.

Under typical performance fee structures, the overall fees borne by an investor in relation to their illiquid asset investment are linked to the performance generated by the asset manager. The amount payable under a performance fee / carried interest structure is calculated by reference to a target return (a 'hurdle'). The asset manager is paid a percentage share of returns that exceed the pre-agreed threshold. What is considered market standard may differ over time and will be viewed in light of the specific investment strategy and risk and return profile of the offering.

6. ***To what extent is the charge cap compliance mechanism a barrier to accessing funds which charge a performance fee? Does this act as a barrier to accessing certain asset classes?***

7. ***Do you agree that we should permit the additional method of charges assessment? Do you envisage any problems with complying with this method of assessment, or any reasons why it might disadvantage members?***
8. ***We propose that:***
    a. ***We should publish guidance – which might carry statutory weight – on appropriate performance fee structures.***
    b. ***We should in particular specify in statutory guidance that performance fees should be calculated and accrued each time the value of the fund is calculated.***
    c. ***Performance-related fees should only be permitted alongside a funds under management charge, and not alongside contribution charges or flat fees.***

    We would welcome respondents' views on all these points.

The charges cap on default investment options is an important and necessary accompaniment to auto-enrolment into workplace pensions. We support the overarching objective of engendering trust in long-term savings and investments and ensuring strong investor protection and outcomes. We agree with the DWP's assessment that the charges cap is set high enough to accommodate, to some extent, investment options that have higher fees. However, there are a number of complicating factors that may explain why, in practice, this does not occur as often as expected.

One less tangible barrier to investing in illiquid assets is that regulatory pressure on governance bodies creates a tendency towards cost reduction, and may discourage allocations to new investment solutions that raise fees charges to end investors. Indeed, they may be reluctant to allocate capital to illiquid investments that charge performance fees (or generally higher fees) in light of the upcoming reviews of the charges cap (and the potential that the overall level of the cap could be lowered). For as long as this uncertainty exists, schemes may be minded to leave the extra room in the cap to mitigate the risk of an unintended breach in the future.

Further, the charges cap compliance mechanism may represent a barrier to DC schemes investing in illiquid assets to the extent that it places a hard limit on fees at a level that may make it difficult to enter into arrangements that use performance fees. Given that typical performance fee arrangements are uncapped, those making allocation decisions for DC schemes may be unwilling to take on the risk of breaching the fee cap, even if this only happens in the case of investment outperformance.

The additional assessment proposed by the DWP would give welcome flexibility around how schemes comply with the charges cap. However, the calculation proposed still requires knowledge of a maximum performance fee. Given that most performance fee structures are uncapped, we believe the additional assessment mechanism may circumscribe investor choice regarding illiquid investments.

Below, we set out some of the considerations DC schemes may face in light of the fee cap, as well as the proposed additional assessment, and how they might impact investment decision-making, outcomes for end-investors, or the wider policy objective of facilitating more DC scheme investment into patient capital.

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A trade-off between flexibility and certainty in fees

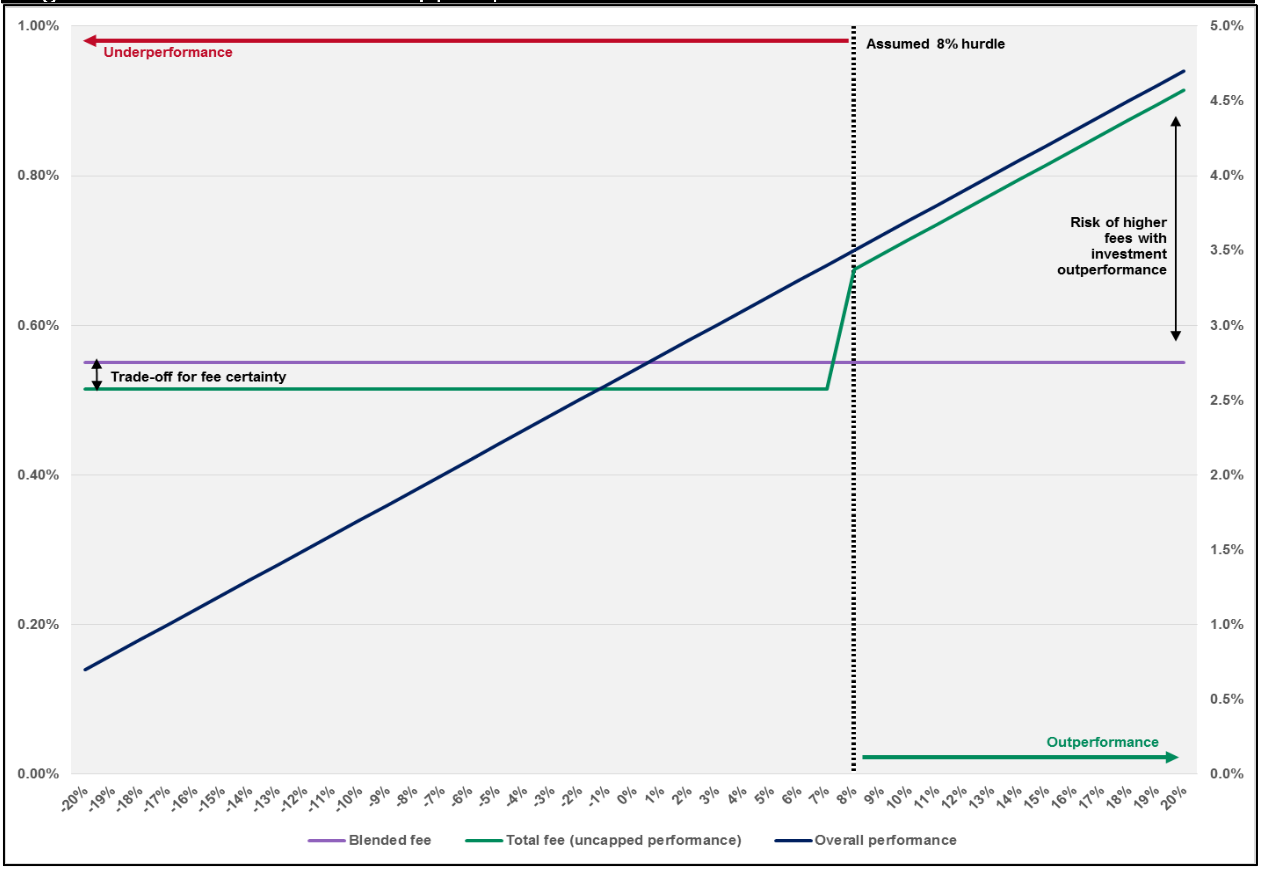
The current charges cap and proposed additional assessment still requires that the maximum performance fee is known in advance, meaning any investment option using performance fees would likely have to be subject to an upper limit. Typically, investors accessing such investment strategies directly would be subject to uncapped performance fees in certain circumstances. However, it is possible for these strategies to be accommodated in the charge cap through a 'blended' or flat fee.

Investment strategies that deal with illiquid asset classes typically require specialised management that may be more resource intensive or costly over different periods of time. Moreover, there is an element of uncertainty around the performance of any type of investment. Managers using a 'blended' or flat fee structure will necessarily have to take into account these variables and set the level of fees accordingly. On the other hand, performance fee structures have a built-in element of flexibility.

Figure 1 below illustrates this point and its implications, which is explained in more detail in the Annex. A blended fee structure means investors pay a flat rate irrespective of investment performance, be it a loss, underperformance, or outperformance. Conversely, if an investor accesses an investment solution that charges performance fees directly, increased fees are payable if a pre-defined performance target is met: if it is not, the performance fees are not payable and the investor pays the basic management fee. The need to accommodate for all possible outcomes under a blended fee may often mean that it is higher than the basic management fee charged under an uncapped performance fee structure.

There is a trade-off between fee certainty on the one hand, and fee flexibility on the other. In the former case investors incur a relatively higher fee when an investment underperforms, but may on balance prize certainty. In the latter case, investors could be subject to higher fees, but only in the case of investment outperformance; otherwise they pay a fee that is likely lower than under the blended fee structure. Different types of investors are likely to have different preferences depending on their investment objectives, or other considerations and constraints they face.

Figure 1: Blended fees vs uncapped performance fees*



Investment opportunities for DC investors may be narrowed

In general, investment strategies more focused on private / illiquid markets require high levels of expertise and specialised management, which often translates into higher baseline fees, in addition to performance fees charged for outperformance. Clearly, therefore, a fee cap will tend to constrain the overall allocation a pension scheme can make to illiquid investment strategies. However, another impact the cap may have is to push the illiquid portion of a scheme's portfolio towards assets at the more liquid end of the spectrum.

Where an investment solution uses uncapped performance fees, for a given allocation, DC governance bodies will need to take into account the possibility that investment outperformance will trigger higher fees, and put the scheme in breach of the charges cap. There will therefore be a tendency for governance bodies to allocate relatively small portions of their overall portfolio to the illiquid solution. Table 1 in the Annex illustrates this point.

In addition, because in general the more illiquid specialist asset classes will have higher fees than 'less' illiquid or semi-liquid asset classes, the charges cap creates a tendency for any portion of the portfolio dedicated to illiquids to allocate more to relatively more liquid strategies.

Box 1 below illustrates this point, and is explained in more detail in the Annex. Placing a hard limit on the amount of fees a scheme can incur necessarily creates a tendency to a) constrain the total allocation that can be made to illiquid assets; and b) encourage allocation to relatively more liquid assets for a given allocation to illiquid strategies - for example, this might mean less capital is allocated to venture capital or infrastructure, and more towards more liquid real estate.

Box 1: Allocation to illiquid strategies under the fee cap*

Fee cap	Platform & Admin fees	Available fees	Liquid multi-asset fees	Illiquid investment solution fee (a)	Less illiquid investment solution fee (b)	Semi-liquid investment solution fee (c)
75	30	45	35	200	113	80

All fees headline (i.e. actual) in bp. (a): e.g. Venture Capital fund; (b) e.g. Unlisted equity infrastructure fund; (c): e.g. Private equity fund-of-funds.

Liquid multi-asset allocation	Total illiquid allocation	Fees allocated to multi-asset	Illiquid fees available under fee cap	Possible 100% illiquid allocation to...		
				Illiquid investment solution fee	Less illiquid investment solution fee	Semi-liquid investment solution fee
100%	0%	35	10	Y	Y	Y
95%	5%	33.25	11.75	Y	Y	Y
90%	10%	31.5	13.5	N	Y	Y
85%	15%	29.75	15.25	N	N	Y
80%	20%	28	17	N	N	Y
75%	25%	26.25	18.75	N	N	N
70%	30%	24.5	20.5	N	N	N
65%	35%	22.75	22.25	N	N	N
60%	40%	21	24	N	N	N
55%	45%	19.25	25.75	N	N	N
50%	50%	17.5	27.5	N	N	N

***

We believe the points raised above demonstrate that the current setup of the charges cap may mean DC investors face restrictions that other types of investors do not. Taken together, this may mean the flow of capital from DC schemes into patient capital investments is limited. Indeed, we note that the charges cap does not apply to arrangements which contain third-party promises, products that provide guaranteed benefits to members, or to defined benefit scheme members. We therefore believe the DWP should consider adopting a flexible or varied application of the fee cap for DC schemes who wish to access investment options that use performance fees.

We emphasise that any flexibility to exclude performance fees from the overall cap should be contingent on there being strong controls and clear benefit of the fee arrangement to the scheme members / investors. Indeed, to avoid any misuse of this flexibility, there should be strong controls around what type of performance fee structures would be permitted to sit outside of the cap, and the level of sophistication required to utilise this option.

We believe the standards set by IOSCO and more recently by the UK Financial Conduct Authority on the use of performance fees provide strong protections to investors. We moreover support the DWP's proposals for guidance on appropriate performance fee structures and how performance fees should be charged. We suggest going further than the IOSCO and FCA standards by restricting the flexibility we propose only to 'hurdle' based performance fees, which are charged where a clear, pre-defined level of return is delivered to the investor, rather than performance relative to a benchmark. We moreover propose that only schemes with larger amounts of assets, a high standard of governance, and sound asset allocation and risk management capabilities should be given the flexibility to enter into arrangements using uncapped performance fees.

9. ***Do you believe that the updated non-exhaustive list of costs and charges provides increased clarity about the scope of the charge cap? Are there any areas where further clarity might be required?***

We welcome the updated guidance on the scope of the fee cap, and agree it increases clarity.

10. ***We would welcome views and any estimated costing for the impacts of these proposals.***
    a. ***Stating a policy on illiquid holdings***
    b. ***Reporting on illiquid holdings.***
    c. ***Considering and reporting on whether it might be in members' interests to consolidate***
    d. ***The additional method of assessment with the charge cap.***

We agree with the DWP's cost assessment.

Conclusion

We appreciate the opportunity to address and comment on the issues raised by the consultation and would be pleased to liaise with the DWP on any specific issues which may assist in its further work on facilitating further DC investment into patient capital going forward.

Annex

Figure 1: Assumptions and modelling

For this illustration, we assume that a scheme allocates 90% of its portfolio to a multi-asset strategy, which returns 3% per annum. The remaining 10% is allocated to a generic illiquid investment strategy, which in different scenarios delivers returns between -20% and +20% per annum. We assume that where the investment strategies are accessed directly, the multi-asset strategy charges a flat 35 basis point fee, and the illiquid strategy charges a '2 and 20' structure: a 2% fee on AUM and a 20% performance fee on any returns above 8% per annum. We also look at a 'blended solution', where a portfolio with a 90% allocation to multi-asset and 10% allocation to an illiquid strategy is charged at a flat, fixed fee of 55 basis points. The table below shows the overall performance as the performance of the illiquid portion varies, as well as the impact this has on total fees under each fee structure.

Assumptions

	Illiquid Portfolio	Liquid Portfolio	Blended Fee	Fee Cap
Allocation	10%	90%		
mgmt. Fee	2%	0.35%	0.55%	0.75%
Perf Fee	20%	0%	-	
Hurdle Rate for Perf Fee	8%			
Exp. Ann. Performance	-	3%	-	

Fee Modelling

Illiquid performance (p.a.)	Multi-asset performance (p.a.)	Overall performance	Blended fee	Total fee (uncapped performance fees)
-20%	3%	0.7%	0.55%	0.52%
-19%	3%	0.8%	0.55%	0.52%
-18%	3%	0.9%	0.55%	0.52%
-17%	3%	1.0%	0.55%	0.52%
-16%	3%	1.1%	0.55%	0.52%
-15%	3%	1.2%	0.55%	0.52%
-14%	3%	1.3%	0.55%	0.52%
-13%	3%	1.4%	0.55%	0.52%
-12%	3%	1.5%	0.55%	0.52%
-11%	3%	1.6%	0.55%	0.52%
-10%	3%	1.7%	0.55%	0.52%
-9%	3%	1.8%	0.55%	0.52%
-8%	3%	1.9%	0.55%	0.52%
-7%	3%	2.0%	0.55%	0.52%

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-6%	3%	2.1%	0.55%	0.52%
-5%	3%	2.2%	0.55%	0.52%
-4%	3%	2.3%	0.55%	0.52%
-3%	3%	2.4%	0.55%	0.52%
-2%	3%	2.5%	0.55%	0.52%
-1%	3%	2.6%	0.55%	0.52%
0%	3%	2.7%	0.55%	0.52%
1%	3%	2.8%	0.55%	0.52%
2%	3%	2.9%	0.55%	0.52%
3%	3%	3.0%	0.55%	0.52%
4%	3%	3.1%	0.55%	0.52%
5%	3%	3.2%	0.55%	0.52%
6%	3%	3.3%	0.55%	0.52%
7%	3%	3.4%	0.55%	0.52%
8%	3%	3.5%	0.55%	0.68%
9%	3%	3.6%	0.55%	0.70%
10%	3%	3.7%	0.55%	0.72%
11%	3%	3.8%	0.55%	0.74%
12%	3%	3.9%	0.55%	0.76%
13%	3%	4.0%	0.55%	0.78%
14%	3%	4.1%	0.55%	0.80%
15%	3%	4.2%	0.55%	0.82%
16%	3%	4.3%	0.55%	0.84%
17%	3%	4.4%	0.55%	0.86%
18%	3%	4.5%	0.55%	0.88%
19%	3%	4.6%	0.55%	0.90%
20%	3%	4.7%	0.55%	0.92%

Box 1: Assumptions and modelling

We consider a range of different illiquid investment strategies, and consider what allocations would be feasible given the fee cap. We assume that 30 basis points of the total 75 are taken up by platform and administration fees, leaving 45 basis points available for investment fees.

For the range of different illiquid investment strategies, we have taken data from Mercer's 2018 Global Asset Manager Fee Survey, which contains data on total actual fees (including performance, where applicable) for over 6,000 investment managers and over 30,000 investment strategies. Data on alternative investment fees sampled from this report is shown below. From this, we take an estimate of total fees that would be incurred, including performance fees, for a venture capital fund, an unlisted equity infrastructure fund, and a private equity fund of funds. These are assumed to be 200, 113, and 80 basis points respectively for illustrative purposes.

For the liquid multi-asset portion of the portfolio, we again assume a flat fee of 35 basis points. To simplify the model, we assume that the first decision taken is what proportion of the portfolio to hold in multi-asset strategies, and what to hold in illiquid strategies (defined broadly). For a given asset allocation decision, we calculate the amount of the of the overall 45bp fee 'budget' that is used on the multi-asset strategy, and what amount of fees are 'left' for the illiquid strategy. Simplifying, we assume that the preference is to allocate to more illiquid strategies, where possible. We then look at whether – given the chosen asset allocation and consequent fee budget – it is feasible to allocate all of the illiquid portion to either a 'true' illiquid investment solution, a less illiquid investment solution, or a semi-liquid investment solution. Clearly in practice there would be a degree of variability of performance and therefore fees, however this static analysis serves to illustrate the overall point.

Assumptions						
Fee cap	**Platform & Admin fees**	**Available fees**	**Liquid multi-asset fees**	**Illiquid investment solution fee (a)**	**Less illiquid investment solution fee (b)**	**Semi-liquid investment solution fee (c)**
75	30	45	35	200	113	80
All headline (i.e. actual) fees in bp. (a): e.g. Venture capital fund; (b): e.g. Unlisted equity infrastructure fund; (c): e.g. Private equity Fund of Funds						

Allocation modelling*						
				Possible 100% illiquid allocation to…		
Liquid multi-asset allocation	**Total illiquid allocation**	**Fees allocated to multi-asset**	**Illiquid fees available under fee cap**	**Illiquid investment solution fee**	**Less illiquid investment solution fee**	**Semi-liquid investment solution fee**
100%	0%	35	10	Y	Y	Y
95%	5%	33.25	11.75	Y	Y	Y
90%	10%	31.5	13.5	N	Y	Y
85%	15%	29.75	15.25	N	N	Y
80%	20%	28	17	N	N	Y
75%	25%	26.25	18.75	N	N	N
70%	30%	24.5	20.5	N	N	N
65%	35%	22.75	22.25	N	N	N
60%	40%	21	24	N	N	N
55%	45%	19.25	25.75	N	N	N
50%	50%	17.5	27.5	N	N	N

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BlackRock

Indicative fees by asset class

Mercer Global Asset Manager Fee Survey – Select fee data, as of September 2018

Unlisted equity infrastructure funds		**Direct private equity funds**	
Headline fee	113	Headline (buyout)	150 - 200
Performance fee (hurdle 7-10%)	1500 - 2000	Headline (VC)	200 - 250
		Performance fee (8% hurdle)	2000
Private equity FoF		**Private debt**	
Median headline	80	Headline (Senior)	75 - 125
Headline range	50 - 100	Headline (mezzanine)	100 - 175
Performance fee	500 - 1000	Performance fee	1000 - 2000
Direct real estate		**Median fees: UK Balanced / Multi-Asset – Seg account ($)**	
Headline	50 - 125	100m	50
		250m	43
		500m	39
Median fees: UK Equity (All Cap) – OEIC ($)		**Median fees: UK Equity (All Cap) – Seg account ($)**	
25m	75	25m	75
50m	75	50m	67
100m	75	100m	63
250m	75	250m	56
500m	75	500m	50
TER	90		

BlackRock.

Table 1: Feasible illiquid allocations

Alts performance	Illiquid allocation:	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	11%	12%	13%	14%	15%	16%	17%	18%	19%	20%
	-20%	0.37%	0.38%	0.40%	0.42%	0.43%	0.45%	0.47%	0.48%	0.50%	0.52%	0.53%	0.55%	0.56%	0.58%	0.60%	0.61%	0.63%	0.65%	0.66%	0.68%
	-19%	0.37%	0.38%	0.40%	0.42%	0.43%	0.45%	0.47%	0.48%	0.50%	0.52%	0.53%	0.55%	0.56%	0.58%	0.60%	0.61%	0.63%	0.65%	0.66%	0.68%
	-18%	0.37%	0.38%	0.40%	0.42%	0.43%	0.45%	0.47%	0.48%	0.50%	0.52%	0.53%	0.55%	0.56%	0.58%	0.60%	0.61%	0.63%	0.65%	0.66%	0.68%
	-17%	0.37%	0.38%	0.40%	0.42%	0.43%	0.45%	0.47%	0.48%	0.50%	0.52%	0.53%	0.55%	0.56%	0.58%	0.60%	0.61%	0.63%	0.65%	0.66%	0.68%
	-16%	0.37%	0.38%	0.40%	0.42%	0.43%	0.45%	0.47%	0.48%	0.50%	0.52%	0.53%	0.55%	0.56%	0.58%	0.60%	0.61%	0.63%	0.65%	0.66%	0.68%
	-15%	0.37%	0.38%	0.40%	0.42%	0.43%	0.45%	0.47%	0.48%	0.50%	0.52%	0.53%	0.55%	0.56%	0.58%	0.60%	0.61%	0.63%	0.65%	0.66%	0.68%
	-14%	0.37%	0.38%	0.40%	0.42%	0.43%	0.45%	0.47%	0.48%	0.50%	0.52%	0.53%	0.55%	0.56%	0.58%	0.60%	0.61%	0.63%	0.65%	0.66%	0.68%
	-13%	0.37%	0.38%	0.40%	0.42%	0.43%	0.45%	0.47%	0.48%	0.50%	0.52%	0.53%	0.55%	0.56%	0.58%	0.60%	0.61%	0.63%	0.65%	0.66%	0.68%
	-12%	0.37%	0.38%	0.40%	0.42%	0.43%	0.45%	0.47%	0.48%	0.50%	0.52%	0.53%	0.55%	0.56%	0.58%	0.60%	0.61%	0.63%	0.65%	0.66%	0.68%
	-11%	0.37%	0.38%	0.40%	0.42%	0.43%	0.45%	0.47%	0.48%	0.50%	0.52%	0.53%	0.55%	0.56%	0.58%	0.60%	0.61%	0.63%	0.65%	0.66%	0.68%
	-10%	0.37%	0.38%	0.40%	0.42%	0.43%	0.45%	0.47%	0.48%	0.50%	0.52%	0.53%	0.55%	0.56%	0.58%	0.60%	0.61%	0.63%	0.65%	0.66%	0.68%
	-9%	0.37%	0.38%	0.40%	0.42%	0.43%	0.45%	0.47%	0.48%	0.50%	0.52%	0.53%	0.55%	0.56%	0.58%	0.60%	0.61%	0.63%	0.65%	0.66%	0.68%
	-8%	0.37%	0.38%	0.40%	0.42%	0.43%	0.45%	0.47%	0.48%	0.50%	0.52%	0.53%	0.55%	0.56%	0.58%	0.60%	0.61%	0.63%	0.65%	0.66%	0.68%
	-7%	0.37%	0.38%	0.40%	0.42%	0.43%	0.45%	0.47%	0.48%	0.50%	0.52%	0.53%	0.55%	0.56%	0.58%	0.60%	0.61%	0.63%	0.65%	0.66%	0.68%
	-6%	0.37%	0.38%	0.40%	0.42%	0.43%	0.45%	0.47%	0.48%	0.50%	0.52%	0.53%	0.55%	0.56%	0.58%	0.60%	0.61%	0.63%	0.65%	0.66%	0.68%
	-5%	0.37%	0.38%	0.40%	0.42%	0.43%	0.45%	0.47%	0.48%	0.50%	0.52%	0.53%	0.55%	0.56%	0.58%	0.60%	0.61%	0.63%	0.65%	0.66%	0.68%
	-4%	0.37%	0.38%	0.40%	0.42%	0.43%	0.45%	0.47%	0.48%	0.50%	0.52%	0.53%	0.55%	0.56%	0.58%	0.60%	0.61%	0.63%	0.65%	0.66%	0.68%
	-3%	0.37%	0.38%	0.40%	0.42%	0.43%	0.45%	0.47%	0.48%	0.50%	0.52%	0.53%	0.55%	0.56%	0.58%	0.60%	0.61%	0.63%	0.65%	0.66%	0.68%
	-2%	0.37%	0.38%	0.40%	0.42%	0.43%	0.45%	0.47%	0.48%	0.50%	0.52%	0.53%	0.55%	0.56%	0.58%	0.60%	0.61%	0.63%	0.65%	0.66%	0.68%
	-1%	0.37%	0.38%	0.40%	0.42%	0.43%	0.45%	0.47%	0.48%	0.50%	0.52%	0.53%	0.55%	0.56%	0.58%	0.60%	0.61%	0.63%	0.65%	0.66%	0.68%
	0%	0.37%	0.38%	0.40%	0.42%	0.43%	0.45%	0.47%	0.48%	0.50%	0.52%	0.53%	0.55%	0.56%	0.58%	0.60%	0.61%	0.63%	0.65%	0.66%	0.68%
	1%	0.37%	0.38%	0.40%	0.42%	0.43%	0.45%	0.47%	0.48%	0.50%	0.52%	0.53%	0.55%	0.56%	0.58%	0.60%	0.61%	0.63%	0.65%	0.66%	0.68%
	2%	0.37%	0.38%	0.40%	0.42%	0.43%	0.45%	0.47%	0.48%	0.50%	0.52%	0.53%	0.55%	0.56%	0.58%	0.60%	0.61%	0.63%	0.65%	0.66%	0.68%
	3%	0.37%	0.38%	0.40%	0.42%	0.43%	0.45%	0.47%	0.48%	0.50%	0.52%	0.53%	0.55%	0.56%	0.58%	0.60%	0.61%	0.63%	0.65%	0.66%	0.68%
	4%	0.37%	0.38%	0.40%	0.42%	0.43%	0.45%	0.47%	0.48%	0.50%	0.52%	0.53%	0.55%	0.56%	0.58%	0.60%	0.61%	0.63%	0.65%	0.66%	0.68%
	5%	0.37%	0.38%	0.40%	0.42%	0.43%	0.45%	0.47%	0.48%	0.50%	0.52%	0.53%	0.55%	0.56%	0.58%	0.60%	0.61%	0.63%	0.65%	0.66%	0.68%
	6%	0.37%	0.38%	0.40%	0.42%	0.43%	0.45%	0.47%	0.48%	0.50%	0.52%	0.53%	0.55%	0.56%	0.58%	0.60%	0.61%	0.63%	0.65%	0.66%	0.68%
	7%	0.37%	0.38%	0.40%	0.42%	0.43%	0.45%	0.47%	0.48%	0.50%	0.52%	0.53%	0.55%	0.56%	0.58%	0.60%	0.61%	0.63%	0.65%	0.66%	0.68%
	8%	0.38%	0.42%	0.45%	0.48%	0.51%	0.55%	0.58%	0.61%	0.64%	0.68%	0.71%	0.74%	0.77%	0.81%	0.84%	0.87%	0.90%	0.94%	0.97%	1.00%
	9%	0.38%	0.42%	0.45%	0.49%	0.52%	0.56%	0.59%	0.63%	0.66%	0.70%	0.73%	0.76%	0.80%	0.83%	0.87%	0.90%	0.94%	0.97%	1.01%	1.04%
	10%	0.39%	0.42%	0.46%	0.50%	0.53%	0.57%	0.61%	0.64%	0.68%	0.72%	0.75%	0.79%	0.82%	0.86%	0.90%	0.93%	0.97%	1.01%	1.04%	1.08%
	11%	0.39%	0.43%	0.47%	0.50%	0.54%	0.58%	0.62%	0.66%	0.70%	0.74%	0.77%	0.81%	0.85%	0.89%	0.93%	0.97%	1.00%	1.04%	1.08%	1.12%
	12%	0.39%	0.43%	0.47%	0.51%	0.55%	0.59%	0.63%	0.67%	0.71%	0.76%	0.80%	0.84%	0.88%	0.92%	0.96%	1.00%	1.04%	1.08%	1.12%	1.16%
	13%	0.39%	0.44%	0.48%	0.52%	0.56%	0.61%	0.65%	0.69%	0.73%	0.78%	0.82%	0.86%	0.90%	0.95%	0.99%	1.03%	1.07%	1.12%	1.16%	1.20%
	14%	0.39%	0.44%	0.48%	0.53%	0.57%	0.62%	0.66%	0.71%	0.75%	0.80%	0.84%	0.88%	0.93%	0.97%	1.02%	1.06%	1.11%	1.15%	1.20%	1.24%
	15%	0.40%	0.44%	0.49%	0.54%	0.58%	0.63%	0.68%	0.72%	0.77%	0.82%	0.86%	0.91%	0.95%	1.00%	1.05%	1.09%	1.14%	1.19%	1.23%	1.28%
	16%	0.40%	0.45%	0.50%	0.54%	0.59%	0.64%	0.69%	0.74%	0.79%	0.84%	0.88%	0.93%	0.98%	1.03%	1.08%	1.13%	1.17%	1.22%	1.27%	1.32%
	17%	0.40%	0.45%	0.50%	0.55%	0.60%	0.65%	0.70%	0.75%	0.80%	0.86%	0.91%	0.96%	1.01%	1.06%	1.11%	1.16%	1.21%	1.26%	1.31%	1.36%
	18%	0.40%	0.46%	0.51%	0.56%	0.61%	0.67%	0.72%	0.77%	0.82%	0.88%	0.93%	0.98%	1.03%	1.09%	1.14%	1.19%	1.24%	1.30%	1.35%	1.40%
	19%	0.40%	0.46%	0.51%	0.57%	0.62%	0.68%	0.73%	0.79%	0.84%	0.90%	0.95%	1.00%	1.06%	1.11%	1.17%	1.22%	1.28%	1.33%	1.39%	1.44%
	20%	0.41%	0.46%	0.52%	0.58%	0.63%	0.69%	0.75%	0.80%	0.86%	0.92%	0.97%	1.03%	1.08%	1.14%	1.20%	1.25%	1.31%	1.37%	1.42%	1.48%
	21%	0.41%	0.47%	0.53%	0.58%	0.64%	0.70%	0.76%	0.82%	0.88%	0.94%	0.99%	1.05%	1.11%	1.17%	1.23%	1.29%	1.34%	1.40%	1.46%	1.52%
	22%	0.41%	0.47%	0.53%	0.59%	0.65%	0.71%	0.77%	0.83%	0.89%	0.96%	1.02%	1.08%	1.14%	1.20%	1.26%	1.32%	1.38%	1.44%	1.50%	1.56%
	23%	0.41%	0.48%	0.54%	0.60%	0.66%	0.73%	0.79%	0.85%	0.91%	0.98%	1.04%	1.10%	1.16%	1.23%	1.29%	1.35%	1.41%	1.48%	1.54%	1.60%
	24%	0.41%	0.48%	0.54%	0.61%	0.67%	0.74%	0.80%	0.87%	0.93%	1.00%	1.06%	1.12%	1.19%	1.25%	1.32%	1.38%	1.45%	1.51%	1.58%	1.64%
	25%	0.42%	0.48%	0.55%	0.62%	0.68%	0.75%	0.82%	0.88%	0.95%	1.02%	1.08%	1.15%	1.21%	1.28%	1.35%	1.41%	1.48%	1.55%	1.61%	1.68%
	26%	0.42%	0.49%	0.56%	0.62%	0.69%	0.76%	0.83%	0.90%	0.97%	1.04%	1.10%	1.17%	1.24%	1.31%	1.38%	1.45%	1.51%	1.58%	1.65%	1.72%
	27%	0.42%	0.49%	0.56%	0.63%	0.70%	0.77%	0.84%	0.91%	0.98%	1.06%	1.13%	1.20%	1.27%	1.34%	1.41%	1.48%	1.55%	1.62%	1.69%	1.76%
	28%	0.42%	0.50%	0.57%	0.64%	0.71%	0.79%	0.86%	0.93%	1.00%	1.08%	1.15%	1.22%	1.29%	1.37%	1.44%	1.51%	1.58%	1.66%	1.73%	1.80%
	29%	0.42%	0.50%	0.57%	0.65%	0.72%	0.80%	0.87%	0.95%	1.02%	1.10%	1.17%	1.24%	1.32%	1.39%	1.47%	1.54%	1.62%	1.69%	1.77%	1.84%
	30%	0.43%	0.50%	0.58%	0.66%	0.73%	0.81%	0.89%	0.96%	1.04%	1.12%	1.19%	1.27%	1.34%	1.42%	1.50%	1.57%	1.65%	1.73%	1.80%	1.88%
		Total fees																			

Key	
(green)	Feasible within fee cap (inc platform and admin fees): ≤ 55bp
(yellow)	Feasible within fee cap (ex platform and admin fees): 55bp ≤ X ≤ 75bp
(red)	Not feasible within fee cap: > 75bp

Assumptions and modelling

Table 1 uses the assumptions that a standard multi-asset investment solution has a flat fee of 35 basis points, and that a standard illiquid investment solution has a ‘2 and 20’ performance fee structure with an 8% performance hurdle. We take the overall fee cap of 75 basis points, and assume that platform and admin fees of 20 basis points leave 55 basis points ‘available’ for investment fees. We finally assume that investment allocations are split between both the multi-asset solution, and the illiquid solution. This is for illustrative purposes only and actual fee structures are likely to vary in practise.

For the analysis, we consider whether a given allocation to an illiquid solution that charges a performance fee is consistent with the performance fee cap, depending on the realised performance of the illiquid investment. The colour scheme indicates – for each combination of illiquid allocation and performance – whether the total of platform and administration fees, multi-asset investment fees, and illiquid investment (performance) fees exceed the overall fee cap of 75 basis points (red), the 55 basis points available after the platform and admin fees (yellow), or neither (green).