



Uncovering Fee Savings for US Public Funds

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Introduction

Decision makers at US Public Funds, facing demographic headwinds and recent record inflation, seek cost savings at every corner. Yet many investors may not realize how much could be saved by renegotiating their existing fee terms. A few basis points saved on a large mandate could be the source for investment staff raises or a new analyst. Meanwhile, US Public Funds increasingly discuss the merits of active versus passive management of Equity and Fixed Income strategies.

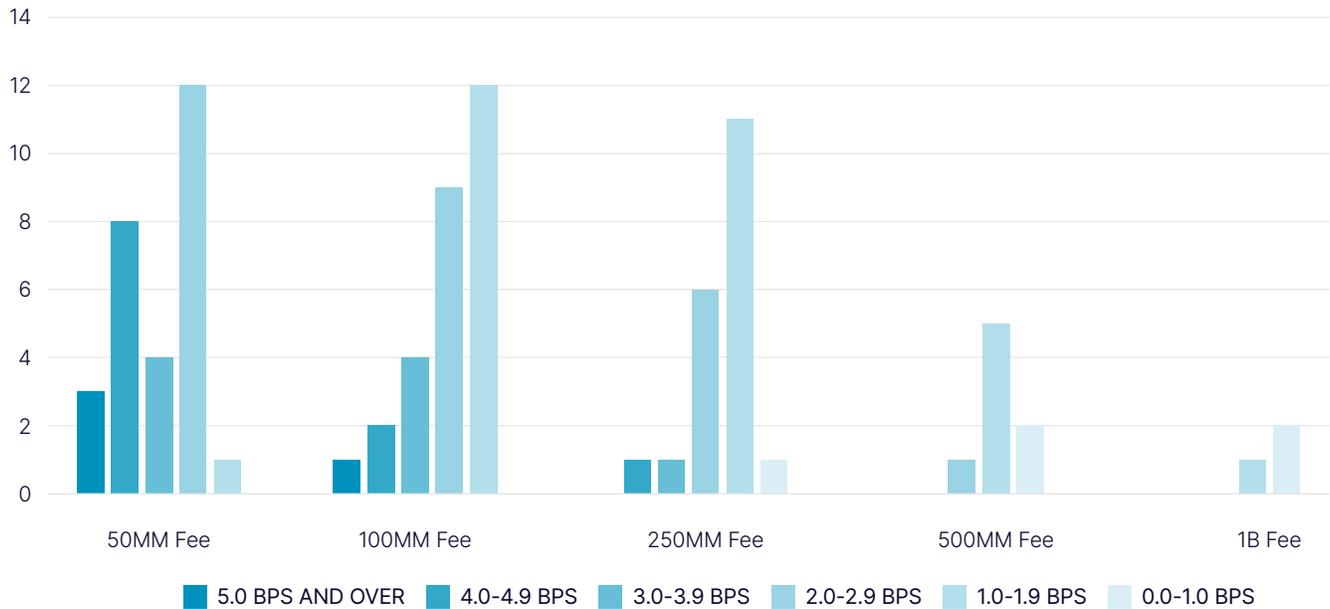
As investors, consultants, and managers alike debate whether and where active management can return alpha versus an index strategy, we leverage data from [Nasdaq eVestment Peer Benchmarking](#) and [Nasdaq eVestment Market Lens](#) to analyze the dispersion amongst fees paid for passive index strategies, identifying cost-saving opportunities along the way.

The data in this report is sourced from Nasdaq eVestment Market Lens and our latest solution, Nasdaq eVestment Peer Benchmarking, the only asset owner benchmarking solution offering transparent performance and asset allocation data for over 20,000 institutional investors.

We found dispersion in fees paid for the same index strategies across all analyzed (S&P 500 Index, Russell 1000 Index, Russell 1000 Growth Index, Emerging Markets Index, EAFE Index, and Aggregate Fixed Income Index). Further, we found dispersion in fees paid by investors retaining the same consultant. Similar dispersion was observed within individual managers' index products. We hypothesize that many US Public Funds invested in passive index strategies several years ago and have not revisited fee terms in the proceeding years. Hypothetically, there is opportunity for investors to renegotiate and obtain fee savings without having to switch their service providers.

S&P 500 Index Strategies

S&P 500
Fee Observations by Mandate Size



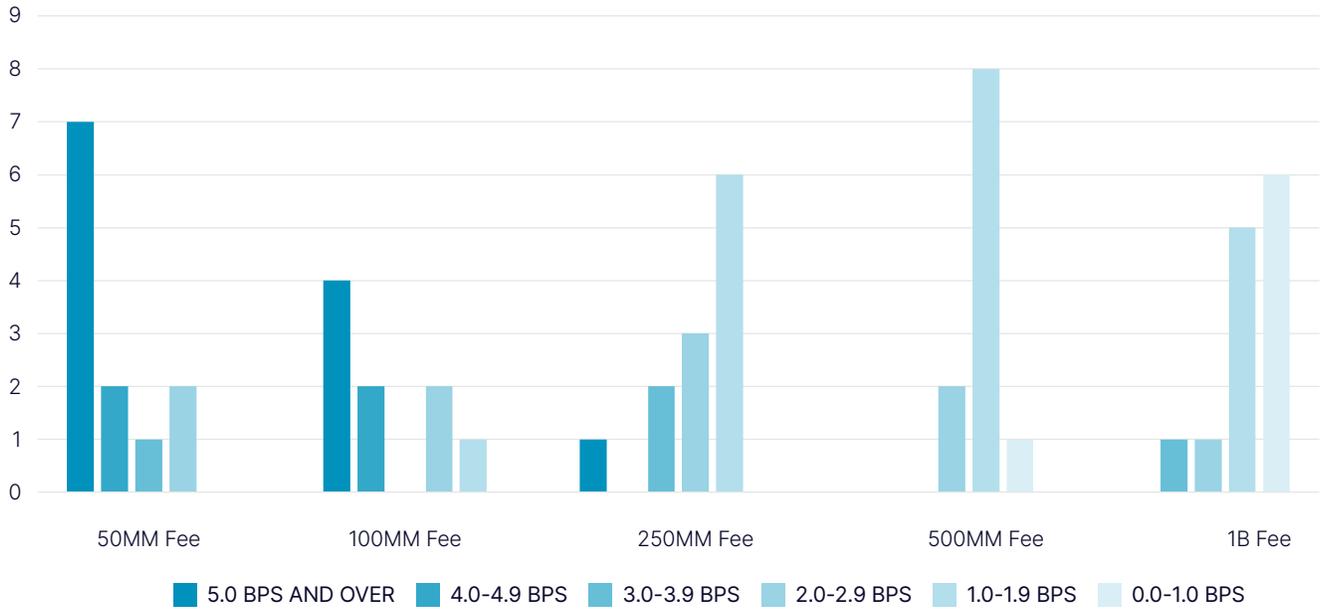
	\$50MM		\$100MM		\$250MM		\$500MM		\$1B	
	Bps	Cost	Bps	Cost	Bps	Cost	Bps	Cost	Bps	Cost
High Bps	7	35,000	5	50,000	4	100,000	2	100,000	1	100,000
Low Bps	1.5	7,500	1	10,000	0.5	12,500	0.5	25,000	0.5	50,000
\$ Savings		27,500		40,000		87,500		75,000		50,000

The first passive strategies we reviewed are S&P 500 Index Strategies, a core component of portfolios providing key exposure to US Large Cap Equity. While nearly every investor retains a passive S&P 500 strategy, not all realize that the fees paid on these commonplace strategies could be a source of cost-saving. The highest possible cost-savings identified in S&P 500 Index strategies came at the \$250M AUM tier, with the highest identified fee at 4 bps and the lowest at 0.5 bps, yielding \$87.5K in potential savings on a single mandate.

At the highest AUM tier of \$1B, though there is only a difference of 0.5 bps between highest and lowest fees paid, that half of a basis point could yield \$50K in savings. Meanwhile, the lowest AUM tier of \$50M saw the greatest dispersion in fees paid, with 7 bps at the top end and 1.5 bps at the other end. Though investors may assume that management fees nearing a single basis point are reserved for accounts with higher AUM, investor-disclosed data reveals this not to be the case.

Russell 1000 Index Strategies

Russell 1000
Fee Observations by Mandate Size

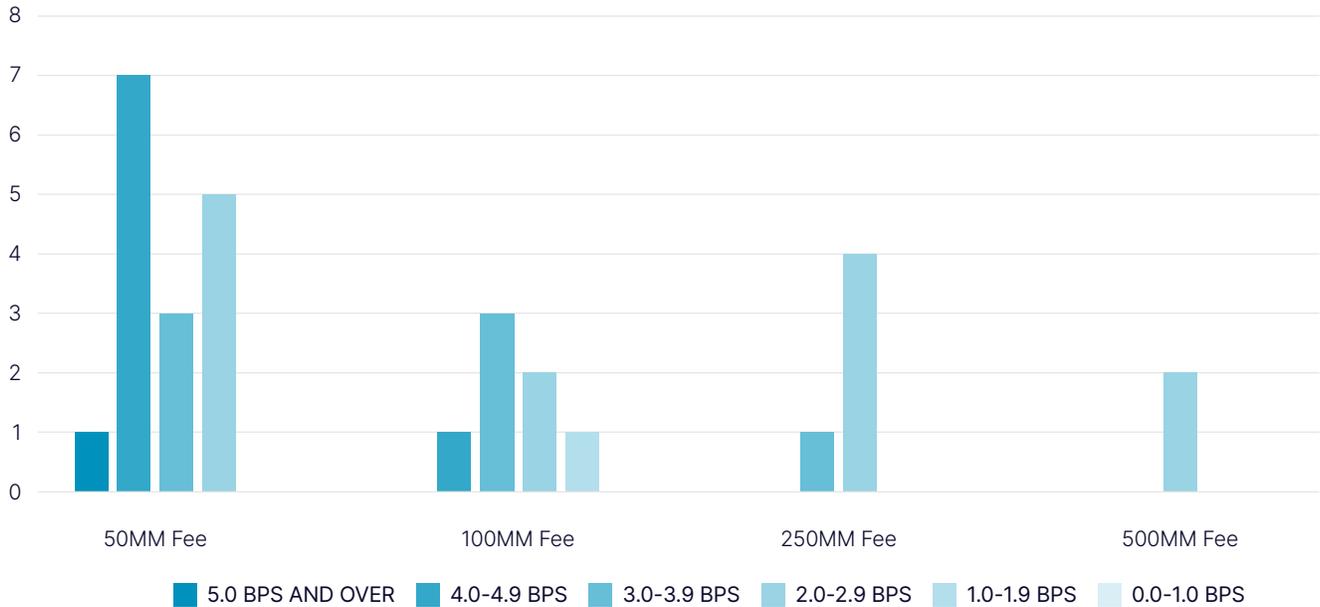


	\$50MM		\$100MM		\$250MM		\$500MM		\$1B	
	Bps	Cost	Bps	Cost	Bps	Cost	Bps	Cost	Bps	Cost
High Bps	9	45,000	8	80,000	7	175,000	2.1	105,000	3	300,000
Low Bps	2	10,000	1	10,000	1	25,000	0.5	25,000	0.5	50,000
\$ Savings		35,000		70,000		87,500		80,000		250,000

Russell 1000 Index strategies similarly provide necessary exposure to US Large Cap Equity but are notably more expensive in terms of fees paid than S&P 500 Index strategies. The greatest potential cost-savings identified amongst the R1000 strategies eclipsed that of S&P 500 strategies, with possible savings of \$250K at the \$1B AUM tier.

Russell 1000 Growth Index Strategies

Russell 1000 Growth
Fee Observations by Mandate Size

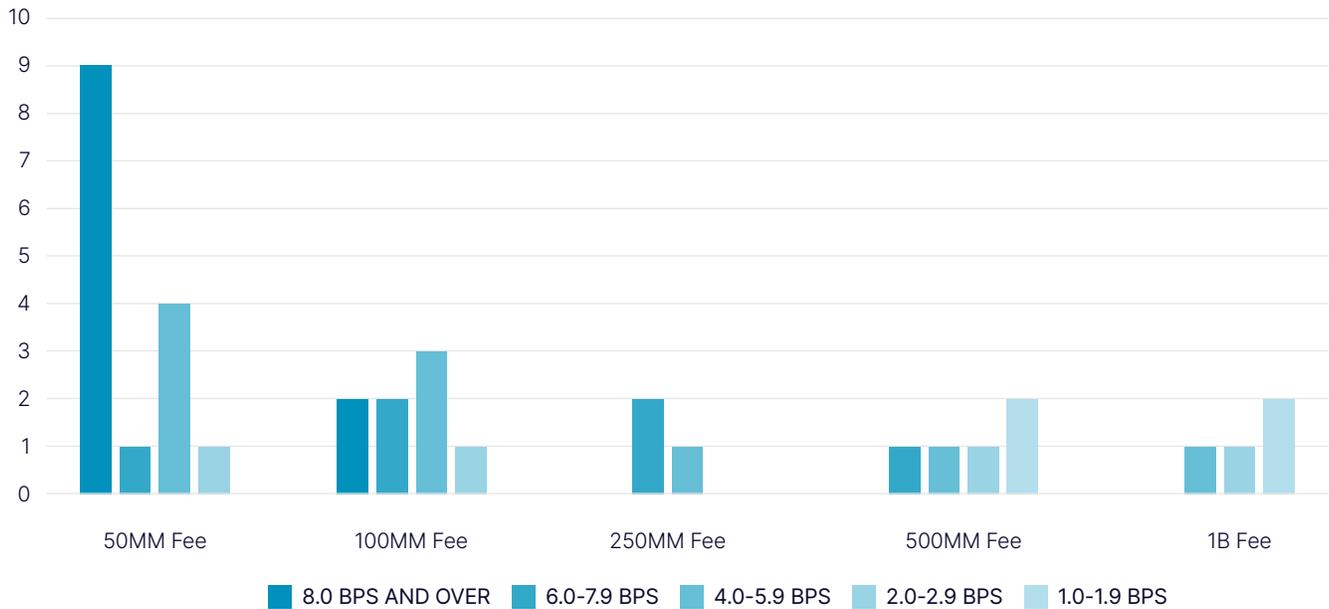


	\$50MM		\$100MM		\$250MM		\$500MM		\$1B	
	Bps	Cost	Bps	Cost	Bps	Cost	Bps	Cost	Bps	Cost
High Bps	7	35,000	3.75	37,500	3.3	82,500	2.1	105,000	3	300,000
Low Bps	1	5,000	1	10,000	2	50,000	2	100,000	0.5	50,000
\$ Savings		30,000		27,500		32,500		5,000		250,000

In contrast with Russell 1000 Index strategies, we found the least dispersion amongst fees paid in Russell 1000 Growth Index strategies, and thus the lowest potential cost-savings as well, with the highest potential cost savings at \$32,500. Notably, highest fees paid for Russell 1000 Growth Index strategies were lower across most AUM tiers versus regular Russell 1000 Index strategies

Emerging Markets Index Strategies

MSCI Emerging Markets Index
Fee Observations by Mandate Size



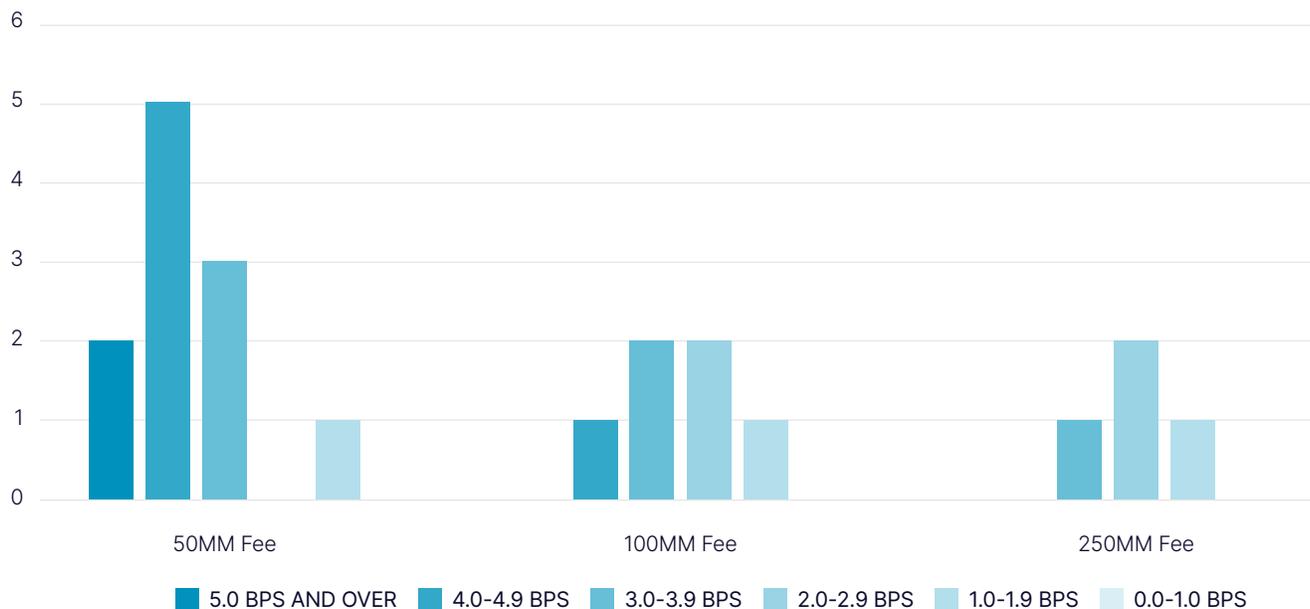
	\$50MM		\$100MM		\$250MM		\$500MM		\$1B	
	Bps	Cost	Bps	Cost	Bps	Cost	Bps	Cost	Bps	Cost
High Bps	10	50,000	9	90,000	7	175,000	7	350,000	4.5	450,000
Low Bps	3.5	17,500	3.5	35,000	5	125,000	1.3	65,000	1.3	130,000
\$ Savings		32,500		55,000		50,000		285,000		320,000

Moving into non-US Equity, Emerging Markets Index strategies had the highest average fees of all passive strategies in this report, reflecting the extra complexity of investing in these regions. For example, 10 basis points for a \$50M mandate is the highest fee identified across the index strategies in this report and the only fee to break double digit basis points.

However, greater investment complexity does not mean potential fee savings cannot be found. At the highest AUM tier of \$1B, we identified the greatest possible cost-savings across all index strategies, with an eye-watering \$320K difference between the highest and lowest fees paid on a \$1B mandate. The \$500M AUM tier similarly sees nearly \$300K in potential savings. Though investors should reasonably assume higher costs for investing in emerging markets, those assumptions may inhibit them from seeking greater cost-savings where possible.

EAFE Index Strategies

EAFE Index
Fee Observations by Mandate Size

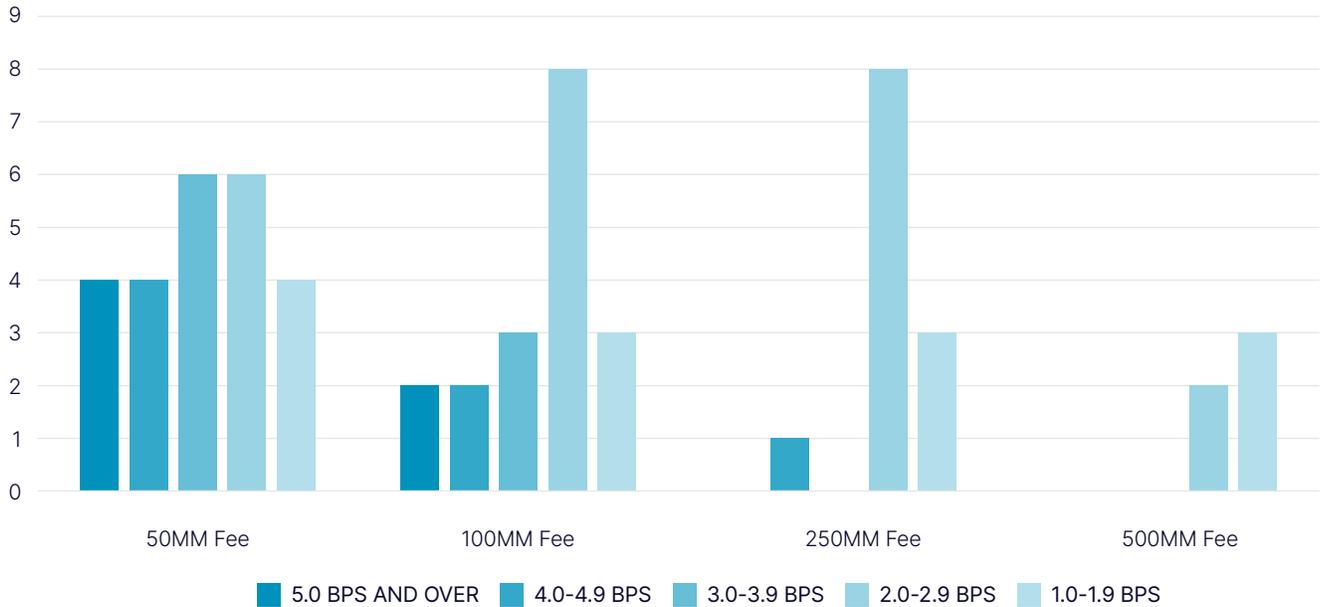


	\$50MM		\$100MM		\$250MM	
	Bps	Cost	Bps	Cost	Bps	Cost
High Bps	8	40,000	4	40,000	3	75,000
Low Bps	1.25	6,250	1.25	12,500	1.25	31,250
\$ Savings		33,750		27,500		43,750

In passive EAFE Index strategies, we find similar fees terms and cost-savings potential to that of passive Russell 1000 Growth Index strategies, with the greatest potential savings at the \$250M AUM tier of \$43,750.

Aggregate Fixed Income Index Strategies

US Aggregate Bond Index
Fee Observations by Mandate Size



	\$50MM		\$100MM		\$250MM		\$500MM	
	Bps	Cost	Bps	Cost	Bps	Cost	Bps	Cost
High Bps	6	30,000	5.5	55,000	4.6	115,000	2.4	120,000
Low Bps	1.25	6,250	1.25	12,500	1.4	35,000	1.2	60,000
\$ Savings		23,750		42,500		80,000		60,000

To conclude the report, we analyzed passive Aggregate Fixed Income Index strategies as well, again finding cost-savings potential in a keystone investment strategy. The highest potential cost-savings of \$80K came at the \$250M AUM tier, with more muted savings found at \$50M, \$100M, and \$500M as well.

Conclusion

As illustrated throughout this report, fees paid for passive strategies by US Public Funds can vary widely, enough so that the savings on a single index mandate could significantly contribute to staff budgets. Furthermore, multiple investors in our dataset are paying more for the same index strategies as their peers across multiple passive mandates, reflecting large opportunities for cost-savings.

Various factors, including consultant selection, manager relationship-building, and difference in research capabilities amongst investors may contribute to this dispersion in passive fees paid. Though not every passive index mandate is the same, given differences in vehicle choice, securities lending, and custody, we maintain that the evidence suggests there are fee savings to be found regardless. Though not every mandate will yield \$300k in potential fee savings, we found that extra money can be found in even the most commonplace, bread-and-butter portfolio building blocks like passive US Large Cap Equity and Core Fixed Income.

With [Nasdaq eVestment Peer Benchmarking](#) and [Nasdaq eVestment Market Lens](#), investors can identify these potential savings opportunities to ensure their investment programs are as efficient as possible.

Methodology

All data in this report is sourced from **Nasdaq eVestment**. All management fees referenced in this report are sourced directly from investor-disclosed documents such as quarterly portfolio reviews.

We analyzed fees in basis points across five common asset levels (\$50M, \$100M, \$250M, \$500M, and \$1B, where data available). For flat fee disclosure, we assumed fees would hold for adjacent fee tiers. Thus, for example, if an investor pays a flat fee of 5 bps at \$150M AUM, we assumed they would pay the same for one tier below at \$100M AUM and one tier above at \$250M.

For full fee schedule disclosure, we made no such assumptions and used the schedule to calculate fees as disclosed. Lastly, we only include datapoints from the past 12 months and analyzed index strategies with at least 20 unique public funds reporting.



To review findings in this report and learn how to identify potential savings opportunities for your investment program, please connect with us:

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