



Quartal Financial Solutions
Institutional Fee Billing

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Introduction

In today's regulatory climate, asset managers' attention to transparency, efficiency, and accuracy is of paramount importance. This is especially true in the asset manager's institutional billing system, where diverse fee structures, increasingly complex financial products, and creeping costs demand effective billing solutions.

In many asset management firms manual fee billing relies on a manual process that must be perfectly efficient, transparent, accurate and on time. Manual billing procedures are time-intensive and error prone. This is unacceptable and unsustainable for building a continuously growing asset management operation. Automated fee billing improves workflow efficiency, accuracy, and regulatory compliance.

What is institutional fee billing?

Institutional fee billing, simply put, is the entire process through which an asset manager invoices a client for investment management services. The asset manager charges fees to institutional clients for management and performance on financial services and financial instruments like investment funds, pensions and trusts. These fees should be invoiced regularly – both for regulatory compliance and maintaining consistent communication between the asset manager and client. Regular invoicing also works to maintain and improve the monetization cycle, and guarantees consistent revenue recognition. Fee billing schedules vary depending on the investment management agreement and accompanying fee schedule – many of which are complex and have customized structures with few common standards.

Asset management fees vary depending on the financial service provided and its administration. These fees are taken to provide for the investment advisory services and ongoing administration services provided by the firm. While there are multiple fee structures and strategies, the two most common fee structure elements are:

- **Management fees:** Management fees are based on the total value of assets under management. The fee is typically between 1-3% of total assets within the fund - but mutual funds, private equity funds, and hedge funds all have their own standards in this regard. This fee structure recognizes the ongoing involvement and support provided by the investment manager, and compensates the fund manager accordingly.
- **Performance fees:** Performance fees offer the fund manager an incentive to provide the maximum return possible to investors. A performance fee generally consists of 5-25% of net realized or unrealized gains made within a given year, but can be based on a variety of criteria - including net income generated and over-performance against a benchmark. Depending on the type of fund and the arrangement agreed upon, this fee structure provides additional value to fund managers who provide positive returns, while it offers little benefit to (and sometimes even penalizes) those who underperform.

The fees charged for any given fund are ultimately based on what the investors and fund managers agree upon - and can consist of one of the above mentioned structures or a combination of the two.

Challenges in institutional fee billing for asset management firms

While simple in theory, the process of institutional fee billing for asset managers presents a myriad of complexities and challenges. From operational risks to performance fee calculations and risk management, there are a number of variables involved in the billing process.

For example, at what point are performance fees calculated? And, are they calculated before or after management fees? Furthermore, how are these fees prorated throughout the course of the year - particularly when a new investor enters or leaves the fund? Asset managers must also manage discounts, along with fee caps and floors for management fees.

Many asset managers are still managing most of their institutional fee billing, tracking and analysis through spreadsheets which are largely dependent on manual processes. Not only do these manual processes increase labour costs, but they can lead to frequent errors that result in revenue leakage, less control over outcomes, and hesitancy among investors. In exceptional cases these errors can lead to fines and financial loss to the manager.

How to optimize the fee billing process?

For a fund to compete with the many options available to investors today and to comply with investor's transparency and information requirements, it's essential to maintain a streamlined and accurate billing process. The most common way to achieve this is through the implementation and use of effective asset management billing software that automates the process and includes an additional layer of control on top.

When looking for institutional fee billing software, ideally you want to find an application that provides:

- Minimized costs and risks through a fully automated process with the ability to catch and correct data discrepancies.
- A highly scalable solution - able to grow with your assets and investor base.
- The latest in security and audit standards for control, compliance and reporting.
- Connections to multiple data sources.
- A highly accurate billing and invoicing process that seamlessly integrates with the general ledger.

By implementing a software solution that removes the risks, reduces costs and expedites the billing process, fund managers can spend their time maximizing financial returns and not dealing with on-going billing and fee coordination processes.

Save time by automating your fee billing process with Quartal FEE MANAGER

Since its inception in 1999, Quartal Financial Solutions has worked closely with a variety of financial service providers to expedite fee and commission management - so we know what it takes to manage billing processes effectively. Building on our knowledge and experience in this industry, we launched Quartal FEE MANAGER, the all-inclusive institutional fee billing solution.

In addition to a state-of-the-art system architecture and user interface, Quartal's system is standardized for efficiency, yet highly flexible for individual adjustments. While supporting all core commission and fee management processes and requirements, Quartal FEE MANAGER provides a wealth of add-on functionalities for workflow management, revenue allocations, transfer pricing, sales performance measurement, simulations and forecasting, as well as management and KPI reporting.

Asset managers are using Quartal FEE MANAGER as their professional calculation engine for:

- Invoicing performance, management, administration and other service fees.
- Supporting flexible definitions of different billing methods as well as differential pricing via tiering and various conditional criteria (ISIN, currency, ratio, transaction type, etc.).
- Settling recurring and one-off charges for the billing process.
- Calculating rate schedules, fee schedules, price plans, tariff/discount plans and market transaction charges.
- Handling CDRs (chargeable detail records) coming from various systems and with different record layouts.

Through the implementation of Quartal FEE MANAGER, asset managers have been able to minimize error, reduce overhead, and improve the consistency and accuracy of their billing processes. If you're interested in removing the manual aspects of your institutional fee billing process to reduce risk, increase efficiency and decrease cost, contact Quartal to discuss how we can help you transition to a new way of fee billing.