

Avenue fee cuts set new standard

Presented by

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For the second year in a row, Avenue Investment Management, a Toronto-headquartered investment counselling firm that caters mostly to the needs of high-net-worth individual investors, has taken some meaningful steps to put some extra return into the hands of its investors, while implicitly laying down a challenge to some of its competitors.

The firm, which was formed five years back and which manages \$80-million assets for about 150 families, has cut its management fee by 50% this year -- even though it outperformed its benchmark in 2008. In 2007, after the value manager underperformed its benchmark, it also cut its management fee by 50%.

"It is our belief that in a year where a client experiences losses in their portfolio ... that it is egregious for management fees to remain constant and untenable that performance fees be charged," said Faroukh Kanga, one of the four partners at the firm.

But outperformance is a relative concept. For 2008, the firm's Equity Portfolio fund was down by 23.49% -- meaning a loss for its unitholders. That compares very favourably with the 33.04% loss posted by the S&P/TSX composite index. But as the old saying goes: You can't eat relative performance.

In 2007, it underperformed the benchmark in large part because its investment style was out of favour and because a select group of stocks provided most of the gain for the index.

So, for the second time, the four partners -- apart from Kanga, the others are Paul Harris, Paul Gardner, and Bill Harris -- decided the firm's existing fee structure should be reduced for this year. Instead of charging 1.5% on amounts of more than \$500,000, it will charge 0.75% for this year -- the same amount it charged in 2008.

For amounts less than \$500,000, the firm's normal management fee is 2%: for this year, as it was in 2008, that fee will be cut to 1%.

"It's all about putting returns first, putting clients first," said Bill Harris. We cut the fee in half if we don't make absolute returns. It's all about treating clients the way you would like to be treated yourself," he added, noting that "it allows us to tell our clients that we are on the same page, given that 100% of our net worth is invested in the fund."

There is an added benefit from moving to a lower management fee: More of the assets stay in the fund.

"When the assets are down, [the manager] doesn't cannibalize the fund," said Harris.

The firm also adopts an unusual approach in relation to its performance fee -- which kicks in after the fund has posted a gain of more than 10%. Instead of taking its full performance fee, if it is eligible, it takes a capped fee. The cap is set at 1%. In a good year, the fund can extract a maximum fee of 2.5%. That maximum kicked in back in 2006 when the fund was up by 26%.

"We have capped it. The maximum [performance fee] is 1%," said Harris. "If I cut [fees] on the downside, I have the ability to add back on the upside if I reach my targets," added Harris, who believes his firm may be the only one in the country to have such a fee structure.

The firm has rejigged the asset mix so that 35% of the assets in the equity fund are now invested in corporate bonds. The fund has 5% in cash.

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