



# Capital Cities

INSTITUTIONAL INVESTING MADE PERSONAL



Porter County Government Nonprofit  
Charitable Foundation, Inc.  
Fee Analysis  
May, 2018

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# Foundation Fees' Overview

## Institutional Investment Management Framework

### *Types of Fees:*

#### **Investment Managers:**

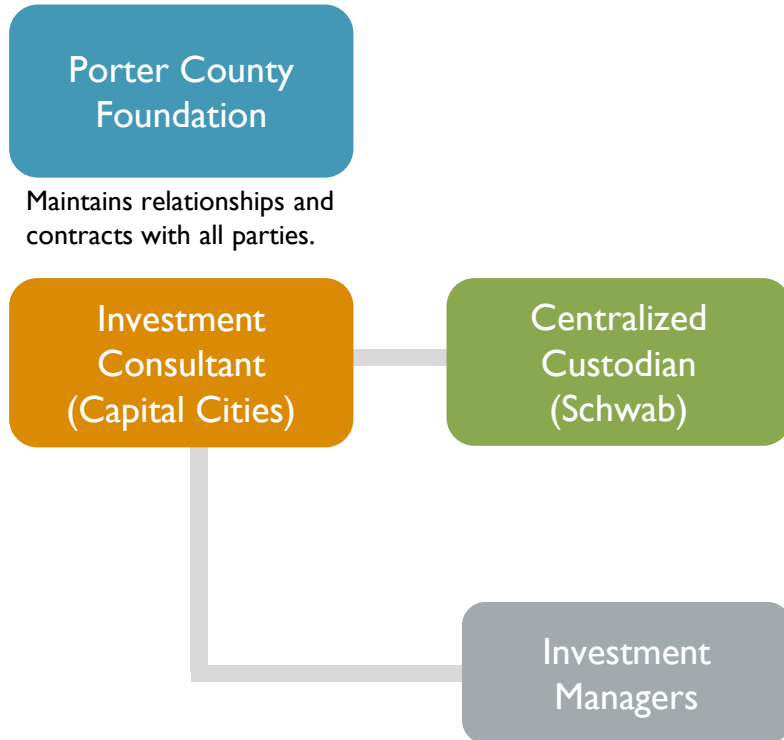
- Typically represent a larger portion of overall fees paid
- Investment Managers manage assets on behalf of investors, including buying/selling securities

#### **Custodian:**

- Fees vary based on the level of service provided
- Custodians safe-keep assets, settle trades and serve as the book of record

#### **Advisor/Consultant:**

- Advisory fee structures vary, including asset-based, flat rates or commission-based
- Some advisors utilize proprietary investment products
- Advisory services can include: fee analyses, manager structure evaluations, investment policy statement development, investment manager searches and performance reporting



Porter County  
Foundation

Maintains relationships and  
contracts with all parties.

Investment  
Consultant  
(Capital Cities)

Centralized  
Custodian  
(Schwab)

Investment  
Managers

**The Porter County Government Nonprofit Charitable Foundation follows an institutional framework, in which the key roles (Consulting, Investment Management and Custody) are clearly delineated. This open architecture approach leads to transparency of fees and services.**

# Investment Management Fees

## Monitoring of Investment Management Fees



### **Are overall investment management fees reasonable?**

- *Active management, while more expensive, is utilized for diversification and alpha*
- *Passive management is utilized for broad exposure at a low cost*



### **Is the least expensive share class utilized?**

- *Capital Cities continuously surveys the landscape to ensure clients are invested in the lowest-priced share class available*
- *Over the past year, fee savings were made in the following:*
  - ✓ *Loomis Sayles Strategic Alpha, which lowered the fee from 75 bps to 68 bps*
  - ✓ *Harbor Capital Appreciation, which lowered the fee from 65 bps to 57 bps*
  - ✓ *The passive S&P 500 mandate was changed from Vanguard to Schwab to save 0.5 bps and have commission free trades*
- *Capital Cities is also working with Schwab on the below share classes:*
  - *Western Total Return Unconstrained: IS share class would save 10 bps*



### **Is each fund's investment management fee reasonable?**

- *Underlying funds should be benchmarked according to their specific style*
- *All of the active investment mandates in the Portfolio are competitively priced given account sizes and constraints*
- *Passive investment mandates are managed by Schwab and Vanguard at very low costs*

# Investment Management Fees

## Monitoring of Investment Management Fees - Equity

Equity Funds	Peer Group	Fee Schedule	Peer Group Fees					
			10th	25th	Median	75th	90th	
<b>Schwab S&amp;P 500 Index</b>	Passive Large Cap Core	<b>3 bps</b>						
<b>Vanguard Windsor II</b>	Large Cap Value	<b>26 bps</b>	175 bps	133 bps	<b>95 bps</b>	68 bps	53 bps	
<b>Harbor Capital Appreciation</b>	Large Cap Growth	<b>58 bps</b>	180 bps	131 bps	<b>100 bps</b>	75 bps	63 bps	
<b>Diamond Hill SMID</b>	SMID Broad	<b>93 bps</b>	200 bps	141 bps	<b>113 bps</b>	91 bps	81 bps	
<b>Vanguard Developed Mkts Index</b>	Passive International Equity	<b>6 bps</b>						
<b>TIF International Equity Series</b>	International Value	<b>78 bps</b>	191 bps	130 bps	<b>92 bps</b>	78 bps	53 bps	
<b>William Blair International Leaders</b>	International Growth	<b>110 bps</b>	185 bps	135 bps	<b>105 bps</b>	85 bps	65 bps	

- **Passive Equity Management provides market exposure at a low cost:**
  - Schwab S&P 500 = 3bps; Vanguard Developed Markets = 6bps
- **Active Equity Managers seek to provide alpha over passive management:**
  - Most Active Equity Manager fees are considerably below the median of their respective peer group. The only Active Equity Manager above the median of the respective peer group is William Blair (110 bps vs 105 bps).

# Investment Management Fees

## Monitoring of Investment Management Fees – Fixed Income

Fixed Income Funds	Peer Group	Fee Schedule	Peer Group Fees				
			10th	25th	Median	75th	90th
<b>BlackRock Total Return</b>	Core Fixed Income	<b>44 bps</b>	145 bps	95 bps	<b>70 bps</b>	48 bps	40 bps
<b>Dodge &amp; Cox Income</b>	Core Plus Fixed Income	<b>43 bps</b>	148 bps	104 bps	<b>73 bps</b>	48 bps	40 bps
<b>Carillon Reams Core Plus</b>	Core Plus Fixed Income	<b>40 bps</b>	148 bps	104 bps	<b>73 bps</b>	48 bps	40 bps
<b>Loomis Sayles Strategic Alpha</b>	Unconstrained Fixed Income	<b>68 bps</b>	176 bps	136 bps	<b>95 bps</b>	70 bps	57 bps
<b>Western Total Return Unconstrained</b>	Unconstrained Fixed Income	<b>75 bps</b>	176 bps	136 bps	<b>95 bps</b>	70 bps	57 bps
<b>Baird Short-Term Bond</b>	Defensive Fixed Income	<b>30 bps</b>	148 bps	98 bps	<b>68 bps</b>	46 bps	35 bps
<b>Payden Low Duration</b>	Defensive Fixed Income	<b>43 bps</b>	148 bps	98 bps	<b>68 bps</b>	46 bps	35 bps

- **Unconstrained Fixed Income Managers provide the opportunity for absolute positive returns in a challenging fixed income marketplace:**
  - The average expense for the Unconstrained managers (72 bps) falls materially below the median for the peer group.
- **Traditional Fixed Income further diversifies the Foundation’s fixed income exposure and provides relative return and income potential:**
  - The Traditional Fixed Income Managers all rank favorably relative to peers.

# Custodian Fees

## Monitoring of Custodial Fees



### What services are covered?

- *Schwab provides a number of services including: safekeeping of Portfolio assets, transaction settlement, cash management, consolidated accounting and reporting, online account access, collection of income, etc.*
- *Customized, local client service is not provided by Schwab*



### Are custody fees benchmarked and negotiated?

- *Capital Cities continues to monitor the custodian marketplace and benchmarks Schwab to other custodians*



### Are custodian fees reasonable?

- *Schwab's fees are considerably lower than other custodians*
- *Capital Cities facilitates most custodial services*
- *Schwab's low-cost fee structure makes it the best option for The Porter County Government Nonprofit Charitable Foundation at this time*

### Schwab's Fee Schedule:

**All Assets:**  
0 bps

**Transaction Costs:**  
\$20 per transaction on mutual funds.  
\$0 on OneSource mutual funds.

\$4.95 per transaction on equity/ ETF trades.

\$25 per wire

# Investment Consultant Fees

## Monitoring of Investment Consultant Fees



### **What are the Investment Consultant's fees?**

- *Capital Cities' fee is a flat \$65,000 on all assets*
- *Fees are transparent*



### **What services does the Investment Consultant provide?**

- *Capital Cities' views our relationship as "full-retainer" – in addition to providing quarterly performance measurement and evaluation reports, custom projects are delivered throughout the year:*
  - *Fee Analyses*
  - *Portfolio Construction Evaluations*
  - *Investment Manager and Custodian Searches and Ongoing Evaluations*
  - *Investment Policy Statement Development*
  - *Fiduciary Reviews*
  - *Ad Hoc Educational Presentation*

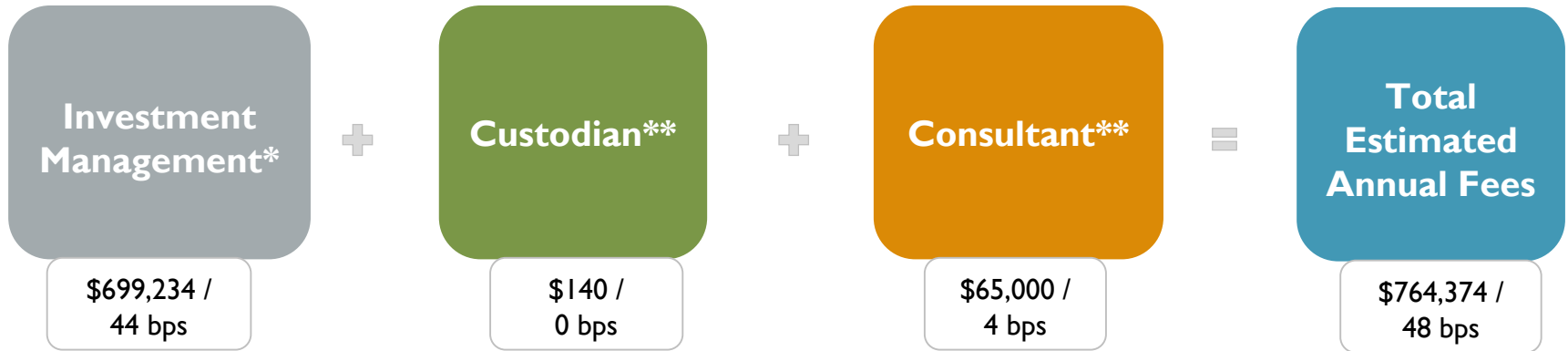


### **Are the Investment Consultant's interests aligned with yours?**

- *Capital Cities is independent & employee-owned*
- *Capital Cities has no affiliation to custodians, banks or investment managers*
- *Capital Cities serves as a co-fiduciary*
- *Capital Cities does not receive any compensation beyond the fees stated above*

# Foundation Fees

## Total Portfolio Fees – 2017



- The least expensive share class currently available at Schwab is utilized for each fund
- Mutual Fund fees are netted from performance

- Custody fees are minimal
- Foundation only incurs transaction fees at Schwab

- Capital Cities does not receive any additional compensation

- Total fees are 48bps
- Out-of-pocket fees are 4bps

- **The Porter County Government Nonprofit Charitable Foundation utilizes an open-architecture, transparent investment program structure**
- **Total fees are reasonable and appropriate given the portfolio's construction**