

Qcommission Sample Plans

Industry – Investment Management

Introduction

The Investment Management industry is primarily involved in the management of investment accounts for its clients. The Investment Management industry's clients are usually Financial Institutions, Retirement and Benefit funds and High Net Worth individuals. The firms solicit funds from the customers and invest them using their proprietary expertise. The SIC code for this industry is 6282 – Investment Advice.

Today's investment management market is bigger, more dynamic and more competitive than ever. The market leaders:

- Achieve superior account performance
- Build and extend profitable customer relationships
- Control operating costs
- Manage the risks of new markets, products and services
- Leverage the benefits of new technologies

The income for the Investment Management firm is derived typically by charging a fee on the assets under the company's management from each client. These fees vary based on the type of investment program offered by the firm.

Investment Management firms specialize in different business areas and different types of customers; two major types of specializations are firms serving Institutional clients vs. Individual clients. They are categorized as Institutional Investment Management and Retail Investment Management. Institutional firms tend to utilize a direct sales force, whereas firms serving Retail tend to sell through an indirect sales force of Registered Investment Advisors.

The Investment Management industry is highly regulated and there is significant controversy over who can be commissioned for what activities. Legal and accounting advice should be considered before deciding on a plan.

Concepts

Wrap Accounts:

A Wrap account is an account in which a brokerage manages an investor's portfolio in exchange for a flat quarterly or annual fee. This fee covers all administrative, commission and management expenses. Sometimes also includes funds of funds.

The advantage of a wrap is that it protects you from over trading; this is when your broker trades your account excessively to make more commission. Furthermore because the broker gets a flat annual fee then he/she only trades when it is advantageous to the customer.

Net Asset Value (NAV)

This denotes the current value of investment accounts being managed for each client. The NAV of a customer varies based on the funds invested and includes returns against those funds. This is also known as customer Assets Under Management (AUM).

Assets Under Management (AUM)

This denotes the current aggregate value of investment accounts being managed by the firm. At an individual customer level this would be equal to the NAV.

CUSIP

The CUSIP number is a numbering system for the purpose of uniquely identifying issuers and issues of financial instruments within a standard framework. CUSIP numbers and standardized descriptions are used by virtually all sections of the financial industry and are critical for the accurate and efficient clearance and settlement of securities as well as back-office processing. The CUSIP service bureau of the American Banker's association manages it.

Investment Tranche

This is a specific flow of investment from client to the investment firm. It is not uncommon for client to invest their funds in multiple tranches with the firm. ('Tranche' is a French word meaning 'slice' or 'portion').

Management Fees

This is the fees that the investment management firm charges the customer for management of the customer's assets. It is typically expressed as a percentage of Net Asset Value.

12b-1 Fees

12b-1 Fees are an extra fee charged by some mutual funds for promotion, distributions, marketing expenses, and often commissions. The fee is named after the line of legislation that made it. By law, the 12b-1 fee cannot be more than 1 percent

Platform Fee

Fee payable to the entity providing master trust/wrap account administrative services platform.

Services

Investment Management

The key service that the Investment Management business provides is the service of managing their clients' money. Each Investment Management firm presents their philosophy and expertise in investing money for the

best returns. Investment philosophies include various ideas such as capital preservation, aggressive growth, sector investing, etc.

The Investment Management's firm's sales people persuade the clients to entrust their funds to their firm's care. It is common for clients to invest additional funds with their Investment Management firm. The income of the Investment Management firm is usually in the form of management fees assessed on the customer's assets under management. These management fees are agreed to with the client and are usually in the form basis points. The management fees can be specified as different rates for different amount of assets under management.

An example of management fees calculation is the following:

Net Asset Value	Fees
Up to \$10 Million	80 Bp
\$10Million to \$25Million	60 Bp
\$25 Million and above	40 Bp

Staff

The following staffs are typically paid sales commissions in this business

- Account Executives
- Portfolio Managers
- Wholesale Reps
- Registered Investment Advisors

Transactions

The transactions and data driving commissions and bonuses are normally:

- New Customer Investments
- Additional Customer Investments

Sales Commission and Incentives

Commissions to sales people typically paid on management fees earned from the clients. It is typically expressed as a percentage of management fees. Commissions are typically paid for multiple years on a declining percentage basis.

Example:

Year after investment	Commission Rate
1	15
2	10
3	5

Sales people have to be incented to manage their clients and bring in additional investment dollars. So the firms typically incent the sales people when additional investment dollars are brought in. So each flow of investment dollars (referred to as a Tranche), have to be treated separately for the purpose of commissions purposes. This gets complicated because the internal financial system, normally does not track the tranches separately. All the investment for a customer account is consolidated and any gain/loss is added into keep track of a single NAV. For commission purposes, each tranche has to be tracked separately. In addition the NAV has to be prorated across each tranche so that we can figure out the appropriate NAV for each specific tranche. The management fees have to be recalculated for each of these prorated tranches. And from the recalculated management fees commission amounts have to be calculated.

Commissions can be calculated monthly and paid out either monthly or quarterly.

Plans

These plans demonstrate various features of the QCommission product used in the Investment Management-Publishing Industry. These plans are not intended to be comprehensive; they demonstrate the suitability of QCommission for similar plans.

Account Executive Plan

This plan is applicable to sales reps bringing in investment dollars into the company. Account Executives are responsible for bringing in new customers into the firm. The sales people are paid for individual investments from their customer accounts.

Investment Fees Commission

This incentive is paid every quarter. Account executive gets credit for any new investment tranche from their customer accounts.

Commissions are calculated on the management fees collected for each tranche (calculated by prorating account management fees to individual tranches).

For each separate tranche, the account executive gets paid commissions for a period of 3 years from the month the tranche was funded, according to the following schedule:

Year after investment	Commission Rate
First Year	15
Second Year	8
Third Year	4

Portfolio Manager Plan

Portfolio manager plan is paid from a pool of funds determined on a quarterly basis by the company. The manager has multiple incentives that are weighted based on importance. This incentive is paid out quarterly.

The individual performance is calculated and then applied against the pool to receive their share of the overall pool.

Portfolio Management / Investment Performance

The performance of the group of portfolios managed will be analyzed measuring equity total return relative to the benchmark. This is weighted at 70% of the overall performance and payout.

Variation from benchmark	Points due
150% and above	300
130-149.99%	200
120-129.99%	150
110-119.99%	125
100-109.99%	100
90-99.99%	80
70-89.99%	50

Wholesale Rep Plan

This plan is applicable to wholesale sales reps that market the products to Registered Investment Advisors (RIA) and get them to sell the products to their customers. RIAs are associated with specific wholesale reps and any fees earned through the effort of the associated RIA, is credited to the wholesale rep. Commissions are calculated off of these fees.

RIA Client Fees Commission

This incentive is paid every month. Wholesale rep gets credit for any fees generated by RIAs that he/she is selling to. Commissions are calculated on the management fees collected against each investment account.

For each separate account, the wholesale rep gets paid commissions for a period of 2 years from the month the account was opened, according to the following schedule:

Year after investment	Commission Rate
First Year	2
Second Year	1

Year after investment	Commission Rate
First Year	2
Second Year	1

Investment Advisor Plan

This plan is applicable to Registered Investment Advisors (RIA) who actually advise the customers and get them to invest with the firm also get a commission. Commission rates are agreed individually with RIAs.

Client Fees Commission

This incentive is paid every month. RIA gets credit for any of their customer accounts services by the firm. Fees calculated against these accounts are credited to the BD.

For each separate account, the BD gets paid commissions at the following rate on any management fees:
25 Basis Points.

Resources

www.cfainstitute.org

www.investopedia.com

Institutional Investor Magazine