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Henderson to charge investors for external research

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Henderson Global Investors has become the first asset manager to say it will charge investors for external research, bucking the trend set by other fund firms that will absorb the cost under new rules introduced next year.

Chief executive officer Andrew Formica, speaking during Henderson's first-quarter results call, said it was not "necessary" to make a "hard" payment for research costs and that other global players, particularly large US firms, have also come to this conclusion.

When Mifid II is introduced in January 2018, asset managers will have to absorb the cost of research or charge funds separately for the service.

The new rules will mark a change for asset managers, which have traditionally paid brokers and investment banks for research and dealing commissions as part of a bundle, making it unclear how much investors are paying for research.

A number of firms, including Jupiter Asset Management, Aberdeen Asset Management, M&G Investments and Legal & General Investment Management, have announced their intention to absorb the cost of research. For instance Jupiter says it will add £5m (€5.8m) in costs from 2018 onwards.

However, Mr Formica says he does not see the unbundling of research becoming a "hard cost" for Henderson at present.

He says: "There have been a notable number of competitors of ours who have come out and said they will pay hard. That is a decision driven by them at a board level, at a business level, not regulatory level.

"We certainly don't see that as necessary at the moment. We also don't see the vast majority of our peers doing that, so even though there have been some relatively big headlines on that, we don't see pressure either from clients or consultants or business pressure to do it ourselves."

Mr Formica adds: "Certainly when you talk to global players, particularly the large [US] firms, there is no intention to go down this route."

Simon Young, co-founder of investor relations firm Heartwood Partners, says Henderson appears to be the first found house to say, at least publically, that it will charge investors for research.

"Everyone else is keeping their cards close to their chest," he says.

Many firms are “still going through negotiations with investment banks” on prices for research, he adds.

Some “big bulge bracket banks” are offering fund houses a one-stop shop, whereas others can provide more sector-specific research.

According to one Paris-based financial analyst, banks aim to charge different prices for information, corporate access and analyst access, with a minimum charge of €50,000.

Henderson has put “a lot of time and expense” into its commission sharing agreements with its brokers and research payment accounts system, according to Mr Young.

Mr Young says Henderson has worked out “sufficient granularity to charge the individual funds and by extension the fund’s clients for research”.

“However, from where we stand this puts Henderson at odds with the majority of the UK asset management industry, which has decided to go down the hard route of paying for research out of their own profit and loss,” adds Mr Young.

He says that if performance of Henderson’s funds tails off, relative to their relevant benchmarks, then the firm may see pressure from institutional or retail investors to help out their clients by assuming these payments for research.

Attilio Veneziano, founder of law firm Veneziano & Partners, says fund firm focus on disclosure of research costs and their separation from execution charges started to heighten last month.

The UK regulator, the Financial Conduct Authority, has reviewed how firms approach research and whether they pass “the real value on to their client”, as a consequence of a consultation paper tackling the specific issue of research payment accounts in December.

“Of course there will be winners and losers from this change and again we believe that this will affect more smaller firms, with a less sizeable internal budget for research,” says Mr Veneziano.

David McCann, analyst at Numis Securities, says he thinks most asset managers will initially charge investors but eventually absorb the cost of research.

For firms such as Jupiter or Aberdeen, Mr McCann says taking a hit now is “an easier decision” to make, since research costs for both firms is not a particularly large share of total profit or cost, “by virtue of the equities percentage of assets under management and turnover style of the relevant funds”.

“For now I expect most will prefer the closest solution to the status quo as permitted under the rules,” he adds.

Mr Formica says the first quarter was “tough”, with Henderson suffering net outflows of £1.8bn, which followed £4bn of outflows in 2016.

However, he adds that the firm saw “significant improvement” in March.

Shareholders of the FTSE-250 listed firm are due to vote on its merger with Janus next week, which will create a global fund house with roughly €300bn in assets under management.

Additional reporting Baptiste Aboulian.

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